United States Government Accountability Office

GAO

Report to Congressional Requesters

May 2005

DOD EXCESS PROPERTY

Management Control Breakdowns Result in Substantial Waste and Inefficiency

GAO-05-277

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GAO Accountability·Integrity·Reliability

Highlights

Highlights of GAO-05-277, a report to congressional requesters

Why GAO Did This Study

Based on limited previous GAO work that identified examples of purchases of new items at the same time identical items in excellent or good condition were excessed, GAO was asked to assess the overall economy and efficiency of the Department of Defense (DOD) program for excess property reutilization (reuse). Specifically, GAO was asked to determine (1) whether and to what extent the program included waste and inefficiency and (2) root causes of any waste and inefficiency. GAO was also asked to provide detailed examples of waste and inefficiency and the related causes. GAO's methodology included an assessment of controls, analysis of DOD excess inventory data, statistical sampling at selected sites, and detailed case studies of many items.

What GAO Recommends

This report includes 13 recommendations to improve the economy and efficiency of DOD's reutilization program for excess commodities in the areas of (1) data reliability; (2) oversight, accountability, and physical inventory control; and (3) the functional design of DOD's future commodity inventory systems.

DOD concurred with 8 and partially concurred with 5 of our recommendations. Where DOD partially concurred, we view DOD's stated actions as being generally responsive to the intent of our recommendations.

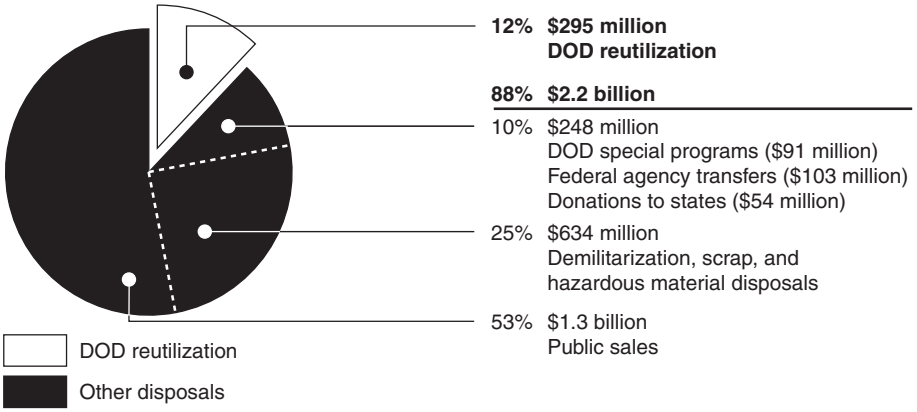
www.gao.gov/cgi-bin/getrpt?GAO-05-277.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory D. Kutz at (202) 512-9095 or kutzg@gao.gov.

What GAO Found

DOD does not have management controls in place to assure that excess inventory is reutilized to the maximum extent possible. Of $18.6 billion in excess commodity disposals in fiscal years 2002 and 2003, $2.5 billion were reported to be in new, unused, and excellent condition. DOD units reutilized only $295 million (12 percent) of these items. The remaining $2.2 billion (88 percent) includes significant waste and inefficiency because new, unused, and excellent condition items were transferred and donated outside of DOD, sold for pennies on the dollar, or destroyed. DOD units continued to buy many of these same items. GAO identified at least $400 million of commodity purchases when identical new, unused, and excellent condition items were available for reutilization. GAO also identified hundreds of millions of dollars in reported lost, damaged, or stolen excess property, including sensitive military technology items, which contributed to reutilization program waste and inefficiency. Further, excess property improperly stored outdoors for several months was damaged by wind, rain, and hurricanes.

Waste and Inefficiency Related to $2.2 Billion in Fiscal Year 2002 and 2003 Disposals of Excess DOD Commodities Reported To Be in New, Unused, and Excellent Condition



Source: GAO analysis.

To illustrate continuing reutilization program waste and inefficiency, GAO ordered and purchased at little or no cost several new and unused excess commodities that DOD continued to buy and utilize, including tents, boots, power supplies, circuit cards, and medical supplies. GAO paid a total of $1,471, including tax and shipping cost, for these items, which had an original DOD acquisition cost of $68,127.

Root causes for reutilization program waste and inefficiency included (1) unreliable excess property inventory data; (2) inadequate oversight and physical inventory control; and (3) outdated, nonintegrated excess inventory and supply management systems. Procurement of inventory in excess of requirements also was a significant contributing factor. Improved management of DOD's excess property could save taxpayers at least hundreds of millions of dollars annually.

Contents

Figures

Abbreviations

BSM	Business System Modernization
CAP	Civil Aeronautics Patrol
CCLI	Commerce Control List Item
C.F.R.	Code of Federal Regulations
CONUS	Continental United States
CPU	Central processing unit
DAISY	DRMS Automated Information System
DLA	Defense Logistics Agency
DLIS	Defense Logistics Information System
DOD	Department of Defense
DODAAC	DOD Activity Address Code
DODAAD	DOD Activity Address Directory
DRMO	Defense Reutilization and Marketing Office
DRMS	Defense Reutilization and Marketing Service
DSS	Defense Standard System
FEDLOG	Federal Logistics System
FEDS	Federal Disposal System
FSC	Federal Supply Class
GSA	General Services Administration
GSAXcess	GSA Excess Property Web site
HAP	Humanitarian Assistance Program
IDEA	Interactive Data Extraction and Analysis
JSLIST	Joint Service Lightweight Integrated Suit Technology
LEA	Law Enforcement Agency

LSN	Local stock number
MIDAS	Management Information Distribution and Access System
MILSTRIP	Military Standard Requisitioning and Issue Procedures
MARS	Military Affiliate Radio System
MLI	Military List Item
MWR	Morale, welfare, and recreation activities and services
NSN	National stock number
OMB	Office of Management and Budget
RCP	Recycle control point
RIPL	Receipt in place location
RMP	Reutilization Modernization Program
ROTC	Senior Reserve Officer Training Corps
SAMMS	Standard Automated Materiel Management System
SCC	Supply Condition Code
U.S.C.	United States Code

GAO
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, D.C. 20548

May 13, 2005

The Honorable Christopher Shays
Chairman
The Honorable Dennis J. Kucinich
Ranking Minority Member
Subcommittee on National Security,
Emerging Threats and International Relations
Committee on Government Reform
House of Representatives

The Honorable Susan M. Collins
Chairman
Committee on Homeland Security
and Governmental Affairs
United States Senate

The Honorable Janice D. Schakowsky
House of Representatives

This report responds to your request that we assess the overall economy and efficiency of the Department of Defense (DOD) program for reutilization (reuse) of excess property. Your request was based on our limited previous work that identified several examples of problems in this area. Specifically, our November 2003 report[1] identified several examples that showed that at the same time DOD excessed biological equipment items in good or excellent condition and sold many of them to the public for pennies on the dollar, it was purchasing the same or similar items. In addition, at a June 2002 hearing on ineffective and inefficient DOD business processes before the Subcommittee on National Security, Veterans Affairs and International Relations, House Committee on Government Reform, we testified[2] that the lack of asset visibility over the Joint Service Lightweight

[1] GAO, *DOD Excess Property: Risk Assessment Needed on Public Sales of Equipment That Could Be Used to Make Biological Agents*, GAO-04-15NI (Washington, D.C.: Nov. 19, 2003).

[2] GAO, *DOD Management: Examples of Inefficient and Ineffective Business Processes*, GAO-02-873T (Washington, D.C.: June 25, 2002).

Integrated Suit Technology (JSLIST)[3] resulted in DOD units sending JSLIST to Defense Reutilization and Marketing Offices (DRMO) as excess. DRMOs then issued coats and trousers to other federal agencies, scrapped some of these items, and sent other JSLIST to a government liquidation contractor, while at the same time procuring hundreds of thousands of new garments in response to the terrorist attacks of September 11, 2001. You were concerned that our limited examples could indicate systemic problems.

Accordingly, you asked us to assess the overall economy and efficiency of DOD's excess property reutilization program. To do so, we reviewed applicable laws and regulations; DOD policies and procedures; and current systems, processes, and management controls. Where we found controls to be ineffective, we tested and evaluated them further. You asked us to report (1) whether and to what extent we found waste and inefficiency and (2) the root causes of any waste and inefficiency. In reporting on the results of our work, you asked us to provide detailed examples of any waste and inefficiency and the related causes. As agreed with your offices, our audit focused on identifying new, unused, and excellent condition excess commodity inventory[4] activity during fiscal years 2002 and 2003[5] and determining whether the Defense Logistics Agency (DLA) purchased identical items instead of reutilizing the available excess items in Defense Reutilization and Marketing Service (DRMS) inventory.

To identify potential waste and inefficiencies, we analyzed the universe of recorded fiscal year 2002 and 2003 transactions on excess DOD commodity turn-ins and disposals and DLA commodity purchases. We compared DOD reutilization of excess new, unused, and excellent condition commodities to transfers, donations, public sales, and destruction of excess

[3] JSLIST is a universal, lightweight, two-piece garment (coat and trousers) that when combined with footwear, gloves, and a protective mask and a breathing device, forms the warfighter's protective ensemble. Together, the ensemble is to provide maximum protection to the warfighter against chemical and biological contaminants without negatively affecting the ability to perform mission tasks. JSLIST is the current model protective suit used by the military services.

[4] DOD commodities within the scope of this report include a wide variety of equipment, spare parts, and supplies, such as office and laboratory equipment, aircraft parts and weapons system components, construction and medical supplies and equipment, and clothing and textile items. Ammunition and explosive weapons, fuel, subsistence items, and pharmaceuticals are not included in the scope of this report.

[5] Fiscal year 2002 and 2003 data were the most recent data available at the time we initiated our audit.

commodities. We also compared DOD commodity purchases to identical excess items in new, unused, and excellent condition to determine whether DOD made unnecessary purchases instead of reutilizing available excess items. To determine the causes of identified waste and inefficiency, we tested and evaluated controls for assuring the reliability of data and information used for reutilization decision making and safeguarding excess property. We also assessed the effectiveness of current and planned supply and excess inventory management systems and processes for reutilization of excess property.

You also asked us to illustrate the details of our analysis of fiscal year 2002 and 2003 waste and inefficiency by identifying specific examples and performing case study investigations of the details of these examples. In addition, you asked us to purchase and requisition, as case studies, selected excess items that DLA was continuing to purchase, the military services were continuing to utilize, or both.

To assure ourselves that DOD data were sufficiently reliable for the purpose of our audit, we compared database totals to information in official agency reports, electronically checked control totals and the completeness of key data elements, and statistically tested the accuracy of excess inventory data that are key to the excess property reutilization program. We conducted our work from November 2003 through February 2005 in accordance with U.S. generally accepted government auditing standards. We performed our investigative work in accordance with standards prescribed by the President's Council on Integrity and Efficiency. A detailed discussion of our objectives, scope, and methodology is presented in appendix I. We requested comments on a draft of this report from the Secretary of Defense or his designee. Written comments from the Acting Under Secretary of Defense for Logistics and Materiel Readiness are reprinted in appendix II.

Results in Brief

DOD does not have effective management processes, systems, and controls in place to assure that it is reutilizing excess inventory to the maximum extent possible and safeguarding excess items from damage, loss, and theft, as required by federal regulations, DOD policy, and GAO internal control standards.[6] As a result, we found substantial waste and inefficiency related to DOD's excess property reutilization program. Of the $18.6 billion in reported fiscal year 2002 and 2003 excess commodity disposals, $2.5 billion related to items in new, unused, and excellent condition (A condition).[7] Of the $2.5 billion, we determined that $2.2 billion included substantial waste and inefficiency because new, unused, and excellent condition items were being transferred or donated outside of DOD, sold on the Internet for pennies on the dollar, or destroyed rather than being reutilized. We also found that DOD purchased at least $400 million of identical commodities instead of reutilizing available A-condition excess items. However, the extent of this problem may be greater due to incomplete and inaccurate data that are key to identifying excess items for reutilization. DRMS also reported $466 million in excess property losses from fiscal years 2002 through 2004, such as missing, damaged, and stolen property, adding to reutilization program waste.

To illustrate continuing reutilization program waste and inefficiencies, during fiscal year 2004 and the first quarter of fiscal year 2005, we obtained several new and unused excess DOD commodity items that were being purchased by DLA, were in use by the military services, at the time we obtained them, or both, including the following.

- We requisitioned at no charge a medical instrument chest, two power supplies, and two circuit cards. Although these items had an original DOD acquisition cost of $55,817, we paid only about $5 shipping cost to obtain them.

- We also purchased at minimal cost, over the Internet at govliquidation.com, tents, boots, gasoline burners (stove/heating units),

[6] *Federal Property Management Regulations*, 41 C.F.R. ch. 101 (2004) and the *Federal Management Regulation*, 41 C.F.R. ch. 102 (2004), issued by the General Services Administration; DOD 4160.21-M, *Defense Materiel Disposition Manual*; and GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

[7] DOD excess property condition codes are defined in appendix III.

a medical suction apparatus, and bandages and other medical supply items. Although the total reported acquisition cost for these items was $12,310, we paid a total of $1,466 to obtain them, about 12 cents on the dollar, including buyer's premium, tax, and shipping cost.

The root causes for the billions of dollars in waste and inefficiency related to management control breakdowns across DOD, including weaknesses in DOD's excess property reutilization program, stemmed from (1) unreliable excess property inventory data; (2) inadequate oversight, accountability, and physical control of excess property; and (3) inadequate processes and outdated, nonintegrated inventory systems that do not provide adequate visibility of excess property available for reutilization at the time military units order and purchase commodity items. In addition, as we have reported for many years,[8] long-standing DOD logistics management weaknesses that resulted in purchases in excess of actual requirements also resulted in the disposal of unused items due to obsolescence and contributed indirectly to reutilization program waste and inefficiency.

Our statistical tests of controls for accuracy of excess commodity inventory and our case studies and interviews led us to conclude that unreliable data are a key cause of the ineffective excess property reutilization program. DRMS policy[9] requires DRMO personnel to verify turn-in information, including item descriptions, quantities, condition code, and demilitarization code at the time excess property is received. However, we found that DRMS management did not enforce these verification requirements. Our statistical tests at 5 of 93 DRMO locations estimated error rates that ranged from 8 percent at 1 DRMO to 47 percent at another DRMO, indicating ineffective controls for assuring the accuracy of excess inventory data at these locations.[10] Although condition code accuracy is key to reutilization program effectiveness, our estimate of

[8] GAO, *Defense Inventory: Analysis of Consumption of Inventory Exceeding Current Operating Requirements Since September 30, 2001*, GAO-04-689 (Washington, D.C.: Aug. 2, 2004), and *Major Management Challenges and Program Risks: Department of Defense*, GAO-03-98 (Washington, D.C.: January 2003).

[9] DRMS-I 4160.14, vol. II, *Instructions for Warehousing for DRMS and the Defense Reutilization and Marketing Offices*, ch. 2, "Receipt and Storage," § 1 (A), (B) (April 2002).

[10] DRMS fiscal year 2004 operational compliance reviews of 91 DRMOs reported unacceptable or inadequate ratings for 20 DRMOs and fair ratings for 23 DRMOs. The remaining 48 DRMOs had ratings of good or excellent, including 2 of the 5 DRMOs that we tested.

condition code error rates for the 5 DRMOs we tested ranged from 5 percent at 1 DRMO to 22 percent at 2 other DRMOs. Most of the condition coding errors related to items reported to be in unserviceable condition when the items were actually in serviceable condition, which could prevent items in new, unused, and excellent condition from being selected for reutilization. Estimated error rates at 5 of the 25 DLA supply depots that we tested ranged from 6 percent to 16 percent. However, we did not find condition code errors at these supply depots.

In addition, we found weaknesses in oversight and accountability that resulted in lost, stolen, and damaged excess property and contributed to hundreds of millions of dollars in overall reutilization program waste and inefficiency. Regardless of whether sensitive technology items are new or used, DOD policy[11] requires that they be restricted to use by authorized parties or destroyed when no longer needed by DOD. For fiscal years 2002 through 2004, DRMS reported a total of $466 million in known excess property losses, including lost, stolen, and damaged property and unverified adjustments. Losses reported by DRMOs included nearly 150 chemical and biological protective suits, over 70 units of body armor, and 5 guided missile warheads.[12] Losses reported by DLA supply depots included thousands of sensitive military items, such as weapons system components and aircraft parts. Because 43 percent of the reported losses involved military and commercial technology that required demilitarization control, these weaknesses also reflect security risks. Further, inadequate DRMS oversight and accountability for contractor and DRMO operations have resulted in millions of dollars in damage to excess property that had been improperly stored outside for several months during fiscal year 2004 and subjected to wind, rain, and hurricanes.

[11] DOD 4160.21-M-1, *Defense Demilitarization Manual*, ch. 1.

[12] The missing chemical and biological protective suits are not the current JSLIST suit technology, and the missing body armor is not the ceramic technology currently in use by deployed troops.

Inefficient, nonintegrated excess inventory and supply management systems lack controls necessary to prevent waste and inefficiency in the reutilization program. For example, because the DRMS excess inventory system and the DLA supply management system are outdated and nonintegrated, they do not share information necessary to (1) identify and alert DLA item managers of excess property that is available to fill supply orders and (2) prevent purchases of new items when A-condition excess items are available for reutilization. DLA has acknowledged serious deficiencies in its automated inventory management systems and has efforts under way to replace its supply management system, and DRMS has an effort under way to upgrade its excess inventory system. However, we found that these efforts had not been effectively coordinated, and they did not adequately address identified process deficiencies, such as the failure to record national stock numbers (NSN)[13] for commodity purchases and inventory records and unreliable condition code data.

This report contains 13 recommendations to help improve the overall economy and efficiency of DOD's reutilization program for excess commodities, including recommendations for better coordination between DRMS, DLA, and the military services with regard to data reliability; strengthened DRMS management oversight, accountability, and physical inventory control; and improvements in the functional design for excess property reutilization in DLA's future commodity inventory systems environment. In its April 15, 2005, letter commenting on our report, DOD concurred with 8 recommendations. For the 5 recommendations with which DOD partially concurred, we view DOD's actions to be generally responsive to the intent of our recommendations. DOD's comment letter is reprinted in appendix II.

[13] An NSN is a unique13-digit number that identifies standard use inventory items.

Background

DLA is DOD's combat support agency under the supervision, direction, authority, and control of the Under Secretary of Defense for Acquisition, Technology, and Logistics. DLA's mission is to provide best-value logistics support to America's armed forces, in peace and in war, around the clock, and around the world. In carrying out its mission, DLA manages inventory valued at about $83 billion, consisting of more than 5 million consumable (expendable) items, including commodities such as fuel, food, clothing and other textiles, medical supplies, industrial use items, and spare and repair parts supporting over 1,400 weapon systems. DLA also buys and distributes hardware and electronic items that are used in maintenance and repair of equipment and weapons systems. In fiscal years 2002 and 2003, DLA expenditures related to sales and services amounted to over $46.5 billion, including about $36 billion for commodity purchases and about $600 million for DRMS excess property disposal services. DLA and DRMS operate under the Defense-wide Working Capital Fund.[14] DLA is financed through user charges to cover costs, and DRMS is financed through user charges and excess property and scrap sale proceeds. DLA activities related to this report fall into two main areas: (1) commodity acquisition and management and (2) excess property disposals by DRMS and DLA-managed supply distribution depots (referred to as DLA supply depots).

