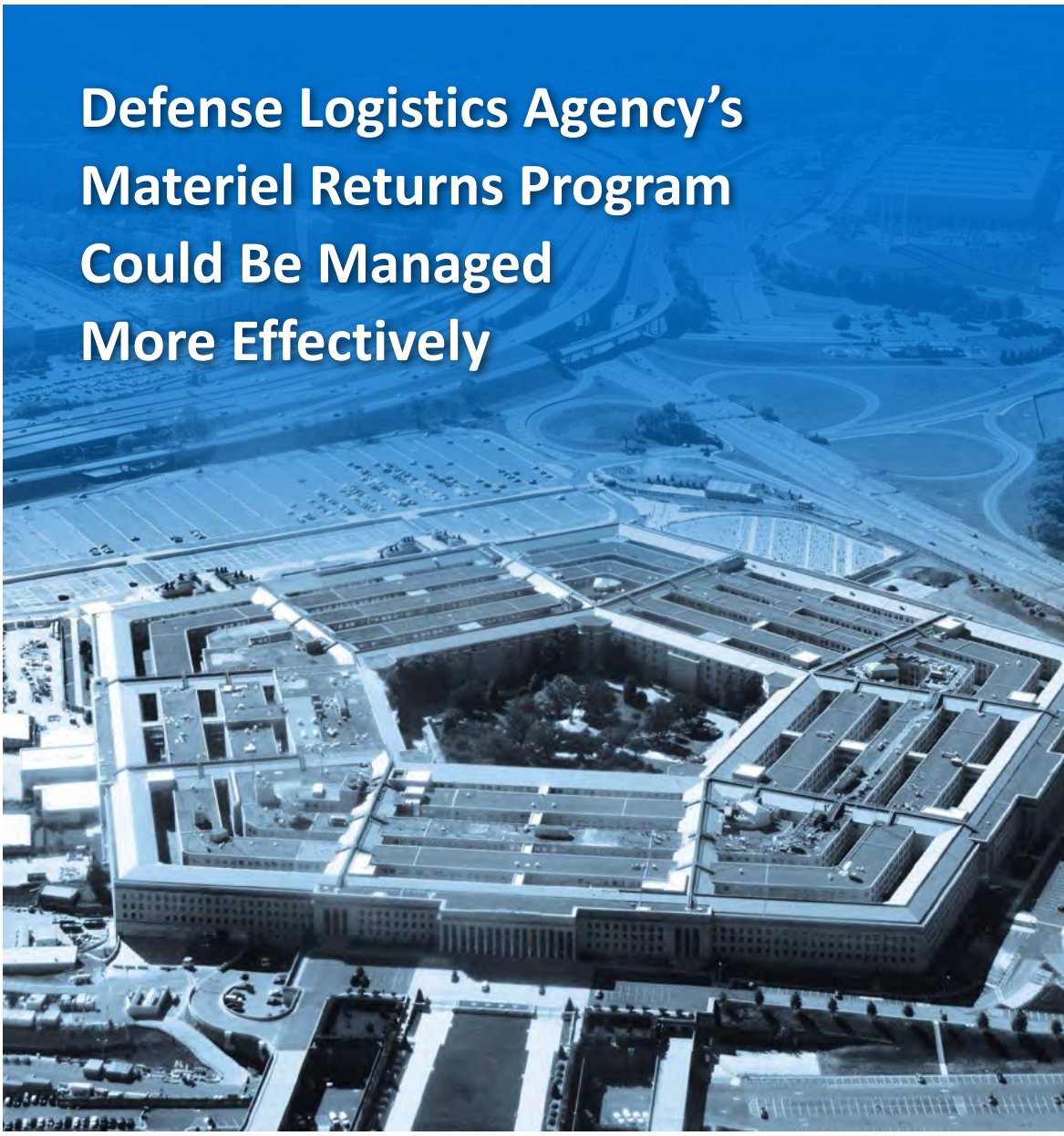
Report No. DODIG-2016-027

INSPECTOR GENERAL

U.S. Department of Defense

DECEMBER 2, 2015

Defense Logistics Agency's Materiel Returns Program Could Be Managed More Effectively



INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

Mission

Our mission is to provide independent, relevant, and timely oversight of the Department of Defense that supports the warfighter; promotes accountability, integrity, and efficiency; advises the Secretary of Defense and Congress; and informs the public.

Vision

Our vision is to be a model oversight organization in the Federal Government by leading change, speaking truth, and promoting excellence—a diverse organization, working together as one professional team, recognized as leaders in our field.

Fraud, Waste & Abuse
HOTLINE
Department of Defense
dodig.mil/hotline | 800.424.9098

For more information about whistleblower protection, please see the inside back cover.

