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UNITED STATES GENERAL ACCOUNTING OFFICE
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KANSAS CITY, MISSOURI 64106

(90515)
November 20, 1973 093470



Mr. Thomas J. Creswell, Director
FAA Aeronautical Center
P. O. Box 25082
Oklahoma City, Oklahoma 73125

Dear Mr. Creswell:

In July 1970, the General Accounting Office issued a report to the Congress (B-164497(1)) on improvements needed in the Federal Aviation Administration's (FAA) procedures for determining excess spare parts. The report showed that FAA estimated future needs by projecting past issue data without considering specifically the types and numbers of facilities in operation for which particular parts were needed and the expected remaining useful lives of such facilities. FAA had declared excess about \$3.8 million worth of parts during April, May and June 1967, and during the ensuing 23 months determined new requirements for an estimated \$473,900 worth of the same parts. The report recommended that FAA should

- assemble and organize into appropriate form information pertaining to (1) the types and numbers of facilities in use, (2) the particular spare parts needed to maintain each type of facility, and (3) the expected useful lives of the facilities;
- establish procedures designed to ensure that such information is appropriately used in inventory management decisions; and
- in the interim, declare spare parts excess only after it has been determined that they are obsolete or unfit for use, or that continued retention would become economically impracticable.

STATUS OF RECOMMENDATIONS

In a 1973 survey at the FAA Aeronautical Center, Oklahoma City, Oklahoma, we observed that Center personnel were obtaining end item application data for exchange and repair items and for expendable items entering the system. Such data was not being obtained for the thousands of expendable items already in the system. On March 31, 1973, the Center

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had about 36,000 expendable items with no demand during the previous 12 months. Although many of these items were potentially excess to FAA's needs, without adequate end item application data supply management people could not make informed judgments as to which items could safely be deleted from the system. As a result, the item managers were retaining stocks of many items as a hedge against possible future requirements unless they could determine the items were obsolete.

As shown in CAO's July 1970 report (B-164497(1)) very little, if any, costs are saved at the Center by disposal of only a portion of the stocks of each item. And, as described below, the Center has determined that very few items were obsolete and completely deleted them from the system.

The Center has a computer system for listing potentially excess items for periodic review by item managers. During the past year these listings have been limited to items with computed excess material on hand valued at \$100 or more. This subjects the majority of the dollar value of potential excess material to review but does not cover a significant portion of the line items, for example, those with no demands within the previous year which have on hand quantities valued at less than \$100.

Reviews of the potential excesses have resulted in changing the classification of items from potential excess to insurance with partial disposal in some cases but with total disposal made only when data is available to assure an item is no longer needed. An insurance item is defined as:

"An item for which a requirement is not normally expected and its need is usually caused by unpredictable events: the item is essential; and the lead time required to obtain the item when needed creates an unacceptable situation, such as stoppage of essential operations or existence of a condition hazardous to human life."

For the third quarter fiscal year 1973 the computer listed 6,917 line items of which 4,187 had no application data on record. The item managers classified 4,588 as insurance items and scheduled partial excess of 1,750; classified 115 as total excess; and took no action on 1,822. In very few cases managers added application data as a result of this review or determined item essentiality or ease of procurement before classifying the items as insurance.

Although the item managers classified 115 items as total excess, the Center had retained the stocks of 80 of the items. Several other items on the listings had previously been coded for total disposal but were still on hand.

The Center has made only limited progress in assembling and using application data to manage expendable material. We believe the item managers should obtain and use such information, at least for managing

items which are generating requirements, to reduce accumulations of spare parts when applicable end items start phasing out of the FAA system.

Center personnel said that determining application data for inactive expendable items is not feasible considering their personnel resources and the type and value of material involved. This may be true since the Center had at least 28,000 items with stock valued at less than \$100 which had no demands in the last 12 months. If so it seems essential that other criteria be developed whereby unneeded items can be eventually removed from the system. Although cost to hold unneeded items is nominal, such items require periodic attention by the item managers which diverts attention from management of more active items.

