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Increased Disposal Costs
Due To Unnecessary
Demilitarization

Department of Defense

GAO found a need for better coordination and control between the property disposal activities of the Department of Defense, Defense Supply Agency, and the military services' identifying and coding items requiring demilitarization. Because thousands of items were improperly coded as requiring demilitarization, they were destroyed.

LCD-76-218

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MARCH 3, 1976
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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS
DIVISION

B-161507

The Honorable
The Secretary of Defense

Dear Mr. Secretary:

This report shows increased disposal costs due to unnecessary demilitarization.

We made this review to determine if a recently implemented coding system was properly identifying items which should be demilitarized. We found numerous management weaknesses which resulted in many items being erroneously coded for demilitarization.

We want to direct your attention to the fact that this report contains recommendations to you which are set forth on page 11. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions he has taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the Senate and House Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

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

Sincerely yours,

R. G. Rothwell
for F. J. Shafer
Director

D I G E S T

To avoid unauthorized sales of lethal items and items critical to national security, the Defense Supply Agency, at the direction of the Office of the Assistant Secretary of Defense (Installations and Logistics) (OASD (I&L)), established a system for coding items prior to public sale.

Many items were erroneously coded for demilitarization. This resulted in the unnecessary demilitarization of over 38,000 line items at an additional cost of \$95,000. These items could have been sold for about \$2.2 million. Items unnecessarily demilitarized included common items like lacquer, overcoats, and high altitude gloves.

GAO recommends that the Secretary of Defense make sure that:

- coding errors have been corrected and the coding system is operating properly and
- proper management controls have been established before OASD (I&L) initiates other programs of this type, such as the pending program for recovering precious metals.

Coding errors, as well as delays in implementing the system and inadequate management control to insure compliance with directives, occurred because

- OASD (I&L) established inadequate criteria for identifying items requiring demilitarization. (See pp. 3 and 4.)
- In an attempt to meet the OASD (I&L) deadline of June 30, 1973, Defense Supply Agency waived requirements for coordination and failed to establish controls over the submission of codes. (See p. 4.)

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ABBREVIATIONS

<i>Navy</i> ASO	Aviation Supply Office
✓ DPDS	Defense Property Disposal Service
✓ DSA	Defense Supply Agency
DOD	Department of Defense
GAO	General Accounting Office
ICP	inventory control point
✓ OASD (I&L)	Office of the Assistant Secretary of Defense (Installations and Logistics)

Navy ✓ SPCC Ships Parts Control Center
AGC00238

CHAPTER 1

INTRODUCTION

Eventually all personal property owned by the Department of Defense (DOD) which is not consumed through use becomes excess to its need because of obsolescence, wear, over stockage, etc. At that time, the property is physically transferred to the Defense Supply Agency (DSA) disposal activities and usable items are identified to other Federal agencies for possible use by them. If no Federal agencies request the property, it is declared surplus and either distributed to authorized non-Federal recipients or made available for sale to the public as either usable items or scrap. In fiscal year 1974 DSA proceeds from surplus parts and equipment sales amounted to \$126.8 million.

Some of the items which become surplus are lethal or critical to national security; therefore, DOD has established policies and procedures known as the demilitarization program for identifying, destroying, or rendering such items useless for their original intended purpose. In most cases the residual is scrap and is sold as such to the public.

In implementing this policy, DOD seeks to

- prevent the unauthorized use of the property,
- destroy the military advantages inherent in certain types of property,
- render harmless that property which is dangerous,
- protect the national interest, and
- prevent the violation of security requirements.

The Senate Permanent Subcommittee on Investigations July 1972 hearings revealed that, contrary to DOD policy, some lethal items and related spare parts had been sold without being demilitarized. The most serious weakness disclosed was the inability of the original DOD users and property disposal officials to identify those items requiring demilitarization.

To correct this problem, while maximizing sales, DOD directed the Defense Supply Agency in October 1972 to develop a coding system for identifying those items requiring demilitarization. The Office of the Assistant Secretary of Defense (Installations and Logistics) (OASD (I&L)) directed the military services and defense agencies to assign these codes

to all items they manage. These codes, which were assigned by inventory control points (ICPs), were to be included on the documents used to transfer items to the disposal activities. By checking the codes, property disposal officials could easily identify items requiring demilitarization before sale and those which could be sold intact.