Results in Brief

Defense Logistics Agency's Materiel Returns Program Could Be Managed More Effectively

December 2, 2015

Objective

Our objective was to determine whether DoD wholesale managers were effectively managing excess materiel. We focused on the effectiveness of the Defense Logistics Agency's (DLA) Materiel Returns Program (MRP) at the wholesale level.

Findings

DLA did not effectively manage the MRP at the wholesale level. Specifically, during FY 2013, DLA rejected customer requests to return materiel for 4,456 national item identification numbers (NIIN), valued at $21.2 million, while it procured the same items from contractors.

We statistically sampled 253 of the 4,456 NIINs. Of the 253, we focused on 172 processed by supply planners. In summary, we agreed with supply planner decisions not to accept customer return requests for 17 NIINs valued at $417,987. However, supply planners could not provide adequate support for rejecting customer return requests for 155 NIINs, valued at $5.3 million. Supply planners rejected the 155 items for return because:

- DLA did not ensure MRP guidance included return procedures for materiel such as critical safety items, aviation life support equipment, and items that required first article testing;
- MRP training did not address how supply planners should evaluate and respond to customer return requests, and
- supply planners lacked confidence that the materiel offered for return would be returned timely or in serviceable condition.

Findings (cont'd)

As a result, DLA missed potential opportunities to satisfy backorders and offset or delay procurements for a projected 2,824 NIINs valued at $9.3 million, and customers were denied the opportunity to receive a credit for returning their excess materiel.

In addition, DLA did not effectively manage the list of items automatically excluded from return, referred to as the auto-TC table, which included 111,709 NIINs. Specifically, DLA officials could not explain why 34 of our 253 sample items, with transactions valued at $3.5 million, were on the auto-TC table. This occurred because DLA guidance did not require that DLA personnel document their rationale for items listed on the table or require management officials to review and update the table on a periodic basis.

As a result, the auto-TC table may not have accurately reflected current operational and program requirements. Therefore, DLA did not have reasonable assurance that the MRP maximized the use of excess DoD materiel, and DLA may have missed additional opportunities to satisfy backorders and offset or delay future procurements.

Recommendations

Among other recommendations, we recommend the Director, DLA develop MRP guidance that includes return procedures for all categories of materiel; develop mandatory initial and periodic MRP-specific training that aligns with the guidance; and develop guidance to require personnel to periodically review and document their rationale for including items on the auto-TC table.

Management Comments and Our Response

The Director, Defense Logistics Agency Logistics Operations, responding for the Director, Defense Logistics Agency, addressed all specifics of the recommendations, and no further comments are required. Please see the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director, Defense Logistics Agency	None	A.1, A.2, B.1, B.2

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

December 2, 2015

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Defense Logistics Agency's Materiel Returns Program Could Be Managed More Effectively (Report No. DODIG-2016-027)

We are providing this report for your information and use. The Defense Logistics Agency's Materiel Returns Program could be managed more effectively. Specifically, the Defense Logistics Agency missed potential opportunities to satisfy backorders and offset or delay procurements for $9.3 million worth of materiel and customers were denied the opportunity to receive a credit for returning excess materiel. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. Comments from the Director, Defense Logistics Agency Logistics Operations, responding for the Director, Defense Logistics Agency, addressed all specifics of the recommendations and conformed to the requirements of DoD Instruction 7650.3; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 699-7331 (DSN 499-7331).

Carol N. Gorman
Assistant Inspector General
Readiness and Cyber Operations

Contents

Contents (cont'd)


INSPECTOR GENERAL
INTEGRITY
EFFICIENCY
DEPARTMENT OF DEFENSE

Introduction

Objective

Our objective was to determine whether DoD was effectively managing excess materiel[1] at the wholesale level. For this audit, we focused on the effectiveness of the Defense Logistics Agency's (DLA) Materiel Returns Program (MRP) at the wholesale level. Specifically, we determined whether DLA was effectively reutilizing excess materiel to offset or defer procurement at the wholesale level.

We plan to conduct future audits that will focus on whether the Military Service retail activities are properly identifying and reporting excess materiel to DLA and taking action to maximize the use of excess materiel and minimize the cost of maintaining inventories. See Appendix A for a discussion of the scope and methodology and prior audit coverage related to the objective.

Background

The MRP is designed to maximize the use of excess DoD materiel. The DoD goal is to reuse excess materiel to offset or defer procurement at the wholesale level, rather than purchase new materiel. The MRP allows customers[2] the opportunity to:

- offer excess serviceable materiel back to DLA and the supply chain before it is sent for disposal, and
- obtain credit for the returned materiel.

