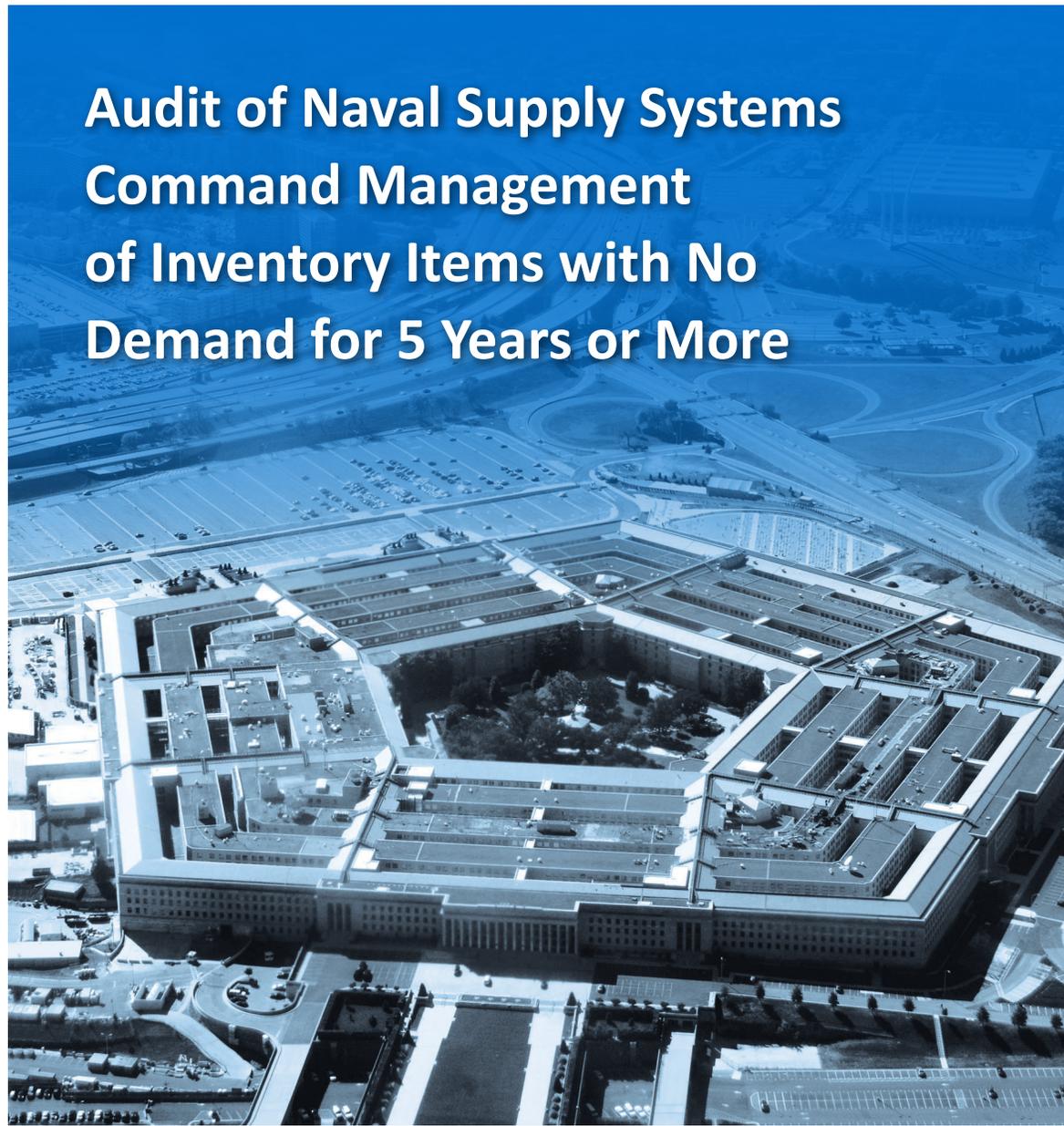




# INSPECTOR GENERAL

*U.S. Department of Defense*

MARCH 25, 2026



## **Audit of Naval Supply Systems Command Management of Inventory Items with No Demand for 5 Years or More**





# Results in Brief

## *Audit of Naval Supply Systems Command Management of Inventory Items with No Demand for 5 Years or More*

March 25, 2026

### Objective

The objective of this audit was to assess the effectiveness of Naval Supply Systems Command (NAVSUP) management of inventory items with no demand for 5 years or more. An inventory item is an item of supply that includes reparable components, consumable repair parts, and subsystems and assemblies of parts. Inventory items that were not requested or issued to customers are considered to have no demand.

### Background

NAVSUP Weapon Systems Support (WSS) provides Navy, Marine Corps, and Joint and Allied Forces program and supply support for the weapon systems that keep the Navy mission ready. Some Navy-owned inventory items are stored in Defense Logistics Agency (DLA) facilities. As of September 2023, NAVSUP WSS stored 2.5 million inventory items (81,829 unique inventory items each identified by a National Item Identification Number [NIIN]) which had no demand for 5 years or more, valued at \$2.1 billion. A NIIN is a unique identifier that the DoD and manufacturers use to identify an item of supply. In FY 2024, NAVSUP paid the DLA \$9 million to store the 81,829 unique inventory items. We reviewed a statistical sample of 420 (3,440 inventory items) of the 81,829 unique inventory items, valued at \$90.3 million.

### Findings

NAVSUP WSS did not effectively manage inventory items with no demand for 5 years or more. For the 81,829 unique inventory items with no demand for 5 years or more, we estimated (projected) that NAVSUP WSS maintained 34,912 unique inventory items (43 percent) that were no longer needed to sustain weapon systems. This occurred because NAVSUP WSS semiannual disposal reviews were insufficient and did not identify unneeded inventory items. Additionally, NAVSUP WSS did not consistently coordinate with the Naval Air Systems Command (NAVAIR) or the Naval Sea Systems Command (NAVSEA) to determine whether inventory items were needed to sustain weapon systems or initiate disposal of unneeded inventory items. As a result, NAVSUP paid the DLA an estimated (projected) \$3.8 million in FY 2024 to store the estimated (projected) 34,912 unique inventory items that were no longer needed to sustain weapon systems. If not addressed, this could cost an estimated \$22.9 million over the next 6 years.

