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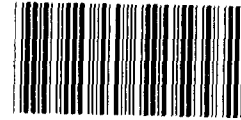
GAO

Report to the Chairman, Subcommittee on Oversight and Investigations, Committee on Energy and Commerce, House of Representatives

April 1988

INTERNAL CONTROLS

Air Force Correcting Weaknesses in Its Property Disposal Practices



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United States
General Accounting Office
Washington, D.C. 20548

**National Security and
International Affairs Division**

B-223697

April 20, 1988

The Honorable John D. Dingell
Chairman, Subcommittee on Oversight
and Investigations
Committee on Energy and Commerce
House of Representatives

Dear Mr. Chairman:

This report is in response to your request for an assessment of Air Force controls over property disposal practices. You expressed particular interest in whether the moratorium on the disposal of parts which lasted nearly 2 years should be reinstated.

Our assessment is that the Air Force has made significant internal improvements, and we, therefore, do not believe reinstatement of the disposal moratorium is necessary. However, our report does recommend that the Secretary of the Air Force take some steps to improve the disposal process.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from its date of issue. At that time, we will send copies of this report to the Chairmen, Senate and House Committees on Appropriations, Senate Committee on Governmental Affairs, and House Committee on Government Operations; Secretaries of Defense and the Air Force; and other interested parties upon request.

Sincerely yours,

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

In early 1984, the Air Force Inspector General found that the Air Force was disposing of usable items critically needed to support active weapon systems, while in some cases, buying new, similar items. In March 1984, the Air Force implemented a moratorium on the disposal of all serviceable and repairable active weapon systems parts. The moratorium lasted nearly 2 years.

The Chairman, Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce, requested GAO to determine whether the Air Force

- has implemented actions to address the major problem areas identified by the Air Force Inspector General,
- has revised its controls and procedures to provide reasonable assurance that needed items are no longer sent to disposal prematurely, and
- should reimpose the disposal moratorium.

Background

In 1984, the Air Force Inspector General recommended changes to the Air Force's property retention and disposal policies and procedures at the Air Logistics Centers (wholesale supply level) and at air bases and repair depots (retail supply level). Specifically, the Inspector General recommended that the Air Force (1) revise retention policies to hold assets applicable to active weapon systems for the life of the systems, (2) make active decisions to dispose of assets at wholesale level activities rather than passively oversee disposals identified by automated systems, (3) increase holding periods at retail level activities, (4) program automated retail level supply systems to prevent items from going to disposal before the required holding period—number of days property is retained after date of last demand before being declared excess—expires, (5) validate future needs before disposing of items not listed in the federal supply catalog—noncataloged items, and (6) improve the screening and recall of needed items in disposal.

During the disposal moratorium, the Air Force revised its retention and disposal policies, procedures, and automated systems. In its 1985 annual statement on internal controls, required by the Federal Managers' Financial Integrity Act of 1982, the Air Force reported that all corrective actions would be completed with the lifting of the disposal moratorium in January 1986.

Results in Brief

The Air Force has implemented the recommendations made by the Inspector General by changing the policies, procedures, and controls needed to prevent assets from being disposed of prematurely. At the locations visited, GAO found that most of the items disposed of met revised disposal criteria, which require that usable items be retained for the active life of the applicable weapon system. Manual and automated techniques used to screen items in disposal have been improved to recall needed items. Because of the improvements made to the internal control processes, GAO does not believe that it is necessary to reinstate a disposal moratorium.

Principle Findings

Air Force Actions Improve Internal Controls

The Air Force took specific actions to address each of the problem areas GAO reviewed. The Air Force actions that had the most impact included:

- Retention policies at wholesale levels were changed to require that usable items be retained for the life of the weapon system or other end item they support. At the retail level, retention requirements increased from 12 to 30 months. Computer programs that identify excess assets for possible disposal were changed to reflect the revised policies.
- Procedures were adopted that require item managers to initial their disposal authorizations and supervisors to review these authorizations before items are transferred to disposal activities.
- Improved and automated procedures were developed to screen and recall items from disposal yards when usable items could be identified.
- Procedures were developed to help prevent the premature disposal of noncataloged items.

Some Internal Control Weaknesses Remain

Due to the size of the Air Force supply system and disposal activity, sporadic improper disposal actions have occurred since the moratorium was lifted and undoubtedly will continue to occur again. Although GAO found no systemic problems, it identified the following weaknesses:

- Thirty months after the last demand for an item, it becomes eligible for disposal. However, documentation on noncataloged items necessary to identify and contact the last requester concerning future needs may be disposed of before the 30-month period elapses.

- There were no supervisory reviews of (1) item managers' decisions to dispose of some categories of items reported by base level activities and (2) base supply officials' decisions to override programmed computer edits designed to retain items for 30 months after date of last demand.

Recommendations

GAO recommends that the Secretary of the Air Force

- develop policies and procedures for retaining prior user identities of noncataloged items for 30 months after the date of last demand,
- consider extending, on a sample basis, supervisory review of the wholesale item managers' disposal decisions on excess items reported by base level activities, and
- consider requiring supervisory reviews of base supply personnel disposal decisions when computer retention edits are overridden.

Agency Comments

DOD agreed with GAO's recommendations and estimated that corrective actions would be completed by the end of August 1988.