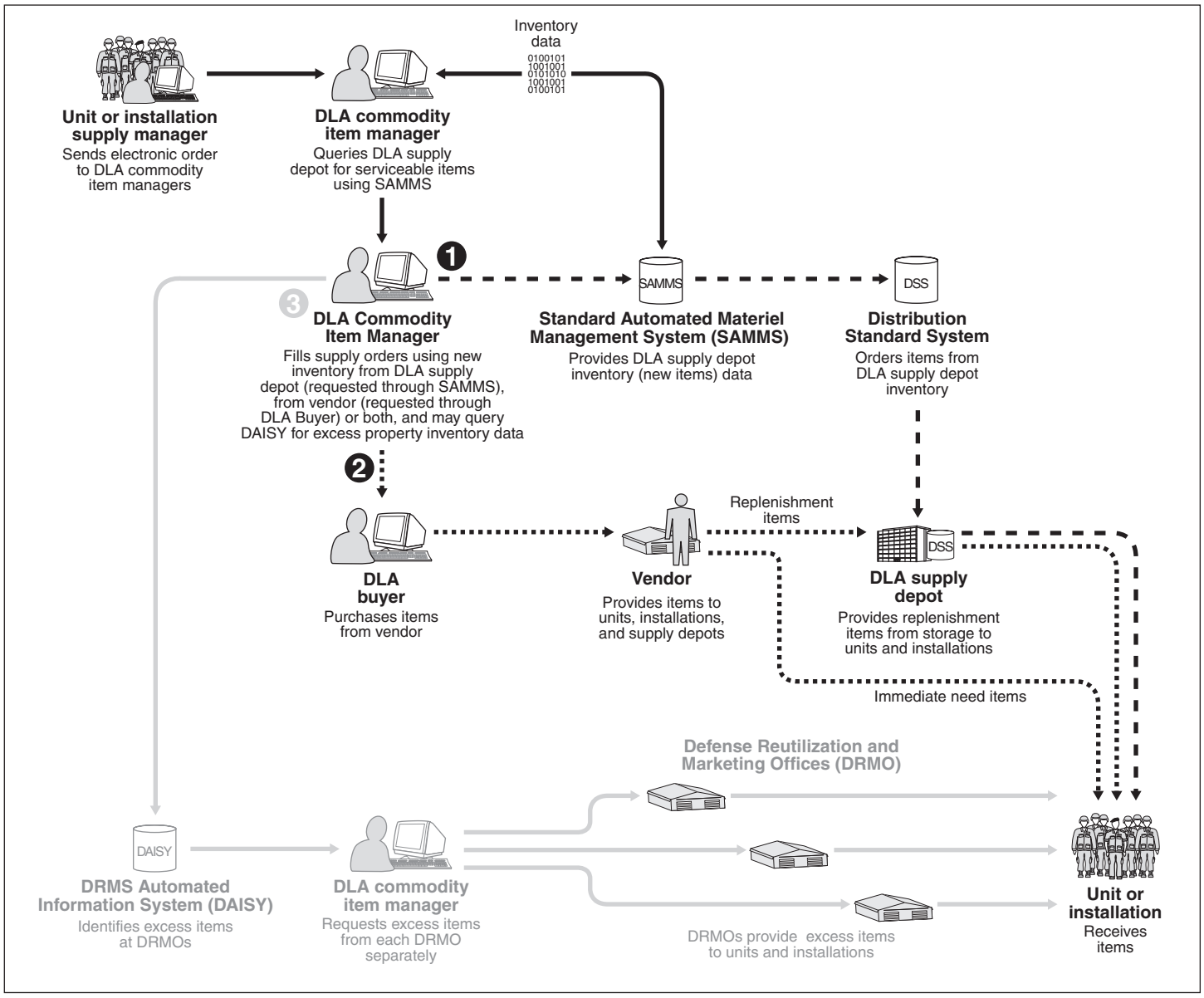
DLA Commodity Acquisition and Management Process

DLA commodity acquisition and management functions discussed in this report are carried out by three Defense supply centers, which are located in Columbus, Ohio; Richmond, Virginia; and Philadelphia, Pennsylvania. The DLA acquisition process focuses on (1) the acquisition of inventory requisitioned by customers for immediate use and (2) routine inventory replenishment. Defense Supply Center item managers initiate commodity procurements based on military unit requirements for materiel and supplies and military unit requisitions (supply orders). Supply center item managers consolidate the requirements and work with buyers to procure requested items. Items for which there are immediate needs are delivered directly to a military unit by the commercial vendor, and items needed to support anticipated operations (referred to as the requirements objective) are stored at DLA supply depots for later issue. The DLA Defense Distribution Center uses a total of 26 DLA supply depots located throughout the United States and Europe, as well as in Guam and Kuwait,

[14] The Defense-wide Working Capital Fund is a revolving fund that the Secretary of Defense has established under authority of 10 U.S.C. § 2208.

to store commodities and other items that are classified by over 5 million different NSNs. This inventory includes commodities, such as clothing and other textiles; electronics; industrial, general, and construction supplies; subsistence items; and medical supplies and equipment. Figure 1 illustrates the DLA commodity acquisition and distribution process.

Figure 1: DLA Commodity Acquisition and Distribution Process



Source: GAO.

When there is an urgent customer requirement and items are on back order, DLA item managers or expediters may check DRMS excess property

inventory and service-level inventory to locate available items to fill an order.

Excess Property Disposal Process

The Federal Property and Administrative Services Act of 1949, as amended,[15] places responsibility for the disposition of surplus government real and personal property with the General Services Administration (GSA), which has delegated responsibility for disposal of DOD property to the Secretary of Defense. In accordance with federal regulations governing property management[16] and department policy in DOD 4160.21-M, *Defense Materiel Disposition Manual*, DOD agencies and military services are responsible for determining whether property they hold is considered excess. Federal regulations[17] also require executive agencies to ensure that personal property not needed by their activity is offered for use elsewhere within the agency. In accordance with federal regulations, DOD 4160.21-M, chapter 5, calls for reutilization of excess property to the extent feasible to fill existing needs and to satisfy additional needs before initiating new procurement or repair. All DOD activities are required to screen available excess assets to identify items that could satisfy valid needs, and the military services have programs for reutilizing property by redistributing excess property across their units to meet ongoing operational needs. DLA has overall responsibility for property that is excess to military and DOD units. DLA has placed responsibility for excess property disposals with DRMS.

[15] 40 U.S.C. § 541.

[16] *Federal Property Management Regulations*, 41 C.F.R. ch. 101 (2004) and the *Federal Management Regulation*, 41 C.F.R. ch. 102 (2004), issued by GSA.

[17] *Federal Management Regulation*, 41 C.F.R. ch. 102 (2004).

When a military service or DOD agency has property that it no longer needs, it turns the property over to a DRMS field warehouse location—or reutilization facility—referred to as a DRMO. During fiscal year 2004, DRMS managed 93 DRMOs, including 39 central DRMOs, 54 satellite DRMOs, and 35 receipt in place locations referred to as RIPLs. Reported excess property turn-ins are entered into the DRMS Automated Information System (DAISY). DRMS then posts descriptive information about the excess property to a Web page that lists property that is available for reutilization by DOD units and specially designated programs, transfer to federal agencies, and donation to states. DRMS has two organizational elements that manage and oversee excess property disposals. DRMS National is responsible for daily operations inside the continental United States. DRMS International is responsible for daily DRMS activities located outside the continental United States. DRMS International has field offices in Belgium, Germany, Guam, Hawaii, Italy, Japan, Korea, Portugal, Spain, Thailand, Turkey, the United Arab Emirates, and the United Kingdom, and it supports the task force in the Balkans.

During fiscal years 2002 and 2003, the military services, DLA supply depots, and DOD agencies turned in[18] excess commodities with a reported acquisition value of approximately $31 billion and disposed of excess property valued at $18.6 billion. This property included everything from office equipment, medical supplies, and clothing to scrap from naval ships, military equipment, and hazardous materials. The condition of the property ranges from being well-used or damaged property that has little value to new, unused items that sometimes are still in the original manufacturer's packaging.

DRMS bills DOD units and other federal agencies for disposal services based on turn-in volume. DRMS bills the military services and other DOD agencies a prorated amount for disposal costs net of scrap and liquidation sale proceeds. Table 1 shows DRMS's reported revenue for excess property disposal services, including billings to the military services.[19]

[18] A turn-in consists of an item or group of items recorded on the same disposal turn-in document. Each disposal turn-in document represents one DRMS receipt.

[19] Disposal costs net of scrap and liquidation sale proceeds are prorated to the military services and other DOD units.

Table 1: Defense Reutilization and Marketing Service Revenue

Dollars in millions			
Source	**Fiscal year 2002**	**Fiscal year 2003**	**Fiscal year 2004**
DOD unit billings for turn-in transactions	$250.5	$223.2	$208.7
DOD unit billings for hazardous waste disposal	54.7	56.1	54.0
Billings for other fund activities	7.6	7.7	4.0
Total DOD	**$312.8**	**$287.0**	**$266.7**
Other billings:			
Other federal agencies	$0.7	$0.7	$0.7
Foreign military sales	3.0	3.0	3.0
Total other	**$3.7**	**$3.7**	**$3.7**
Scrap and liquidation sales proceeds, net	$39.7	$51.7	$38.1
Total DRMS revenue	**$356.2**	**$342.4**	**$308.5**

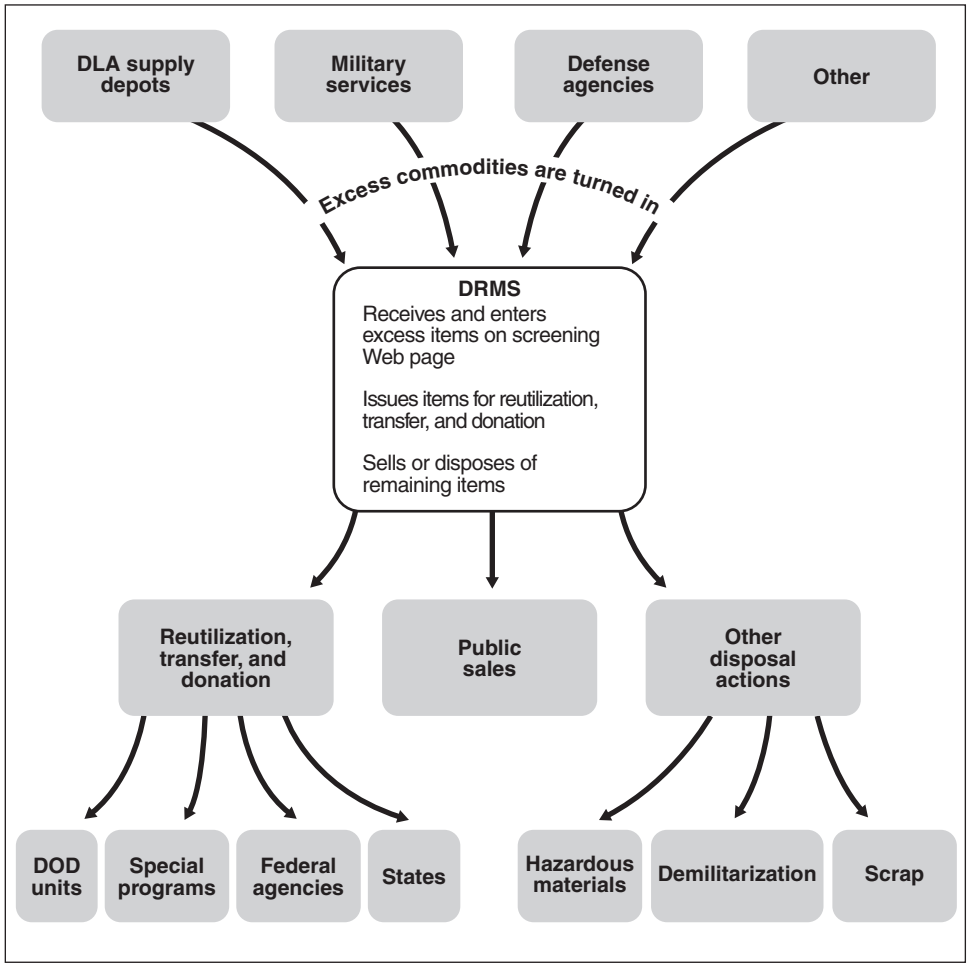
Source: President's Fiscal Year 2005 Budget Submission.

Turn-ins of excess property are reported on DOD Form 1348, Disposal Turn-in Document, using a hard copy form that accompanies physical turn-ins of property at DRMOs or electronic reporting. In accordance with DOD 4160.21-M, *Materiel Disposition Manual*, upon arrival at a DRMO, excess items are to be inspected and the item descriptions, quantities, condition codes, and demilitarization codes are to be verified. Based on the item type and condition, a decision is made as to whether the item should be made available for reutilization. For excess property in new, usable, or repairable condition, redistribution from one DOD unit to another allows the government to make full use of its resources, avoids unnecessary procurement of property, and results in economy and efficiency of operations. Transfers and donations of excess DOD property to special programs, federal agencies, and states help to conserve their budgetary resources. Unusable items are generally sold as scrap.

Department policy in DOD 4160.21-M-1, *Defense Demilitarization Manual*, calls for identifying and controlling items that have a significant military or commercial technology application to prevent improper use or release of these items outside of DOD. DOD's *Demilitarization Manual* establishes specific codes that are designed to indicate whether DOD property is available for reuse without restriction or whether specific restrictions apply, such as removal of classified components, destruction of sensitive military technology, or trade security control. Any residual

excess property that is not reused, transferred, or donated may be sold as scrap or sent to a landfill or other appropriate site for final disposal. Figure 2 illustrates the excess property turn-in and disposal process.

Figure 2: DRMS Excess Property Disposal Process



Source: GAO.

Excess DOD property is available for reutilization, transfer, and donation during a 49-day screening period following turn-in to DRMS. It may take up to a week to record excess property receipts into DRMO inventory. Once excess property receipts are recorded, DOD units and specially designated programs may screen for and select items for reutilization. Special

programs consist of entities that directly support DOD's mission, customers that have statutory authorization to receive excess DOD property, and customers that have been specially designated by DOD to receive excess property items. Special programs share screening priority with DOD, and DRMS accounts for special program requisitions of DOD excess property as DOD reutilization. A description of the special programs is included in appendix IV.

If excess property is still available after the DOD and special program screening period (the end of the first 21 days), the property is made available for transfer to other federal agencies through the GSA Federal Disposal System (FEDS) Web site known as GSAXcess for a 21-day period. Excess DOD property is available to DOD agencies during the GSA federal agency screening phase. DOD entities and others can specify their excess property needs on a "want list" and DAISY and GSA FEDS will send notices when such property becomes available. Property that is not reutilized by DOD or transferred to federal agencies after 42 days is considered surplus to the federal government and can be donated to state and local governments and other qualified organizations, or if not donated, it can be sold to the public after the 49-day screening period has expired. Government Liquidation, LLC is the DRMS commercial venture partner (contractor) for liquidation sales of excess property. Excess property at DRMOs is transferred to a liquidation contract sales site co-located with a DRMO. DLA supply depot excess property to be sold to the public is sent to one of two national liquidation sales locations. DLA supply depots located west of the Mississippi ship their excess property to the Huntsville, Alabama, liquidation sales location, and DLA supply depots located east of the Mississippi ship their excess property to the Norfolk, Virginia, liquidation sales location. Overseas, DRMOs sell excess property directly to the public.

Analysis of Reutilization Program Identifies Billions of Dollars in Waste and Inefficiency

Our analysis of $18.6 billion[20] in fiscal year 2002 and 2003 excess commodity disposal activity identified $2.5 billion in excess items that were reported to be in new, unused, and excellent condition (A condition). Although federal regulations and DOD policy require reutilization of excess property in good condition, to the extent possible, our analysis showed that DOD units only reutilized $295 million (12 percent) of these items. The remaining $2.2 billion (88 percent) of the $2.5 billion in disposals of A-condition excess commodities were not reutilized, but instead were transferred, donated, sold, or destroyed. About $1.6 billion of the $2.2 billion was transferred to other federal agencies and special programs, donated to states, or sold to the public for pennies on the dollar. DRMS sent the remaining $634 million to scrap and other contractors for disposal. We also found that DOD purchased at least $400 million of identical items during fiscal years 2002 and 2003, instead of reutilizing available excess items in A condition. However, our analysis of transaction data and our tests of controls for inventory accuracy indicate that the magnitude of waste and inefficiency could be much greater due to military units improperly downgrading condition codes of excess items that are in new, unused, and excellent condition to unserviceable and the failure to consistently record NSNs[21] needed to identify like items. To illustrate continuing reutilization program inefficiencies and wasteful purchases, during fiscal year 2004 and the first quarter of fiscal year 2005, we obtained several new and unused excess DOD commodity items that were being purchased by DLA, were currently in use by the military services, or both.

Excess Commodity Items Reported To Be in Unserviceable Condition Accounted for Most of the Disposal Activity

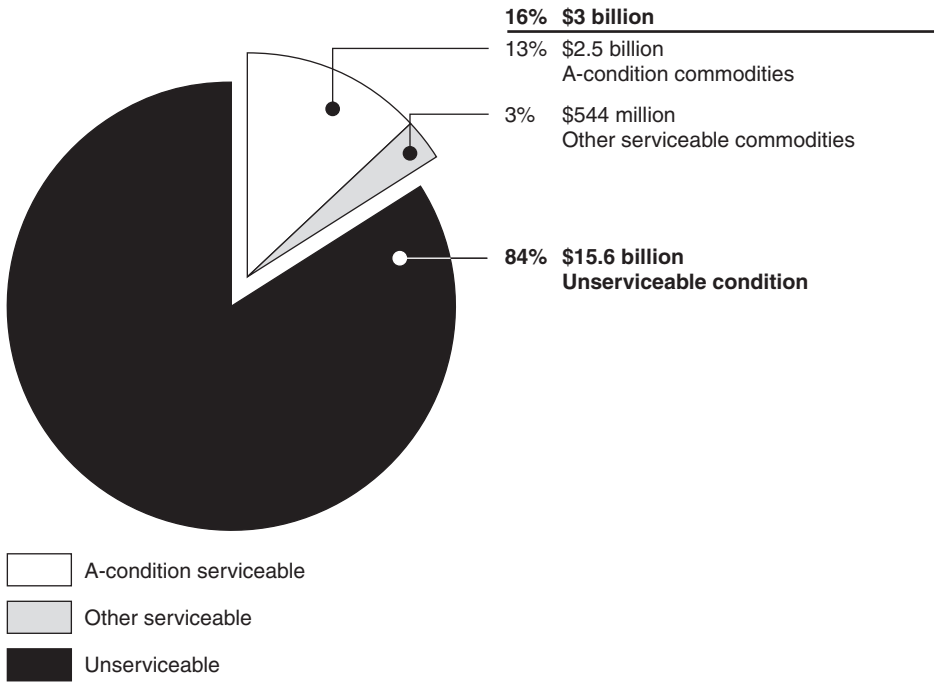
DRMS is responsible for disposing of unusable items, often referred to as "junk," as well as facilitating the reutilization of usable items. As shown in figure 3, our analysis of DRMS data showed that $15.6 billion of the $18.6 billion in fiscal year 2002 and 2003 excess DOD commodity disposals consisted of items reported to be in unserviceable condition, including items needing repair, items that were obsolete, and items that were downgraded to scrap. The remaining $3 billion in excess commodity disposals consisted of items reported to be in serviceable condition,

[20] The reported acquisition value at the time the items were turned in as excess.

[21] An NSN is a 13-digit number that identifies standard use inventory items. The first 4 digits of the NSN represent the Federal Supply Classification, such as 8430 for men's footwear, followed by a 2-digit NATO code and a 7-digit designation for a specific item, such as a cold weather boot.

including $2.5 billion in excess commodities reported to be in A condition (new, unused, and excellent condition).

Figure 3: Fiscal Year 2002 and 2003 Disposals of Excess DOD Commodities in Serviceable and Unserviceable Condition



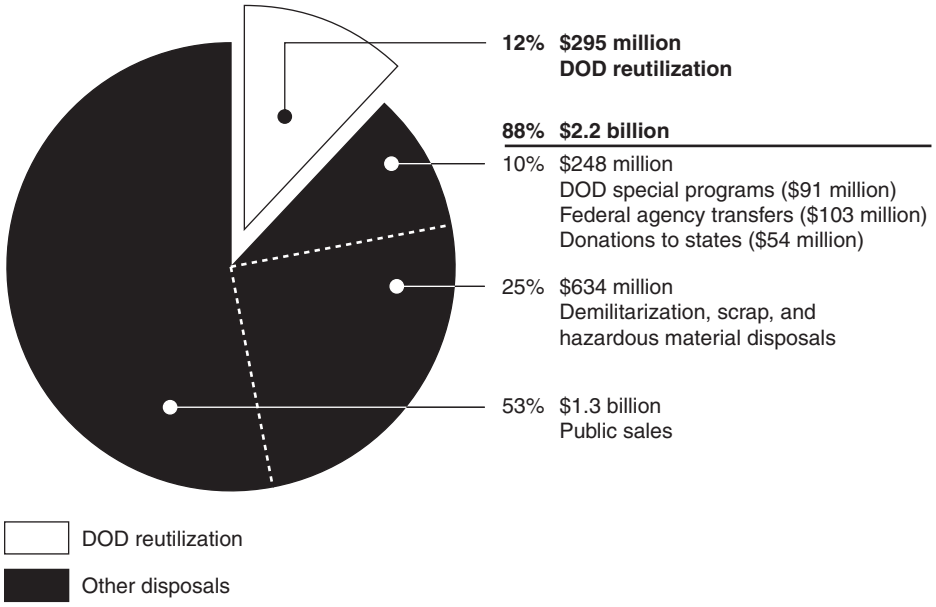
Source: GAO analysis.