### Recommendations

We recommend that the Commander, NAVSUP WSS:

- review inventory items and determine whether the inventory items are still needed to sustain weapon systems and, if the inventory items are not needed, dispose of the unneeded inventory items; and
- update semiannual disposal review procedures to proactively coordinate with NAVAIR and NAVSEA.

### Management Comments and Our Response

The Commander, NAVSUP, agreed with all the recommendations. The recommendations are resolved but will remain open. We will close them when we verify that management has implemented the corrective actions. Please see the Recommendations Table on the next page for the status of the recommendations.

## Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Commander, Naval Supply Systems Command	None	1.a, 1.b, and 1.c	None

**Note:** The following categories are used to describe agency management’s comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – The DoD OIG verified that the agreed-upon corrective actions were implemented.



**OFFICE OF INSPECTOR GENERAL**  
**DEPARTMENT OF DEFENSE**  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500

March 25, 2026

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE NAVY

**SUBJECT:** Audit of Naval Supply Systems Command Management of Inventory Items with No Demand for 5 Years or More (Report No. DODIG-2026-073)

This final report provides the results of the DoD Office of Inspector General's audit. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

The Commander, Naval Supply Systems Command, agreed to address all the recommendations presented in the report; therefore, we consider them resolved and open. We will close them when you provide us documentation showing that all agreed-upon actions to implement the recommendations are completed. Therefore, please provide us within 90 days your response concerning specific actions in process or completed on the recommendations. Send your response to either [REDACTED] if unclassified or [REDACTED] if classified SECRET.

We appreciate the cooperation and assistance received during the audit. If you have any questions, please contact me at [REDACTED].

A handwritten signature in black ink, reading "Carmen J. Malone", is positioned above the typed name.

Carmen J. Malone  
Assistant Inspector General for Audit  
Acquisition, Contracting, and Sustainment

# Contents

---

## Introduction

Objective .....	1
Background .....	1

## **Finding. NAVSUP WSS Did Not Effectively Manage Inventory Items with No Demand for 5 Years or More**

NAVSUP WSS Maintained Inventory Items with No Demand .....	4
NAVSUP WSS Semiannual Disposal Reviews Were Insufficient .....	5
NAVSUP WSS Did Not Consistently Coordinate with NAVAIR or NAVSEA .....	7
NAVSUP Paid Storage Costs for Unneeded Inventory Items .....	8
Disposal of Unneeded Inventory Items During the Audit .....	9
Recommendations, Management Comments, and Our Response .....	10

## Appendix

Scope and Methodology .....	12
Internal Control Assessment and Compliance .....	14
Use of Computer-Processed Data .....	15
Use of Technical Assistance .....	15
Prior Coverage .....	15

## Management Comments

Naval Supply Systems Command .....	16
------------------------------------	----

## Acronyms and Abbreviations .....

18

# Introduction

---

## Objective

The objective of this audit was to assess the effectiveness of Naval Supply Systems Command (NAVSUP) management of inventory items with no demand for 5 years or more. An inventory item is an item of supply that includes reparable components, consumable repair parts, and subsystems and assemblies of parts. Inventory items that were not requested or issued to customers are considered to have no demand. See the Appendix for a discussion of the scope and methodology related to the audit objective.

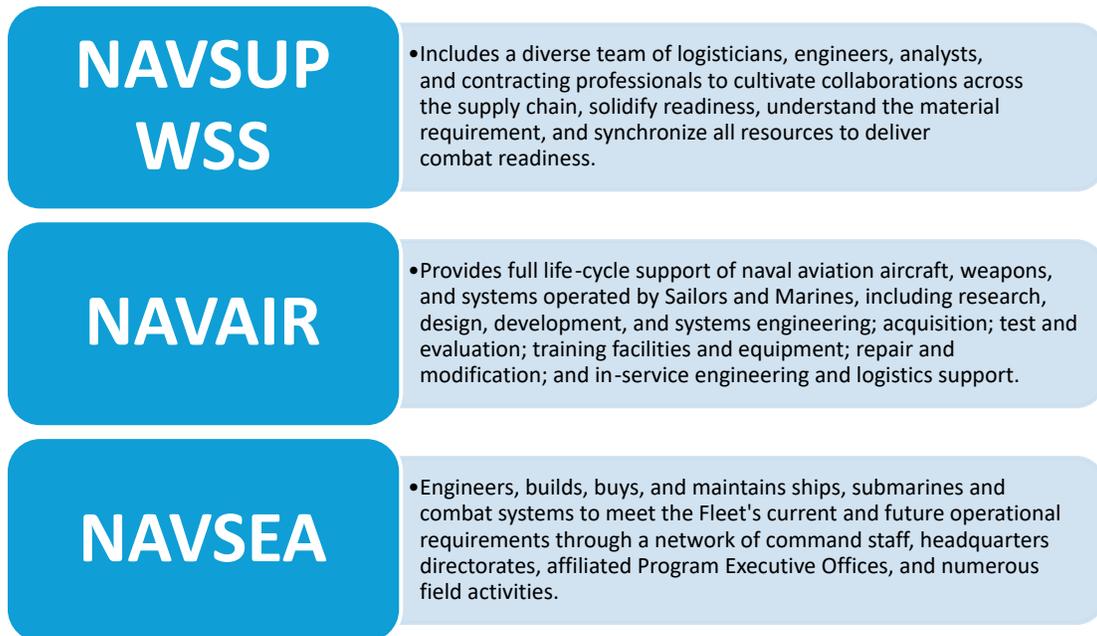
## Background

The DoD developed the DoD Comprehensive Inventory Management Improvement Plan in October 2010 to improve the inventory management systems of the Military Departments and the Defense Logistics Agency (DLA). The plan established an objective to eliminate inventory items with a history of no demand for 5 years or more and a low probability of future demand unless there is sufficient justification to retain the items.