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Abbreviations

AFLC	Air Force Logistics Command
ALC	Air Logistics Center
DOD	Department of Defense
FMFIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office

Introduction

In 1984, the Air Force Inspector General reviewed the Air Force's disposition of assets and found that the Air Force was disposing of usable assets.¹ In March 1984, while the Inspector General's review was still in progress, the Air Force imposed a moratorium to stop the disposal of all serviceable and repairable active weapon system parts. Air Force activities were permitted to dispose of condemned and obsolete items throughout the moratorium, which remained in effect for nearly 2 years, until January 1986.

The Air Force reported the disposal problems in its 1984 annual statement on internal controls as required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982.² The Air Force said it had imposed a disposal moratorium and initiated corrective actions to address all aspects of its retention and disposal policies. A year later, in its 1985 FMFIA statement, the Air Force reported that all corrections would be completed by the lifting of the moratorium in January 1986. The Air Force continued reporting the weakness for fiscal year 1986, pending confirmation that the policies were implemented.

The Air Force Supply System and Disposal Policies

The Air Force Logistics Command (AFLC) provides logistics support and services for the entire Air Force, including central procurement and storage of material at its five Air Logistics Centers (ALC). The five ALCs are wholesale level activities responsible for the worldwide management of items and weapon systems support. Item managers at the ALCs compute requirements and catalog and distribute items to retail level activities.

Retail level activities include Air Force bases and retail supply functions at repair depots located at each of the five ALCs. Retail level activities order items directly from the item managers and must request disposition instructions when usable items are no longer needed.

The Department of Defense (DOD) operates under an integrated property management concept designed to eliminate item management duplication by having only one source of supply for any item used in DOD to the extent practical. In general, a single military service manages each item. Accordingly, Air Force retail activities also order items managed by the

¹The Inspector General reported on this review in Functional Management Inspection of Supply Retention and Excess Policy (PN84-608, Air Force Inspector General, June 14, 1984).

²FMFIA requires that agency heads report to the President and the Congress annually on the adequacy of their internal controls and their plans to correct identified weaknesses.

General Services Administration, the Defense Logistics Agency, and the other services. Usable items managed by these sources of supply must also be reported to the responsible item manager in these other agencies when no longer needed at the retail activity.

Air Force bases and depot supply activities also locally purchase and manufacture some items. These items are generally more economical to purchase or fabricate locally than to procure centrally and stock. Unlike centrally managed items, these items are controlled locally by the retail activity.

The Disposal Process

Items excess to Air Force requirements are identified for possible disposal at both wholesale and retail level activities. At the wholesale level, the Material Utilization and Disposition Program Management System quarterly produces an excess review listing at each ALC. Item managers decide whether to retain or dispose of the listed items.

At the retail level, items that exceed required stock levels and retention periods are identified by the AFLC's Retail Stock Control and Distribution System at repair depots and by the Standard Base Supply System at Air Force bases. Excess items centrally managed by the Air Force must be reported to the item manager if the items are in usable condition and the total value is over \$20.

Air Force-managed items excess to repair depot requirements are automatically transferred from the repair depot account to the wholesale account controlled by the item manager. Obsolete items are sent directly to disposal. Other reportable excess items at a repair depot are automatically reported to the managing agency through the Defense Communication System's Automated Digital Network. Air Force and other centrally managed excess items at bases are reported to the item manager at least once a quarter by the automated base supply system for possible redistribution. Disposition instructions from the item manager are typically received through the Automated Digital Network, although disposition instructions may also be received by letter or message. The item manager can direct that excess assets be (1) retained by the reporting activity, (2) redistributed to another activity, (3) returned to wholesale stock, or (4) transferred to disposal.

Locally purchased and manufactured items managed by the retail activity, when excess, are identified for review by repair depot and base supply personnel and may be disposed of if no future requirements are anticipated.

Level of Air Force Disposal Activity

During fiscal years 1983-86, the Air Force averaged about 928,000 disposal transactions annually, transferring items to disposal sites for reuse within the government or sale. The average annual acquisition value for these items was \$1.6 billion. (See table 1.1.)

Table 1.1: Air Force Disposal Actions, Fiscal Years 1983-86^a

Dollars in billion

Fiscal year	Number of transactions	Acquisition value of disposed material
1983	929,491	\$1.8
1984	926,639	1.6
1985	848,178	1.3
1986	1,009,058	1.8
Annual Average	928,342	1.6

^aTable excludes disposals of complete aircraft and disposals from the Military Assistance Program.
Source: Defense Reutilization and Marketing Service

Air Force disposal activity dropped after the moratorium was imposed in March 1984, but gradually increased to near premoratorium levels by the end of the moratorium in January 1986. During the moratorium the Air Force was permitted to continue disposals of condemned and obsolete items. In the 6 quarters before the moratorium, disposal actions ranged from about 202,000 to 264,000 per quarter. In the first 3 quarters of the moratorium, disposal actions dropped to a low of about 180,000 during the first quarter of fiscal year 1985. During the remainder of the moratorium and the first 5 quarters following it, disposal activity gradually increased to a high of about 279,000 actions in the second quarter of fiscal year 1987.

Objectives, Scope, and Methodology

We began this review in April 1986 as part of our continuing efforts to determine whether federal agencies are improving internal controls pursuant to the FMFIA. In May 1986, the Chairman of the Subcommittee on

Oversight and Investigations, House Committee on Energy and Commerce, requested that the results of our work be reported to the Subcommittee. The Chairman also asked that we determine whether the Air Force should reimpose its disposal moratorium. Accordingly, our objectives in this review were to determine whether the Air Force

- has implemented actions to address the major problem areas identified by the Air Force Inspector General,
- has revised controls and procedures to provide reasonable assurance that needed items are no longer sent to disposal prematurely, and
- should reimpose the disposal moratorium.