GAO reviewed the program to determine if DOD's actions were adequate to enable DSA to properly identify those items which should be demilitarized before sale. We also wanted to identify any management weaknesses which should be corrected before implementing similar programs in the future. DSA has been given responsibility for another coding program to identify items having components of or containing precious metals which should be recovered. Although this program does not deal with management problems identical to those encountered in the demilitarization program, similarities of coordination and control are in both programs.

CHAPTER 2

CODING ERRORS RESULT IN

INCREASED COSTS AND LOST SALES

DSA is responsible for disposing of DOD surplus property located at its 190 Defense Property Disposal Offices throughout the world. These offices rely on the codes assigned by military services for determining the appropriate action to take in disposing of the surplus property. Because of inappropriate codes assigned by the military services, over 38,000 salable items were erroneously demilitarized at an additional cost of \$95,000 during calendar year 1974. On the basis of average returns realized on sales of usable items during that year, the items destroyed could have sold for about \$2.2 million. We were not able to determine the amounts of any revenues received from scrap sales for these items.

Examples of some items erroneously demilitarized include

- airframe structural components (doors, transmissions, and panel assemblies);
- aircraft landing gear components;
- aircraft ground servicing equipment; and
- radio and television communication equipment (oscillators and preamplifiers).

We also identified several items whose demilitarization baffles the mind and stretches the imagination. These included

- four gallons of lacquer,
- five overcoats, and
- 46 high altitude gloves.

CODING PROBLEMS

In reaction to the disclosure in the July 1972 Senate hearings, OASD (I&L) established in October 1972 a new criterion for identifying and disposing of surplus items requiring demilitarization. This new criterion--the United States Munitions List--included many items which did not require demilitarization. Subsequently, OASD (I&L) directed

DSA to establish a new coding system for identifying all items requiring demilitarization. DSA published the revised criterion for the military services to code their items. The Navy initially misapplied the codes. DSA, unaware of this, waived certain coordinative and control measures needed to insure that the codes were applied properly. As a result, OASD (I&L), DSA, and the Navy have been struggling to correct coding errors ever since.

Original coding criterion included items not requiring demilitarization

To insure that all items requiring demilitarization were properly identified and disposed of, OASD (I&L) directed that all items on the United States Munitions List were to be demilitarized before disposal. This list, which is published by the Department of State, itemizes military weapons and supplies that require special controls--not necessarily demilitarization--to prevent the items from being readily available to foreign nations. Subsequently, DOD found that many items on the munitions list are not lethal or critical to the Nation's security. The adoption of this list as a criterion for demilitarization resulted in unnecessary destruction of an unknown quantity of salable items. This unnecessary demilitarization prompted many complaints from the surplus industry because of its concern that the continuing of this policy would drive them out of business.

In response to these complaints, OASD (I&L) revised the criterion in December 1972 to provide for an item-by-item identification of lethal or critical items in the supply system. From that point on only lethal items and items critical to the security of the Nation were to be demilitarized. OASD (I&L) imposed a deadline of June 30, 1973, for implementing the revised criterion.

Navy efforts to assign codes

The Aviation Supply Office (ASO), which manages the Navy's aviation equipment, submitted coding for 238,000 items to DSA. Codes for 176,000, or 74 percent, of these submissions were later found to be in error. This resulted from expedient measures necessitated by a late start--6 weeks before the coding deadline.

The Navy Supply Systems Command--the agency responsible for the Navy's coding efforts--received its instructions from DSA in January 1973. It did not transmit them to ASO, its subcommand, until May 15, 1973. To meet the deadline, ASO assigned codes by aircraft system rather than on an item-by-item basis. Consequently, if the aircraft system was

determined to contain lethal items, all the items in the system were coded for demilitarization. Despite this work, ASO's code assignments were not completed until September 1973. Then, due to incompatibility of Navy and DSA computers, the codes were not entered into DSA's system until January 1974.