### ***NAVSUP Management of Inventory Items with No Demand for 5 Years or More***

NAVSUP provides life cycle weapon systems support to the Navy. The NAVSUP Enterprise includes the NAVSUP Weapon Systems Support (WSS). NAVSUP WSS provides Navy, Marine Corps, and Joint and Allied Forces program and supply support for the weapon systems that keep the Navy mission ready. NAVSUP WSS operates in Mechanicsburg, Pennsylvania; Philadelphia, Pennsylvania; and Norfolk, Virginia. NAVSUP WSS Mechanicsburg supports ships, submarines, and nuclear propulsion while NAVSUP WSS Philadelphia provides support for naval aviation weapon systems. NAVSUP WSS Norfolk also provides transportation and cost analysis support to NAVSUP customers throughout the DoD. Although NAVSUP owns and manages inventory items, NAVSUP WSS is required to work with the Naval Air Systems Command (NAVAIR) and Naval Sea Systems Command (NAVSEA) on retention and disposal decisions. See Figure 1 for NAVSUP WSS, NAVAIR, and NAVSEA's roles and responsibilities.

Figure 1. NAVSUP WSS, NAVAIR, and NAVSEA Roles and Responsibilities



Source: The U.S. Navy.

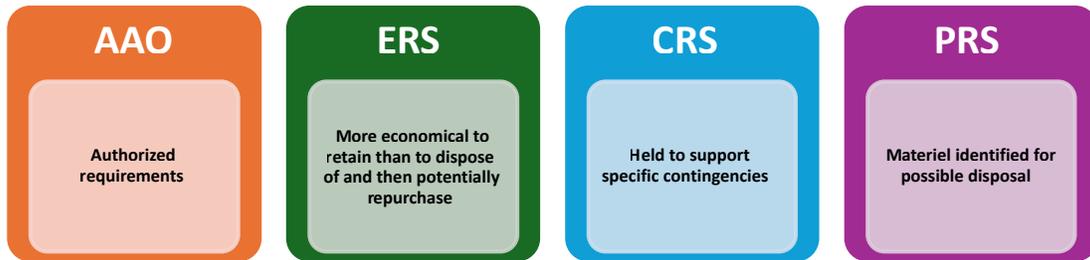
NAVSUP guidance requires NAVSUP WSS to review and justify retaining items with no demand for 5 years or more.<sup>1</sup> The DoD's guidance, DoD Manual (DoDM) 4140.01, volume 6, "DoD Supply Chain Materiel Management Procedures: Materiel Returns, Retention, and Disposition," authorizes an Approved Acquisition Objective Stock (AAO), which is the quantity of an item allowed for peace time and war-time requirements to equip and sustain U.S. and allied forces.<sup>2</sup> It also authorizes holding inventory items above the AAO for Economic Retention Stock (ERS) and Contingency Retention Stock (CRS).

DoDM 4140.01, volume 6, authorizes NAVSUP WSS to retain inventory items up to the sum of the AAO, ERS, and CRS. Inventory items above the sum are considered Potential Reutilization Stock (PRS) or excess on hand. PRS must be reviewed within 3 months of classification for possible disposal. See Figure 2 for the definitions of AAO, ERS, CRS, and PRS.

<sup>1</sup> Naval Supply Systems Command Instruction 4500.13B, "Retention and Reutilization of Material Assets," February 25, 2019.

<sup>2</sup> DoD Manual 4140.01, volume 6, "DoD Supply Chain Materiel Management Procedures: Materiel Returns, Retention, and Disposition," March 8, 2017 (Change 4 Effective November 3, 2022).

Figure 2. AAO, ERS, CRS, and PRS Definitions



Source: DoDM 4140.01, volume 6.

DoDM 4140.01, volume 6, requires NAVSUP WSS to conduct an annual review of the cost, demand, weapon system, and other factors used in making economic and contingency decisions for ERS and CRS to verify that they are current. The annual reviews should focus on items with ERS by retaining only those stocks that are based on an approved economic method and on items with CRS by retaining only those stocks that have a documented rationale for retention above economic limits.

NAVSUP WSS managed more than 430,000 National Item Identification Numbers (NIINs), valued at \$43 billion, that included repair parts and components for the Navy's ships, aircraft, submarines, and weapon systems. A NIIN is a unique identifier that the DoD and manufacturers use to identify an item of supply. As of September 2023, NAVSUP WSS managed 7.8 million inventory items (113,800 unique inventory items each identified by a NIIN) with no demand for 5 years or more, valued at \$3.8 billion.

Some Navy-owned inventory items are stored in DLA facilities. The DLA is the DoD's logistics combat support agency. DLA Distribution is the DoD's joint storage and distribution provider that receives, stores, and distributes material critical to Service members. As of September 2023, NAVSUP WSS stored 81,829 NIINs (2.5 million inventory items) with no demand for 5 years or more, valued at \$2.1 billion. In FY 2024, NAVSUP paid the DLA an estimated \$9 million to store inventory items for the 81,829 NIINs. We reviewed a statistical sample of 420 (3,440 inventory items) of the 81,829 NIINs, valued at \$90.3 million.