The Inspector General's report contained six major findings that addressed weaknesses in the Air Force's disposal and retention practices. We reviewed Air force actions to implement the recommendations made for four of the major findings. (See table 1.2.)

Table 1.2: Selected Inspector General's Findings and Related Recommendations

Findings	Recommendations
Air Force retention policies and disposal review system resulted in the disposal of needed assets.	Retain all assets applicable to active weapon systems for the the life of the systems. Require an item manager's proactive decision ^a to dispose in lieu of attempting to stop automatically generated disposal actions at wholesale level.
Retention, redistribution, and screening rules at base and depot retail level were ineffective and resulted in disposal of needed assets.	Extend retail level retention requirements beyond the current 1-year criteria. Require base supply to verify that no future need exists before transferring noncataloged items ^b to disposal.
The depot supply procedures and programs used to identify and process excess retail items resulted in some items being transferred to disposal before they had met the minimum required retention period.	Change programming logic of the retail level supply systems to prevent items from going to disposal before the minimum retention period.
Screening procedures delayed recalls and prevented the return of needed assets from disposal.	Require that serviceable assets identified as available in disposal be automatically returned to fill requirements.

^aProactive decisions are disposal authorizations initialed by the item manager.

^bNoncataloged items are items not listed in the federal supply catalog by national stock number.

We did not review Air Force actions to implement recommendations for the major finding involving the disposal of items in repairable condition because corrective actions were still underway. Also, we did not review Air Force actions to implement recommendations for another major

finding involving the premature redistribution of assets among Air Force bases and other DOD activities at European and Pacific locations. This problem related more to distribution of assets rather than to their disposal.

We performed our review of internal controls over disposal actions at the ALCs and Defense Reutilization and Marketing Offices (hereafter called disposal offices) at Kelly Air Force Base, Texas, and Robins Air Force Base, Georgia, and selected retail activities using these disposal offices. Our review was also performed at the following Air Force bases and their disposal offices:

- Clark Air Base, Philippines;
- Kadena Air Base, Okinawa, Japan;
- Sembach Air Base, West Germany;³
- Eglin Air Force Base, Florida;
- Little Rock Air Force Base, Arkansas;
- Nellis Air Force Base, Nevada; and
- Tyndall Air Force Base, Florida.

For overseas locations, we selected Clark and Kadena Air Bases, because their volume of property disposals are among the largest in the Pacific Air Force. Sembach is one of the principal Air Force activities disposing of property at the largest European disposal office in Kaiserslautern, West Germany. We selected the other bases because either the weapon systems positioned there or items supporting the systems were centrally managed by the San Antonio or Warner Robins ALCs. We selected these bases to obtain perspective on both wholesale and retail disposal transactions. To accomplish our objectives, we

- identified, analyzed, and discussed disposal policy and procedural changes with responsible Air Force officials and performed compliance tests to determine whether the major changes resulting from the recommendations had been implemented and
- reviewed judgmentally selected disposal actions to determine if the revised internal controls were preventing the disposal of needed assets.

We discussed major changes and revised policies, procedures, and automated management systems with responsible officials at Air Force Headquarters, Washington, D.C.; AFLC Headquarters, Wright Patterson

³Because of the relative low volume and poor condition of property disposed of by Sembach Air Base, we performed only compliance testing and did not review completed disposal actions.

Air Force Base, Ohio; and the Air Force Standard Systems Center, Gunter Air Force Base, Alabama. At the Air Force activities visited, we determined if identified corrective actions had been implemented and if local supply personnel were complying with the new requirements. We also determined if revisions had been made to Air Force Retention and Transfer Policy (Air Force Regulation 67-97), the Air Force Supply Manual 67-1, and local operating instructions at wholesale and retail level activities.

At the wholesale level, we reviewed 54 quarterly excess review lists for July and October 1986 to determine if they followed revised procedures. Specifically, we reviewed the excess item listings to verify that (1) the item manager and the equipment specialist coordinate with each other, (2) records are annotated with end item applications and reasons for retention or disposal, and (3) management officials had conducted required supervisory review.

To verify whether the revised retention policies were being followed at the retail level, we reviewed a minimum of 10 disposal transactions selected from numerous shipping documents from at least 5 Air Force bases between May 1986 and March 1987. We made similar compliance tests at the ALC depot retail supply activity by reviewing transactions identifying items eligible for disposal.

To determine if actions to improve the screenings of usable items in disposal were implemented, we identified and analyzed the changes made to the wholesale excess management review system. For example, we reviewed records of usable items recalled from disposal through both automated and manual screening techniques. We also reviewed 11 of the many weekly listings of items already in disposal to find out if item managers were following requirements to manually screen items that were not automatically recalled.