In August 1974 DSA instituted corrective action by placing a moratorium on aircraft items until corrections could be made by the Navy. However, in the mistaken belief that corrective action had been completed on most affected items, and due to accumulation of surplus items at its disposal yards, DSA lifted the moratorium prematurely in December 1974. At that time only about half the code assignments had been corrected.

Although corrected data on remaining items was submitted to DSA for processing in March 1975, as of May 1975 the data had not been processed due to the installation of a new computer processing system. In the interim the unnecessary destruction of salable items continued due to erroneous ASO coding.

The Ships Parts Control Center (SPCC) is the only other Navy ICP and it is responsible for all nonaviation items. The Navy Supply Systems Command requested the Navy Systems Commands to make the code determinations for SPCC managed items. The Systems Commands are responsible for managing major high cost items. They based their coding determinations on the overall characteristics of each Federal stock class rather than on an individual item basis. All items in a stock class were coded the same. Consequently, many nonlethal items were coded as demilitarization required. The Systems Commands sent their determinations to SPCC which submitted them to DSA. SPCC coded 180,000 items for demilitarization. Forty-two percent, or 76,000, of these items were later found to be coded incorrectly.

Despite the fact that both the Navy and DSA failed to establish adequate controls over the submission of code assignments, the erroneous coding and additional work could have been avoided if DSA had promptly followed up and resolved the problems discovered by a DOD audit team.

At the request of OASD (I&L), the Assistant Secretary of Defense (Audit) reviewed ICP applications of the coding criteria. The review covered the period of March 1973 through September 1973. The report, issued in September 1973--before ASO or SPCC submitted their codes to DSA--disclosed among other things that ASO, SPCC, and the Navy Systems Commands were coding by large groups or classes of items rather than on an item-by-item basis.

In July 1973 OASD (I&L) and DSA met with the audit team which provided a preliminary indication of these findings. On the basis of this meeting, OASD (I&L) instructed DSA to follow up and resolve these problems. DSA notified the services in September 1973 of the problems identified by the audit team and requested that a report on corrective actions be made. We could find no reply from the Navy or the Air Force nor any evidence of followup by DSA to insure that its request had been acted on. A DSA group did visit a few inventory managers; however, positive actions to correct the problems were not taken until a year later after DSA received surplus industry complaints.

Coordination and control measures
waived or ineffective

To meet the OASD (I&L) deadline of June 30, 1973, DSA waived requirements for coordination on items managed by more than one service. Normally, decisions concerning multimanaged items should not be made unilaterally, and all managers should be involved in actions concerning catalog identification. Since this requirement was waived, there was no assurance that the same item would be coded identically by the military services involved. Further, DSA did not establish data processing controls to identify differences in coding the same item entering the system.

About 17,000 of the ASO managed items are also managed by Air Force ICPs. The DSA computer was programed to consider valid only the most recent data submitted. Since the Navy's ASO submitted its codes after the Air Force, its codes superseded those submitted by the Air Force in all cases where there was a difference in coding. This required the Navy to reexamine the demilitarization needed for the items and coordinate with the Air Force to insure that multiservice items were coded the same by both military services. This also required resubmitting the codes to DSA and their reentry into the computerized cataloging and supply accounting systems. Either the waived interservice coordination and/or computer processing controls could have avoided this difference in coding and the additional work for multiservice managed items.

Single service managed items were also miscoded and processed because procedures were lacking for checking the validity of the data. ASO and SPCC submitted their code assignments, each containing about 100,000 or more items, coded as demilitarization required. A cursory review of these submissions would have shown the mistaken coding, because it is not likely that a single ICP would manage that many lethal items.

EFFORTS BY DEFENSE PROPERTY DISPOSAL
SERVICE (DPDS) TO CORRECT MISCODINGS

When DSA became aware of the extent of coding errors in the system in November 1973, it established a "challenge" program to minimize the effect of the errors. This program encourages Defense Property Disposal Offices to question ICPs when items appear to be coded erroneously. It has not been very successful. It requires a type of technical knowledge, not generally available to disposal offices, needed to recognize coding errors. Also, considerable time is required to process a challenge. While most disposal offices were receiving erroneously coded items, only 25 out of the then 196 disposal offices challenged more than 25 line items during the period February 1974 through April 1975.