## Finding

### NAVSUP WSS Did Not Effectively Manage Inventory Items with No Demand for 5 Years or More

NAVSUP WSS did not effectively manage inventory items with no demand for 5 years or more. For the 81,829 NIINs with no demand for 5 years or more, we estimated (projected) that NAVSUP WSS maintained 34,912 NIINs (43 percent) that were no longer needed to sustain weapon systems. This occurred because NAVSUP WSS semiannual disposal reviews were insufficient and did not identify unneeded inventory items. Additionally, NAVSUP WSS did not consistently coordinate with NAVAIR or NAVSEA to determine whether inventory items were needed to sustain weapon systems or initiate disposal of unneeded inventory items. As a result, NAVSUP paid the DLA an estimated (projected) \$3.8 million in FY 2024 to store the estimated (projected) 34,912 NIINs that were no longer needed to sustain weapon systems. If not addressed, this could cost an estimated \$22.9 million over the next 6 years.<sup>3</sup>

### NAVSUP WSS Maintained Inventory Items with No Demand

For the 81,829 NIINs with no demand for 5 years or more, we estimated (projected) that NAVSUP WSS maintained 34,912 NIINs (43 percent) that were no longer needed to sustain weapon systems. For the 420 NIINs reviewed, NAVSUP WSS maintained 170 NIINs (1,530 inventory items) with no demand for 5 years or more, valued at \$33.8 million, that were no longer needed to sustain weapon systems. See Table 1 for a breakout by NAVSUP WSS locations of inventory items maintained with no demand that were no longer needed to sustain weapon systems.

Table 1. NAVSUP WSS Locations with Unneeded Inventory Items

NAVSUP WSS Locations	Inventory Items	NIINs	Inventory Values (in Millions)
Mechanicsburg	1,066	112	\$13.5
Philadelphia	464	58	\$20.3
<b>Total</b>	<b>1,530</b>	<b>170</b>	<b>\$33.8</b>

Source: The DoD OIG.

<sup>3</sup> Total does not equal the actual sum because of rounding.

Of the 420 NIINs reviewed, NAVSUP WSS had inventory items with no demand for 5 years or more, ranging from 1 to 200 inventory items, with total dollar values from \$2.21 to \$6.5 million. Most of those inventory items (86 percent) did not have any demand for 15 years or more but were still maintained by NAVSUP WSS. NAVSUP WSS could not provide demand history older than 15 years because that was prior to the implementation of the Navy Enterprise Resource Planning (ERP) system.<sup>4</sup> For example, NAVSUP WSS maintained three aircraft engine part kits (NIIN 13135172) with no demand, valued at \$949,020, in DLA facilities. NAVSUP paid the DLA \$14,556 in storage costs in FY 2024. However, the aircraft engine part kits were recorded as a supply item in 1989 and had no demand for over 15 years. According to NAVSUP WSS, the aircraft engine part kits were no longer needed to sustain a weapon system and were recommended for disposal.

## NAVSUP WSS Semiannual Disposal Reviews Were Insufficient

NAVSUP WSS semiannual disposal reviews were insufficient and did not identify unneeded inventory items. DoDM 4140.01, volume 6, states that DoD Components, including NAVSUP and NAVSUP WSS, are responsible for taking proper retention, redistribution, and disposal actions for inventory items.<sup>5</sup> NAVSUP guidance also requires NAVSUP WSS to conduct semiannual disposal reviews and additional reviews, as needed.<sup>6</sup> NAVSUP guidance identifies PRS; items beyond physical or economic repair; items that are obsolete; and items that have no active equipment or system applicability as material that should be reviewed for disposal consideration. NAVSUP WSS must also account for lifecycle category changes to items, weapon systems, or platforms as part of the semiannual review.

NAVSUP WSS conducted semiannual disposal reviews of inventory items with no demand for 5 years or more. However, NAVSUP WSS only reviewed inventory items identified as PRS, or excess on hand, for disposal during the semiannual disposal reviews. NAVSUP WSS did not review 355 (85 percent) of the 420 NIINs primarily because the quantities were at the minimum levels established by the Life Cycle Indicator (LCI) or did not exceed the maximum retention quantity.

NAVSUP WSS assigns an LCI to each NIIN, ranging from 1 to 6, based on the NIIN's stage of maturity, and the LCI is used to assign retention limits. See Figure 3 for the lifecycle-driven minimum quantities.

<sup>4</sup> The Navy ERP system is an integrated financial, acquisition, and logistics information technology system that provides financial and budgetary management for all Navy system commands.

<sup>5</sup> DoDM 4140.01, volume 6.

<sup>6</sup> Naval Supply Systems Command Instruction 4500.13B, "Retention and Reutilization of Material Assets," February 25, 2019.

*Figure 3. Life Cycle-Driven Retention Floors*

<u>Life Cycle Indicator</u>	<u>Phase</u>	<u>Minimum System Retention Floor</u>
1	Initial Operational Capability	Sum of all Assets
2	Pre-Material Support Date	Sum of all Assets
3	Demand Development Interval	5
4	Mature	3
5	Sunset	1
6	Retirement	0

Source: NAVSUP Guidance.

NAVSUP WSS assigned 214 of the 355 NIINs an LCI of 4 and maintained the minimum system retention floor quantity of up to 3 inventory items. However, NAVSUP WSS did not review the 214 of the 355 NIINs with an LCI of 4 during the semiannual disposal reviews to identify whether the inventory items were needed.

Additionally, the economic retention model did not include past storage costs when determining whether the 214 NIINs were more economical to retain. DoDM 4140.01, volume 6, requires NAVSUP WSS to conduct an economic analysis that balances the costs of retention, disposal, and potential repurchase of inventory items.<sup>7</sup> The economic analysis must consider the costs of storage capacity, potential long-term demand and repurchase, and material costs. Additionally, NAVSUP WSS must accurately depict the economic tradeoff between the costs of retaining and disposing of the inventory items.

NAVSUP guidance also states that the economic retention model considers factors such as re-procurement costs, storage costs, disposal and demilitarization costs, inflationary factors, and the likelihood of future demand.<sup>8</sup> NAVSUP uses the economic retention model to determine the maximum level of ERS and if it is more economical to retain the inventory item than to dispose of it and then potentially repurchase. In addition, NAVSUP conducts an economic retention analysis to determine cost savings with retaining the inventory items over 5, 10, and 15 years. However, the economic retention model does not consider past storage costs when determining whether an inventory item is more economical to retain.