To determine if the Air Force's revised procedures, policies, and controls provided reasonable assurance that the disposal of needed items had generally stopped, we reviewed completed disposal actions for compliance with revised disposal criteria. For each location visited, including ALCs and Air Force bases, we obtained automated printouts of all items that had been disposed of from January 1, 1986, when the moratorium was lifted, through August 29, 1986. From these lists and from physical observations in the disposal yards, we selected 203 items that, in our opinion, were likely candidates for having been improperly disposed. We

generally selected high-dollar-value items and avoided testing low-dollar-value or condemned items that were obviously not reusable. We focused primarily on items centrally managed by the Air Force, as opposed to those managed by the Defense Logistics Agency or other services. Of the 203 items, 105 had already been identified by screening techniques as items that should be recalled from the disposal activity because they were reusable.

We reviewed documentation and performed an analysis of the 203 disposal transactions to see if the items met revised retention and disposal requirements. We analyzed each disposal action to find out whether the item still supported an active DOD weapon system and whether it met current disposal criteria. We obtained catalog management information, procurement histories, demand records, requirements computations, and other information related to each item. Where improper disposals were identified, we tried to determine whether the disposals were related to the deficiencies identified earlier by the Inspector General or other problem areas. The number of transactions and the value of property disposed of at each location during the reviewed period and the number and value of items reviewed are provided in appendix I.

We did not evaluate the potential effects that the changes in Air Force retention and disposal practices may have had in such areas as procurement and inventory levels. Our review was performed from April 1986 through October 1987 in accordance with generally accepted government auditing standards.

Corrective Actions Strengthen Management Controls in Disposal Process

For almost 2 years of the disposal moratorium, the Air Force took action based on the major deficiencies identified by the Air Force Inspector General. Specifically, the Air Force

- revised its retention and disposal policies,
- required the item manager to initial disposal authorizations and supervisors to review these authorizations before disposing of assets,
- improved and automated the screening process for items already sent to disposal, and
- required that noncataloged items be validated before disposal.

While the Air Force made major policy changes, we identified sporadic instances of improper disposals.

Revised Retention and Disposal Policy

The Air Force revised its retention policy to provide that usable items be retained for the life of the weapon system or end item they support. Before this revision, Air Force retention policy was based on computed retention levels that varied for different items and weapon systems. Stocks exceeding the retention level were eligible for disposal, but the Inspector General found that the Air Force was prematurely disposing of items needed for active weapon systems. The new retention policy directs item managers to retain

- all Air Force centrally managed serviceable and economically repairable items applicable to active DOD weapon systems and end items,
- enough items to support weapon systems being phased out of the inventory, and
- serviceable items peculiar to weapon systems and end items used solely by foreign military sales countries until there have been no demands for 4 years after a sales offering.

The revised retention policy requires retail activities to retain items for 30 months (instead of 12 months) after the date of last demand or until disposal authority is obtained from the item manager. At the time of our review, however, the base supply system was programmed to retain certain types of equipment for only 24 months. We discussed this issue with both policy and systems officials. They recognized the inconsistency and agreed to change the program to comply with the revised retention policies.

Base supply officials were overriding the computerized retention edits to dispose of noncataloged items before 30 months at two of the five Air

Force bases we reviewed. They had misinterpreted the retention requirements in the revised supply manual. We discussed this matter with officials at the Standard System Center, and they revised the supply manual to clearly state that noncataloged items should also be retained for 30 months.

Positive Action Required Before Disposal

Under revised disposal procedures, item managers are now required to initial disposal authorization for items appearing on the quarterly excess review listings. The automated excess item management system has been reprogrammed to initiate disposals only after such positive action by the item manager. Before this revision, the Inspector General found that items applicable to active weapon systems and critically needed by the Air Force were disposed of automatically without the item manager's knowledge or concurrence.

The revised Air Force Supply Manual 67-1 and local ALC operating instructions now require item managers to document their action on each item appearing on the excess review listing by annotating the end item application, a retention or disposal decision, and a reason for the decision. The revised operating procedures also require (1) equipment specialists to coordinate with item managers on the disposition of excess items and (2) management officials to review the item managers' decisions before disposal action is taken. At the two ALCs visited, our review of quarterly excess review listings for 54 item managers for July and October 1986 showed they were complying with the annotation, coordination, and management review requirements.

Further, our review of 767 retention and disposal actions generated by the wholesale excess item management system confirmed that the system is retaining and disposing of items according to the positive actions made by the item managers. During our compliance test, one item manager had failed to take action on 19 items. However, the system had appropriately retained all the items since a positive disposal action had not been indicated.

The 203 selected disposal actions we reviewed included 31 made at the San Antonio and Warner Robins ALCs by item managers during their review of quarterly excess listings. All 31 disposals were in compliance with the Air Force's revised retention policy. The items were disposed of because (1) the weapon system they supported was no longer active, (2) the item had become obsolete due to a design change, or (3) the item was uneconomical to repair.

Improved Screening of Items in Disposal

Before the Inspector General's report, computerized lists of items in disposal were periodically provided to item managers for manual review and analysis against outstanding requirements. The Inspector General found that this manual review process was not effective and reported instances where new procurements were made when assets were available in disposal yards to satisfy the requirements.

To address this weakness, the Air Force reprogrammed the excess item management system (1) to recall automatically from disposal serviceable items when outstanding requirements had been registered in the system and (2) to produce automated listings for the item managers to review serviceable and repairable items not matching requirements.

We confirmed that the Air Force has implemented these actions. For example, in January 1987, San Antonio ALC records showed that, over the previous 4 months, 777 usable items were recalled from disposal through screening techniques. Of these recalls, 615 resulted from manual screening and 152 had been automatically recalled.