We doubt the usefulness of excess reviews which result in only partial disposals because there is very little if any savings at the Center if portions of the stock is retained. It may be beneficial in some cases to hold these items for contingency purposes without determining essentiality. But we believe that material for which no known requirements exists should not be retained for contingencies if transfer to other agencies having current requirements would provide overall savings to the Government.

Beginning in November 1973, the Defense Supply Agency is scheduled to take over management and storage of material in certain Federal Stock Classes which are common to various agencies. We recommend that when this occurs, the Center report to DSA those insurance items having no identifiable requirements as available for transfer to satisfy current requirements of other agencies.

Center officials stated that items having no identifiable requirements would be reported to DSA criteria would be developed to eventually remove unneeded items from the system and consideration would be given to identifying application data on expendable items in the system as they generate requirements. We believe these actions will substantially alleviate the problems noted.

RELATED OBSERVATIONS

We also observed during this survey that

- lack of data and errors in the inventory records caused improper stratification of items;
- expendable items were in stock in an unserviceable condition although there was no intention of repairing and using such material and
- an error in a mechanized requirements computation program resulted in overstatement of requirements for certain items.

Details of each of these areas are described below.

Improper Stratification
of Items

Items in the system less than 3 years are considered too new to have a valid demand history, consequently, they are neither reported as computed excess nor subjected to excess reviews. The Center was erroneously classifying items as new because there was no date of first receipt in the record, or the date in the record was in error.

A special printout, run at our request, showed that as of April 30, 1973, over 3,000 line items with assets on hand valued at \$2.7 million did not have a date of first receipt on the record. Based on analysis and limited tests we estimated that about 1,000 of these line items with about \$500,000 of assets should have been classified as either potential excess or low demand and included in the excess reviews. The remaining items apparently were properly stratified but will be misclassified in the future if corrective action is not taken.

We discussed these errors with Center officials who initiated computer program changes and other actions to correct them.

Retention of unserviceable
expendable material

Expendable material is considered uneconomical to repair, and is generally disposed of when unserviceable.

Center records showed, however, that 1,477 expendable line items with unserviceable assets valued at \$493,000 were in storage on March 31, 1973. Based on a review by Center technicians of randomly selected items, we estimated that \$300,000 of this material had no special basis for retention. This unserviceable expendable material came from various sources, including returns from the field.

In most cases the inventory managers were not aware of unserviceable expendable stock. Consequently, serviceable assets were disposed of and unserviceable assets retained to fill requirements. For example, an inventory manager initiated action to dispose of six units of an item when the Center had six serviceable and six unserviceable items in stock. The six serviceable items were transferred to the Center Redistribution and Marketing section for disposal.

Unnecessary shipping, handling and repair or procurement costs may be incurred when unserviceable, expendable items are returned from users, stored for no specific reason and retained in lieu of serviceable items for filling requirements. Accordingly, we recommend that unneeded unserviceable expendable material be removed from inventories, and controls be strengthened to prevent return and retention of such items.

Center officials stated that unserviceable expendable material in stock would be reviewed and disposal action taken for items not having a special need; procedures would be established for processing an

exception notice to inventory managers when such items are entered on the inventory records and for identifying such items on the excess review lists and controls to prevent return of such items from field users would be reviewed and strengthened to the extent feasible. Implementation of these promised actions should provide an adequate basis for managing unserviceable expendable items.

Requirements Computation Error

Certain materials in Depot inventory include Commission Reserve Obligation stocks, that is stocks needed for initial support of facilities to be placed in service. The Depot Handbook formula for computing requirements for this material states that 38 percent of the reserve stock should be included in the requirements computation. Because of a programming error this percentage was doubled and the requirements computations included 76 percent of the reserve stock.

We called this error to the attention of Center officials who had the program corrected and reviewed open purchase requests for affected items. We believe these actions are adequate.

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We would appreciate your comments on the matters discussed above within 30 days. Copies of this letter are being furnished to Office of Audits, Department of Transportation, Dallas, Texas.

Sincerely yours,

B. Arnett E. Arnett
fa K. L. Weary
Regional Manager