For 386 (92 percent) of the 420 sample NIINs, NAVSUP WSS incurred storage costs for 15 years or more for inventory items with no demand. For example, NAVSUP WSS stored three Ailerons (NIIN 010218088), valued at \$20,853, in DLA facilities for 15 years or more, and paid \$17,893 in storage costs during FY 2024.

<sup>7</sup> DoDM 4140.01, volume 6.

<sup>8</sup> Naval Supply Systems Command Instruction 4500.13B, "Retention and Reutilization of Material Assets," February 25, 2019.

As a result, NAVSUP paid the DLA an estimated \$268,395 in cumulative storage costs for three Ailerons that had no demand for 15 years or more. The cost of maintaining the inventory items was greater than the value of the inventory items if NAVSUP WSS had included past storage costs in the economic retention model.

NAVSUP WSS also did not review 135 of the 355 NIINs because the inventory items did not exceed the maximum retention quantity. NAVSUP WSS established the system retention limits, which is the maximum quantity of an item determined to satisfy requirements and retention. NAVSUP WSS did not review these inventory items during the semiannual disposal reviews to identify whether the inventory items were needed. As a result, NAVSUP WSS kept 134 (38 percent) of the 355 NIINs that were no longer needed to sustain weapon systems and recommended for disposal. Therefore, we recommend that the Commander, NAVSUP WSS, review inventory items with no demand for 5 years or more to determine whether the inventory items are still needed to sustain weapon systems. If the inventory items are not needed, NAVSUP WSS should dispose of them. When disposing of the unneeded inventory items, NAVSUP WSS should consider if they could be sold for scrap or potentially used by another entity that is still using the weapon system. Additionally, NAVSUP WSS should consider any national security or environmental issues related to the disposal of the unneeded inventory items. We also recommend that the Commander, NAVSUP WSS, update the economic retention model to include past storage costs when determining whether it is more economical to retain the inventory item than dispose of it and potentially repurchase the item.

## **NAVSUP WSS Did Not Consistently Coordinate with NAVAIR or NAVSEA**

NAVSUP WSS did not consistently coordinate with NAVAIR or NAVSEA to determine whether inventory items were needed to sustain weapon systems or initiate disposal of unneeded inventory items. NAVSUP guidance requires NAVSUP WSS to incorporate stakeholder recommendations into disposal and retention decisions. According to NAVAIR officials, NAVSUP WSS had varying levels of coordination with NAVAIR officials to identify whether inventory items were needed to sustain weapon systems and initiate disposal of unneeded inventory items. Additionally, NAVSEA relies on NAVSUP WSS to engage the program offices to determine whether inventory items with no demand should be excessed or disposed of. However, a NAVSEA official stated that NAVSUP WSS has not worked with NAVSEA to determine whether inventory items should be eliminated.

We contacted NAVAIR and NAVSEA to determine whether the sample of 420 NIINs (3,440 inventory items) were needed to sustain weapon systems. NAVAIR and NAVSEA recommended disposing of 248 of the 420 NIINs because they were no longer needed to sustain weapon systems. NAVSUP WSS reviewed the NAVAIR and NAVSEA recommendations and agreed that 170 of the 420 NIINs could start the disposal process. Specifically, NAVSUP WSS recommended the disposal of 170 NIINs (1,530 inventory items) with no demand for 5 years or more, valued at \$33.8 million. Therefore, we recommend that the Commander, NAVSUP WSS, update the procedures for their semiannual disposal review to proactively coordinate with NAVAIR and NAVSEA to identify inventory items with no demand for 5 years or more that are not needed to sustain weapon systems and take action to dispose of those inventory items.

## NAVSUP Paid Storage Costs for Unneeded Inventory Items

NAVSUP paid the DLA an estimated (projected) \$3.8 million in FY 2024 to store the estimated (projected) 34,912 NIINs that were no longer needed to sustain weapon systems. For the 420 NIINs reviewed, NAVSUP paid the DLA annual storage costs of \$1.1 million to store 170 NIINs that were no longer needed to sustain weapon systems during FY 2024. NAVSUP paid the DLA amounts ranging from \$0.02 to \$89,796 to store inventory items that were no longer needed. For one NIIN stored at DLA facilities, NAVSUP paid the DLA \$14,556 in storage costs to maintain 3 aircraft engine parts kits during FY 2024 and could save a total of \$87,336 in storage costs over the next 6 years by disposing of the unneeded inventory items. See Table 2 for 10 examples of the inventory items, quantity on hand, storage costs, and 6-year cost savings.

*Table 2. Examples of Inventory Items with Storage Costs*

NIIN	Item Description	Quantity on Hand	Annual Storage Costs	6-Year Cost Savings
012214554	Circuit Card Assembly	1	\$0.02	\$0.12
014597919	Gyroscope	10	\$1,680	\$10,080
014092665	Centrifugal Pump	3	\$3,412	\$20,472
013892654	Turbine HPS Rotor	2	\$5,018	\$30,108
013135172	Aircraft Engine Parts Kit	3	\$14,556	\$87,336

Table 2. Examples of Inventory Items with Storage Costs (cont'd)

NIIN	Item Description	Quantity on Hand	Annual Storage Costs	6-Year Cost Savings
011395595	Radome Boom Assembly	4	\$24,080	\$144,480
011477487	Power Car Assembly	6	\$42,663	\$255,978
012808918	Diesel Generator Set	1	\$69,262	\$415,572
001584280	Speed Gear Assembly	1	\$78,746	\$472,476
013892829	Reduction Gear	1	\$89,796	\$538,776

Source: The DLA and DoD OIG.

NAVSUP could save an estimated (projected) total of about \$22.9 million in storage costs over the next 6 years by reducing the amount of unneeded inventory items with no demand for 5 years or more in DLA facilities.