DLA Logistics Operations officials have overall responsibility to provide MRP policy and oversight to the three DLA supply chain commands: Aviation; Land and Maritime; and Troop Support. Supply planners[3] located at the three commands review and respond to customer return requests that are not processed by the automated MRP system. They also determine whether the materiel should be returned and a credit issued to the customer.

[1] Materiel refers to military equipment and supplies.

[2] Customers include the Military Services, Federal civil agencies, and selected foreign governments.

[3] As part of its Business System Modernization Program implementation in 2007, DLA divided the responsibilities of the inventory management specialist into three new positions—supply planner, demand planner, and customer account specialist. As of August 20, 2015, DLA guidance has not been updated to reflect the new roles and terminology.

Materiel Returns Program Process

The MRP process is initiated when a customer prepares and forwards a customer return request[4] to DLA offering excess materiel for reutilization. The customer return request contains information including, but not limited to, the national stock number[5] and condition code,[6] and the quantity of materiel offered for return. The MRP system will either directly notify the customer whether the materiel can be returned or forward the request to a supply planner for review and customer notification (see Appendix B for a flowchart of the MRP process). The customer notification contains a "status code" of TA, TB, or TC, which informs the customer whether the materiel is authorized for return and whether a credit will be issued. The following are actions by status code.

TA status code

- customer is authorized to return materiel to DLA for credit;
- the customer ships the materiel to a DLA depot for inspection;
- depot personnel determine whether the materiel is serviceable and if so, put it back into inventory; and
- the customer is issued a credit.

TB status code

- customer is authorized to return materiel to DLA; DLA will only provide customer credit for costs to pack, crate, handle, and transport; and
- the customer ships the materiel to a DLA depot for inspection or:
    - keeps the materiel; or
    - disposes of the materiel.
- If shipped, depot personnel determine whether the materiel is serviceable and if so, put it back into inventory.

TC status code

- customer is not authorized to return the materiel to DLA; and
- the customer can keep the materiel for use or dispose of the materiel.

[4] DLA guidance refers to customer reports of available assets as "FTEs." However, for the purposes of the report, we will refer to them as customer return requests.

[5] A national stock number is a 13-digit number used to identify items of supply. It consists of a 4-digit federal supply classification and a 9-digit national item identification number.

[6] Condition codes are used to classify materiel in terms of readiness for issue and use.

For the customer return requests forwarded to a supply planner, the MRP system provides a recommended status code that the supply planner can accept or change. The MRP system forwards customer return requests to the supply planners if:

- DLA is currently processing a purchase request[7] (PR) for the same type of materiel included on the return request (the MRP system is programmed to check the procurement status of all materiel included on the return request);
- the materiel included on the return request is specifically designated as requiring supply planner review (supply planners have the option to enter a code in the MRP system that will route all or selected return requests directly to them and not be processed by the system);
- the MRP system assigned a TA status code to the request and the request was valued at greater than or equal to $5,000;[8] or
- the materiel is designated in the MRP system as having a short shelf life, a diminishing manufacturing source, no recent demand, or backorders.

Defense Logistics Management Standards (DLM) 4000.25[9] excluded materiel such as lumber, automatic data processing equipment, and perishables from the MRP. If customers offer those items for return, the system automatically generates a TC status code. DLA maintains a list of materiel excluded from return, which is referred to as the auto-TC table.

Materiel Returns Transactions

To determine whether DLA effectively reused excess materiel to offset or defer procurement at the wholesale level, we focused on the customer return requests that were assigned a TC status code and compared the materiel offered for return to open DLA PRs and purchase orders[10] (PO). The DLA Office of Operations Research and Resource Analysis (DORRA) provided us with a list of all customer return requests that were assigned a TC status code in FY 2013 and the national stock numbers for the materiel included on the requests. DORRA also provided us with PRs and POs that were open during FY 2013 for those same national stock numbers.

---

7 Purchase requests are documents that, initiate a procurement action when submitted to a contracting office.

8 On June 18, 2014, DLA's Chief of the Logistics Operations' Planning Division stated that DLA MRP policy officials decided to allow the supply chain commands to manage their own dollar thresholds, rather than continuing to use the across the board threshold of "greater than $5,000."

9 DLM 4000.25, "Defense Logistics Management Standards Volume 2, Supply Standards and Procedures," June 16, 2015 (Change 5).