Although DOD units reported that $15.6 billion (84 percent) of the excess commodities disposed of during fiscal years 2002 and 2003 were in unserviceable condition, DRMS data showed that DOD units had reutilized over $1.4 billion of these items—an indication that the items were, in fact, serviceable. Erroneous reporting of serviceable excess items as unserviceable hinders efforts at effective reutilization and can result in lower sales proceeds for items sold to the public. Although we do not know the extent of this problem, as discussed later, our statistical tests of DRMO inventory at five locations identified significant errors related to excess items that were coded as unserviceable when they were in fact in new, unused, and excellent condition.

DRMS Gave Away, Destroyed, or Sold Excess Commodities Reported To Be in New and Excellent Condition

Our analysis of a reported $2.5 billion[22] in fiscal years 2002 and 2003 disposal activity related to excess commodities reported to be in A condition showed that DOD units reutilized only $295 million of these items. As shown in figure 4, the remaining $2.2 billion (88 percent) were not reutilized, but instead were transferred to special programs and other federal agencies, donated to states, sold to the public, or destroyed through demilitarization and scrap contracts. As noted previously, DOD policy calls for the reutilization of excess property to the extent feasible and permits the disposal of unneeded items.[23] However, the disposal of $2.2 billion in excess new, unused, and excellent condition items indicates that DOD bought more items than it needed.

Figure 4: Waste and Inefficiency Related to $2.2 billion in Fiscal Year 2002 and 2003 Disposals of Excess DOD Commodities Reported To Be in New, Unused, and Excellent Condition



Source: GAO analysis.

[22] Reported acquisition value.

[23] DOD 4160.21-M, *Defense Materiel Disposition Manual*, ch. 5, "Reutilization/Transfer Screening and Issue," § A.

Transfers and Donations Outside of DOD

As shown in table 2, during fiscal years 2002 and 2003, DOD transfers of A-condition excess property valued at about $248 million benefited international governments; state and local governments; other federal agency programs; and specially designated programs such as DOD's Humanitarian Assistance Program, foreign military assistance programs, and law enforcement agencies.

Table 2: Reported Acquisition Value of DOD Excess Commodity Transfers to Other Programs and Agencies during Fiscal Years 2002 and 2003

Dollars in millions

Program/agency	Acquisition value of excess DOD commodities provided to others
International	
U.S. Agency for International Development and sponsored foreign assistance programs	$5
Department of State and sponsored foreign assistance programs	49
DOD-sponsored Humanitarian Assistance Program	34
Foreign military assistance programs	33
Total, international	**$121**
State and local	
State offices	$54
Law enforcement agencies	24
Total, state and local	**$78**
Total, federal	**$49**
Total	**$248**

Source: GAO analysis of DOD data.

Our overall analysis identified disposals of over 22 million new, unused, and excellent condition excess commodity items that were identical to items that DLA continued to purchase, stock, or both, resulting in waste of DOD resources. We investigated the details of more than a dozen of these disposal transactions. Table 3 highlights three examples from our case studies that illustrate waste related to excess commodities in new, unused, and excellent condition that were transferred or donated outside DOD at the same time DLA purchased identical items.

Table 3: Examples of New, Unused Commodity Items Transferred and Sold Outside of DOD while Still Being Purchased during Fiscal Years 2002 and 2003

Action	Example #1 – Extreme cold weather boots	Example #2 – Medical instrument chests	Example #3 – Large tents
Turn-in unit	Army's 35th Supply and Services Battalion in Sagami, Japan.	U.S. Army Medical Material Agency in Sagami, Japan.	Army National Guard unit at Camp Beauregard, Louisiana.
Turn-in date	4/23/03	02/05/02	2/06/02
Excess item	172 pairs of new, unused extreme cold weather boots valued at $23,220 ($135 per pair).	132 new, unused medical instrument chests in original boxes valued at $67,647.	7 large excess tents (18 X 52 ft.) valued at $15,963.
Disposition of excess items	**7/30/03 –** 172 pairs of boots were sold to the Robinson Trading Company for $69 (about 40 cents per pair).	**02/08/02** – all 132 medical chests were requisitioned by the Humanitarian Assistance Program.	**2/14/02** – one tent transferred to Federal Bureau of Prisons and used to cover recyclables. **2/20/2002** – 6 tents transferred to Maricopa Sheriff's Department, Arizona, for use as field command posts.
Subsequent purchase	**From 5/15 through 7/30/03 –** 8 military units purchased 214 pairs of identical boots from DLA. DLA continued to purchase these boots.	**From 2/08 through 5/03/02** – 15 military units purchased 97 identical medical instrument chests from DLA. DLA continued to purchase these items.	**From 2/15 through 5/18/02** – 4 military units purchased 34 identical tents from DLA. DLA continued to purchase these tents.
Waste[a]	Reutilization of 172 pairs of boots would have saved military units $27,678.	Reutilization of the 132 medical chests would have saved military units $88,415.	Reutilization of the 7 tents would have saved military units $18,613.

Source: GAO analysis.

[a]Waste includes surcharges, which are the additional amount added to the price of an item to recover DLA's cost of purchasing and selling supplies to DOD customers as well as the cost of accounting, cataloging, storage, handling, and shipping. Surcharges are based on a weighted average cost for warehousing and shipping supply items. The average cost recovery rate for all items was 21.5 percent in fiscal year 2002 and 20.7 percent in fiscal year 2003.

DRMS Destroyed Hundreds of Millions of Dollars of Excess Commodities in New and Excellent Condition

In addition to instances where DOD units failed to reutilize excess commodities in A condition that were instead given away to other entities, we identified instances where DRMS destroyed these items. DRMS destroys or scraps items that are not reutilized or sold. As illustrated in figure 4, during fiscal years 2002 and 2003, DRMS destroyed, scrapped, or used hazardous materials contractors to dispose of excess commodities valued at about $634 million—about 25 percent of the $2.5 billion reported acquisition value for disposals of excess commodities in new, unused, and excellent condition. The majority of these items—items valued at $473 million—were military technology items, such as circuit cards, power

supplies, and aircraft parts, that are required to be destroyed or demilitarized pursuant to national security guidelines when they are no longer needed by DOD. Some of the destroyed items had remained in supply inventory for many years and had become obsolete. However, we found several instances where items that were destroyed were still being purchased, used, or both by military units. The following examples illustrate the types of A-condition excess items that were destroyed.

Destruction of excess items that required demilitarization. Examples of excess A-condition items that were destroyed pursuant to demilitarization requirements included

- 2,390 aircraft parts valued at $9,119,876, such as rotary wing blades, rotary rudders, windshield panels, fuel tanks, and pilot protection armor;
- 34,070 circuit cards valued at $73,666,720, including 88 circuit cards related to one NSN valued at $265,565;
- 1,604 radio sets valued at $10,247,110;
- 477 power supply units valued at $3,385,580; and
- 3 plasma display units valued at $263,151.

Our case study investigations showed instances where power supplies and circuit cards that were still being purchased by DLA, stocked and issued to military units, or both were sent to a DRMO rather than being returned to supply inventory. For example, we found that the Army's Tank-Automotive and Armament Command turned in 14 excess circuit card assemblies valued at $7,806 on May 29, 2003, because the Army had directed the retirement of its AH-1 Cobra and UH-1 Huey helicopters. However, the Navy and some foreign countries have continued to use these helicopters. The circuit cards are used in the M136 Helmet Sight, a heads-up display, on the Cobra Helicopter. The heads-up display permits a pilot to aim the helicopter's rockets and the fixed forward firing gun. The circuit cards were advertised for reutilization to DOD and foreign military sales customers. Because they were not selected for reutilization within the 49-day screening period, they were sent to a demilitarization contractor on June 8, 2004, for destruction by thermal reduction.

Destruction of excess A-condition commodity items as scrap. DRMS also scrapped excess A-condition commodities valued at about $144 million during fiscal years 2002 and 2003 that did not require demilitarization. Normally, these items are transferred, donated, or sold if they are not selected for reutilization within DOD. However, items that are not selected for reutilization or transferred, donated, or sold are scrapped. For example, DRMS scrapped excess new and unused items, such as the following:

- 340 computers with a reported acquisition value of $2,929,539,
- 2,440 bunk beds valued at $341,600,
- 29 simulators valued at $1,995,500,
- 567 power supplies valued at $1,683,211, and
- 29 teleprinters valued at $901,099.

Public Sales of New and Unused Excess DOD Commodity Items

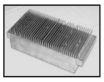
As noted in figure 4, 53 percent, or $1.3 billion of the total $2.5 billion in fiscal year 2002 and 2003 A-condition excess commodity turn-ins, was sold to the public. Although liquidation sales of excess commodities are an appropriate method of disposal when items cannot be reutilized, liquidation sales of items that are in new, unused, and excellent condition that could have been reutilized represent significant waste and inefficiency. Our case study investigations of fiscal year 2002 and 2003 disposals of excess A-condition commodities found that DRMS sold numerous excess items at the same time DLA purchased identical items. Our analysis showed that DRMS received a total of about $48 million in fiscal year 2002 and 2003 liquidation sales revenue for property valued at $1.3 billion—an average of about 4 cents on the dollar. Liquidation contractor officials told us that about 80 percent of their revenue relates to the sale of items in good condition.

Unnecessary Commodity Purchases

Our analysis of fiscal year 2002 and 2003 DLA commodity purchases and DRMS excess property inventory data identified numerous instances in which the military services ordered and purchased items from DLA at the same time identical items—items with the same NSN—that were reported to be in new, unused, and excellent condition were available for reutilization. We found that DOD purchased at least $400 million of identical items during fiscal years 2002 and 2003 instead of using available

excess A-condition items. The magnitude of unnecessary purchases could be much greater because NSNs needed to identify identical items were not recorded for all purchase and turn-in transactions. For example, we determined that DLA buyers and item managers did not record NSNs for 87 percent (about $4.9 billion) of the nearly $5.7 billion in medical commodity purchases by military units during fiscal years 2002 and 2003. Further, as discussed later in this report, improper downgrading of condition codes to unserviceable could also result in an understatement of the magnitude of unnecessary purchases. While our statistical tests found a few instances of inaccurate serviceable condition codes, most condition code errors related to the improper downgrading of condition to unserviceable. Figure 5 shows examples from our analysis of A-condition excess items that were available for reutilization at the time DLA purchased identical items.

Figure 5: Examples of Fiscal Year 2002 and 2003 DLA Purchases When Identical New, Unused Items Were Available for Reutilization

Commodity group: New, unused case study items available for reutilization		Number of unneccessary items purchased	Cost of unneccessary items
Electrical:			
Circuit cards		7,477	$5,440,293
Electron tubes		17,887	$1,351,156
General:			
Wire rope		27,717	$549,706
Power supply(s)		1,532	$1,883,737
Industrial:			
Space heaters		2,204	$1,401,856
Padlocks and combination locks		793	$592,703
Medical:			
Medical instrument chests		2,407	$1,790,127
Bandages, dressings, and gauze		197,999	$2,786,276
Textiles:			
Tents		588	$1,081,802
Boots		69,998	$6,023,462
Construction/land and maritime weapons[a]			
Crane booms		10	$100,763
Metal doors for combat vehicles		910	$119,550

Source: GAO analysis.

[a]Although DLA continues to use the term "construction," this commodity group consists primarily of land and maritime weapons system components. According to a DLA official, the category label will be updated when data are eventually migrated to the new Business Systems Modernization.

Fiscal Year 2004 and 2005 Requisitions and Purchases Demonstrate Continuing Waste and Inefficiency

To determine whether the problems identified in our analysis of fiscal year 2002 and 2003 data were a continuing problem, we monitored DRMS commodity disposal activity in fiscal year 2004 and the first quarter of fiscal year 2005. We found that DOD continued to transfer, donate, and sell excess A-condition items instead of reutilizing them. To illustrate these problems we requisitioned several excess new and unused items at no cost and purchased other new and unused commodities at minimal cost. We based our case study selections on new, unused items that DOD continued to purchase. We inspected excess items or called warehouse personnel to confirm they were new and unused. We used FEDLOG[24] data and interviewed supply inventory item managers to confirm that the items were still being purchased, used, or both by the military services.

Case Study Requisitions of New and Unused DOD Commodities

To illustrate waste and inefficiency associated with transfers and donations of excess A-condition commodities to entities outside of DOD, we used the GSA Federal Disposal System, available to all federal agencies, to requisition several new and unused excess DOD commodity items, including a medical instrument chest, two power supply units, and two circuit cards, at no charge. These items had an original DOD acquisition cost of $55,817, and we paid only $5 shipping cost to obtain all of them. We obtained these items from two DRMOs and a DLA supply depot. The following discussion presents the details of our case study requisitions.

Medical instrument chest. We requisitioned at no cost a new, unused medical instrument chest with a reported acquisition cost of $784 from the Lewis DRMO in Fort Lewis, Washington. When we visited the Lewis DRMO to screen for and tag new, unused items, a DRMO official told us that about 20 percent of the Lewis DRMO receipts are new, unused items. The medical instrument chest that we obtained was one of 16 excess medical chests turned in by the Fort Lewis Army Medical Hospital on May 6, 2004. At the time of our requisition on June 2, 2004, the Army, Navy, and Air Force medical logistics commands were continuing to purchase these medical chests from DLA.

The excess DOD medical instrument chest that we requisitioned is designed for maximum support of deployed medical personnel. For

[24] FEDLOG is a logistics information system managed by the Defense Logistics Information Service within DLA. This system contains detailed information on specifications, use, acquisition cost, and sources of supply for NSN items, including more than 7 million stock numbers and more than 12 million part numbers.

example, the chest is designed to store medical instruments and protect them during shipment as well as to provide shelves and tables for use during surgery and other medical procedures in the battlefield. Figure 6 is a photograph of the excess DOD medical instrument chest assembled for maximum use.

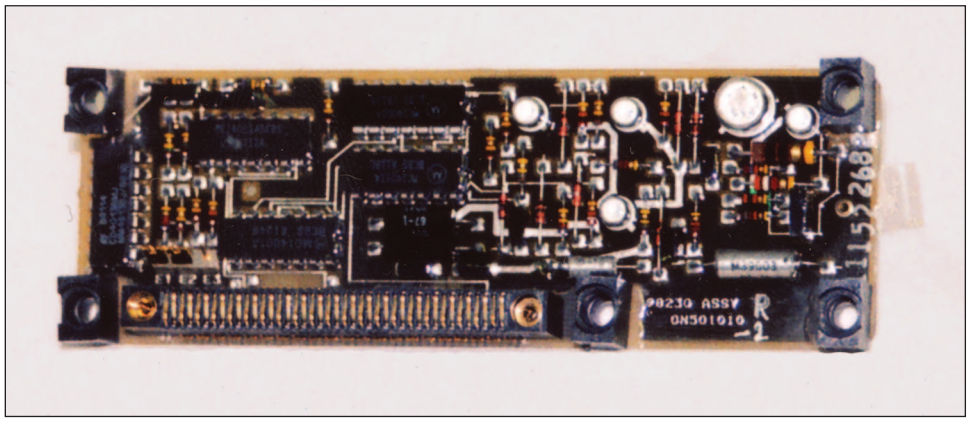
Figure 6: Medical Instrument Chest Assembled for Maximum Utilization

Source: GAO.

Circuit cards. On September 7, 2004, we requisitioned two circuit cards with a total original acquisition cost of $8,684, from the Hill DRMO. We paid $5 shipping cost and received the circuit cards on September 27, 2004. Circuit cards are circuit boards consisting of a series of flat plastic or fiberglass layers (usually 2 to 10) that are glued together after a circuit has been etched in them. In a computer, a circuit card holds the integrated circuits and other electronic components that provide power to perform certain designated functions, such as computerized program functions or electronic communications functions. According to the Navy inventory item manager and the National Security Agency technical support team leader, the circuit cards that we obtained are used in secure satellite communications gear.

The circuit cards that we obtained were turned in by the DLA supply depot in Ogden, Utah, as excess to Air Force needs in February 2004. The Navy item manager told us that although the circuit cards were no longer being purchased, they were still in active inventory and were still being used by some Navy units and foreign military sales customers at the time we obtained them. Our Chief Technologist inspected the circuit cards and confirmed that they included communications circuitry and were in new, unused condition. Figure 7 is a photograph of one of the circuit cards we requisitioned.

Figure 7: One of the New, Unused Excess DOD Circuit Cards Transferred to GAO in September 2004



Source: GAO.

Power supply units. We requisitioned, at no cost, two high-cost power supply units from the DLA supply depot in Norfolk, Virginia—one with a reported acquisition cost of $24,797 and another with a reported acquisition cost of $21,552—a total of $46,349. We received one power supply unit on September 30, 2004, and the other power supply unit on October 6, 2004. According to the manufacturer, these power supply units are part of a super-high-frequency electronics surveillance system, which is designed to listen and identify radio frequencies. The power supply units convert AC power to DC voltage to provide power to the assemblies inside the surveillance system.

We contacted the Navy inventory control point program manager to inquire about the use of the power supply units that we had identified. The program manager explained that both of the power supply units are

currently used in the electronic warfare system of the *Seawolf* fast attack nuclear submarine.[25] The Navy official stated that although DLA is not currently purchasing these items due to a planned upgrade in technology, the Navy has a very small number of these power supply units in inventory and the items remaining at the DLA supply depot should not have been excessed because they may be needed before the technology upgrade is completed. Our Chief Technologist inspected the excess DOD power supply units we obtained and confirmed that they had never been used. Figure 8 is a photograph of one of the power supply units that we obtained.

Figure 8: New, Unused DOD Power Supply Unit Requisitioned by GAO in September 2004 from the DLA Depot in Norfolk, Virginia

Source: GAO.

Case Study Purchases of New, Unused DOD Commodities

In addition to using the GSA process available to federal agencies to obtain excess DOD property at no cost, we also purchased, at minimal cost,

[25] The *Seawolf* supports missions such as surveillance, intelligence collection, special warfare, covert cruise missile strike, mine warfare, and antisubmarine and antisurface ship warfare.

several excess DOD commodity items in new and unused condition over the Internet at govliquidation.com—the DRMS liquidation contractor's Web site.[26] The items we purchased included tents, boots, three gasoline burners (stove/heating unit), a medical suction apparatus, and bandages and other medical supply items with a total reported acquisition cost of $12,310. We paid a total of $1,466 for these items, about 12 cents on the dollar, including buyer's premium, tax, and shipping cost. The following examples illustrate the results of our case study investigations and purchases.

New, unused extreme cold weather boots. On September 30, 2004, we purchased several pairs of excess new, unused extreme cold weather boots over the Internet at govliquidation.com. The sales advertisement listed an acquisition cost of $3,900 for approximately 30 pairs of the boots. We paid a total of $483, including buyer's premium, tax, and transportation cost, to acquire the extreme cold weather boots. According to a Stockton DRMO official, the boots were found at the DRMO without identifying paperwork, and DRMO personnel entered them in excess property inventory in April 2004. The boots were advertised as being in H condition (unserviceable, condemned condition). However, the photograph on the govliquidation.com Web page showed that the manufacturer's product label was still tied to the laces of the boots and that the soles of the boots had no wear, indicating that they had not been worn. When we received the boots on October 12, 2004, we determined that we had, in fact, purchased a total of 42 pairs of cold weather boots of which 37 pairs were in new, unused condition. We paid about $12 per pair for the 42 pairs of boots, which have a listed acquisition cost of $135 per pair.