Further, our compliance test of 11 screening referral lists between March and December 1986 confirmed that item managers were complying with requirements to (1) review the listings, (2) annotate reasons for recalling or rejecting items, and (3) obtain appropriate levels of supervisory review. In addition, our review of 203 selected disposal actions identified 19 disposal transactions involving Air Force-managed items that had been later recalled by the screening; 16 by manual techniques and 3 by automated techniques.

Validation Required Before Disposal of Noncataloged Items

The Inspector General found that noncataloged items had been frequently disposed of without any validation of future need. Substantial quantities and dollar values of these items had been transferred to disposal while still in good to new condition. Noncataloged items are usually locally purchased or manufactured by base and retail level activities and are not centrally bought and controlled by wholesale item managers. Therefore, according to the Inspector General, similar items were being bought, stocked, and disposed of under various different locally assigned numbers, even at the same supply activity.

In response to this problem, disposal procedures were revised to require supply personnel to contact the last known user or requester of noncataloged items before disposal action. The previous user should know if the items could be used or whether the items should be retained for future

requirements. Supply personnel are required to document the user contacts and to annotate the requisition records with information regarding item requirements. If no requirements are identified, and disposal is indicated, the annotated requisition record is attached to the disposal document.

Of the Air Force bases we reviewed, three were attempting to comply with the new disposal procedures but frequently were having problems because the documentation necessary to identify the last user or requester was not available. Also, two bases did not comply. At one base, the noncompliance had been documented in an internal control review, and at the other base, supply officials said they would begin the requirement validation procedures.

Our efforts to independently contact the last known user or requester of disposed items produced mixed results. One case resulted in the recovery from disposal of new air conditioning equipment valued at \$7,216, which was still in its original shipping container. According to the requester, the equipment had been used at several locations on base and could have been needed within a year or two. In other cases, we could not determine whether a future need existed because the requisition document was not on file or personnel contacted at the activity last using the item knew too little about the item to comment on future requirements.

Because of the extended retention requirement, it is difficult to identify the last known user after an item is determined excess. In general, the Air Force retains most records for only 2 years. Since an item is not eligible for disposal until 30 months after the last demand, the records necessary to contact the last requester could have been disposed of before such contact is attempted. The need for a mechanism to readily identify previous users of noncataloged items has increased since the retention period was changed from 12 to 30 months.

Sporadic Cases of Improper Disposals Still Occur

Generally, we found improvement in the disposal process at both the wholesale and retail levels. Our review of records and observations at bases, ALCS, and disposal offices showed that items being disposed of were usually condemned, nonusable property that met disposal criteria. We also saw evidence that both automated and manual screening techniques have been improved and that improperly disposed of assets had been regularly recalled from the disposal yards. Nevertheless, the supply system is large and imperfect, and disposal errors will still occur.

Improper Disposal of F-100 Turbine Blades

Early in our review, we identified a problem involving the improper condemnation and disposal of F-100 turbine engine blades at the San Antonio ALC. At the request of the Chairman, Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce, we testified and reported¹ on the blade problem in August 1986. The findings presented in our report were as follows:

- Usable engine blades had been improperly condemned and sent to disposal to be sold as scrap metal.
- Condemned blades had been taken from disposal and reintroduced into the maintenance system after contractor repair.
- Some repaired blades were defective and presented potential safety problems.

The Air Force took actions to correct the blade problems, and the Secretary of Defense reported the engine blade issue as an area of special interest in DOD's 1986 FMFIA statement.²

Review of Disposal Actions

Our review of 203 selected items already sent to disposal showed that 150 met and 53 did not meet revised disposal criteria. The improper disposals all related to retail activities. In each case, we validated requirements and item application with the item manager. By the completion of our review, 40 of the 53 items had been recalled from disposal. The remaining 13 of the 53 items had not been recalled for various reasons, such as having been scrapped before they could have been recalled and having adequate stocks to meet future requirements so recall was unnecessary or uneconomical. Appendix II shows the number of items reviewed by location and shows the number of items that were recalled from disposal.

We could identify no systemic problem that had caused these improper disposals. It was often difficult from available documentation to find out whether the item managers erred in providing disposition instructions or the bases failed to adhere to disposal instructions and procedures.

For example, in March 1986 Bergstrom Air Force Base disposed of a repairable transponder set valued at \$15,965. This is common test

¹Inventory Controls: Improper Air Force Disposal and Reuse of F-100 Engine Blades (GAO/NSIAD-86-182BR, Aug. 1986).

²Department of Defense Annual Statement of Assurance for Fiscal Year 1986 (app. B, Dec. 30, 1986, p. 6).

equipment that supports several active weapon systems, including the C-5, C-130, and F-16 aircraft. Thus, the item did not meet revised disposal criteria and should not have been sent to disposal. Documentation at the retail base level activity indicated the item manager had authorized the disposal. However, we reviewed documents at a wholesale activity where an item manager had directed the base to return the item to the depot for repair. After our inquiry, the item manager recalled the test set from the disposal yard.

While investigating the improper disposal actions, we identified some weaknesses involving

- no supervisory review of the wholesale item manager's disposal decisions on some categories of excess items, such as equipment items, reported by base level activities,
- the lack of letters or messages containing disposition instructions on file to support base level disposals, and
- no supervisory review when base level programmed computer retention edits designed to prevent disposal were overridden.