10 Purchase orders are offers by the Government to buy supplies or services.

From the PRs and POs, we identified 66,699 national item identification numbers (NIIN)[11] that had a procurement action in FY 2013. Of the 66,699 NIINs, we identified customer return requests for 4,456 NIINs,[12] valued at $21.2 million, in which the date the TC status code was assigned was between the PR and PO dates, meaning that the supply planner rejected the return request at the same time DLA was purchasing the same type of materiel from a contractor. For Finding A, we focused on the NIINs that had been reviewed by and rejected for return by the supply planners. See Appendix C for our projection methodology for materiel that was rejected by DLA. For Finding B, we focused on the NIINs that were automatically excluded from return.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of controls. We identified internal control weaknesses within DLA's MRP. Specifically, DLA supply planners rejected customer return requests for items that DLA concurrently purchased. In addition, MRP officials did not effectively manage the list of items automatically excluded from return. We will provide a copy of this report to the senior officials responsible for internal controls in DLA.

[11] A NIIN is a 9-digit numeric designation that differentiates each individual supply item from all other supply items.

[12] The 4,456 NIINs are derived from 4,457 national stock numbers contained in the customer returns data, because one of the items had the same NIIN but a different federal supply classification.

Finding A

Customer Return Requests Were Rejected While Similar Materiel Was Purchased From Contractors

DLA did not effectively manage the MRP at the wholesale level. Specifically, DLA supply planners could not provide adequate support for rejecting customer return requests for 155 of the 172 NIINs included in our sample that DLA concurrently purchased. The 172 NIINs were associated with customer return requests that contained 92,539 items, valued at $6.3 million. The supply planners rejected the customer return requests because:

- MRP guidance did not include return procedures for certain types of materiel including, but not limited to: critical safety items, aviation life support equipment, and items that required first article testing;
- MRP training was limited to providing supply planners an understanding of the program's background and terminology, but it did not address how planners should evaluate and respond to customer return requests; and
- the supply planners lacked confidence that the materiel would be returned timely or in serviceable condition.

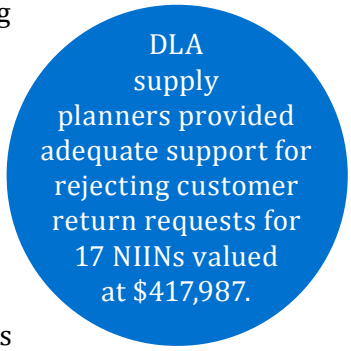
As a result, DLA missed potential opportunities to satisfy backorders and offset or delay procurements for a projected 2,824 NIINs, valued at $9.3 million. In addition, customers were denied the opportunity to receive a credit for returning their excess materiel.

Rejected Customer Return Requests

DLA supply planners provided adequate support for rejecting customer returns for 17 of the 172 NIINs included in our sample. The 17 NIINs were associated with customer return requests that contained 50,695 items, valued at $417,987. However, the supply planners could not provide adequate support for rejecting the other 155 NIINs while DLA concurrently purchased the same type of materiel from contractors. See the Tables in Appendixes D and E for further details on the 17 and 155 NIINs.

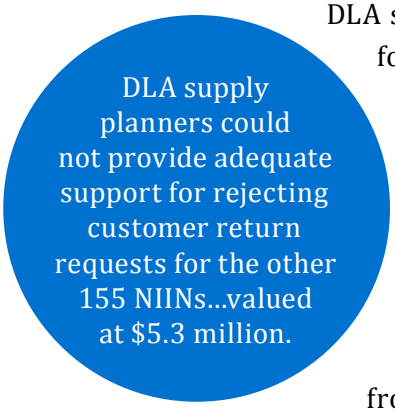
Rejected Returns With Adequate Support

DLA supply planners provided adequate support for rejecting customer return requests for 17 NIINs valued at $417,987. For example, the DLA supply planners rejected certain items based on known technical and quality control problems. In addition, the supply planners rejected other items based on DLA inventory levels.



For example, a supply planner at DLA Troop Support rejected a customer return request for 125 fire extinguishers (NIIN 00-889-2491), valued at $4,658, used on mine-resistant, ambush-protected vehicles. The planner was notified by DLA's supplier team for the vehicles to reject all customer returns for the NIIN due to counterfeit materiel in circulation. In another example, a supply planner at DLA Land and Maritime rejected customer returns for 89 feet of electrical wire (NIIN 00-990-3001), valued at $4,104, because the item was over procured. Supply records showed that DLA had over 417,000 feet of electrical wire, or 26 years of stock on hand.

Rejected Returns Without Adequate Support



DLA supply planners could not provide adequate support for rejecting customer return requests for the other 155 NIINs included in our sample. The 155 NIINs were associated with customer return requests that contained 34,608 items, valued at $5.3 million.[13] Specifically, planners from the three DLA supply chain commands (Aviation; Land and Maritime; and Troop Support) rejected the customer return requests, while DLA was purchasing the same type of materiel from contractors.