Shortly after we purchased the excess cold weather boots, the DLA item manager told us that she recently placed an order with the vendor to purchase 31,420 pairs of these same boots, including 1,360 of the sizes of boots that we purchased. Further, the DLA technician responsible for these boots told us that the boots have a shelf life of up to 15 years. According to the DLA technician, the boots should be inspected after the first 5 years and then inspected every 2 years after that for a total of six inspections in 15 years. After 15 years from date of manufacture these boots would have surpassed their useful life. All of the boots we purchased were less than 5 years old. The DLA technician told us that none of these

[26] Government Liquidation, LLC is the DRMS commercial venture partner (contractor) for public sales of excess DOD property.

boots have been recalled, and they are considered excellent boots that are rated to 60 degrees below zero. Figure 9 is a photograph of the new, unused excess DOD boots that we purchased.

Figure 9: New, Unused Excess Cold Weather Boots Purchased in September 2004

Source: GAO.

Shelter Half-tents. We purchased several new, unused shelter half-tents over the Internet from govliquidation.com on August 26, 2004. We paid $548, including buyer's premium, tax, and shipping cost, to acquire the excess DOD shelter half-tents, which had a listed acquisition value of $2,122. Shelter half-tents can be carried by individual soldiers and must be joined together to form a tent that will house two soldiers. The tents were listed in H condition (unserviceable, condemned condition). However, the advertisement on the liquidation contractor's Web page stated that some of the tents were new and in original boxes, and the photograph on the sales Web page showed that most of the tents were in the original manufacturer's packages. Upon receipt of the tents, we determined that we had, in fact,

purchased 21 new, unused tents and 6 additional tents that were used, but appeared to be in good condition. At the time we purchased the shelter half-tents, the DLA item manager told us that none remained in stock. DLA data showed that the Defense Supply Center, Philadelphia, placed an order for 35,000 of these tents at a cost of about $2.5 million. Figure 10 is a photograph of one of the new, unused excess DOD shelter half-tents that we purchased over the Internet at govliquidation.com.

Figure 10: New, Unused Excess Shelter Half-Tent Purchased in August 2004

Source: GAO.

Gasoline burner units. On September 30, 2004, we purchased three new, unused excess DOD gasoline burner units over the Internet from govliquidation.com. We paid $164, including buyer's premium, tax, and shipping cost, to acquire the gasoline burners, which had a listed acquisition value of $1,857. The gasoline burners, which were turned in as excess by the California Army National Guard in San Luis Obispo, California, were advertised as "still in box, have never been used." According to the DLA item manager, a gasoline burner unit can be used on

the battlefield as either a heat source or as a stove for cooking. The item manager told us that the units also could be used as stand-alone field/camping stoves, but would need a grate, or cooking surface over the burner. The item manager explained that DLA purchased thousands of these units several years ago, and they are continuing to be issued from supply inventory and used by deployed troops. According to item manager data, DOD units purchased 471 of these same gasoline burner units from DLA in fiscal year 2004. The item manager told us that there are currently 9,500 of these units in inventory and provided data that showed DLA has continued to issue gasoline burners to military units. Figure 11 is a photograph of one of the new, unused excess DOD gasoline burner units that we purchased over the Internet from govliquidation.com in September 2004. At the end of our audit in February 2005, we noted continuing liquidation sales of excess DOD gasoline burner units.

Figure 11: One of the New, Unused Excess DOD Gasoline Burner Units Purchased in September 2004

Source: GAO.

Portable oropharyngeal suction apparatus. On October 7, 2004, we purchased a new, unused portable suction apparatus for the minimum bid of $35. We paid a total of $105 for the suction apparatus, including buyer's premium, tax, and shipping, compared to the acquisition cost of $1,141. The suction apparatus runs on electrical or battery power and is designed for use in aspirating blood and other fluids in emergency treatment of unconscious or injured personnel in desert, tropic, or artic environments. The suction apparatus, which was turned in as excess by a U.S. Air Force Reserve unit at the March Air Reserve Base in Riverside, California, was coded as being in F condition (unserviceable, repairable condition). However, the photograph of the suction apparatus showed the tubing to be sealed in the original package—indicating that the suction apparatus had not been used. Documentation we obtained from the DLA item manager showed that during fiscal year 2004, DLA purchased 627 of these same suction apparatuses, with a total acquisition cost of $490,439, for issue to military units. Our in-house medical expert inspected the suction apparatus and confirmed that it had not been used. He said that the design has not changed for many years, and the only issue with regard to serviceability would be whether the battery needed to be replaced. We determined that the batteries in the unit that we purchased still had a charge, and the unit was operational. Figure 12 is a photograph of the new, unused excess DOD portable suction apparatus that we purchased.

Figure 12: Photograph of the New, Unused Portable Suction Apparatus Purchased in October 2004

Source: GAO.

Management Control Breakdowns Resulted in Reutilization Program Waste and Inefficiency

The $2.2 billion in DOD waste and inefficiency that we identified stemmed from management control breakdowns across DOD. We found key factors in the overall DRMS management control environment that contributed to waste and inefficiency in the reutilization program, including (1) unreliable excess property inventory data; (2) inadequate DRMS oversight, accountability, physical control, and safeguarding of property; and (3) outdated, nonintegrated excess inventory and supply systems. In addition, for many years, our audits of DOD inventory management[27] have

[27] GAO-04-689 and GAO-03-98.

reported that continuing unresolved logistics management weaknesses have resulted in DOD purchasing more inventory than it needed. Our analysis of fiscal year 2002 and 2003 excess commodity turn-ins showed that $1.4 billion (40 percent) of the $3.5 billion of A-condition excess items consisted of new, unused DLA supply depot inventory.

Unreliable Data Impair the Economy and Efficiency of the Reutilization Program

Our statistical tests of excess commodity inventory and our case studies, screening visits, and interviews lead us to conclude that unreliable data are a key cause of the ineffective excess property reutilization program. GAO's internal control standards[28] require assets to be periodically verified to control records. In addition, DRMS policy[29] requires DRMO personnel to verify turn-in information, including item description, quantity, condition code, and demilitarization code, at the time excess property is received and entered into DRMO inventory. However, we found that DRMS management has not enforced this requirement. Further, Army, Navy, and Air Force officials told us that unreliable data are a disincentive to reutilization because of the negative impact on their operations. DLA item managers told us that because military units have lost confidence in the reliability of data on excess property reported by DRMS, for the most part, they have requested purchases of new items instead of reutilizing excess items. Military users also cited examples of damage to excess items during shipment that rendered the items unusable. In addition, other reutilization users advised us of problems related to differences in quantities and the types of items ordered and received that could have a negative impact on their operations.

Types of Inventory Errors

Our statistical tests found significant problems with controls for assuring the accuracy of excess property inventory. Overall error rates for the five DRMOs we tested ranged from 8 percent at one DRMO to 47 percent at another, and error rates for the five DLA supply depots we tested ranged from 6 percent to 16 percent, including errors related to physical existence of turn-ins and condition code. Our physical existence tests included whether a turn-in recorded in inventory could be physically located, timely recording of transactions, and verification of item description and quantity.

[28] GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

[29] DRMS-I 4160.14, vol. II, *Instructions for Warehousing for DRMS and the Defense Reutilization and Marketing Offices*, ch. 2, "Receipt and Storage," § 1 (A) (9).

Table 4 shows the overall results of our statistical sampling tests at five DRMOs and five DLA supply depots. The specific criteria we used to conclude on the effectiveness of DRMO and DLA depot inventory controls at the tested locations are included in appendix V.

Table 4: Turn-in Transactions with One or More Control Test Failures at Five DRMOs and Five DLA Supply Depots

DRMO tested	Estimated errors (percent)	DLA supply depot tested	Estimated errors (percent)
Richmond	25	Richmond	8
Stockton	12	San Joaquin	16
Hill	8	Hill	6
Norfolk	18	Norfolk	14
Columbus	47	Columbus	12

Source: GAO.

Note: Although some transactions included more than one type of error, we only counted one failure for a transaction.

Key types of data reliability errors that we found include the following.

- Existence errors. Missing turn-ins[30] in our statistical sample included entire turn-ins of excess commodity items, such as sleeping bags, cold weather clothing, wet weather parkas, chemical and biological protective suits, a computer, and monitors. DRMO officials could not locate documentation to show whether the missing turn-ins had been reutilized, transferred, sold, or destroyed. Because many items from our statistical sample could not be found, the issue of lost, missing, and stolen property is significant, as discussed later.

- Quantity errors. Separate from missing turn-ins, quantity errors involved items that exceeded or fell short of quantities recorded on a turn-in transaction. Shortages represent items that appeared to be available but were missing. Because DRMO personnel do not always verify quantities at the time excess items are received and recorded into excess inventory, they cannot determine whether missing quantities are

[30] A turn-in transaction consists of one or more items, such as a computer or 2,000 helmets, on a turn-in document.

errors or if they represent items that are lost, missing, or stolen. Quantity shortages included cold weather, wet weather, and camouflage clothing; field packs; chemical and biological protective suits and gloves; and computer keyboards.

- Lack of timely transaction recording. DRMO personnel did not always record transactions to reflect events, such as changes in warehouse location and shipments to customers or disposal contractors within 7 days. Based on our screening and inventory testing experience, when time is wasted looking for such items, customers can become frustrated, leading to possible loss of future orders. Excess property users told us that they spend a lot of time visiting DRMO warehouses to locate and inspect excess items before they submit requisitions for them.

- Inaccurate item descriptions. Our statistical sample identified several turn-in transactions involving items that were different from the types of items recorded in the inventory records. Item description errors included erroneous item names and stock numbers. For example, we found three instances at one DRMO where turn-ins of computer keyboards were listed in excess inventory records as speakers and one instance at another DRMO where speakers were recorded as keyboards. Our sample also identified one women's coat and one men's coat that were recorded in excess inventory as two women's coats and items that were recorded as wet weather trousers and camouflage trousers when the turn-in boxes contained multiple items, including wet weather trousers and parkas, camouflage pants, shirts, and coats, and flyer's coveralls. When batched items are recorded as one type of item, only the NSN for those items is listed in inventory. As a result, a customer could order what he or she believed to be the listed quantity of the named item but instead receive various quantities of multiple types of items.

- Inaccurate condition coding. Our statistical sample found condition code error rates that ranged from 5 percent at one DRMO to 22 percent at two other DRMOs that we tested. We based our determinations of condition coding accuracy on physical observation of condition with regard to the broad categories of serviceable and unserviceable rather than testing specific coding within these categories, which could have resulted in an even higher error rate. Our sample identified numerous examples of new, unused excess inventory items that were incorrectly coded as being in unserviceable condition, including cold weather boots, cold weather undershirts, military trousers, women's blue dress

uniforms, compressor parts kits, wet weather parkas, and fragment body armor. In addition to items in our statistical sample, we observed numerous other new, unused items in DRMO warehouses and at liquidation sales locations that were coded as unserviceable, including desert combat boots, camouflage clothing, computer equipment, and aircraft parts. Accurate condition codes are key to an effective excess property reutilization program because DOD units generally look for new, unused excess items for reutilization.

Causes of Inventory Errors

We found that unreliable excess property inventory data are the result of breakdowns in controls for proper recording and verification of inventory transaction data. The control breakdowns we identified related to four major areas: (1) the failure of DRMO personnel to verify excess property turn-ins at the time they are received and entered into excess inventory records; (2) improper downgrading of condition codes by DOD units; (3) the inconsistent use of NSNs; and (4) human capital issues related to DRMO staffing and workload and military service procedures, training, and oversight of excess property reporting.

Failure to verify turn-ins and correct errors. The errors in excess inventory identified in our statistical samples, screening observations, and case studies were caused by inaccurate turn-in documentation submitted by military unit turn-in generators and the failure of DRMO personnel to inspect excess items, verify turn-in documents, and correct identified errors. DRMS policy[31] requires DRMO personnel to inspect excess items upon receipt and challenge or change incorrect data. However, DRMO personnel told us that they were not able to verify excess property receipts when faced with large turn-in volumes and processing backlogs. Further, a provision in this same policy[32] allows DRMO managers who are faced with heavy turn-in volume to waive the requirement to verify quantity counts, if the time required to count the property is not justified, and instead use turn-in generator counts. The policy limits exceptions to (1) batched turn-ins of multiple types of items, (2) large quantities of small items in other than the original package, and (3) large quantities of items in the original package where box counts can be used. However, officials at two of the five DRMOs we tested—the DRMOs with the highest data reliability error

[31] DRMS-I 4160.14, vol. II, ch. 2., § 1 (A)(9).

[32] DRMS-I 4160.14, vol. II, ch. 2, § 1 (B)(6)(c).

rates—cited this policy and told us that they accept turn-in generator information and do not verify excess property turn-in data.

In addition, our statistical sample identified one instance where DRMS headquarters officials did not provide guidance on how to correct erroneous turn-in documentation related to a June 30, 2004, Navy turn-in of six new, unused Level III biological safety cabinets[33] with a total acquisition cost of $120,000.[34] The Navy unit improperly used a local stock number (LSN)[35] to describe the safety cabinets on the turn-in document and a demilitarization code that indicated there were no restrictions on the disposal of these items. However, Level III safety cabinets are subject to trade security controls,[36] and therefore, they are required to be identified by an NSN or other information which accurately describes the item, the end item application, and the applicable demilitarization code.[37] Although Norfolk DRMO personnel advised DRMS officials of the need to correct the turn-in document errors in July 2004, at the time we finalized our draft report in early February 2005, DRMS had not taken action to authorize the DRMO to correct these errors so that the safety cabinets could be identified for reutilization within DOD. Further, we found that as of the end of our audit in February 2005, the safety cabinets had not been posted to the DRMS reutilization Web page as excess property available for reutilization. Figure 13 shows a photograph of one of the Level III cabinets.

[33] The technical name for these safety cabinets is closed loop containment isolators.

[34] The Navy's Environmental Health Center in Portsmouth, Virginia, turned in the Level III cabinets as excess because of erroneous specifications that resulted in ordering cabinets that were too large and cumbersome to meet deployment needs.

[35] An LSN consists of the four-digit federal supply classification number, a two-digit NATO code, and up to a seven-character description, such as "monitor" for a computer monitor and "boots" for cold weather boots.

[36] Commerce Control List, 15 C.F.R. pt. 774, supp. 1, category 2, Materials Processing, para. f (2), Protective and Containment Equipment (2005).

[37] DOD 4160.21-M-1, *Defense Demilitarization Manual*, ch.1, § D (6), and app. 5 (B), and DRMS-I 4160.14, vol. VII, ch. 3, "MLI/CCLI – Disposal Processing and Demilitarization," para. A (2)(d).

Figure 13: New, Unused Excess Level III Biological Safety Cabinet at the Norfolk DRMO

Source: GAO.

Improper downgrading of condition codes. The incorrect recording of unserviceable condition codes for items that are in serviceable condition, particularly items in new, unused condition, makes it unlikely that they will be selected for reutilization. For example, all of the new, unused excess DOD commodity items that we purchased over the Internet were incorrectly coded as unserviceable. As noted previously in our case study discussions, all of the items that we purchased were items that military units continued to purchase, use, or both. As shown in table 5, our DRMO tests found that most errors related to items that were incorrectly reported to be in unserviceable condition.

Table 5: Estimated Turn-in Transaction Control Test Failures for Items Classified as Serviceable

	Percentage of turn-ins	
DRMO tested	Improperly coded in serviceable condition	Improperly coded in unserviceable condition
Richmond	0	26
Stockton	1	10
Hill	2	6
Norfolk	5	17
Columbus	1	23

Source: GAO.

As shown in table 5, we found numerous instances where DOD units improperly downgraded the condition codes of items that were no longer serviceable to them, either because they did not want these items or because the items were being replaced by new technology, even though in many cases these items were new and unused. Our statistical tests and our case studies showed that many times the items that military units coded as unserviceable were serviceable and very adequate for use by others.

Inconsistent recording of NSNs. The failure to consistently record NSNs to commodity purchase and excess inventory records prevents the identification of like items for reutilization and, therefore, may result in unnecessary purchases. Although DLA records NSNs for most purchases that are stored in DLA supply depot inventory,[38] it does not record NSNs for items purchased from prime vendors[39] for direct delivery to DOD customers. For example, as noted previously, we determined that DLA buyers and item managers did not record NSNs for 87 percent of the nearly $5.7 billion in medical commodity purchases by military units during fiscal years 2002 and 2003. According to DLA officials, prime vendor catalogs identify products by part number or model number rather than NSN. This issue will become more significant as DLA expands its use of prime vendors to other commodity groups.

[38] DLA records part numbers instead of NSNs for some supply inventory items.

[39] DOD prime vendors are contractors that buy inventory from a variety of suppliers and store it in commercial warehouses. Most prime vendors ship items to customers the next day.

The failure to record NSNs to turn-in transactions prevents item managers from identifying these items for reutilization at the time purchase decisions are made. For example, our in-house scientists who often meet with DOD scientists at the U.S. Army Biological Warfare Research Center at the Dugway Proving Ground learned that the DOD scientists were planning to purchase a Level III safety cabinet and informed them of the availability of the six Level III safety cabinets at the Norfolk DRMO. The DOD scientists told us that they were unaware the Navy had excessed the safety cabinets and said that they could use all six of them. We subsequently confirmed that the DOD scientists at Dugway had requisitioned the six Level III safety cabinets for reutilization.

Our analysis showed that LSNs were recorded for about 41 percent of fiscal year 2002 and 2003 excess property turn-ins. LSNs are appropriate identifiers for local purchases and one-of-a kind items. However, our statistical samples and case studies showed that military unit turn-in generators had recorded LSNs to items that should have been identified with NSNs to avoid the time and effort necessary to identify and record NSNs. For example, LSNs were recorded for excess military clothing in our Columbus DRMO sample and the cold weather boots that we purchased over the Internet even though these items have labels that showed the assigned NSNs.

DOD has efforts under way to promote the use of unique product identifiers other than NSNs by commercial vendors and small business firms. Regardless of the mechanism used to identify standard items, to assure an effective excess property reutilization program, DOD will need to consistently record NSNs, product numbers, or other unique item identification in its purchase, supply, and excess inventory records.

Human capital weaknesses. We found that human capital issues related to imbalances between staffing and workload at DRMOs[40] and inadequate training of military turn-in generators[41] contributed to unreliable data and associated waste and inefficiency. Based on our interviews of DRMO officials, our statistical tests of DRMO inventory, and our review of available DRMS workload data for the five DRMOs we tested, we concluded that data reliability was directly affected by the availability of DRMO staff qualified to process excess property receipts.[42] For example, DRMS data for the last 8 months of fiscal year 2004 showed the three DRMOs we visited that attempted to verify turn-in documentation—Norfolk, Hill, and Stockton—experienced backlogs in receipt processing and significant use of overtime hours. In contrast, we found that the two DRMOs that did not verify receipts worked few, if any, overtime hours and had significantly fewer backlogs than the other three DRMOs. As noted previously, these two DRMOs also had high excess property inventory error rates.

We also found a lack of detailed guidance on the proper assignment of condition codes. DRMS condition code guidance consists of a list of supply and disposal condition codes and brief definitions of each condition code. DRMS has not developed detailed narrative guidance with explanations and examples of how to apply these codes. However, we also found that the military services are not correctly using the listed supply and disposal condition codes on their excess property turn-in documents. For example, when military units assigned supply condition codes indicating that new, unused items were unserviceable or condemned, they also used the disposal condition code for repairable, rather than the code for new, unused. Military units had differing views about whether unserviceable condition meant that items were unserviceable for their purposes or unserviceable to anyone. As a result, we found that items in the same condition would be coded serviceable by one military unit and unserviceable by another. In addition, our analysis of turn-ins of

[40] According to DRMO officials, since the inception of a DRMS warehouse services contract in June 2000, DRMO staffs have been downsized pending outsourcing.

[41] Turn-in generator refers to DOD units and others that report or physically turn in excess items to DRMS.