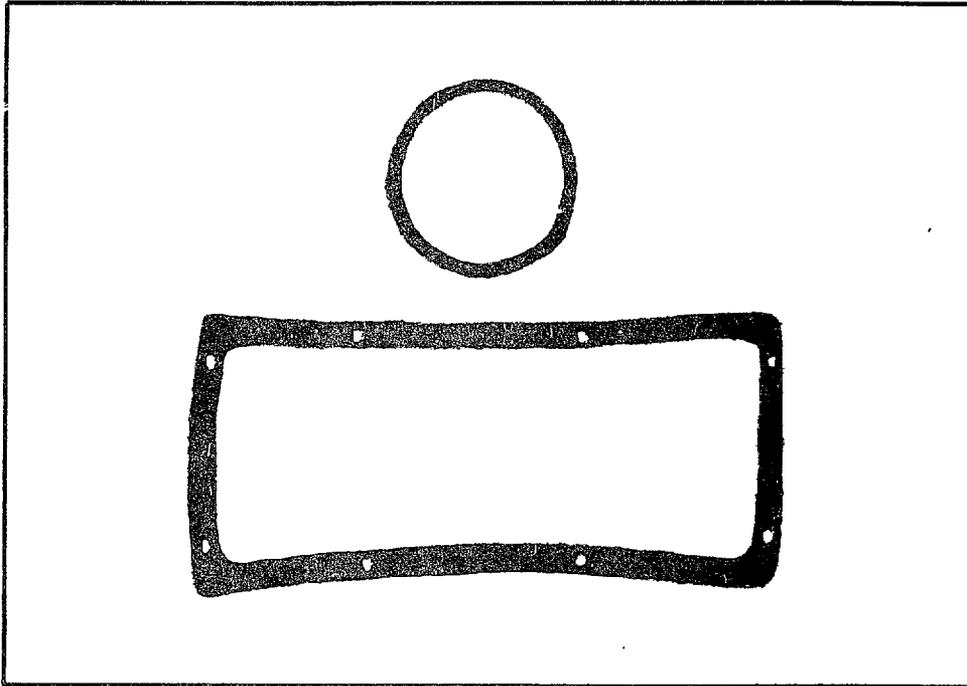
In February 1975 two disposal offices visited were receiving property with questionable demilitarization requirements. However, neither had challenged many codes. The disposal office in Jacksonville, Florida, was destroying common hardware items like small metal filters, gaskets, and "O" rings coded as demilitarization required. Pictures of these items are on page 8. Disposal office personnel were demilitarizing these items by manually cutting them.

At the disposal office in Norfolk, Virginia, we examined several items pending demilitarization. These included items such as blank bullets used for training and an aircraft carburetor kit--disposal office officials challenged the carburetor kit after we questioned the validity of the code assignment. We also saw an aircraft navigator's seat coded for demilitarization. Contents of the carburetor kit and the navigator's seat are pictured on page 9.

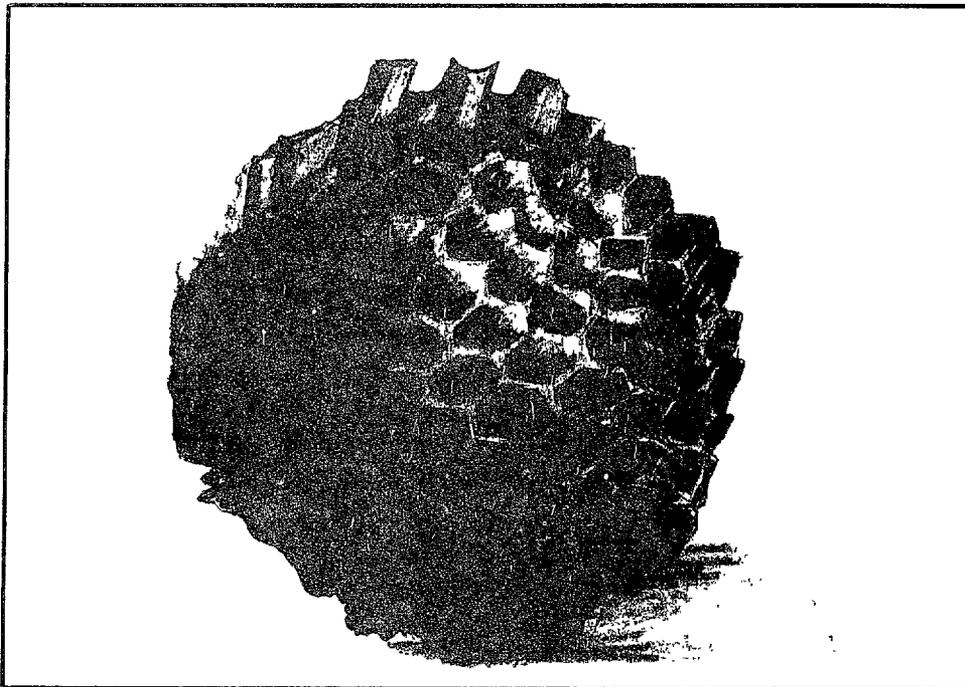
Although DSA's challenge program was a sincere effort to minimize unnecessary demilitarization, the disposal offices generally lacked the expertise for recognizing challengeable items. Consequently, the unnecessary demilitarization continued.