DLA Aviation

DLA Aviation supply planners rejected 11,906 items, valued at $3,270,334, without adequate support. For example, one supply planner rejected customer return requests for 87 pitch horn assemblies (NIIN 01-171-3853), valued at $105,300, while during the same period, DLA purchased 61 new pitch horn assemblies for $73,831. The MRP system recommendation was for the supply planner to accept the materiel and provide the customer credit for the return (TA). The supply planner stated

[13] We did not include 7,236 items, valued at $605,035.74, for the 155 NIINs because the circumstances associated with the customer returns for these items did not warrant inclusion in our results. For example, the customers cancelled their return requests for 5,242 of these items valued at $441,443.81 before the supply planners rejected the materiel.

that she would need to check with a product specialist before making a decision, while another DLA official told us that "unofficial" MRP policy was generally not to accept critical safety items.[14] However, we identified that DLA had accepted returns for 19 pitch horn assemblies, valued at $22,996, through the MRP in 2013.

Another supply planner rejected a customer return request for 771 lap belt adapter assemblies for an F-14 Tomcat aircraft (NIIN 00-986-8334), valued at $199,928, while during the same period, DLA purchased 2,448 new lap belt adapter assemblies for $617,484. The MRP system recommendation was for the supply planner to accept the materiel and provide the customer credit for the return (TA). The supply planner stated that DLA guidance did not allow them to accept aviation life support equipment, which included the lap belt adapter assemblies. However, we determined that the guidance did not apply specifically to excess aviation life support equipment. We also identified that DLA accepted 1,704 lap belt adaptor assemblies, valued at $441,864, through the MRP in 2013.

In another example, a supply planner rejected a customer return request for 8 liquid compensators[15] (NIIN 00-526-7175), valued at $12,077, while during the same period, DLA purchased 94 new liquid compensators for $153,239. The MRP system recommendation was for the supply planner to accept the materiel and provide the customer credit for the return (TA). According to the supply planner, the item was no longer procured and, therefore, he rejected the return request. However, our sample data indicated that there were DLA procurement actions for liquid compensators at the same time the customer return request was rejected.

DLA Land and Maritime

DLA Land and Maritime supply planners rejected 6,136 items, valued at $1,215,673, without adequate support. For example, one supply planner rejected a customer return request for 16 electromagnetic relays (NIIN 00-703-1448), valued at $32,047, while during the same period, DLA purchased 25 new electromagnetic relays for $52,432. The MRP system recommendation was for the supply planner to accept the materiel and provide the customer credit for the return (TA). The supply planner stated that she rejected the materiel for return because there was a procurement action in place to meet their need, and had the customer return request been accepted, it would have put the item in an over-procurement position. However, the planner could not provide support that accepting the return requests would have put the inventory levels into an over-procurement position.

[14] Critical safety items are parts, assemblies, or support equipment whose failure could cause loss of life, permanent disability or major injury, loss of a system, or significant equipment damage.

[15] A tubular component designed to be installed in a tank to reduce the adverse effects of liquid variations, such as: density, temperature, and composition.

In another example, a supply planner rejected 74 gatling gun barrels (NIIN 01-183-8082) valued at $471,723, while during the same period DLA purchased 135 new gatling gun barrels for $716,405. The MRP system recommendation for some[16] of the customer return requests was for the supply planner to accept the materiel and provide the customer credit for the return (TA); however, the supply planner stated that there was adequate stock on hand for the items, so there was no need to accept the customer returns. However, the supply planner could not provide support for the stock levels on hand when the return was rejected.

DLA Troop Support

DLA Troop Support supply planners rejected 16,566 items, valued at $815,232, without adequate support. For example, a supply planner rejected customer return requests for 393 internal wrench bolts (NIIN 00-639-1791), valued at $601, while during the same period, DLA had multiple procurement actions to purchase 8,705 internal wrench bolts for $9,053. The MRP system recommendation was for the planner to accept the materiel and provide the customer full credit for the returns (TA); however, the supply planner stated there was adequate stock on hand for the items, so there was no need to accept the customer returns. However, the supply planner could not provide support for the stock levels on hand when he rejected the return request.

In another example, a supply planner rejected customer return requests for 2,646 folding cots (NIIN 00-935-0422), valued at $167,492, while during the same period, DLA purchased 6,848 new folding cots for $397,088. The MRP system recommendation was for the supply planner to accept the materiel and provide the customer credit for the returns (TA). The planner stated that he received cots in the past that were unserviceable and suspected the cots could have bent frames or missing pieces, so he rejected the return requests. However, there was no documented support that cots previously returned were unserviceable, and DLA did not issue a notification to the supply planners not to accept cots.