## Disposal of Unneeded Inventory Items During the Audit

Since the audit began, NAVSUP WSS has taken action to dispose of unneeded inventory items. According to NAVSUP WSS officials, NAVSUP WSS disposed of \$998.7 million in excess inventory. Specifically, NAVSUP WSS Aviation disposed of \$884 million in excess inventory and NAVSUP WSS Maritime disposed of \$114.7 million in excess inventory. NAVSUP officials stated that the storage costs for the disposed inventory items were an estimated \$307,840 per month, resulting in annual storage costs of \$3.7 million. Therefore, NAVSUP will save an estimated \$22.2 million in storage costs over the next 6 years by disposing of the unneeded inventory items. However, NAVSUP should still implement the recommendations in this report to ensure inventory items with no demand for 5 years or more are reviewed and disposed of, if necessary.

## Recommendations, Management Comments, and Our Response

### **Recommendation 1**

**We recommend that the Commander, Naval Supply Systems Command Weapon Systems Support:**

- a. **Review inventory items with no demand for 5 years or more to determine whether the inventory items are still needed to sustain weapon systems and, if the inventory items are not needed, the Commander, Naval Supply Systems Command Weapon Systems Support, should dispose of the unneeded inventory items.**

### ***Commander, Naval Supply Systems Command Comments***

The Commander, Naval Supply Systems Command (NAVSUP) agreed with the recommendation, stating that NAVSUP Headquarters (HQ) established a daily curated dataset that identifies items with no demand for 5 years or more. They stated that NAVSUP WSS used the curated dataset during the ad-hoc disposal in the summer of 2025. Additionally, the Commander stated that NAVSUP HQ will update NAVSUP Instruction 4500.13B, "Retention and Reutilization of Material Assets," February 25, 2019, to direct NAVSUP WSS to continue using the curated dataset as part of its disposal efforts. The Commander provided an estimated completion date of June 2026.

### ***Our Response***

Comments from the Commander addressed the specifics of the recommendation; therefore, it is resolved but will remain open. We will close it when management provides documentation verifying that the guidance was updated to continue using the curated dataset as part of NAVSUP WSS disposal efforts.

- b. **Update the economic retention model to include past storage costs when determining whether it is more economical to retain the inventory item than dispose of it and potentially repurchase the item.**

### ***Commander, Naval Supply Systems Command Comments***

The Commander, Naval Supply Systems Command (NAVSUP) agreed with the recommendation, stating that NAVSUP will establish an upper limit for storage duration that will be incorporated into the Navy Enterprise Resource Planning (ERP) Disposal Module and once an item exceeds the limit, the model's "Retention Floor" value will be bypassed, ensuring the item is evaluated for disposal. Additionally, the Commander stated that NAVSUP HQ will modify the NAVSUP Instruction 4500.13B, "Retention and Reutilization of Material Assets,"

February 25, 2019, to reduce the administrative burden associated with processing aged material. The Commander provided estimated completion dates of June 2026 for updating the guidance and September 2026 for incorporating the upper limit for storage duration in the Navy ERP Disposal Module.

### *Our Response*

Comments from the Commander addressed the specifics of the recommendation; therefore, it is resolved but will remain open. We will close it when management provides documentation verifying that the Commander updated the guidance and provided evidence that the economic retention model has been updated to include past storage costs.

- c. **Update the procedures for their semiannual disposal review to proactively coordinate with the Naval Air Systems Command and the Naval Sea Systems Command to identify inventory items with no demand for 5 years or more that are not needed to sustain weapon systems and take action to dispose of those inventory items.**

### *Commander, Naval Supply Systems Command Comments*

The Commander, Naval Supply Systems Command (NAVSUP) agreed with the recommendation, stating that NAVSUP will send the curated dataset for items with no demand for 5 years or more to the Naval Air Systems Command (NAVAIR) and the Naval Sea Systems Command (NAVSEA) biannually in conjunction with general disposal recommendations. Additionally, the Commander stated that NAVSUP will collaborate with NAVAIR and NAVSEA to improve the process for identifying aged National Item Identification Numbers and determine their continued relevance to the supply system. The Commander also stated that any process changes will be formally documented in a policy update and estimated that the resulting process changes will be completed in September 2026.

### *Our Response*

Comments from the Commander addressed the specifics of the recommendation; therefore, it is resolved but will remain open. We will close it when management provides documentation verifying that the Commander updated the guidance requiring proactive coordination with NAVAIR and NAVSEA to identify items with no demand for 5 years or more that are not needed to sustain weapon systems.

## Appendix

### Scope and Methodology

We conducted this performance audit from June 2024 through January 2026 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report was reviewed by the DoD Components associated with this oversight project to identify whether any of their reported information, including legacy FOUO information, should be safeguarded and marked in accordance with the DoD CUI Program. In preparing and marking this report, we considered any comments submitted by the DoD Components about the CUI treatment of their information. If the DoD Components failed to provide any or sufficient comments about the CUI treatment of their information, we marked the report based on our assessment of the available information.

To determine whether NAVSUP effectively managed the inventory items with no demand for 5 years or more, we interviewed officials from the following DoD Components to identify their roles and responsibilities and obtained documentation for the management of inventory items with no demand for 5 years or more.

- Office of the Deputy Assistant Secretary of Defense for Logistics
- NAVSUP
- NAVAIR
- NAVSEA
- DLA

As of September 2023, NAVSUP WSS provided a population of 113,800 NIINs (7.8 million inventory items) valued at \$3.8 billion with no demand for 5 years or more from the Navy's ERP system. NAVSUP WSS stored inventory items in Navy and DLA facilities.

The DLA provided an inventory list of Navy-owned inventory items stored at DLA facilities, from the Distribution Standard System (DSS) and the Warehouse Management System (WMS). The DLA is updating its warehouse management system from the DSS to the WMS. The WMS is an off-the-shelf software to enhance productivity, streamline processes, and improve audit readiness for managing

warehouses. The DLA provided a list of inventory items with no demand for 5 years or more that were stored at DLA facilities. Additionally, the DLA provided annual storage costs for FY 2024.