[42] According to DRMO officials, only experienced property management specialists are qualified to inspect excess property receipts and make appropriate decisions for handling various types of property, including hazardous materials, flight-safety critical items, items with safety and latent defects, and items with demilitarization requirements.

unserviceable items found a lack of training, guidance, and supervision at one Navy unit. For example, Navy officials at the North Island Naval Aviation Depot told us that the employee responsible for sending their excess property to the DRMO had never received formal training on disposal policies and procedures. Further, the officials told us that they did not have any manuals or written procedures that explained excess property turn-in procedures. As a result, the employee assigned condition codes H (unserviceable, condemned) or S (scrap) to all excess property turn-ins.

We contacted GSA's Director of Personal Property Management Policy to discuss the proper assignment of federal agency condition codes. The GSA Policy Director explained that DOD uses unique supply condition codes that are a combination of federal agency codes established by GSA and its own codes for identifying serviceable and unserviceable property. (App. III lists and defines the GSA and DOD condition codes.) The GSA Director told us that unreliable federal agency condition codes, including DOD condition codes, have presented a problem in GSA's program for utilization of excess federal agency property within the federal government. For example, he noted that federal agency officials have told GSA that they cannot rely on condition codes assigned to excess property, and this had an impact on the effectiveness of GSA's efforts to promote the use of excess DOD property within the federal government.

We also found that the condition codes established by GSA do not provide for the identification of items that are nearly new, with little or no evidence of use. Because such items are not new and unused, they would be coded the same as items that may be well used and need minor repair. Further, the GSA codes do not provide for identification of items that are new and unused but technically obsolete to the current owner. The GSA Policy Director noted that because of the federal government's increased reliance on technology, the need to identify obsolete items is becoming a governmentwide excess property disposal issue. He said that GSA would be willing to work with DOD and other federal agencies to develop a solution to these problems.

Weaknesses in Reutilization Program Oversight and Physical Inventory Control

We found hundreds of millions of dollars in potential waste and inefficiency associated with the failure to safeguard excess property inventory from loss, theft, and damage. As previously discussed, our statistical tests of excess commodity inventory at five DRMOs and five DLA supply depots identified significant numbers of missing items. Because the DRMOs and DLA supply depots had no documentation to show that these items had

been requisitioned or sent to disposal contractors, they cannot assure that these items have not been stolen. According to DRMS data, DRMOs and DLA supply depots reported a total of $466 million in excess property losses related to damage, missing items, theft, and unverified adjustments over a period of 3 years. However, as discussed below, we have indications that this number is not complete. Also, because nearly half of the missing items reported involved military and commercial technology that required control to prevent release to unauthorized parties, the types of missing items were often more significant than the number of missing items.

Excess Property Losses

Weaknesses in accountability that resulted in lost and stolen property contributed to waste and inefficiency in the excess property reutilization program. As shown in table 6, our analysis of reported information on excess property losses at DRMOs and DLA supply depots found that reported losses for fiscal years 2002 through 2004 totaled $466 million. Because 43 percent of the reported losses related to military technology items that required demilitarization controls,[43] these weaknesses also reflect security risks. GAO *Standards for Internal Control in the Federal Government* [44] requires agencies to establish physical control to secure and safeguard assets, including inventories and equipment, which might be vulnerable to risk of loss or unauthorized use. However, our statistical tests of excess commodity inventory at five DRMOs and five DLA supply depots during fiscal year 2004 identified missing items involving entire turn-ins of some excess items as well as fewer items than reported in inventory (missing quantities) for other turn-ins. We referred locations with high occurrences of reported losses to our Office of Special Investigations for further investigation. Table 6 shows reported losses for fiscal years 2002 through 2004.

[43] DOD 4160.21-M-1, *Defense Demilitarization Manual*, ch. 1.

[44] GAO/AIMD-00-21.3.1.

Table 6: Reported DRMS Excess Property Losses and Adjustments

Dollars in millions				
Location	**Fiscal year 2002**	**Fiscal year 2003**	**Fiscal year 2004**	**Total**
DRMOs	$81	$47	$62	**$190**
DLA supply depots	67	95	114	**276**
Total	**$148**	**$142**	**$176**	**$466**

Source: Unaudited DRMS data.

DRMO losses. Our statistical samples identified missing turn-ins at two of the five DRMOs we tested and missing quantities at all five DRMOs tested, including many items that were in new, unused, and excellent condition. Because DRMO officials did not have documentation to show whether these items had been reutilized, transferred, sold, or destroyed, there is no assurance of whether the missing items reflected bookkeeping errors or if they related to theft. Missing items in our Columbus DRMO sample included turn-ins of 72 chemical and biological protective suits and 47 wet weather parkas that were subject to demilitarization controls and 7 sleeping bags, a cold weather coat, 4 pairs of cold weather trousers, 4 canteens, a central processing unit (CPU), and various other items. Most of the quantity errors we found at the Columbus DRMO related to military clothing items. Missing items in our Richmond DRMO sample included a computer; 10 CPUs; 13 computer monitors; 2 scanners; and 2 items that require trade security control, including an arm assembly for a helicopter blade and a computer data signal coder/decoder.

Based on these losses, we requested DRMS summary reports on losses for all DRMOS during fiscal years 2002, 2003, and 2004 for further analysis. Reported losses include lost, damaged, and stolen items and adjustments for recordkeeping errors. We determined that the loss summary reports do not include all known losses. For example, only one of the nine turn-ins in our statistical sample that included missing items that were subject to demilitarization controls was included in the fiscal year 2004 loss summary reports. Further, missing quantities are generally reported as adjustments rather than lost or stolen items.

According to DRMS data, of the total $62 million in reported fiscal year 2004 losses, the Warner Robins DRMO reported $22 million and the four DRMS demilitarization centers reported over $17 million. In addition, reported fiscal year 2004 losses at the contractor-operated Meade DRMO included over 1,000 turn-ins with a reported acquisition value of over $3 million dollars. Although the DRMO contract provides for fines of $2,500 per incident of loss if negligence is proven, we learned that contractor negligence could not be proven due to documented security weaknesses at the Meade DRMO.[45] Uncorrected security weaknesses leave the Meade DRMO vulnerable to theft.

Further, while DRMO loss reports require that a reason code be specified, we found that the reasons for nearly all (99.8 percent) of the reported DRMO losses for fiscal years 2002 through 2004 related to unknown reasons (76.6 percent) and unverified adjustments for bookkeeping and data-entry errors (23.2 percent). As a result, DRMS has no assurance of the extent to which theft may have occurred and gone undetected. In January 2005, DRMS officials told us that they had not yet performed a review of the excess property loss reports as a basis for identifying and correcting systemic weaknesses.

Reported DRMO losses for the 3-year period included 76 units of body armor, 75 chemical and biological protective suits (in addition to those identified in our Columbus DRMO sample),[46] 5 guided missile warheads,[47] and hundreds of military cold weather parkas and trousers and camouflage coats and trousers. Three DRMOs—Kaiserslautern, Meade, and Tobyhanna—accounted for $840,147, or about 45 percent, of the nearly $1.9 million in reported fiscal year 2004 losses of military equipment items requiring demilitarization.

[45] DRMS and contractor documentation we obtained noted that the contractor had taken issue on numerous occasions with the lack of security over accountable inventories at all locations it manages, including 11 DRMOs in fiscal year 2003 and 9 DRMOs in fiscal year 2004.

[46] The missing chemical and biological protective suits are not the current JSLIST, and the missing body armor is not the ceramic technology currently in use by deployed troops.

[47] In accordance with DOD 4160.21-M, ch. 4, "Property Requiring Special Processing," § B, and DRMS-I 4160.14, vol. VII, "Instructions for Demilitarization for DRMS and the Defense Reutilization and Marketing Offices," ch. 1, para. G, such items are required to be inert before turn-in to a DRMO.

DLA supply depot losses. Our statistical samples also showed missing items at four of the five DLA supply depots that we tested. Because depot officials did not have documentation showing that these items had been reutilized or sold, there is no assurance of whether the missing items related to theft. Missing items in our DLA depot statistical samples included the following:

- Two classified radio frequency amplifiers, a printed circuit board that is subject to trade security controls, and a circuit card assembly that required demilitarization (destruction) when no longer needed by DOD at DLA's Norfolk supply depot.

- Trade security-controlled aircraft parts, including 17 aircraft landing gear drag link assemblies, 6 landing gear upper manifolds, and 3 cylinder and piston units used in aircraft landing gear at DLA's Hill supply depot.

- Six computer controllers and a circuit card used in Army, Navy, and Air Force communications at DLA's San Joaquin supply depot.

We also obtained DRMS data on DLA supply depot reports of excess property losses, including missing and damaged property and unverified adjustments. As shown in table 6, reported DLA supply depot losses totaled $276 million for fiscal years 2002 through 2004. Of this amount, nearly $192 million related to excess property items that were subject to demilitarization and trade security controls. The summary reports that we obtained did not identify the reasons for most of the reported DLA supply depot losses. According to DRMS data, 18 DLA supply depots reported a total of $114 million in fiscal year 2004 excess property losses. Two supply depots reported 72 percent of these losses, including the DLA Oklahoma City supply depot with reported losses of 213,950 items totaling $41 million and DLA's Warner Robins supply depot with reported losses of 4,911 items totaling $40 million. In addition, the San Diego and Tobyhanna DLA supply depots each reported about $6 million in fiscal year 2004 excess property losses. Types of items reported as lost, damaged, or possibly stolen included aircraft frames and parts, engines, laboratory equipment, and computers.

Property Damage

In addition to reported losses, we found significant instances of property damage at DRMS liquidation contractor sales locations. Because all liquidation sales are final, buyers have no recourse when property is damaged subsequent to sale or is not in the advertised condition. As a result, customers who have lost money on bids related to damaged and

unusable items might not bid again, or they may scale back on the amount of their bids in the future, affecting both the volume of excess DOD items liquidated and sales proceeds. The property damage that we observed at liquidation contractor sales locations is primarily the result of DRMS management decisions to send excess DLA supply depot property to two national liquidation sales locations without assuring that its contractor had sufficient human capital resources and warehouse capacity to process, properly store, and sell the volume of property received.

Although DRMS headquarters officials were aware of this problem and made numerous visits to the Huntsville sales location beginning in January 2004, actions taken to address this problem have been inadequate. In addition, poorly maintained contractor warehouse facilities at one liquidation sales location resulted in severe water damage to excess DOD bandages and medical supply items that we purchased over the Internet at govliquidation.com. The DRMS liquidation sales contract and Web page conditions of sale state that DRMS is responsible for providing and maintaining the warehouse facilities used by the contractor.

Property damage at the Huntsville, Alabama, liquidation sales location. In November 2004, we investigated reports of damage related to improper outside storage of excess items at the Huntsville, Alabama, liquidation sales location. In June 2003, DRMS initiated a recycle control point process, referred to as RCP, for DLA supply depots, whereby excess property remains in the depot warehouses during the reutilization screening process. At the end of the screening phase, property that does not require demilitarization by destruction or mutilation is to be shipped to one of two liquidation contractor national sales locations—Huntsville, Alabama, for DLA depots west of the Mississippi River and Norfolk, Virginia, for DLA depots east of the Mississippi. We determined that DRMS continued to send excess DLA supply depot property to the Huntsville sales location even though it was apparent after the first 6 months of shipments that the Huntsville location lacked the capacity to handle the large volume of property received from the DLA depots. For example, in early June 2004, the Area Manager for the Huntsville DRMO inspected the liquidation contractor's warehouses and found that excess property had filled at least one contractor warehouse building entirely, blocking doors and fire extinguishers. The Area Manager advised contractor officials that this situation would not be viewed favorably during the joint safety, fire, and environmental inspection anticipated within the near future. In response, contractor officials removed sufficient property from the building to meet fire and safety regulations. As a result, numerous excess DOD property

items were relocated outside to an unpaved lot about the size of a football field and covered with a number of blue plastic tarps. Most of these items were new and unused spare parts and electronic items received from DLA supply depots. In addition, wood furniture and metal file cabinets that were transferred to the contractor for liquidation sale by the co-located Huntsville DRMO were stored outside without any protection from the weather.

According to DRMO officials, DRMS headquarters officials had visited the Huntsville sales location in March 2004; a second time in June 2004, when the property was placed on the outside lot; and again in September 2004, to observe the extent of the overflow. Despite the known risk[48] of damaged and lost property, the volume of excess DLA depot property continued until September 2004, when DRMS headquarters made a decision to divert shipments from three western DLA supply depots to the Norfolk, Virginia, liquidation sales location. However, property continued to be stored outside until the week of October 18, 2004, when DRMS officials visited the Huntsville sales location. By that time, numerous property items had received extensive damage due to sun, wind, rain, and storms, including four hurricanes—Charlie, Frances, Ivan, and Jeanne—and tropical storms Bonnie and Matthew. DRMS officials disposed of some items and placed other items inside the warehouse. In addition, the Huntsville DRMO manager told us that wood computer furniture and filing cabinets that were in good condition at the time the DRMO turned them over to the liquidation contractor had been stored outside unprotected from weather. Because most of the furniture was ruined and the filing cabinets were rusted, they were sent to the landfill or sold as scrap. Figure 14 shows the outside location of the wood computer cabinets and other items in July 2004 when they were advertised for sale.

[48] The DRMS liquidation sales contract stipulates that DRMS is to provide property storage, maintain liquidation contractor facilities, and bear financial risk of loss and damage of property in the contractor's possession.

Figure 14: Outside Storage of Wood Computer Furniture at the Huntsville, Alabama, Liquidation Sales Location in July 2004

Source: DRMS.

Our inspection of the remaining damaged property identified numerous boxes that were missing property labels or had labels and shipping documentation that were illegible due to exposure to sun, wind, and rain. The missing documentation presents a significant problem because the sales contractor does not record receipts of excess DOD property in its sales inventory until items are processed for sale, which may not occur until several months after the items are received. DRMS officials told us that they are attempting to reconcile excess property shipments to liquidation contractor inventory. However, because excess property receipts were not recorded in sales inventory and property labels are missing or illegible, it will be very difficult, if not impossible, to fully reconcile sales inventory to excess property receipts. The photograph in figure 15 shows wooden boxes that have lost their property labels and are turning black due to rot.

Figure 15: Example of Water-Damaged Items at the DRMS Liquidation Sales Contractor Location in Huntsville, Alabama

Source: GAO.

Property subject to damage at the Norfolk, Virginia, liquidation sales location. On December 2, 2004, we visited the Norfolk liquidation contractor sales location to determine whether DRMS action to resolve the capacity problems at the Huntsville sales location by diverting property to Norfolk, Virginia, had resulted in capacity problems at that location. We observed hundreds of cardboard and wooden boxes containing excess DOD property that were stored outside under blue plastic tarps and in shrink-wrapped stacks on pallets. Upon inspection, we noted that many of the boxes were already water-damaged. The photograph in figure 16 shows cardboard boxes stored outside at the Norfolk, Virginia, sales location that evidence weather damage in terms of peeling property labels and water marks.

Figure 16: Example of Excess DOD Property Stored Outside at the DOD Liquidation Sales Contractor Location in Norfolk, Virginia

Source: GAO.

Damage to GAO purchase of bandages and medical supplies. Our October 7, 2004, Internet purchase of bandages and medical supplies from govliquidation.com suffered water damage because DRMS failed to adequately maintain the liquidation contractor's Norfolk facilities. Our purchase included numerous usable items in original manufacturer packaging, including 35 boxes of bandages, 31 boxes of gauze sponges and surgical sponges, 12 boxes of latex gloves, and 2 boxes of tracheostomy care sets. We paid a total of $167, including buyer's premium, tax, and transportation cost, for these items, which had a reported total acquisition cost of $3,290. However, the following week, when we arrived at the liquidation contractor's Norfolk, Virginia, sales location to pick up our purchase, it was raining and the roof on the contractor's warehouse building was leaking. The boxes containing the items we had purchased had become wet, and water dripped from some of the boxes when contractor personnel loaded them into our rental truck. The photograph in figure 17 illustrates the damaged condition of the items we purchased. Most of the cardboard storage boxes were deteriorating as a result of water damage, and items inside the boxes were wet.

Figure 17: DOD Excess New, Unused Bandages and Medical Supplies Purchased over the Internet in October 2004

Source: GAO.

Although the sales lot containing the bandages and medical supplies that we purchased was advertised as 4 pallets of items, it actually consisted of 13 pallets. The truck we rented would not accommodate all 13 pallets of items. The liquidation contractor sales representative told us that we could take as much as we could accommodate, and the contractor would resell the remaining items, even though the boxes on the remaining 8 pallets of bandages and medical supplies were also wet.

We found that customers who find that the property they purchased is damaged have no recourse. Further, the liquidation contractor's terms of sale provide no incentive for safeguarding property held for sale. For example, under the contractor's terms of sale, all sales are final and items are sold in "as is" condition. The liquidation sales contractor disclaims all warranties, express and implied, without limitation, including loss or liability resulting from negligence. Credit card account numbers must be provided at the time a bid is made, and the sales cost, buyer premium, and sales tax, if applicable, are immediately charged to the winning bidder.

Outdated, Nonintegrated Systems Impair Economy and Efficiency

Inefficient, nonintegrated excess inventory and supply management systems lack controls necessary to prevent waste and inefficiency in the reutilization program. For example, because the DRMS Automated Inventory System (DAISY) and DLA's Standard Automated Materiel Management System (SAMMS) are outdated and nonintegrated, they do not share information necessary to (1) identify and alert DLA item managers of excess property that is available to fill supply orders and (2) prevent purchases of new items when A-condition excess items are available for reutilization. We have continued to report[49] that long-standing weaknesses with DLA's inventory systems related to outdated, nonintegrated legacy systems and processes result in DOD and military units not knowing how many items they have and where these items are located. DLA has acknowledged serious deficiencies in its automated inventory management systems. Although DLA has an effort under way to replace SAMMS with the Business Systems Modernization (BSM) and DRMS has a Reutilization Modernization Program (RMP) under way to upgrade DAISY, so far these have been separate, uncoordinated efforts and they do not adequately address identified process deficiencies. Also, while the systems improvement efforts are intended to integrate supply and excess inventory systems to support the reutilization program, they are not focused on resolving long-standing problems related to unreliable condition code data and incomplete data on NSNs. The accuracy of these two data elements is critical to the ability to identify like items that are available for reutilization at the time purchases are made.

Current Inventory Systems Environment

We found that existing systems and processes do not adequately reflect the DRMS twofold mission to (1) facilitate reutilization of property in good condition and (2) dispose of property that DOD cannot use. For example, DRMS moves all excess property through the same 49-day screening and disposal process rather than identifying A-condition items that are currently being purchased, stocked and issued, or both to military units and designating these items for reutilization. Instead, as previously discussed, DRMS transferred, donated, sold, and destroyed hundreds of millions of

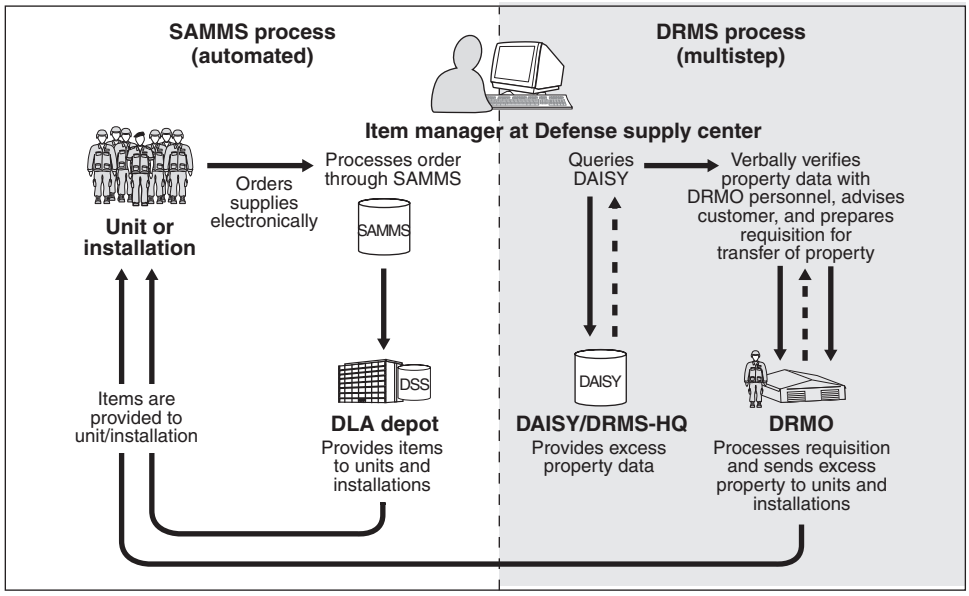
[49] GAO, *DOD Business Systems Modernization: Billions Continue to Be Invested with Inadequate Management Oversight and Accountability,* GAO-04-615 (Washington, D.C.: May 27, 2004); *DOD Business Systems Modernization: Longstanding Management and Oversight Weaknesses Continue to Put Investments at Risk*, GAO-03-553T (Washington, D.C.: Mar. 31, 2003); and *DOD Management: Examples of Inefficient and Ineffective Business Processes*, GAO-02-873T (Washington, D.C.: June 25, 2002).

dollars of A-condition excess items that the military services continued to purchase and utilize.