[16] DLA did not provide us with the system recommendations for two of nine customer return requests after various requests and one of nine had a TB system recommendation. These two system recommendations are no longer available because DLA's data storage history for this information only extends to 15 months.

Inadequate Guidance and MRP Training, and Supply Planners Lacked Confidence in the Condition of Reported Excess

Supply planners rejected customer return requests for the 155 NIINs, valued at $5.3 million, because:

- MRP guidance did not include specific materiel-return procedures for certain types of materiel;
- MRP training did not address how planners should evaluate and respond to customer return requests for certain types of materiel; and
- supply planners were reluctant to accept materiel because they lacked confidence customers would return the materiel in a timely manner, or the materiel offered for return was in serviceable condition.

MRP Guidance Not Comprehensive

MRP guidance did not include specific return procedures for the following:

- critical safety items;
- aviation life support equipment;
- items on long term contracts;
- items undergoing technical reviews;
- low demand items;
- low-dollar value items;
- items with stock on hand or a shelf life; and
- items that required first article testing.

...guidance does not contain detailed responsibilities or procedures for the supply planners to determine whether to accept or reject customer return requests.

Instead, DoD Instruction 4140.01 and DLA Instruction 1408 provided only general guidance to manage the MRP process. The Instructions emphasize that materiel returns should be performed timely so that other customer requirements for that materiel can be satisfied and reused to the extent practicable to offset or defer procurement. However, the guidance does not contain detailed responsibilities or procedures for the supply planners to determine whether to accept or reject customer return requests.

MRP guidance should result in consistent decisions by the supply planners and greater reuse of excess materiel already in the DoD supply system that could be used to offset future procurements. While we acknowledge that adequate reasons may exist for rejecting some NIINs for return, there is no formal MRP guidance[17] to assist the supply planners when they make those decisions. DLA should develop formal procedures for supply planners on how to assess and respond to customer return requests for materiel applicable to the categories identified in our report.

No MRP-Specific Training

MRP training was limited to providing supply planners an understanding of the program's background and terminology, but it did not address how planners should evaluate and respond to customer return requests. According to a DLA MRP policy official, supply planners received Supply Planner 401 training during FY 2014.

Supply Planner 401 contained a module on supply planner tasks in which the MRP is one of nine lessons covered. The MRP lesson contained broad program background and policies, general information on the automated system's programming, and instructions on how to navigate and use the Enterprise Business System to process customer return requests. However, the training did not adequately instruct the supply planners on evaluating and responding to customer return requests for certain types of materiel, such as those covered in the examples within this report. MRP-specific training will promote consistent decision making and greater reuse of excess materiel already in the DoD supply system that could be used to offset future procurements. After guidance is issued, DLA should develop and require supply planners to attend initial and periodic, MRP-specific training.

...training did not adequately instruct the supply planners on evaluating and responding to customer return requests for certain types of materiel...

[17] DLA Instruction 1408, "Materiel Returns Program," February 2, 2010 (Modified) was superseded by DLA Instruction 4140.06, "Materiel Returns Program (MRP)," February 9, 2015. However, DLA Instruction 4140.06, still does not provide detailed guidance outlining responsibilities or procedures for supply planners in determining whether to accept or reject customer return requests.

Reluctance to Accept Excess Materiel

Supply planners stated they were reluctant to accept certain excess materiel because they did not believe the customers would return the materiel in a timely manner to meet DLA needs, or they lacked confidence the materiel offered for return was in serviceable condition. However, supply planners could not provide any documentation, or examples, supporting the untimely or unserviceable returns.

...supply planners could not provide any documentation, or examples, supporting the untimely or unserviceable returns.

DoD Instruction 4140.01 states that materiel returns shall be timely to ensure that adequate assets are available in the DoD supply chain for use or reuse to satisfy customer requirements. In addition, DLA Instruction 1408 stated that all required materiel must be shipped in such a manner to prevent degradation of condition. Upon receipt and inspection of the returned materiel, the depot will process the transaction. The inspection must include, but is not limited to, verifying that the materiel is in the condition code and quantity that it was offered. Materiel credit must be denied for any materiel received in a different condition or quantity than offered or approved for return. Therefore, based on the DoD and DLA Instructions, supply planners should not reject customer returns because of concerns with the timing and serviceable condition of materiel reported as excess, as those determinations are made at the depots.

MRP-specific procedures and guidance, and providing MRP-specific training, should ensure supply planners have a better understanding of their respective roles and responsibilities when making decisions on whether to accept or reject customer return requests.