We combined the inventory lists to identify a population of inventory items with no demand for 5 years or more and annual storage costs. Specifically, NAVSUP WSS stored 81,829 NIINs (2.5 million inventory items) with no demand for 5 years or more, valued at \$2.1 billion. NAVSUP paid the DLA annual storage costs of \$9 million for the 81,829 NIINs during FY 2024. The inventory list included 64,708 NIINs (2.4 million inventory items) with no demand for 5 years or more, valued at \$1.1 billion, managed by NAVSUP WSS Mechanicsburg and 17,121 NIINs (64,985 inventory items) with no demand for 5 years or more, valued at \$1 billion, managed by NAVSUP WSS Philadelphia.

### **Sample Plan**

With assistance from the Quantitative Methods Division, we designed a stratified variable sample for our population of 81,829 NIINs (2.5 million inventory items) with no demand for 5 years or more, valued at \$2.1 billion. The sample is stratified by quantity on hand of NIINs and storage cost. We selected a random sample of 420 NIINs (3,440 inventory items), with a total dollar value of \$90.3 million, using a 95-percent confidence level and a 10-percent precision. NAVSUP paid the DLA annual storage costs of \$2.4 million during FY 2024 for those inventory items. Of the 420 NIINs, 307 NIINs (2,549 inventory items), valued at \$57.4 million, were managed by NAVSUP WSS Mechanicsburg, and 113 NIINs (891 inventory items), valued at \$32.8 million, were managed by NAVSUP WSS Philadelphia. See Table 3 for our population and sampling plan.

*Table 3. Population and Sampling Plan*

Population Quantity (in Millions)	Population Size (NIINs)	Population Value (in Billions)	Annual Storage Cost (in Millions)	Sample Quantity (Inventory Items)	Sample Size (NIINs)	Sample Value (in Millions)	Storage Cost (in Millions)
2.5	81,829	\$2.1	\$9.0	3,440	420	\$90.3	\$2.4

Source: The DoD OIG.

NAVSUP WSS recommended the disposal of 170 NIINs (1,530 inventory items) with no demand for 5 years or more, valued at \$33.8 million. NAVSUP paid the DLA annual storage costs of \$1.1 million during FY 2024 for those inventory items. Our results are based on a statistical sample design and, therefore, can be used to calculate estimates (projections) for the population. We calculated the statistical estimates. See Table 4 for the statistical estimates (projections) of the error across the population at a 95-percent confidence level.

*Table 4. Estimates (Projections) of the Inventory Items with No Demand for 5 Years or More*

	NIINs	Error Rate (percent)	Annual Storage Cost (in Millions)
Upper Bound	41,839	51 percent	\$4.5
Point Estimate	34,912	43 percent	\$3.8
Lower Bound	27,985	34 percent	\$3.2

Source: The DoD OIG.

We conducted a physical inventory of 70 NIINs with no demand for 5 years or more stored at DLA Distribution Norfolk and the Cheatham Annex Naval Base. Of the 70 NIINs, 10 NIINs (20 inventory items) were located at DLA Distribution Norfolk and 60 NIINs (100 inventory items) were located at the Cheatham Annex Naval Base. On March 26, 2025, we verified a total of 9 NIINs (19 inventory items) located at DLA Distribution Norfolk. DLA Distribution Norfolk disposed of 1 NIIN (1 inventory item) prior to our physical inventory. On May 28, 2025, we verified a total of 54 NIINs (89 inventory items) located at Cheatham Annex Naval Base. Cheatham Annex Naval Base disposed of 2 NIINs (4 inventory items) and transferred 7 inventory items, including 4 NIINs (4 inventory items) that resulted in a zero on-hand balance prior to our physical inventory.

We also reviewed the following DoD guidance related to inventory items with no demand for 5 years or more.

- DoD Manual 4140.01, volume 6, “DoD Supply Chain Materiel Management Procedures: Materiel Returns, Retention, and Disposition,” March 8, 2017 (Change 4 Effective November 3, 2022)
- NAVSUP Instruction 4500.13B, “Retention- and Reutilization of Material Assets,” February 25, 2019
- DoD Comprehensive Inventory Management Improvement Plan in October 2010

## Internal Control Assessment and Compliance

We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we determined the control environment, information, communication, and monitoring-related internal control components and underlying principles significant to determining whether NAVSUP effectively managed inventory items with no demand for 5 years or more. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

## Use of Computer-Processed Data

We used computer-processed data obtained from the Navy's ERP system, the DLA's DSS, and the WMS. We compared the inventory items with no demand for 5 years or more included in those systems. Additionally, we validated a sample of inventory items included in the population by accessing and reviewing the Navy's ERP system while onsite at NAVSUP WSS Mechanicsburg and Philadelphia. We also conducted a physical inventory to verify the quantities of inventory items reported in the Navy's ERP system were accurate and reliable. Based on these procedures, we determined that the data were sufficiently reliable for the purposes of this report.

## Use of Technical Assistance

The DoD OIG Quantitative Methods Division assisted with the project sample selection and statistical estimates (projections) of results.

## Prior Coverage

No prior coverage has been conducted on inventory items with no demand for 5 years or more during the last 5 years.

# Management Comments

## Naval Supply Systems Command



DEPARTMENT OF THE NAVY  
NAVAL SUPPLY SYSTEMS COMMAND  
5450 CARLISLE PIKE  
MECHANICSBURG, PA 17050-2411

7502  
Ser SUP 04/018  
18 Feb 26

From: Commander, Naval Supply Systems Command  
To: Department of War Office of Inspector General

Subj: NAVAL SUPPLY SYSTEMS COMMAND RESPONSE TO DOW OFFICE OF INSPECTOR GENERAL DRAFT REPORT, "AUDIT OF NAVSUP MANAGEMENT OF INVENTORY ITEMS WITH NO DEMAND FOR 5 YEARS OR MORE" (PROJECT NO. D2024-D000AW-0142.0000)

1. This memorandum provides the Naval Supply Systems Command's (NAVSUP) response to the Department of War Office of Inspector General (DoW OIG) draft report, "Audit of NAVSUP Management of Inventory Items with No Demand for 5 Years or More" (Project No. D2024-D000AW-0142.0000). NAVSUP concurs with the report and is committed to implementing the recommended changes and engaging in further discussion to optimize Naval storage and disposal decisions.