In addition, we found that the current process for identifying excess property that is available to fill supply orders is cumbersome, time-consuming, and involves significant human intervention. For example, under the current process, if an item manager wants to use excess items to fill a supply order, the item manager must query DAISY to determine whether excess items are available to fill the supply order. If excess items are available, the item manager would then need to contact one or more DRMOs where the excess property is located and ask DRMO personnel to physically verify the item description, quantity, and condition. If the excess items meet the customer's requirements, the item manager prepares a requisition form and submits it to the DRMO(s). If the item does not require technical inspection or testing, the DRMO processes the order and ships the excess items to the customer. However, if the item is electronic and requires technical inspection and testing, or both, it must be sent to a DLA supply depot where these functions can be performed before the item is shipped to the customer.

Military unit officials told us that due to inefficiencies in this process, including shipment delays of up to several weeks and unreliable DRMS data on quantities and condition codes, they prefer to order new items rather than attempting to reutilize excess property available at DRMOs. Figure 18 illustrates the current nonintegrated DLA inventory systems environment.

Figure 18: Existing Nonintegrated DLA Inventory Systems Environment



Source: GAO.

Planned Systems Environment

According to DLA officials, the planned BSM and RMP excess property reutilization systems are intended to be integrated when fully implemented in 2009. The objective of the integrated design is to provide DLA buyer and item manager visibility over excess property available for reutilization and permit the buyer to fill a supply order with these items instead of purchasing new items. However, we are concerned that these efforts may not resolve the long-standing data reliability problems inherent in the current systems and processes. Our November and December 2004 discussions with DLA and DRMS systems officials revealed that they were unaware of the magnitude of errors in condition coding that incorrectly recorded new and unused items as unserviceable and the extent of inconsistent recording of NSNs in commodity purchases and excess inventory records. Further, the officials had not yet coordinated to identify key data elements for identifying excess property that should be reutilized.

We also found that DLA and DRMS systems officials had not yet fully considered building controls into the new business systems that would help enforce the policy to reutilize available excess property in new, unused, and excellent condition before purchasing new items. For example, under the current systems environment, item managers and

military units can choose to purchase new items rather than reutilizing available new, unused, and excellent condition excess items. In order to avoid this problem in the planned systems environment, DLA would need to include edit controls that would reject a purchase transaction or generate an exception report for review and approval when such items are available for reutilization but are not selected.

We discussed our concerns with DLA officials. In early February 2005, DLA officials told us that they were extending the March 2005 target date for completing the functional design for excess property reutilization in BSM and RMP in order to address our concerns about the impact of unreliable data on the successful integration of the planned systems.

Conclusions

DLA and DRMS have not demonstrated the leadership and accountability necessary to achieve the economy and efficiency of excess property reutilization contemplated in federal regulations or DOD policy. To effectively address problems with reutilization program waste and inefficiency, DRMS and DLA will need to exercise strong leadership and accountability to improve the reliability of excess property data; establish effective oversight and physical inventory control, including both accountability and safeguarding of excess property; and develop effective integrated systems for identifying and reutilizing excess property. In addition, the military services will need to provide accurate information on excess property turn-in documentation, particularly data on condition codes, and item descriptions, including NSNs. Improved management of DOD's excess property and a strong reutilization program could help save taxpayers hundreds of millions of dollars annually.

Recommendations for Executive Action

We recommend that the Secretary of Defense direct the Director of the Defense Logistics Agency; the Commander of the Defense Reutilization and Marketing Service; and the Secretaries of the Army, the Navy, and the Air Force, as appropriate, to take the following 13 actions to improve DOD's excess property reutilization program.

Data Reliability

- Direct DRMS to clarify and enforce the policy that permits DRMO management to waive the requirement to verify quantities on turn-ins under exempted conditions, and consider additional criteria for maintaining accountability of military equipment items.

- Require DRMS to identify DRMOs with insufficient human capital resources and take appropriate action to assure that excess property receipts are verified and processed in an accurate and timely manner. In implementing this recommendation, DRMS should require DRMOs to provide adequate supervision and monitoring to assure that excess property receipts are verified when received and entered in DRMO inventory.

- Require DLA to develop a mechanism for linking prime vendor purchase transactions to NSNs or other unique product identification.

- Direct DRMS to develop written guidance and formal training to assist DRMO personnel and military service turn-in generators in the proper assignment of condition codes to excess property turn-ins.

- Direct the military services to provide accurate excess property turn-in documentation to DRMS, including proper assignment of condition codes and NSNs based on available guidance.

- Require the military services to establish appropriate accountability mechanisms, including supervision and monitoring, for assuring the reliability of turn-in documents.

Physical Control of Property

- Direct DLA and DRMS to review DLA supply depot and DRMO excess property loss reports to identify systemic weaknesses and take immediate and appropriate corrective actions to resolve them.

- Direct DRMS to take immediate, appropriate action to resolve identified uncorrected DRMO security weaknesses.

- Require DRMS to determine the monthly sales volume of excess property at the DLA supply depots and work with its liquidation sales contractor to identify the appropriate number and liquidation sales locations needed to handle the sales of excess DLA depot property. In making these determinations, DRMS and its contractor should consider whether contractor staffing and warehouse capacity at each location are adequate to handle the volume of property shipped to those locations for sale.

- Require DRMS to periodically inspect liquidation contractor facilities and take immediate action to correct structural impairments and other

deficiencies, such as outside storage due to inadequate warehouse capacity that could result in damage of excess DOD property held for sale.

Commodity Inventory Systems

- Direct DLA and DRMS to consider available options and implement an interim process for identifying turn-ins of excess new, unused, and excellent condition items that could be reutilized to avoid unnecessary purchases in the existing systems environment.
- Direct DLA BSM and DRMS RMP systems officials to coordinate on the identification of key data elements for identifying excess property that should be reutilized before completing the design of functional requirements for reutilization of excess commodities for BSM and RMP.
- Require that DLA's BSM system design include edit controls that would reject a purchase transaction or generate an exception report when A-condition excess items are available but are not selected for reutilization at the time that purchases are made.

Agency Comments and Our Evaluation

On April 15, 2005, DOD provided written comments on a draft of this report. DOD officials concurred with 8 of our 13 recommendations and partially concurred with the other 5 recommendations. With regard to the 5 recommendations on which DOD partially concurred, DOD's stated actions address all 5 of them. We view these actions as being generally responsive to the intent of our recommendations. The partial concurrences relate to plans for alternative actions, actions already initiated in response to our audit, and increased attention to existing processes. DOD's explanation for the partial concurrences and our response follows.

DOD stated that DRMS will use an alternative action to address our recommendation that it assess the adequacy of human capital resources and take appropriate action to assure that excess property receipts are verified and processed accurately and timely. DOD stated that DRMS will use its staffing model to determine the staffing needs by receipt workload and adequately staff its DRMOs. DOD also stated that DRMS is using contract hires to supplement DRMO staff, as needed. We view these actions as responsive to our recommendation. However, as a part of its actions on our recommendation, DRMS also should provide adequate supervision and monitoring to assure that excess property receipts are

verified when received and entered into DRMO inventory. We have modified our recommendation to emphasize this point. These actions will help to provide accountability for excess property and avoid the need for subsequent adjustments, including an excessive number of write-offs for inventory shortages.

DOD noted the merits of existing processes related to our recommendation to develop a mechanism for linking prime vendor purchase transactions to NSNs or other unique product identification. DOD stated that DOD directives require turn-in generators to provide a description of item(s) on a turn-in document for which local stock numbers are listed. DOD also noted that bringing unused items back into DLA supply stock would negate warehousing and distribution savings achieved through using prime vendor direct shipments to DOD customers. In addition, DOD stated that assigning NSNs to nonstocked commercial items would significantly increase item costs and run counter to the Federal Acquisition Streamlining Act of 1994[50] preference for commercial purchases. As discussed in our report, DOD already has efforts underway to promote the use of unique product identifiers other than NSNs by commercial vendors and small business firms. DOD's efforts include cost benefit considerations. Consistent with DOD's efforts, it is important that DLA prime vendor purchase transactions are identified to NSNs or other unique product identification to facilitate economies through (1) volume purchasing and (2) reutilization of excess items.

With regard to our recommendation that DRMS develop written guidance and formal training on the proper assignment of condition codes to excess property turn-ins, DOD stated that the military services currently receive formal blocks of training and are in the better position to assign the condition codes. DOD also referred to current DOD and DRMS guidance on condition codes. In addition, DOD stated that DRMS will review current guidance to ensure the appropriate assignment of responsibilities regarding the establishment and use of condition codes. As discussed in our report, our statistical tests, DRMO screening visits, case study acquisitions of excess DOD commodity items, and interviews of DRMO, military service, and GSA officials all indicate that significant problems exist with the reliability of excess property condition codes. We determined that unreliable condition codes were caused by a lack of detailed guidance and a failure to follow existing guidance. For example, as noted in our report,

[50] Pub. L. No. 103-355, § 8104, 108 Stat. 3243, 3390 (Oct. 13, 1994) (*codified at* 10 U.S.C. 2377).

military services often coded items as unserviceable when they no longer had a need for them, even though the items were in new, unused, and excellent condition. Therefore, written guidance and training on the proper assignment of condition codes also is important to correcting this problem to assure that existing misconceptions are corrected and would be responsive to our recommendation.

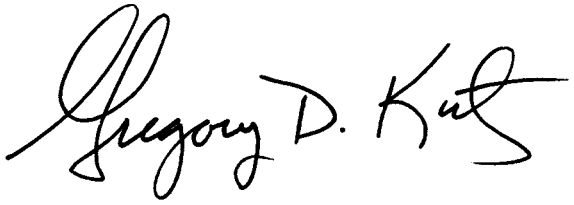
With regard to our recommendation that DRMS periodically inspect liquidation contractor facilities and take immediate action to correct structural impairments and other deficiencies, such as storage capacity, DOD stated that an inspection of all liquidation contractor facilities has been completed and periodic inspections will continue. DOD also stated that the only facility requiring immediate structural repair is the Norfolk, Virginia, facility and that DRMS has issued a work order for the necessary repairs. DOD also stated that additional storage options are being regularly evaluated by the contractor and DRMS. As stated in our report, the overflow of excess property at the Huntsville liquidation sales location was a long-term, uncorrected problem, which resulted in a significant breakdown in accountability and physical inventory control over excess property. It is important that timely and appropriate solutions be identified and implemented to prevent this problem in the future. The actions that DOD highlighted in its letter are responsive to our recommendation.

Finally, DOD stated that actions have already been taken to respond to our recommendation that DRMS consider available options and implement an interim process for identifying turn-ins of excess new, unused, and excellent condition items that could be reutilized to avoid unnecessary purchases in the existing systems environment. DOD enumerated initiatives implemented during 2004 and early 2005 that improve the visibility of excess property listed on DRMS's Web page. In addition, DOD stated that DRMS will work with DLA item managers on the best methodology to provide visibility of A-condition excess property. Notwithstanding the improvements in DRMS's Web page, the overall commodity purchasing process has not changed, and DLA continues to make commodity purchases without considering the availability of identical A-condition excess commodities. Achieving the economy and efficiency contemplated by federal regulations and DOD policy is dependent upon identifying continuing commodity purchases and having the ability to match these items to A-condition excess property and hold it for reutilization. DOD should not dispose of excess A-condition excess items that it continues to purchase.

DOD's comment letter is reprinted in appendix II.

As agreed with your offices, unless you announce its contents earlier, we will not distribute this report until 30 days from its date. At that time, we will send copies to interested congressional committees; the Secretary of Defense; the Deputy Under Secretary of Defense for Logistics and Materiel Readiness; the Secretary of the Army; the Secretary of the Navy; the Secretary of the Air Force; the Director of the Defense Logistics Agency; the Commander of the Defense Reutilization and Marketing Service; and the Director of the Office of Management and Budget. We will make copies available to others upon request. In addition, this report will be available at no charge on the GAO Web site at http://www.gao.gov.

Please contact Gregory D. Kutz at (202) 512-9505 or kutzg@gao.gov, John Ryan at (202) 512-9587 or ryanj@gao.gov, or Gayle L. Fischer at (202) 512-9577 or fischerg@gao.gov if you or your staff have any questions concerning this report. Additional contacts and major contributors to this report are provided in appendix VI.



Gregory D. Kutz
Managing Director
Forensic Audits and Special Investigations

Objectives, Scope, and Methodology

The purpose of our audit was to assess the economy and efficiency of the Department of Defense (DOD) excess property program. In doing so, we assessed the effectiveness of systems, processes, and controls for assuring a strong reutilization program. Where we found controls to be ineffective, we tested them further to determine (1) the magnitude and (2) root causes of associated waste and inefficiency. Our audit and investigation focused on Defense Logistics Agency (DLA) purchases of consumable items and Defense Reutilization and Marketing Service (DRMS)[1] excess property inventory activity during fiscal years 2002 and 2003, the most current fiscal years for which data were available at the time we initiated our audit. To illustrate continuing problems, we obtained excess DOD commodity items in new, unused, and excellent condition (A condition) during fiscal year 2004 and the first quarter of fiscal year 2005 that were in use by the military services, were being purchased by DLA, or both at the time they were available for reutilization.

We obtained access to the following systems and databases to support our audit and investigation.

- The DRMS Automated Information System (DAISY), which is an automated inventory accounting management data system designed to process excess DOD property from receipt to final disposal.
- The DRMS Management Information Distribution and Access System (MIDAS), which contains historical (archive) DAISY information.
- DLA's DOD Activity Address Directory (DODAAD), which contains information to identify agency names and addresses for activity codes that are associated with excess property requisitions.
- The Government Liquidation, LLC[2] database, which contains transactions on public sales of excess DOD property items.
- DLA's Standard Automated Materiel Management System (SAMMS), which contains transaction data on purchases by commodity group.

[1] DRMS is responsible for the disposal of excess property received from the military services and other DOD agencies.

[2] Government Liquidation, LLC is the DRMS commercial venture partner (contractor) for public sales of excess DOD property.

- The Federal Logistics Information System (FEDLOG), which is a logistics information system managed by the Defense Logistics Information Service (DLIS)[3] within DLA. This system contains detailed information on specifications, use, acquisition cost, and sources of supply for national stock numbered items, including more than 7 million stock numbers and more than 12 million part numbers.

We obtained online access to DAISY, MIDAS, DODAAD, and FEDLOG, and we obtained copies of the SAMMS databases for fiscal years 2002 and 2003 and Government Liquidation, LLC databases for June 2001 through December 2004. For each of the DOD systems and databases used in our work, we (1) obtained information from the system owner/manager on their data reliability procedures; (2) reviewed systems documentation; (3) reviewed related DOD Inspector General reports, DLA Comptroller budget data, and independent public accounting firm reports related to these data; and (4) performed electronic testing of commodity purchase and excess inventory databases to identify obvious errors in accuracy and completeness. We verified database control totals, where appropriate. We also received FEDLOG training from the DLIS service provider. When we found obvious discrepancies, such as omitted national stock number (NSN)[4] data in the DLA commodity purchases databases and transaction condition coding errors in the DRMS excess property systems data, we brought them to the attention of agency management for corrective action. We made appropriate adjustments to transaction data used in our analysis, and we disclosed data limitations with respect to condition coding errors and the omission of NSN data that affected our analysis. Our data analysis covered commodity purchases and excess commodity turn-ins and disposal activity during fiscal years 2002 and 2003. In addition, we statistically tested the accuracy of excess inventory transactions at five Defense Reutilization and Marketing Offices (DRMO) and five DLA supply depots. We also reviewed summary data and selected reports on DRMS compliance reviews of 91 DRMOs during fiscal year 2004 to determine the extent to which DRMS had identified problems with adherence to DOD and

[3] DLIS manages the Federal Catalog System, which includes nearly 7 million active supply items and operates the Federal Logistics Information System, which contains information on national stock numbers, part numbers, prices, packaging and shipping, and disposal instructions.

[4] An NSN is a 13-digit number that identifies standard use inventory items. The first 4 digits of the NSN represent the Federal Supply Classification, such as 8430 for men's footwear, followed by a 2-digit NATO code and a 7-digit designation for a specific type of boot, such as cold weather boot.

DRMS policies, made recommendations for corrective actions, and monitored DRMO actions to address its recommendations. Based on these procedures, we are confident that that the DOD data were sufficiently reliable for the purposes of our analysis and findings.

Magnitude of Excess Property Reutilization Program Waste and Inefficiency

To determine the overall magnitude of waste and inefficiency related to the DOD excess property reutilization program, we identified fiscal year 2002 and 2003 excess commodity disposal activity by property condition code and examined the extent of DOD reutilization of excess items in new, unused, and excellent condition (A-condition) versus transfers, donations, public sales, and other disposals outside of DOD through scrap, demilitarization, and hazardous materials contractors. We also compared DLA commodity purchase transactions to identical excess new, unused, and excellent condition items to identify instances where DLA purchased commodity items rather than reutilizing these excess items. We used NSN data as the basis for identifying identical items. In addition, we analyzed DLA supply depot excess commodity turn-ins to determine the extent to which new, unused DLA supply depot inventory accounted for turn-ins of excess of A-condition items. We used IDEA audit software[5] to facilitate our analysis.

Analysis of the Extent of DOD Reutilization

To determine the extent to which DOD reutilized excess commodities in A condition during fiscal years 2002 and 2003, we used online access to the DRMS MIDAS database of historical transactions and performed data mining[6] and analysis of the universe of excess commodity turn-in and disposal transactions. We identified key data elements, such as disposal transaction types, the excess property recipient DOD Activity Address Code (DODAAC), and condition codes. We used these data elements to identify the extent of DOD reutilization of excess A-condition commodities compared to transfers; donations; public sales; and disposals of scrap, hazardous materials, and demilitarized items. We determined the type of disposal transaction through analysis of the DODAAC that identifies the

[5] Interactive Data Extraction and Analysis software developed by CaseWare International, Inc., and distributed by Audimation, Inc., Houston, Texas, CaseWare's U.S. business partner.

[6] Data mining involved queries of DLA's commodity purchase databases and DRMS excess inventory system to identify patterns of activity, such as turn-ins and disposals of A-condition excess commodities; reutilization, transfers, donations, sales, and destruction of excess items; and items that were being purchased when identical new, unused, and excellent condition items were available for reutilization.

name and address of the agency or program that received (or requisitioned) the property. Because DOD considers special program[7] reutilization the same as DOD reutilization, we used DODAACs to separately identify reutilization transactions for special programs that were not directly associated with DOD activities. We also used DODAAC information to determine the identity of turn-in generators and requisitioners of excess DOD commodities for subsequent interviews of generators regarding why new, unused items were excessed and excess property users about their experience.

Analysis of Other Types of Excess Property Disposals

We also worked with DRMS officials to obtain information on transaction codes for identifying disposals of hazardous materials, scrap, and demilitarized items. We independently performed data mining and analysis, and we verified the results of our queries with DRMS officials in order to provide reasonable assurance that our data-mining approach and results were accurate. We used the Government Liquidation, LLC database to determine the acquisition value of commodity items sold and sale revenues during fiscal years 2002 and 2003.