Potential for Cost Savings Missed

DLA missed potential opportunities in FY 2013 to satisfy backorders and offset or delay procurements for a projected 2,824 NIINs valued at $9.3 million worth of materiel, and customers were denied the opportunity to receive a credit for returning their excess materiel. In addition, because DLA did not accept customer return requests, there was a risk that excess retail materiel:

- could have been disposed of, concurrent with wholesale purchasing, and
- was not used to fill customer requirements and ensure readiness.

Recommendations, Management Comments, and Our Response

Recommendation A.1

We recommend the Director, Defense Logistics Agency develop Materiel Returns Program guidance that includes, as a minimum, procedures for supply planners on how to assess and respond to customer return requests for the following:

1. **critical safety items;**
2. **aviation life support equipment items;**
3. **shelf life items;**
4. **items requiring first article testing;**
5. **items undergoing technical reviews;**
6. **low demand items;**
7. **items with low-dollar values;**
8. **items with adequate stock on hand; and**
9. **items on long term contracts.**

Defense Logistics Agency Comments

The Director, DLA Logistics Operations, responding for the Director, DLA, agreed, stating that DLA is in the process of developing improvements to the demand and supply planning functions for the MRP. The Director also stated that requirements for system changes were finalized and submitted in November 2015, and the completion for the changes are scheduled for April 2016.

Based on the Director's response to the draft report, we requested clarity on whether DLA's improvements for the MRP, include plans to develop MRP guidance cited in Recommendation A.1. The Chief, Supply and Demand Planning Branch, Planning Division, DLA, provided additional information after the Director's response to the draft report. The Chief stated that DLA plans on developing new MRP guidance for the supply planners, which will include procedures for supply planners on how to assess and respond to customer return requests. The target implementation date for the new guidance is March 2016.

Recommendation A.2

We recommend the Director, Defense Logistics Agency develop mandatory initial and periodic Materiel Returns Program specific training that aligns with the guidance developed in response to Recommendation A.1.

Defense Logistics Agency Comments

The Director, DLA Logistics Operations, responding for the Director, DLA, agreed, stating that DLA personnel will work with their Training Coordinator and Business Process Analysts to provide refresher training to supply planners pertaining to customer returns. The estimated completion date is March 2016.

In the additional information obtained for Recommendation A.1 above, which was after the Director's response to the draft report, the Chief, Supply and Demand Planning Branch, Planning Division, DLA, stated the target implementation date for training on the new guidance is April 2016.

Our Response

Comments from the Director addressed all specifics of the recommendations, and no further comments are required.

Finding B

Automatic Rejection Table Not Effectively Managed

DLA did not effectively manage the list of items automatically excluded from return, which included 111,709 NIINs. Specifically, DLA officials could not provide support for including 34 of our 253 sample NIINs, with transactions valued at $3.5 million, on the auto-TC table. This occurred because DLA guidance did not require that DLA personnel document their rationale for items listed on the auto-TC table, or require that management officials review and update the auto-TC table on a periodic basis.

As a result, the auto-TC table may not have accurately reflected current operational and return program requirements. Therefore, DLA did not have reasonable assurance that the MRP maximized the use of excess DoD materiel, and DLA may have missed additional opportunities to satisfy backorders and offset or delay future procurements.

DLA Did Not Document Reason to Add or Remove Items From Auto-TC Table

DLA officials could not provide adequate support for including 34 of our sample NIINs, with transactions valued at $3.5 million, on the auto-TC table.

DLA officials could not provide adequate support for including 34 of our sample NIINs, with transactions valued at $3.5 million, on the auto-TC table. Of the 253 NIINs in our sample, 34 were automatically rejected because the items were on the auto-TC table. A DLA MRP official stated there was no way to know when or why those items were added or removed from the table. The official stated that only 31 of the 34 sample items were still on the auto-TC table as of February 15, 2015. See Appendix F for the list of the 34 sample items that were on the auto-TC table during our audit.

DLM 4000.25 provided categories for the types of items excluded from return, including part numbers not identified by a national stock number, perishable subsistence items, industrial plant equipment, certain types of ammunition, lumber products, and items under Defense Threat Reduction Agency management.

Based on DLM 4000.25, we understood why a few items, such as construction plywood (NIIN 00-129-7833) and softwood lumber (NIIN00-220-6194), were on the auto-TC table. However, DLA officials could not justify why they included other items on the auto-TC table to include the following two examples.

- 71 metal sheets (NIIN 00-232-1882), valued at $21,127; and
- 435 cotter pins (NIIN 00-241-7332), valued at $1,631.

DLA Lacked Guidance to Maintain the Table

DLA guidance did not require personnel to document a rationale for items listed on the auto-TC table or require MRP officials to conduct periodic reviews of the included items. The DLA Supply Business Process Analyst stated that they were in the process of developing policy to address this lack of guidance, but it was not complete.