Conclusions

The Air Force has implemented the major recommendations made by the Inspector General by changing the procedures, policies, and controls needed to better provide reasonable assurance that assets are not prematurely disposed of. However, due to the size of the Air Force supply system and disposal activity, sporadic improper disposal actions have occurred since the moratorium was lifted, and undoubtedly, they will occur again. Our review shows that most items being disposed of meet revised disposal criteria. In our opinion, significant internal control improvements had been made; therefore, we do not believe it is necessary to reinstate a disposal moratorium.

However, there are opportunities for the Air Force to further improve the disposal process. We believe that the Air Force could (1) improve the ability of retail activities to identify prior users necessary to determine future requirements for noncataloged items and (2) strengthen its oversight of retail disposal decisions.

We recognize that base supply personnel may be able to identify and contact prior users of noncataloged items with persistence and time. However, these efforts could be facilitated if pertinent documentation is retained over a period that is consistent with the retention period—currently 30 months.

We reviewed a limited number of disposal transactions with a high potential for recall at a few Air Force bases. Our review identified some improper disposals that showed a lack of supervisory review of the (1) wholesale item managers' disposal decisions and (2) decisions to override programmed retention edits by base supply officials. Although the Air Force has screening procedures to recall needed items from disposal, the potential exists for items to be overlooked during screening or scrapped before they could be recalled. Also, the shipments to and from disposal may involve transportation costs, and the additional handling and storage at disposal increases the potential for item damage. Therefore, we believe some degree of supervisory review would improve internal controls.

Recommendations

We recommend that the Secretary of the Air Force

- develop policies and procedures for retaining prior user identities of noncataloged items for 30 months after the date of last demand,
- consider extending, on a sample basis, supervisory review of the wholesale item managers' disposal decisions on excess items reported by base level activities, and
- consider requiring supervisory reviews of base supply personnel disposal decisions when computer retention edits are overridden.

Agency Comments

DOD agreed with our findings and recommendations. (See app. III.) It estimated that corrective actions would be completed by the end of August 1988. DOD's planned actions are responsive to our recommendations.

Total Disposal Activity and Items Reviewed by Location

Location	Total disposals 01/01/86 to 08/29/86		Items reviewed	
	Number	Value ^a	Number	Value ^a
San Antonio ALC	9,024	\$105,410,275	22	\$1,262,555
Warner Robins ALC	6,118	52,272,279	27	1,070,292
Clark Air Base	8,382	6,606,071	21	130,230
Eglin Air Force Base	8,932	6,490,085	18	301,100
Kadena Air Base	5,563	5,921,879	24	222,474
Little Rock Air Force Base	4,337	3,531,139	24	207,391
Nellis Air Force Base	5,999	4,294,062	21	133,260
Tyndall Air Force Base	4,765	5,831,294	17	131,020
San Antonio area ^b	26,880	33,759,516	20	175,095
Warner Robins area ^b	10,371	26,864,508	9	633,556
	90,371	\$250,981,108	203	\$4,266,973

^aOriginal acquisition value of disposed property.

^bAir Force disposals at the Defense Reutilization and Marketing Offices at Kelly and Robins Air Force Bases excluded those by the San Antonio and Warner Robins ALCs and included disposals by other Air Force bases, the Air National Guard, and Reserve Units.

Results of Reviewed Disposal Actions and Recalls of Improper Disposals

	Total disposal actions reviewed		Total proper disposal actions		Total improper disposal actions		Recalls out of total improper actions	
	Number	Value ^a	Number	Value ^a	Number	Value ^a	Number	Value ^a
San Antonio ALC ^b	22	\$1,262,555	20	\$1,244,579	2	\$17,976	2	\$17,976
Warner Robins ALC ^b	27	1,070,292	24	1,057,580	3	12,712	2	11,988
Clark Air Base	21	130,230	14	118,199	7	12,031	5	9,854
Eglin Air Force Base	18	301,100	13	268,791	5	32,309	5	32,309
Kadena Air Base	24	222,474	11	62,968	13	159,506	8	148,488
Little Rock Air Force Base	24	207,391	20	205,831	4	1,560	1	284
Nellis Air Force Base	21	133,260	17	124,759	4	8,501	4	8,501
Tyndall Air Force Base	17	131,020	9	62,007	8	69,013	7	26,319
San Antonio area ^c	20	175,095	13	117,295	7	57,800	6	52,299
Warner Robins area ^c	9	633,556	9	633,556	0	0	0	0
	203	\$4,266,973	150	\$3,895,565	53	\$371,408	40	\$308,018

^aOriginal acquisition value of disposed property.

^bEach improper ALC disposal was made by the depot retail supply function.

^cDisposals by Air Force retail activities at the Defense Reutilization and Marketing Offices at Kelly and Robins Air Force Bases excluded those by the San Antonio and Warner Robins ALCs and included disposals by other Air Force bases, the Air National Guard, and Reserve Units.

Comments From the Deputy Assistant Secretary of Defense (Systems)



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301-8000

PRODUCTION AND
LOGISTICS

22 JAN 1988

(L/SD)

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and
International Affairs
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "INTERNAL CONTROLS: Air Force Correcting Weaknesses in Its Property Disposal Procedures," dated December 2, 1987 (GAO Code 390042), OSD Case 7111-A.

The Department concurs in the GAO draft report findings and recommendations. A discussion of the DoD position is enclosed.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jack Katzen".