Analysis of Commodity Purchases Transactions

We used the six SAMMS commodity purchases databases we obtained to identify key information on commodity items that military units purchased from DLA, including the item description or name, NSN, purchase date, unit price, unit acquisition cost, and full cost including the DLA user fee. The six commodity groups we audited included (1) construction and land and maritime weapons, (2) electrical, (3) general, (4) industrial, (5) medical, and (6) textile. We worked with DLA officials to identify items to a commodity group based on the supply class number included in the NSN or local stock number (LSN).[8]

To determine the extent to which DLA made unnecessary purchases of new items when identical items that were reported to be in A condition were available for reutilization, we compared commodity purchase transactions in SAMMS to excess property turn-in transactions in MIDAS. We used NSNs to identify instances where the military services ordered and

[7] Special programs, such as the Humanitarian Assistance Program and law enforcement agencies, are listed and described in app. IV.

[8] An LSN consists of the four-digit federal supply classification number, a two-digit NATO code, and up to a seven-character description, such as “monitor” for a computer monitor and “boots” for cold weather boots.

purchased items from DLA at the same time identical items that were reported to be in new or excellent condition were available for reutilization. Although we identified at least $400 million in fiscal year 2002 and 2003 wasteful purchases related to A-condition excess items that were available for reutilization, we were unable to determine the full magnitude of this problem due to inconsistent recording of NSNs and improper downgrading of condition codes.

Case Study Examples

We performed case study investigations of excess commodity turn-ins and disposals during fiscal years 2002 through 2003. In addition, to illustrate that DRMS reutilization program waste and inefficiency are continuing problems, during fiscal year 2004 and the first quarter of fiscal year 2005, we obtained several excess DOD commodity items that were currently in use, were being purchased at the time we acquired them, or both. We used data mining and analysis to identify commodity items for our case study acquisitions. To identify new and unused excess DOD commodity items that were available for requisition at no cost, we accessed the DRMS Reutilization, Transfer, and Donation Web page and identified excess DOD commodity items available to federal agencies. We confirmed that these items were available to federal agencies by also accessing the General Services Administration's (GSA) GSAXcess Web page. We used GAO's federal agency DODAAC to requisition new and unused excess DOD commodity items in A condition. We submitted our requisitions for transfer of these excess DOD items through GSA. To identify new and unused items that we could purchase at minimal cost, we accessed govliquidation.com. We also accessed govliquidation.com to identify continuing sales of our case study items.

We based our case study selections on commodities used by military units and the quantity and dollar amount of purchases and excess property turn-ins associated with these items. After we identified each new and unused case study item that we wanted to purchase, we queried FEDLOG to confirm the acquisition cost and current use of the item—that is, whether an item was still being purchased or currently in use but being phased out or was obsolete. For further assurance on the status of the excess commodities that we targeted for acquisition, we contacted the DLA item managers responsible for these items to confirm that they were currently being purchased, were in use by the military services, or both. We also contacted item managers to obtain information on how certain items, such as circuit cards and power supply units, were used.

Causes of Reutilization Program Waste and Inefficiency

To determine the root causes of identified inefficiencies, we first gained an understanding of the processes for acquisition and disposal of DOD commodities. We reviewed applicable laws and regulations and DOD, military service, DLA, and DRMS policies and procedures. We also reviewed the DRMS contracts for DRMO property warehouse services and liquidation sales for consistency with DOD policies. In addition, we reviewed SAMMS and MIDAS system manuals. We met with and contacted numerous DLA and DRMS officials and obtained documentation to assess how the property reutilization program is monitored for effectiveness. We also met with or contacted DOD and Army, Navy, and Air Force officials about their experience with commodity acquisitions, reutilization, and disposals. We interviewed DLA item managers and buyers to obtain information on their roles and responsibilities and key systems and controls involved in the commodity acquisition and management process. We also obtained information on how decisions are made about whether to purchase new items or to reutilize excess items through DOD's reutilization program. We made visits to 12 DRMOs to observe excess property processing, screen for excess case study items, investigate the disposition of excess property turn-ins, or test the accuracy of excess property inventory. We also visited five DLA-managed Defense depots to test inventory accuracy and observe excess property disposal processes. In addition, we visited 10 Government Liquidation, LLC sales locations.

We focused our assessment of the causes of reutilization program waste and inefficiency on key aspects of the overall management control environment, including (1) data reliability, (2) physical inventory control, and (3) the current systems environment. We used GAO's *Standards for Internal Control in the Federal Government*[9] as criteria for identifying internal control breakdowns that contributed to waste and inefficiency.

[9] GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999). This document was prepared to fulfill GAO's statutory requirement under 31 U.S.C. § 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982, to issue standards that provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.

Data Reliability

We statistically tested[10] the accuracy of current excess commodity inventory transaction data at five DRMO warehouse locations and five DLA supply depot locations. Each location was a separate population of randomly selected transactions. We randomly selected transactions from the population of current inventory transactions at each of the test locations. The five DRMO locations we tested were the Columbus DRMO in Ohio; the Stockton DRMO in French Camp, California; the Hill DRMO at Hill Air Force Base in Ogden, Utah; and the Norfolk DRMO and the Richmond DRMO in Virginia. Our selection of the five DRMOs was based on geographic location, turn-in volume, types of excess items handled, and military units generating the most turn-ins. We tested inventory at Defense depots that were co-located or located within proximity of the above DRMOs, including Defense depots at Columbus, Ohio; San Joaquin, California; Hill Air Force Base, Utah; Norfolk, Virginia; and Richmond, Virginia. Each location was a separate population, and we evaluated the results of each sample location separately.

The purpose of our testing was to evaluate the effectiveness of controls over existence—including timely recording of transactions, item description (item name and NSN), and quantity—and condition coding. Appendix V describes the specific criteria we used to conclude on the effectiveness of DRMO and DLA supply depot controls for inventory accuracy.

Physical Inventory Control

Our assessment of physical inventory control focused on the results of our statistical tests discussed above and our review of DRMS summary data on reported DRMO and DLA supply depot losses due to lost, stolen, and damaged property. We investigated problems associated with liquidation contractor controls for safeguarding excess DOD property held for sale at the Huntsville, Alabama, and the Norfolk, Virginia, sales locations. We also assessed the extent of damage to our case study purchase of bandages and medical supply items from the Norfolk sales location. In addition, we obtained DRMS summary reports on losses of excess property at DRMOs and DLA supply depots for fiscal years 2002 through 2004. We referred locations with the largest reported losses to our Office of Special Investigations for further investigation.

[10] Our statistical tests were based on a random sample of the population of excess inventory transactions at each test location, which permitted us to estimate, or project, the errors in the population at each location.

Commodity Inventory Systems Environment

To gain an understanding of DLA commodity purchase and DRMS commodity inventory systems and processes with regard to DOD's excess property reutilization program, we reviewed DLA and DRMS policies and procedures, and interviewed DLA, DRMS, and DRMO program and systems officials. We also used observations and information obtained during our statistical tests, excess property screening visits, and case study investigations. In addition, we relied on the body of work GAO has performed in this area.[11]

To determine the scope and status of DLA and DRMS systems efforts to improve the reutilization process in the future, we interviewed DLA and DRMS systems officials who are responsible for DLA's Business Systems Modernization (BSM) and Integrated Data Environment (IDE) and the DRMS Reutilization Modernization Program (RMP).[12] We also reviewed business systems modernization plans and related documents to determine the current status, implementation time frames, and scope of planned improvements. In addition, we obtained and reviewed the *Reutilization Management Program Functional Requirements Document*, the RMP *Decision Matrix*, and implementation timelines. We focused our assessment on whether the systems modernization efforts, as currently documented, would adequately address needed improvements in excess property reutilization program economy and efficiency.

We conducted our work from November 2003 through February 2005 in accordance with U.S. generally accepted government auditing standards. We performed our investigative work in accordance with standards prescribed by the President's Council on Integrity and Efficiency.

[11] GAO, *DOD Management: Examples of Inefficient and Ineffective Business Processes*, GAO-02-873T (Washington, D.C.: June 25, 2002), and *DOD Business Systems Modernization: Billions Continue to Be Invested with Inadequate Management Oversight and Accountability*, GAO-04-615 (Washington, D.C.: May 27, 2004).

[12] BSM is intended to replace DLA's SAMMS, and IDE may be selected to provide a means of interfacing with, or sharing information between, DLA systems. RMP is the planned upgrade for DRMS's DAISY and MIDAS.

Comments from the Department of Defense

DEPUTY UNDER SECRETARY OF DEFENSE FOR
LOGISTICS AND MATERIEL READINESS
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

April 15, 2005

Mr. Gregory D. Kutz
Director, Financial Management and Assurance
United States Government Accountability Office
Washington, DC 20548

Dear Mr. Kutz:

This is the Department of Defense (DoD) response to the GAO draft report, "DOD EXCESS PROPERTY: Management Control Breakdowns Result in Substantial Waste and Inefficiency," dated March 10, 2005 (GAO Code 192105/GAO-05-277).

The report recommends that the Secretary of Defense direct the Director of the Defense Logistics Agency (DLA); the Commander of the Defense Reutilization and Marketing Service; and the Secretaries of the Army, the Navy, and the Air Force, as appropriate, to take 13 actions to improve DoD's excess property reutilization program.

The Department concurs that action is needed to improve the reutilization process. Specific responses to each of the 13 recommendations are detailed in the enclosure. The DoD appreciates the opportunity to comments on the draft report.

Sincerely,

Bradley Berkson
Acting

Enclosure:
As stated

GAO CODE 192105/GAO-05-277
"DOD EXCESS PROPERTY: MANAGEMENT CONTROL BREAKDOWNS RESULT IN SUBSTANTIAL WASTE AND INEFFICIENCY"

DEPARTMENT OF DEFENSE COMMENTS TO THE RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense direct the Director of the Defense Logistics Agency (DLA) direct Defense Reutilization and Marketing Service (DRMS) to clarify and enforce the policy that permits the Defense Reutilization and Marketing Office (DRMO) management to waive the requirement to verify quantities on turn-ins under exempted conditions, and consider additional criteria for maintaining accountability of military equipment items. (p. 45/GAO Draft Report)

DoD RESPONSE: Concur. DRMS will review the guidance found at DoD 4160.21-M, Chapter 2, Section E (1)(d) and DRMS-I 4160.14, Vol. II, Chapter 2, Section 1(B)(6)(c), and clarify those situations where DRMS personnel are allowed to waive the quantity verification requirement. DRMS will also ensure its employees understand this guidance and DoD policy, and consider additional criteria to maintain appropriate property accountability through continuous education. In March 2004, DRMS initiated a risk assessment program to evaluate certain DRMS processes and develop appropriate risk mitigation strategies. DRMS will utilize this program in reviewing applicable segments of the receiving process to validate past practices and consider potential changes in light of further perceived risk.

Further, DRMS reviews property accountability as part of its internal Compliance Program (self assessment and organizationally independent compliance inspections), and will review its current audit protocols to ensure that accurate counting of items at receipt is a part of its Compliance Assessments. Result of this assessment will be available in November 2005.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense direct the Director of the Defense Logistics Agency to require DRMS to identify DRMOs with insufficient human capital resources and take appropriate action to assure that excess property receipts are verified and processed in an accurate and timely manner. (p. 45/GAO Draft Report)

DoD RESPONSE: Partially concur. DRMS will use its staffing model to determine the staffing needs by receipt workload and adequately staff its DRMOs to ensure excess property receipts are verified and processed in accordance with appropriate policies. However, other management actions are also being considered to address this issue. For example, DRMS is currently using contract hires at its DRMOs, rather than hiring new Government employees, because DRMS is in the final stages of an OMB Circular A-76 competition for the receipt, storage, and issue functions of useable property at all of its CONUS DRMOs. This competition is to be completed later this year. Results of this assessment will be available in November 2005.

1

RECOMMENDATION 3: The GAO recommended that the Secretary of Defense require the Director of the Defense Logistics Agency to develop a mechanism for linking prime vendor purchase transactions to National Stock Numbers (NSN) or other unique product identification. (p. 45/GAO Draft Report)

DoD RESPONSE: Partially Concur. DoD Directives require generators to provide a description of the item on the turn-in document when it is turned in to a DRMO under a Local Stock Number (LSN). DLA's Prime Vendor purchases provide commercial, non-stocked items to military customers direct from vendors. These items are consumable, meaning they are intended for immediate use by the military customer. Bringing these items back into depot stock would negate warehousing/distribution savings achieved as a result of relying on the commercial supply chain. The increased technical documentation requirements required to assign national stock numbers to these non-stocked, commercial items will drive up costs significantly. Also, requiring Prime Vendors to convert commercial marking systems to military systems would run counter to the 1994 Federal Acquisition Streamlining Act preference to buy commercial.

RECOMMENDATION 4: The GAO recommended that the Secretary of Defense direct the Director of the Defense Logistics Agency to direct DRMS to develop written guidance and formal training to assist DRMO personnel and Military Service turn-in generators in the proper assignment of condition codes to excess property turn-ins. (p. 46/GAO Draft Report)

DoD RESPONSE: Partially Concur. The generating activities are responsible for the assignment of supply condition codes (SCC). The Military Services generating these excess materials are in the better position to assign SCCs and understand the impacts of the factors like functional obsolescence, material aging, and previous storage and handling situations. Generators from each of the Services currently receive formal blocks of instruction, as well as appropriate on-the-job training, on specific disposal procedures as part of their logistics education.

The DRMS provides guidance and training material to DRMS personnel, the Military Services and Defense Agencies regarding condition codes, including the web-based information and guidance found on the DRMS Web Site. It provides a DoD Disposal Manual, DoD 4160.21-M, and guidance found in the DRMS-Instruction 4160.14. Additional efforts are being undertaken to highlight supply condition codes issues in training and web based resources. Additionally, DRMS will review current guidance and coordinate with Headquarters, Defense Logistics Agencies and the Military Services to ensure the appropriate assignment of responsibilities regarding the establishment and use of supply condition codes. Results of this assessment will be available in November 2005.

RECOMMENDATION 5: The GAO recommended that the Secretary of Defense direct the Secretaries of the Army, Navy and Air Force to direct the military services to provide accurate excess property turn-in documentation to DRMS, including proper assignment of condition codes and NSNs based on available guidance. (p. 46/GAO Draft Report)

DoD RESPONSE: Concur with intent. Existing Military Service policies and procedures require all generators to file accurate property turn-in documentation, as defined by DRMS, and the Services recognize the importance and ramifications of assigning accurate supply condition codes and National Stock Numbers (NSNs) to all property turned-in to DRMS facilities. However, the Services have agreed to reexamine their current procedures to determine if they are adequately implementing those policies and procedures.

Service policy is to reuse materiel to the fullest extent possible regardless of the category of the supply item, while considering economy and safety. Generators of excess and surplus property are required to identify the condition of items excess to their needs prior to disposal through DRMO or return to the supply system. If the condition cannot be determined, certified supply inspectors assist in this process. Service personnel have taken steps to consult with supply personnel to ensure a basic understanding of the updated military instructions. All of the Services endeavor to provide required information to applicable turn-in activities electronically, per the instruction found in the disposal directives.

Current Military Service procedures allow the repair of all spare parts and equipment when economically feasible. When repair actions are necessary, the custodian will properly identify the condition of the item on DD Form 1577-2 and attach the tag to the item. When the custodian is not sure of the condition of the item, another qualified maintenance technician or inspector will be asked to help determine the condition of the materiel. Condemned equipment items, beyond economical repair, require the signature of a qualified maintenance technician on DD Form 1577 or the repair cost estimate from the repair center. Either of these actions must take place before the turn-in process can be accomplished.

Not all DoD items have assigned NSNs, as indicated in our response to recommendation 3 above. However, as a minimum, all transfers to DRMO for non-NSN items are required to have a description of the materiel attached to or annotated on the disposal document.

We will direct the Services and DLA to assess their training in condition codes and accuracy of property turn-in documentation. Results of this assessment will be available in November 2005.

RECOMMENDATION 6: The GAO recommended that the Secretary of Defense direct the Secretaries of the Army, Navy and Air Force to require the Military Services to establish appropriate accountability mechanisms, including supervision and monitoring, for assuring reliability of turn-in documents. (p. 46/GAO Draft Report)

DoD RESPONSE: Concur. The Services recognize that accountability, supervision, and monitoring are imperative to all logistics operations. The Services and DLA already have systems in place to capture the required data. At the wholesale level, we support this recommendation to establish appropriate accountability mechanisms, including supervision and monitoring, to assure reliability of turn-in documents. DOD policy for retail and wholesale supply requires customers to return excess serviceable or unserviceable materiel to the Service supply activity or appropriate maintenance activity or comply with appropriate disposition instructions. The Services monitor these activities and work with DRMS to ensure visibility of assets throughout the disposal process to ensure a closed loop with regard to transaction item reporting among all Services and Defense Agencies involved. We will direct the Services and DLA to assess the adequacy of their existing systems to capture reliable turn-in data and to generate exceptions reports. Results of this assessment will be available in November 2005.

RECOMMENDATION 7: The GAO recommended that the Secretary of Defense direct the Director of the Defense Logistics Agency and DRMS to review DLA supply depot and DRMO excess property loss reports to identify systemic weaknesses and take immediate and appropriate corrective actions to resolve them. (P. 46/GAO Draft Report)

DoD RESPONSE: Concur. The Agency agrees with the importance of being able to identify and correct systemic weaknesses in property loss reporting. DLA, the Supply Depots and DRMS are already implementing actions to improve our ability to detect actual losses, determine their causes, and take future action to mitigate such risks.

DRMS issued interim guidance to its personnel affecting how losses and adjustments are reported in the DRMS Automated Information System (DAISY). The purpose of this guidance is to improve reason code accuracy and to be able to distinguish "bookkeeping adjustments" from actual physical losses of property.

In February 2005, DRMS issued a task order to the Defense Logistics Agency Office of Operations Research and Resource Analysis (DORRA) to study systemic weakness in DRMS property accounting, provide an assessment of what percentage of losses are attributable to actual physical losses of property rather than record keeping errors, and examine DRMS' records to determine the exact nature of these reported inventory adjustments. Preliminary findings indicate that approximately 67% of the "H" coded losses represent inventory adjustments and data errors rather than a true loss of inventory. Thus, as noted, many of the "losses" cited result from record adjustments and do not reflect actual losses of property indicative of security or property management lapses.

The Defense Distribution Center (DDC) has a long standing program called the "SWARM" Inventory Improvement Initiative. SWARM is a wide-ranging, site-by-site program designed to: 1) identify the root cause of balance errors; 2) train employees on a case-by-case basis; 3) hold all employees accountable for their process; 4) provide comprehensive formal training on policy, processes and systems and clean up the physical warehouse location balances; and 5) Correct the accountable transaction records.

The SWARM is reported to the DLA Director monthly and has already made significant progress in achieving its goals. Our goal is to meet the MILSTRAP performance standards, and the Military Services' expectations of accuracy. Results of this assessment will be available in November 2005.

RECOMMENDATION 8: The GAO recommended that the Secretary of Defense direct the Director of the Defense Logistics Agency to direct DRMS to take immediate, appropriate action to resolve identified uncorrected DRMO security weaknesses. (p. 46/GAO Draft Report)

DoD RESPONSE: Concur. DRMS policy is to take immediate appropriate action to resolve identified security weaknesses. DRMS has done so with respect to previous situations that have come to its attention and has done or will do so with respect to issues raised in the draft Report. Results of this assessment will be available in November 2005.

RECOMMENDATION 9: The GAO recommended that the Secretary of Defense direct the Director of the Defense Logistics Agency to require DRMS to determine the monthly sales volume of excess property at the DLA supply depots and work with its liquidation sales contractor to identify the appropriate number and liquidation sales locations needed to handle the sales of excess DLA depot property. In making these determinations, DRMS and its contractor should consider whether contractor staffing and warehouse capacity at each location are adequate to handle the volume of property shipped to those locations for sale. (p. 46/GAO Draft Report)

DoD RESPONSE: Concur. The DLA supply depots provide DRMS a weekly property list detailing the amount and type of excess and surplus personal property to be disposed of through Reutilization, Transfer, Donation and Sales. From this information, DRMS develops a property list that will be delivered to the liquidation sales contractor after statutorily mandated screening is completed. The Agency has implemented system changes to provide the property list 42 days in advance of delivery to the contractor.