2. In coordination with NAVSUP headquarters (HQ) and NAVSUP Weapon Systems Support (WSS) will develop and implement a corrective action plan to address the issues identified in the report, as outlined in the responses to the specific recommendations below.

a. Recommendation 1: The DoW Inspector General (IG) recommends that NAVSUP WSS review inventory items with no demand for 5 years or more to determine whether the inventory items are still needed to sustain weapon systems and, if the inventory items are not needed, NAVSUP WSS should dispose of the unneeded inventory items.

b. Response to Recommendation 1: Concur. NAVSUP HQ has already established a curated dataset that identifies items with "No Demand For 5 Years or More" updated daily. NAVSUP WSS has utilized the curated dataset as part of an ad-hoc disposal effort in the Summer of 2025. NAVSUP HQ will update NAVSUPINST 4500.13B, Retention and Reutilization of Material Assets, to direct NAVSUP WSS to continue to utilize the curated data set as part of its biannual disposal efforts.

(1) Curated Data Set Establishment Estimated Completion Date (ECD): Complete

(2) Policy update ECD: June 2026

c. Recommendation 2: The DoW IG recommends that NAVSUP WSS update the economic retention model to include past storage costs when determining whether it is more economical to retain the inventory item than dispose of it and potentially repurchase the item.

d. Response to Recommendation 2: Concur. While our current model considers storage costs for items with a demand forecast, it does not for items with no demand. To correct this,

## Naval Supply Systems Command (cont'd)

Subj: NAVAL SUPPLY SYSTEMS COMMAND RESPONSE TO DOW OFFICE OF INSPECTOR GENERAL DRAFT REPORT, "AUDIT OF NAVSUP MANAGEMENT OF INVENTORY ITEMS WITH NO DEMAND FOR 5 YEARS OR MORE" (PROJECT NO. D2024-D000AW-0142.0000)

NAVSUP will establish an upper limit for storage duration. Once an item exceeds this limit, the model's "Retention Floor" value will be bypassed, ensuring the item is evaluated for disposal. This logic will be incorporated into the Navy Enterprise Resource Planning Disposal Module. Additionally, NAVSUP HQ will modify policy NAVSUPINST 4500.13B to reduce the administrative burden associated with processing aged material.

(1) Disposal Module Modification ECD: September 2026

(2) Policy update ECD: June 2026

e. Recommendation 3: The DoW IG recommends that NAVSUP WSS update the procedures for their biannual disposal review to proactively coordinate with Naval Air Systems Command (NAVAIR) and Naval Sea Systems Command (NAVSEA) to identify inventory items with no demand for 5 years or more that are not needed to sustain weapon systems and take action to dispose of those inventory items.

f. Response to Recommendation 3: Concur. NAVSUP WSS will utilize the curated "No Demand For 5 Years or More" data set and send this information to NAVAIR and NAVSEA biannually in conjunction with general disposal recommendations. Furthermore, we will collaborate with NAVAIR and NAVSEA to improve the process for identifying aged national item identification numbers and determining their continued relevance to the supply system. Any resulting process changes will be formally documented in a policy update.

(1) Use of Curated Data Set ECD: Complete

(2) Policy update ECD (if necessary): September 2026

3. The point of contact concerning this matter is [REDACTED]. He may be reached at [REDACTED].

EPPS.KENNETH  
Digitally signed by  
EPPS.KENNETH W  
[REDACTED]  
K. W. EPPS

Copy to:  
NAVSUP WSS

## Acronyms and Abbreviations

---

<b>AAO</b>	Approved Acquisition Objective
<b>CRS</b>	Contingency Retention Stock
<b>DLA</b>	Defense Logistics Agency
<b>DSS</b>	Distribution Standard System
<b>ERP</b>	Enterprise Resource Planning
<b>ERS</b>	Economic Retention Stock
<b>LCI</b>	Life Cycle Indicator
<b>NAVAIR</b>	Naval Air Systems Command
<b>NAVSEA</b>	Naval Sea Systems Command
<b>NAVSUP WSS</b>	Naval Supply Systems Command Weapon Systems Support
<b>NIIN</b>	National Item Identification Number
<b>PRS</b>	Potential Reutilization Stock
<b>WMS</b>	Warehouse Management System

# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

*Whistleblower Protection safeguards DoD employees against retaliation for protected disclosures that expose possible fraud, waste, and abuse in Government programs. For more information, please visit the Whistleblower webpage at [www.dodig.mil/Components/Administrative-Investigations/Whistleblower-Reprisal-Investigations/Whistleblower-Reprisal/](http://www.dodig.mil/Components/Administrative-Investigations/Whistleblower-Reprisal-Investigations/Whistleblower-Reprisal/) or contact the Whistleblower Protection Coordinator at [Whistleblowerprotectioncoordinator@dodig.mil](mailto:Whistleblowerprotectioncoordinator@dodig.mil)*

**For more information about DoD OIG reports or activities, please contact us:**

**Legislative Affairs Division**  
703.604.8324

**Public Affairs Division**  
[public.affairs@dodig.mil](mailto:public.affairs@dodig.mil); 703.604.8324



[www.dodig.mil](http://www.dodig.mil)

**DoD Hotline**  
[www.dodig.mil/hotline](http://www.dodig.mil/hotline)





DEPARTMENT OF DEFENSE | OFFICE OF INSPECTOR GENERAL

4800 Mark Center Drive  
Alexandria, Virginia 22350-1500  
[www.dodig.mil](http://www.dodig.mil)  
DoD Hotline 1.800.424.9098