An exception to this generalization--the disposal office in Pensacola, Florida--has been very active in the challenge program. During the 15 months ending January 1975, this disposal office challenged the codes on 2,112 items. Further, the responsible item manager changed the code in 1,962, or 92 percent, of the cases. As of February 6, 1975, 145 cases were still pending.

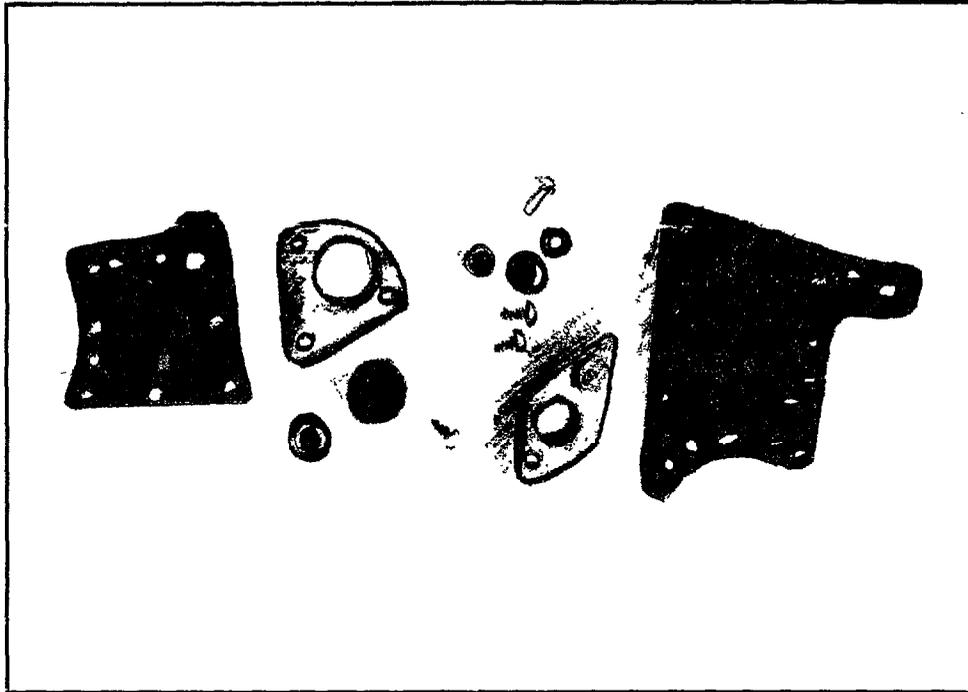
Centralized DPDS records on the challenge program show that during the 20-week period ending February 28, 1975,