The DRMS and its sales contractor also review past monthly historical shipments of property. From this information, both the liquidation contractor and DRMS can determine whether current storage capacities and staffing are adequate. The review will conclude whether additional sites should be added or different shipping routes be considered on a one-time basis. This review process is ongoing. DRMS, in conjunction with its liquidation contractor, directs surge or "overflow" quantities of excess property to alternate sites. Additional agency personnel have been assigned to specifically help process property shipped from the supply depots. The liquidation contractor also improved the management team responsible for handling depot property. The results of any changes undertaken will also be reviewed and modifications implemented as appropriate. Results of this assessment will be available in November 2005.

RECOMMENDATION 10: The GAO recommended that the Secretary of Defense direct the Director of the Defense Logistics Agency to require DRMS to periodically inspect liquidation contractor facilities and take immediate action to correct structural impairments and other deficiencies, such as outside storage due to inadequate warehouse capacity that could result in damage of excess DOD property held for sale. (p. 46/GAO Draft Report)

DoD RESPONSE: Partially Concur. Inspection of all liquidation contractor facilities has been completed and periodic inspections will continue. The only facility requiring immediate structural repair is the Norfolk facility. DRMS has issued a work order to fix minor structural issues. Actions are being taken to ensure property damage does not occur, which may include diverting property to other sites, if required. Additional storage options are being regularly evaluated by the contractor and DRMS. Facility condition and protection of stock is a key issue for DRMS and Government Liquidation (GL) as the contract provisions provide for increased revenue for both parties based on the selling price of the item. Results of this assessment will be available in November 2005.

RECOMMENDATION 11: The GAO recommended that the Secretary of Defense direct the Director of the Defense Logistics Agency to direct DRMS to consider available options and implement an interim process for identifying turn-ins of excess new, unused, and excellent condition items that could be reutilized to avoid unnecessary purchases in the existing systems environment. (p. 46/GAO Draft Report)

DoD RESPONSE: Partially Concur. Actions have already been taken to respond to this recommendation. Since 2004, DRMS implemented several initiatives to improve the visibility of disposal assets to DOD. These initiatives include the deployment of Pre-receipt Want Lists, Automated Want List Match against current inventory, and expedited processing property visibility on the DRMS website. In February 2005, DRMS deployed a new web application that allows DOD customers to ask questions on-line about property in inventory, including the ability to request pictures of the item if the condition code is in question. Answers are added to the property description and are available for all customers to view.

In addition, DRMS will work with the Item Managers on the best methodology to provide visibility of "A" condition property. Listings can be tailored for each Item Manager to include only those items or commodities (Federal Stock Class (FSC) or NSN specific) for which they are responsible. Results of this assessment will be available in January 2006.

RECOMMENDATION 12: The GAO recommended that the Secretary of Defense direct the Director of the Defense Logistics Agency to direct DLA Business Systems Modernization (BSM) and DRMS Reutilization Modernization Program (RMP) systems officials to coordinate on the identification of key data elements for identifying excess property that should be reutilized before completing the design of functional requirements for reutilization of excess commodities for BSM and RMP. (p. 46/GAO Draft Report)

6

DoD RESPONSE: Concur. Reutilization of DRMS assets is part of the Release 2.2 functionality of DLA's BSM program scheduled for implementation in January 2006. DLA and DRMS developed an interface between the DAISY and BSM for A1 condition code (new, unused and excellent) to provide property visibility and to allow for asset recoupment. BSM Release 2.2 functionality seeks maximum use of DRMS excess material categorized as A1 condition. The Release 2.2 functionality will search DRMS records daily for assets in A1 condition, and if found, will systematically initiate action to recoup those assets in accordance with the items economic retention limits. The system (BSM) will automatically process this information against identified supply needs to locate matching property. When an item is identified, DLA's BSM initiative will generate a requisition request for the item to return it to DLA stock. The interface is in the build phase and testing is scheduled for June through December 2005. Implementation is scheduled for BSM Release 2.2 in January 2006. Additionally, DRMS will further integrate asset recoupment processes in the DRMS RMP.

The "Gap Analysis" process for the DRMS RMP is underway with the BSM application as a primary "target" for functionality requirements. Our initial update on the GAP Analysis will be provided in November 2005. Full Operational Capability (FOC) for the DRMS RMP will be realized in FY 2009.

RECOMMENDATION 13: The GAO recommended that the Secretary of Defense direct the Director of the Defense Logistics Agency to require that DLA's BSM system design include edit controls that would reject a purchase transaction or generate an exception report when A-condition excess items are available but are not selected for reutilization at the time that purchases are made. (p. 47/GAO Draft Report)

RESPONSE: Concur. BSM's Release 2.2 functionality seeks maximum use of DRMS excess categorized as A1 condition. The Release 2.2 functionality will search DRMS records daily for assets in A1 condition, and if found, will systemically initiate action to recoup those assets in accordance with the items' economic retention limits. By proactively seeking to identify and recoup assets based on economic limits, the DLA will ensure maximum utilization of assets at the DRMS and will preclude the need to procure items when excess assets are available to be reutilized. Results of this assessment will be available in March 2006.

7

Excess Property Condition Codes

DOD's condition code is a two-digit alphanumeric code used to denote the condition of excess property from the supply and the disposal perspective. The DOD supply condition code is the alpha character in the first position and shows the condition of property in the DLA depot inventory, or is assigned by the unit turning in the excess property. The GSA disposal condition code, in the second position, shows whether the property is in new, used, or repairable condition, salvageable, or should be scrapped. (See table 7.)

Table 7: DOD Excess Property Condition Codes

DOD codes	DOD supply condition code	GSA disposal condition code
	Serviceable property	
A1, A4	**A – Issuable without qualification** – New, used, repaired or reconditioned property that is issuable without restriction, including material with a shelf life of more than 6 months.	**1** – **Excellent** – Property is in new or unused condition and can be used immediately without repairs.
B1, B4	**B - Issuable with qualification** – New, used, repaired, or reconditioned property that is issuable, but is restricted from issue to specific units, activities, or geographical areas by reason of its limited usefulness or short service life expectancy, including materials with a shelf life of 3 through 6 months.	**4 – Usable** – Property shows some wear, but can be used without significant repair. **7** – **Repairable** – Property is unusable in its current condition, but can be economically repaired.
C1, C4	**C - Priority issue** – Property is issuable to selected customers but must be issued before Condition A and B material to avoid loss as a usable asset, including materials with less than 3-months' shelf life.	
D1, D4, D7	**D - Test/Modification required** – Property is in serviceable condition but requires test, alteration, modification, or conversion or disassembly.	
	Unserviceable property	
E7	**E - Limited restoration required** – Property requires only a limited expense or effort to restore to serviceable condition.	**7** – **Repairable** – Property is unusable in its current condition, but can be economically repaired.
F7	**F – Reparable** – Property is economically reparable but requires repairs, overhaul, or reconditioning to make it serviceable property.	
G7	**G – Incomplete** – Property requires additional parts or materials to complete the item prior to issue.	
H7	**H - Condemned** – Property has been determined to be unserviceable and does not meet repair criteria, including items whose shelf life has expired and cannot be extended.	

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DOD codes	DOD supply condition code	GSA disposal condition code
	Salvage property	
FX, GX, HX (**VX-** Salvaged military munitions)	**F – Reparable; G – Incomplete; H – Condemned**	**X** - **Salvage** – Property has value in excess of its basic material content, but repair is impractical and/or uneconomical.
	Scrap property	
FS, GS, HS	**F – Reparable; G – Incomplete; H – Condemned**	**S** - **Scrap** – Property has no value except for its basic material content.

Source: DAISY C-A-T (Codes and Terms) reference guide (11th ed. 2003) and DRMS-I 4160.14, vol. IV, Supp. 1, "Codes Index" (November 2004).

Programs Authorized to Receive Excess DOD Property

Table 8 lists the DOD special programs that are authorized to receive excess property. In addition to DOD special programs, under the Stevenson-Wydler Technology Innovation Act of 1980, as amended,[1] DOD makes computer equipment available to schools under the federal government's Computers for Learning Program following the DOD and special program screening period and prior to the federal agency screening period. In accordance with 15 U.S.C. § 3710(i), the director of a laboratory or the head of any federal agency or department may loan, lease, or give research equipment that is excess to the needs of the laboratory, agency, or department to an educational institution or nonprofit organization for the conduct of technical and scientific education and research activities.

Table 8: DOD Special Programs

Humanitarian Assistance Program (HAP)	10 U.S.C. § 2557 authorizes the Secretary of Defense to make available nonlethal excess DOD supply items for humanitarian relief purposes, and 10 U.S.C. § 2561 authorizes the Secretary of Defense to use DOD's Humanitarian Assistance appropriations to transport supply items to needy countries.
Law enforcement agencies (LEA)	10 U.S.C. § 2576a authorizes the Secretary of Defense to transfer excess DOD property that is suitable for use by LEAs to federal and state agencies, including counter-drug and counter-terrorism activities. Recipients pay for transporting the property.
Museums	10 U.S.C. § 2572 authorizes the Secretary of Defense to loan, gift, or exchange documents, historical artifacts, and condemned or obsolete combat materiel to a municipal corporation, county, or other political subdivision of a state; a servicemen's monument association; a museum, historical society, or historical institution of a state or foreign nation or nonprofit military aviation heritage foundation or association; or a post of the Veterans of Foreign Wars of the United States, the American Legion, or other recognized war veterans' association.
National Guard units	National Guard units are designated by DOD to receive excess DOD property with the approval of the National Guard Bureau or the U.S. Property and Fiscal Officer, or their authorized representative, for the state in which the National Guard unit is located.
Senior Reserve Officer Training Corps units (ROTC)	ROTC units are designated by DOD to receive excess DOD property to support supplemental proficiency training programs with approval of the cognizant installation commander or designee. Junior ROTC units are not covered.
Morale, welfare, and recreation activities and services (MWR)	MWR activities are authorized by DOD to receive excess DOD property through their servicing accountable officer.
Military Affiliate Radio System (MARS)	MARS operates under the command jurisdiction of the military services and is an integral part of the DOD communications system. DOD has authorized the military services to requisition excess DOD property from DRMOs.

[1] Pub. L. No. 96-480, 94 Stat. 2311 (Oct. 21, 1980), as amended (15 U.S.C. § 3701, et seq.); Computers for Learning Program established under the act's authority; and Exec. Order No. 12,999, 61 *Fed. Reg.* 17,227 (Apr. 19, 1996).

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Civil Air Patrol (CAP)	As the official auxiliary of the U.S. Air Force, CAP is eligible to receive excess DOD property. Title to the property is transferred to CAP upon the condition that it be used to support valid Air Force mission requirements.
DOD contractors	Military Standard Requisitioning and Issue Procedures (MILSTRIP) in DOD 4000.25-1M, *MILSTRIP Manual* (April 2004), provide for the military service or Defense agency management control activity to withdraw or authorize the withdrawal of specified excess property from a DRMO for use as government-furnished equipment to support officially stated contractual requirements.
Foreign governments and international organizations	Under the International Security Assistance and Arms Export Control Act of 1976 (Pub. L. No. 94-329, as amended, *codified at* 22 U.S.C. § 2751, et seq.), certain excess defense articles may be made available to eligible foreign countries and international organizations designated by the Department of State and DOD. Excess DOD property may also be available to eligible foreign countries and international organizations as foreign military sales under authority of the Foreign Assistance Act of 1961, as amended, codified at 22 U.S.C. § 2151, et seq.

Source: GAO analysis.

Results of Statistical Tests of Excess Commodity Inventory Accuracy

To evaluate the effectiveness of controls for assuring the accuracy of excess commodity inventory data, we tested current inventory transactions at five DRMO locations and five DLA supply depot locations. Our tests covered controls over physical existence, item description (item name and NSN), quantity, and condition code.[1] DRMO inventory locations tested were the Columbus DRMO in Columbus, Ohio; the Stockton DRMO in French Camp, California; the Hill DRMO at Hill Air Force Base, in Ogden, Utah; the Norfolk DRMO in Norfolk, Virginia; and the Richmond DRMO in Richmond, Virginia. For efficiency, we tested inventory at five DLA supply depots that were co-located or located within proximity of the above DRMOs, including the depots in Columbus, Ohio; San Joaquin County, California; Hill Air Force Base, Utah; Norfolk, Virginia; and Richmond, Virginia. Each location was a separate population, and we evaluated the results of each sample location separately.

We drew our statistical samples from the universe of excess property transactions in current DRMS DAISY inventory, which includes excess property warehoused at DRMOs and DLA supply depots. We stratified our samples by the two major categories of condition code—serviceable and unserviceable—in order to determine whether errors were more prevalent in one category. From the population of current excess DOD inventory at the time of our testing visit, we selected stratified random probability samples of excess property turn-in transactions for each of the five DRMO and each of the five DLA supply depot case study locations. With these statistically valid samples, each transaction in the population for the 10 case study locations had a nonzero probability of being included, and that probability could be computed for any transaction. Each sample transaction for a test location was subsequently weighted in our analysis to account statistically for all the transactions in the population for that location, including those that were not selected. Our test results relate to the populations of transactions at the respective DRMO and DLA supply depot locations, and the results cannot be projected to the population of excess property transactions or the DRMOs or DLA supply depots as a whole.

We present the results of our statistical samples for each population as (1) our projection of the estimated error overall and for each control attribute as point estimates and the two-sided 95 percent confidence intervals for the failure rates and (2) our assessments of the effectiveness

[1] A list of condition codes and definitions is included in app. III.

of the controls and the relevant lower and upper bounds of a one-sided 95 percent confidence interval for the failure rate. If the one-sided upper bound is 5 percent or less, then the control is considered effective. If the one-sided lower bound is greater than 5 percent, then the control is considered ineffective. Otherwise, we say that there is not enough evidence to assert either effectiveness or ineffectiveness. All percentages are rounded to the nearest percentage point.

Overall Results of Inventory Reliability Tests

Tables 9 and 10 present the overall results of our statistical tests of inventory accuracy at the five DRMOs and the five DLA supply depots that we tested. The overall results show that controls for assuring the accuracy of excess property inventory were ineffective at four of the five DRMOs and three of the five DLA supply depots that we tested. We tested physical existence, including whether turn-ins recorded in inventory could be physically located and whether inventory changes were recorded within 7 days. We also tested the accuracy of item descriptions (item name(s) and NSN(s)), recorded quantities, and condition code categories.

Table 9: DRMO Turn-in Transactions with One or More Control Test Failures

DRMO tested	Estimated failure rate (95 percent two-sided confidence interval)	Assessment of effectiveness of controls (and relevant bounds of 95 percent one-sided confidence intervals)
Richmond	25% (17% to 33%)	Ineffective Lower bound = 18%
Stockton	12% (7% to 18%)	Ineffective Lower bound = 8%
Hill	8% (4% to 14%)	Not enough evidence Lower bound = 5% or upper bound = 13%
Norfolk	18% (12% to 25%)	Ineffective Lower bound = 13%
Columbus	47% (37% to 56%)	Ineffective Lower bound = 39%

Source: GAO.

Note: Although some transactions included more than one type of error, we only counted one failure for a transaction.

Table 10: DLA Supply Depot Turn-in Transactions with One or More Control Test Failures

DLA depot tested	Estimated failure rate (95 percent two-sided confidence interval)	Assessment of effectiveness of controls (and relevant bounds of 95 percent one-sided confidence intervals)
Richmond	8% (4% to 13%)	Not enough evidence Lower bound = 5% or upper bound = 12%
San Joaquin	16% (11% to 23%)	Ineffective Lower bound = 12%
Hill	6% (3% to 10%)	Not enough evidence Lower bound = 3% or upper bound = 9%
Norfolk	14% (9% to 19%)	Ineffective Lower bound = 10%
Columbus[a]	12% (8% to 18%)	Ineffective Lower bound = 9%

Source: GAO.

[a]Most of the errors in our Columbus supply depot sample related to quantity errors for items such as machine screws, washers, and other small hardware items. Therefore, we did not consider these problems to be significant.

Because most of the errors we found related to the accuracy of condition codes, we separately estimated the error rates for this control attribute. A turn-in transaction was considered a failure if the serviceable or unserviceable condition code assigned to the item(s) was not accurate based on our physical observation and judgment. DLA and DRMO officials who accompanied us during our testing provided their perspectives, which we considered in our conclusions. We based our conclusions on obvious differences between the condition code assigned to the item and the appearance of the item. For example, some items were in the original manufacturer packaging and other items were obviously used, dirty, or worn. If we were unsure of the condition of an item, we accepted the condition code assigned by the military unit turn-in generator or the DLA supply depot. In addition, we did not question the assigned condition codes of technical equipment items such as electronic parts and scientific equipment. Tables 11 through 13 show the results of our condition code reliability tests for turn-in transactions at the five DRMOs that were coded as being in serviceable and unserviceable condition.

Table 11: DRMO Turn-in Transactions That Failed Overall Control Tests for Condition Code Accuracy

DRMO tested	Estimated failure rate (95 percent two-sided confidence interval)	Assessment of effectiveness of controls (and relevant bounds of 95 percent one-sided confidence intervals)
Richmond	22% (15% to 31%)	Ineffective Lower bound = 16%
Stockton	8% (4% to 13%)	Not enough evidence Lower bound = 5% or upper bound = 12%
Hill	5% (2% to 11%)	Not enough evidence Lower bound = 3% or upper bound = 10%
Norfolk	13% (8% to 19%)	Ineffective Lower bound = 9%
Columbus	22% (14% to 33%)	Ineffective Lower bound = 15%

Source: GAO.

Table 12: DRMO Turn-in Transactions Classified as Serviceable That Failed Control Tests for Condition Code Accuracy

DRMO tested	Estimated failure rate (95 percent two-sided confidence interval)	Assessment of effectiveness of controls (and relevant bounds of 95 percent one-sided confidence intervals)
Richmond	0% (0% to 3%)	Effective Upper bound = 3%
Stockton	1% (0% to 6%)	Not enough evidence Lower bound = 0% or upper bound = 5%
Hill	2% (0% to 7%)	Not enough evidence Lower bound = 0% or upper bound = 6%
Norfolk	5% (2% to 12%)	Not enough evidence Lower bound = 2% or upper bound = 11%
Columbus	1% (0% to 6%)	Effective Upper bound = 5%

Source: GAO.

As shown in table 13, we found significant problems with the accuracy of unserviceable condition codes for excess commodities at four of the five DRMOs we tested.

Table 13: DRMO Turn-in Transactions Classified as Unserviceable That Failed Control Tests for Condition Code Accuracy

DRMO tested	Estimated failure rate (95 percent two-sided confidence interval)	Assessment of effectiveness of controls (and relevant bounds of 95 percent one-sided confidence intervals)
Richmond	26% (18% to 36%)	Ineffective Lower bound = 19%
Stockton	10% (5% to 17%)	Ineffective Lower bound = 5%
Hill	6% (2% to 13%)	Not enough evidence Lower bound = 3% or upper bound = 12%
Norfolk	17% (10% to 26%)	Ineffective Lower bound = 11%
Columbus	23% (14% to 34%)	Ineffective Lower bound = 15%

Source: GAO.

As shown in table 14, we found condition codes to be reliable at the five DLA supply depots that we tested.

Table 14: DLA Supply Depot Turn-in Transactions That Failed Overall Control Tests for Condition Code Accuracy

DLA depot tested	Estimated failure rate (95 percent two-sided confidence interval)	Assessment of effectiveness of controls (and relevant bounds of 95 percent one-sided confidence intervals)
Richmond	0% (0% to 2%)	Effective Lower bound = 0% Upper bound = 2%
San Joaquin	0% (0% to 2%)	Effective Lower bound = 0% Upper bound = 2%
Hill	0% (0% to 3%)	Effective Lower bound = 0% or upper bound = 2%
Norfolk	1% (0% to 3%)	Effective Lower bound = 0% or upper bound = 2%
Columbus	0% (0% to 2%)	Effective Lower bound = 0% or upper bound = 2%

Source: GAO.

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