Jack Katzen
Deputy Assistant Secretary of Defense
(Systems)

Enclosure

GAO DRAFT REPORT - DATED DECEMBER 2, 1987
(GAO CODE 390042) OSD CASE 7111-A

"INTERNAL CONTROLS: AIR FORCE CORRECTING WEAKNESSES
IN ITS PROPERTY DISPOSAL PROCEDURES"

FINDINGS AND RECOMMENDATIONS TO BE ADDRESSED IN THE
DOD RESPONSE TO THE GAO DRAFT REPORT

* * * * *

FINDINGS

FINDING A: Corrective Actions Strengthen Management Controls In Disposal Process. The GAO reported that, in early 1984, the Air Force Inspector General found^{1/} that the Air Force was disposing of usable items critically needed to support active weapon systems, while in some cases, at the same time buying new, similar items. The GAO further reported that the Air Force Inspector General recommended changes to the Air Force retention and disposal policies and procedures at the Air Logistics Centers (ALCs) (wholesale supply level) and at air bases and repair depots (retail supply level). The GAO found that, in March 1984, the Air Force implemented a moratorium on the disposal of all serviceable and repairable active weapon system parts, which lasted nearly 2 years. The GAO found that, during the disposal moratorium, the Air Force revised its retention and disposal policies, procedures, and automated systems. The GAO also noted that, in its 1985 annual statement on internal controls required by the Federal Managers Financial Integrity Act of 1982 (FMFIA), the Air Force reported that all corrective actions would be completed with the lifting of the disposal moratorium in January 1986. The GAO observed that, from FY 1983 to FY 1986, the Air Force averaged about 928,000 disposal transactions annually, transferring items to disposal sites for reuse within the Government or sale. (According to the GAO, the average annual acquisition value for these transfers was \$1.6 billion.)

The GAO concluded that the Air Force has implemented the major recommendations made by its Inspector General by changing the procedures, policies, and controls needed to better provide

^{1/} Air Force Inspector General Report, Functional Management Inspection of Supply Retention and Excess Policy, June 14, 1984

Enclosure

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Now on pp. 2-3, 8-14
and 30.

reasonable assurance that assets are not prematurely disposed. The GAO further concluded that significant internal control improvements have been made and it is not necessary to reinstate a disposal moratorium. (The GAO noted that, because corrective actions were still underway at the time of its onsite work, Air Force actions to implement the recommendations for the major finding involving the disposal of items in repairable condition were not evaluated. The GAO also noted that it did not review Air Force actions to implement recommendations for another major finding involving the premature redistribution of assets among Air Force bases and other DoD activities at European and Pacific locations, because this problem related more to distribution of assets rather than to their disposal.) (pp. 1-3, pp. 9-19, p. 31/GAO Draft Report)

DOD RESPONSE: Concur.

FINDING B: Revised Air Force Retention And Disposal Policy. The GAO reported that Air Force retention policies at wholesale levels were changed to require that usable items be retained for the life of the weapon system or other end item they support, and retention requirements at retail levels were changed from 12 to 30 months. The GAO found, however, that the base supply system was programmed to retain certain types of equipment for only 24 months. The GAO discussed this issue with both policy and systems officials. According to the GAO, these officials reportedly recognized the inconsistency and agreed to change the program to comply with the revised retention policies. The GAO also found that base supply officials, at two of the five Air Force bases the GAO reviewed, were overriding the computerized retention edits to dispose of noncataloged items before 30 months. The GAO observed that this was the result of misinterpreting the retention requirements in the revised supply manual. The GAO discussed this matter with officials at the Standard System Center and reported they revised the supply manual to clearly state that noncataloged items should also be retained for 30 months. (p. 4, pp. 21-23/GAO Draft Report)

Now on pp. 3, 15-16.

DOD RESPONSE: Concur.

FINDING C: Positive Action Required Before Disposal. The GAO reported that the Air Force Inspector General had found items applicable to active weapon systems and critically needed by the Air Force were disposed of without the item manager knowledge or concurrence. The GAO found that procedures have been adopted by the Air Force requiring positive action by item managers before

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items are transferred to disposal activities. According to the GAO, the revised Air Force Supply Manual 67-1 and local ALC operating instructions now require item managers to document their actions on each item appearing on the excess review listing by annotating the end item application, a retention or disposal decision, and a reason for the decision. In addition, the GAO found that the revised operating procedures also require:

- equipment specialists to coordinate with item managers on the disposition of excess items; and
- management officials to review decisions before action is taken.

Based on its review of Air Force actions taken, the GAO found that there was general compliance with these requirements and the system is retaining and disposing of items according to the positive actions made by item managers. (p. 4, pp. 23-24/GAO Draft Report)

DOD RESPONSE: Concur.

FINDING D: Improved Screening Of Items In Disposal. The GAO reported that the Air Force Inspector General had found that item manager manual reviews of lists of items in disposal were not effective in avoiding unnecessary procurements. The GAO found that the Air Force has implemented actions to address this weakness by reprogramming the excess item management system to:

- recall automatically from disposal serviceable items when outstanding requirements were registered in the system; and
- produce automated listings for the item managers to review serviceable and repairable items not matching requirements. (p. 4, pp. 24-25/GAO Draft Report)

DOD RESPONSE: Concur.