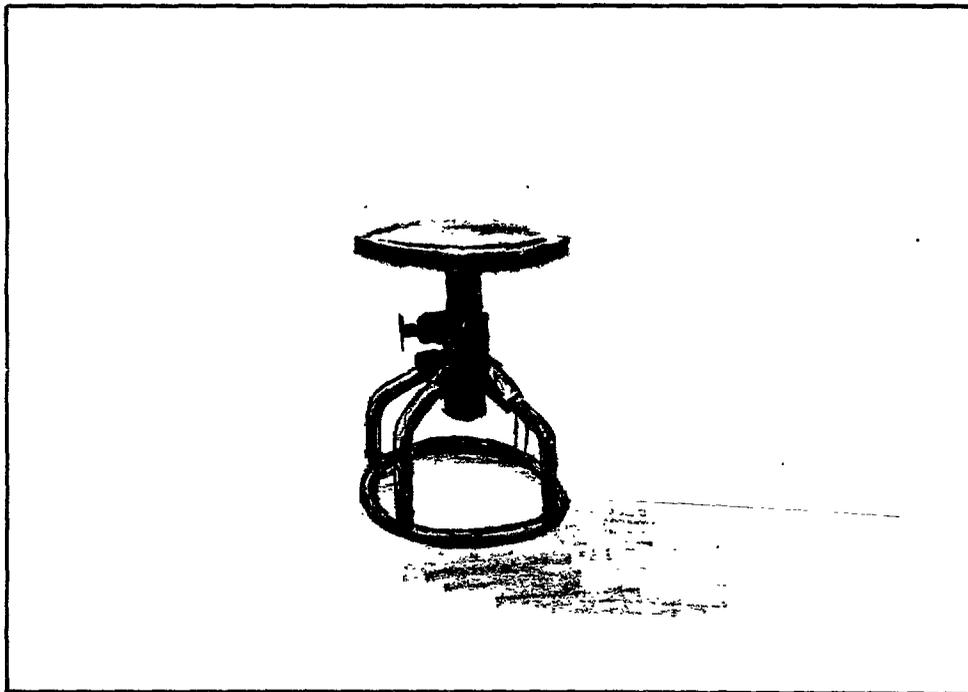
GASKET AND "O" RING



METAL FILTER



CONTENTS OF THE AIRCRAFT CARBURETOR KIT



AIRCRAFT NAVIGATOR'S SEAT

1,227 items were challenged by disposal offices, of which 1,031 were changed to "demilitarization not required."

In November 1974 the surplus property industry again complained to DOD that many aircraft items were being unnecessarily demilitarized. In response to this, DSA requested the military services to review their demilitarization coding and to submit required corrections. According to DSA, as of November 1975 the military services indicated that all of the necessary corrections had been forwarded to DSA. However, DSA was not able to enter all of these corrections into its item identification system because of computer problems and lack of computer time. The corrections have been entered in DSA's system of accounting for property turned into disposal yards. This permits a comparison of the code used when the property is turned in with that in the accounting system, and if there is any difference between the two, the ICP would be requested to determine whether the item requires demilitarization.

NEED TO REDUCE CODING ERRORS

DSA and the military services have attempted for 3 years to implement a coding system to properly identify items requiring demilitarization. OASD (I&L) is now planning to implement a coding system to identify and retrieve precious metals from surplus personal property. DSA has also been given the responsibility for developing this system.

The system will require procedures similar to those followed in the demilitarization program. It will require identifying personal property items requiring special handling and assigning them codes so that personnel at disposal offices will know whether the items are to be sent to recovery activities or to be disposed of through the usual channels.

CONCLUSIONS

GAO found that the waived coordination and lack of controls to insure that multimanaged items were coded the same by all managers resulted in thousands of items being coded improperly and being destroyed.

Had OASD (I&L) established proper controls and feedback procedures to assure that DSA was taking the action necessary to implement an effective coding program, the numerous errors that entered the system could have been avoided. Even after the OASD audit in 1973, which disclosed numerous weaknesses in the system, OASD (I&L) and DSA did not take adequate, timely action to correct past errors or to establish controls for effectively implementing the program.

This mismanagement resulted in additional costs of at least \$95,000 for unnecessary demilitarization and in the loss of more than \$2 million in revenue that could have been realized if the erroneously demilitarized items had been sold in the usual manner.

RECOMMENDATIONS

GAO recommends that the Secretary of Defense:

- Request a new audit of the demilitarization coding program to make sure that the coding errors have been corrected and the system is operating properly.
- Make sure that proper management controls and feedback have been established before OASD (I&L) initiates any other programs of this type, such as the pending program for recovering precious metals.

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