FINDING E: Validation Required Before Disposal of Noncataloged Items. The GAO reported that the Air Force Inspector General had found that substantial amounts of items without a national stock number (Federal Supply Catalog) were being bought, stocked and disposed of without any validation of future need. The GAO found that Air Force disposal procedures for disposing of such noncataloged items were revised to require supply personnel to contact the last known user or requester, who should know if the

Now on pp. 3, 16.

Now on pp. 3, 17.

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items could be used or retained for future requirements. Also, the GAO found that supply personnel are required to document the user contacts and to annotate the requisition records in this regard. The GAO observed that three of the Air Force bases it reviewed had problems because the documentation necessary to identify the last user or requester was not available; also, two bases were not complying. The GAO reported that, at one of these two noncomplying bases, the internal control review had already documented the noncompliance, while at the other base supply officials agreed to begin the validation procedures. The GAO also reported difficulty in its efforts to independently contact the last known user or requester of noncataloged items. The GAO observed that, because of the extended retention requirement, it is often difficult to identify the last known user after an item has been determined excess. The GAO noted that, in general, the Air Force retains most records for only 2 years and since an item does not become eligible for disposal until 30 months after the last demand, the records necessary to contact the last requester may be missing. The GAO concluded that, while base supply personnel may be able to identify and contact prior users of noncataloged items with persistence and enough time, these efforts could be facilitated if pertinent documentation is retained over a period consistent with the disposal retention period. (p. 4, pp. 25-27, p. 3/GAO Draft Report)

DOD RESPONSE: Concur.

FINDING F: Sporadic Cases of Improper Disposal Still Occur. The GAO generally found improvements in the disposal process at both the wholesale and retail levels. Its review of records and observations at the visited bases, the ALCs, and the disposal offices showed that items being disposed of were usually condemned, nonusable property that met disposal criteria. Nevertheless, the GAO observed, the supply system is large and imperfect, and disposal errors will still occur. The GAO noted that, early in its review, it identified a problem involving the improper condemnation and disposal of F-100 turbine engine blades at the San Antonio ALC and issued a report.^{2/}

^{2/} GAO Report GAO/NSIAD-86-182BR, "INVENTORY CONTROLS: Improper Air Force Disposal and Reuse of F-100 Engine Blades," August 1986

Now on pp. 3-4, 17-18,
and 20-21.

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That report presented the following findings:

- usable engine blades were being improperly condemned and sent to disposal to be sold as scrap metal; (OSD Case 7111)
- condemned blades were taken from disposal and reintroduced into the maintenance system after contractor repair; and
- some repaired blades were defective and presented potential safety problems.

The GAO noted that the Air Force has taken actions to correct the blade problem and that the Secretary of Defense reported the engine blade issue as an area of special interest in the DoD 1986 FMFIA statement. (p. 5, pp. 28-31/GAO Draft Report)

DOD RESPONSE: Concur.

FINDING G: Review of Disposal Actions. The GAO reported that its review of 203 selected items already sent to disposal showed that 150 met the revised disposal criteria and 53 did not. The GAO observed, however, that by the completion of its review, 40 of the 53 items had been recalled from disposal and the remaining 13 of the 53 items were not recalled for various reasons, such as having been scrapped or having adequate stocks. The GAO observed that it could identify no systemic problem causing these improper disposals. The GAO review did, however, find some general deficiencies, as follows:

- no supervisory review of the wholesale item manager's disposal decisions on some categories of excess items reported by base level activities (such as equipment items);
- little documentation of base level disposal authority claimed to have been issued or received by letter or message; and
- no supervisory review when base level programmed computer retention edits designed to prevent disposal were overridden.

The GAO observed that, although the Air Force has screening procedures to recall needed items from disposal, the potential still exists for items to be overlooked during screening or scrapped before they can be recalled. Also, the GAO observed that recall shipments to and from disposal sites may involve transportation costs and potential damage. The GAO concluded

Now on pp. 18-19.

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Now on pp. 4, 19-21.

that some degree of supervisory review would improve internal controls. (p. 5, pp. 19-20, pp. 29-32/GAO Draft Report).

DOD RESPONSE: Concur.

RECOMMENDATIONS

Now on pp. 4, 21.

RECOMMENDATION 1: The GAO recommended that the Secretary of the Air Force develop policies and procedures for retaining prior user identities for 30 months after the date of last demand. (p. 32/GAO Draft Report)

DOD RESPONSE: Concur. The procedures to retain documentation of the last known user activity or requesting activity of noncataloged items for 30 months after the date of the last demand will be developed and documented in the applicable portions of Air Force Manual (AFM) 67-1. Estimated date of completion is August 1988.

Now on pp. 4, 21.

RECOMMENDATION 2: The GAO recommended that the Secretary of the Air Force consider extending, on a sample basis, supervisory review of the wholesale item manager's disposal decision on excess items reported by base level activities. (p. 32/GAO Draft Report)

DOD RESPONSE: Concur. The requirement for supervisory review, on a sample basis, of the wholesale item manager's disposal decision on excess items reported by base level activities will be documented in the applicable portions of AFM 67-1. Estimated date of completion is August 1988.

Now on pp. 4, 21.

RECOMMENDATION 3: The GAO recommended that the Secretary of the Air Force consider requiring supervisory reviews of base supply personnel disposal decisions when computer retention edits are overridden. (p. 32/GAO Draft Report)

DOD RESPONSE: Concur. The requirement for supervisory review of base supply personnel disposal decisions when computer retention edits are overridden will be documented in the applicable portions of AFM 67-1. Estimated date of completion is August 1988.

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