DLA should issue guidance for excluding items from the MRP and implement an oversight process to periodically review and update items on the auto-TC table.

Opportunities for Cost Savings Missed

DLA did not have reasonable assurance that the MRP maximized the use of DoD materiel...

DLA did not have reasonable assurance that the MRP maximized the use of DoD materiel, and DLA may have missed additional opportunities to satisfy backorders and offset or delay future procurements. DLA Instruction 1408 stated that the purpose of the program is to maximize the use of DoD assets. In addition, it is imperative to review materiel requirements and direct the return of excess materiel to prevent retail assets from ending up in disposal concurrent with wholesale-level purchasing. Implementing controls to determine what items should be on the auto-TC table, and periodically reviewing the table, should ensure excess materiel that was automatically rejected by DLA was considered for return to satisfy backorders and offset or delay future procurements.

Recommendations, Management Comments, and Our Response

Recommendation B.1

We recommend the Director, Defense Logistics Agency develop guidance to require personnel to document their decisions and rationale for including items on the auto-TC table.

Defense Logistics Agency Comments

The Director, DLA Logistics Operations, responding for the Director, DLA, agreed, stating that DLA has drafted a systems change request to expand the functionality of the Materiel Returns Program's auto-TC table into an Auto Returns Table. The expanded functionality will have mandatory columns requiring personnel to, among other key information, document the reasons for including items on the Auto Returns Table. The estimated completion date is April 2016.

Recommendation B.2

We recommend the Director, Defense Logistics Agency implement an oversight process to periodically review and update items on the auto-TC table.

Defense Logistics Agency Comments

The Director, DLA Logistics Operations, responding for the Director, DLA, agreed, stating that DLA personnel plan to have Business Process Analysts manage the new Auto Returns Table so they periodically review and update the table as needed. The estimated completion date is April 2016.

Our Response

Comments from the Director addressed all specifics of the recommendations, and no further comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from November 2013 through October 2015 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 finding 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.

We reviewed applicable DoD and DLA criteria to understand the regulations that govern the MRP. Specifically, we reviewed:

- DoD Regulation 4140.1-R;
- DoD Instruction 4140.01;
- DLA Instruction 4140.06;
- DLA Instruction 1408; and
- DLM 4000.25.

We interviewed personnel from DLA and DORRA, including supply planners who make decisions for materiel returns transactions and program management officials who implement MRP policies and procedures.

We visited:

- DLA Headquarters, Fort Belvoir, Virginia; and
- DLA supply chain commands in Columbus, Ohio; Philadelphia, Pennsylvania; and Richmond, Virginia.

We observed the MRP to determine whether procedures were in place to effectively process materiel offered for return to DLA inventory from DLA customers.

We obtained data from DORRA to include all materiel returns transactions processed in FY 2013. Subsequently, we provided DORRA with a list of all national stock numbers from the materiel returns database that MRP rejected, and requested a file of all PR and PO transactions for those items.

For FY 2013, we identified 66,699 NIINs that had a procurement action. For the 66,699 NIINs, we identified 4,456 NIINs with customer return requests valued at $21.2 million where the date DLA rejected the return request was between the dates of the PR and the PO. The date comparison indicated that DLA supply planners, or the MRP automated system, rejected the return request even though there was a procurement action at the same time.

We statistically sampled 253 of the 4,456 NIINs and focused our review on the 172 NIINs processed by supply planners to determine if they should have returned the items to DLA inventory rather than purchase additional materiel. In addition, we identified 34 sample NIINs automatically excluded from return to determine whether DLA effectively managed the auto-TC table. Appendix C provides an explanation of the sampling plan.

Use of Computer-Processed Data

We relied on computer-processed data from DORRA and DLA's Enterprise Business System. We used the data to identify rejected FY 2013 customer return requests and compared the materiel offered for return to open DLA PRs and POs. In addition, DORRA provided FY 2013 procurement history for the NIINs contained in the materiel returns transaction data.

To assess the reliability of the data, we reviewed source documents from the DoD - Electronic Mall[18] and DLA's Enterprise Business System, and compared them to the data to identify errors and interviewed supply planners, program management officials, and business process analysts with knowledge of the data. We did not find errors that would preclude the use of the computer-processed data to meet the audit objectives or that would change the conclusions reached in this report.

Use of Technical Assistance

Personnel from the Quantitative Methods Division, DoDIG, assisted us in selecting a statistical sample of NIINs for testing MRP effectiveness. See Appendix C for detailed information about the Quantitative Methods Division's work performed.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) issued one report discussing the costs and benefits of drawing down equipment from Afghanistan. Unrestricted GAO reports can be accessed over the Internet at http://www.gao.gov.

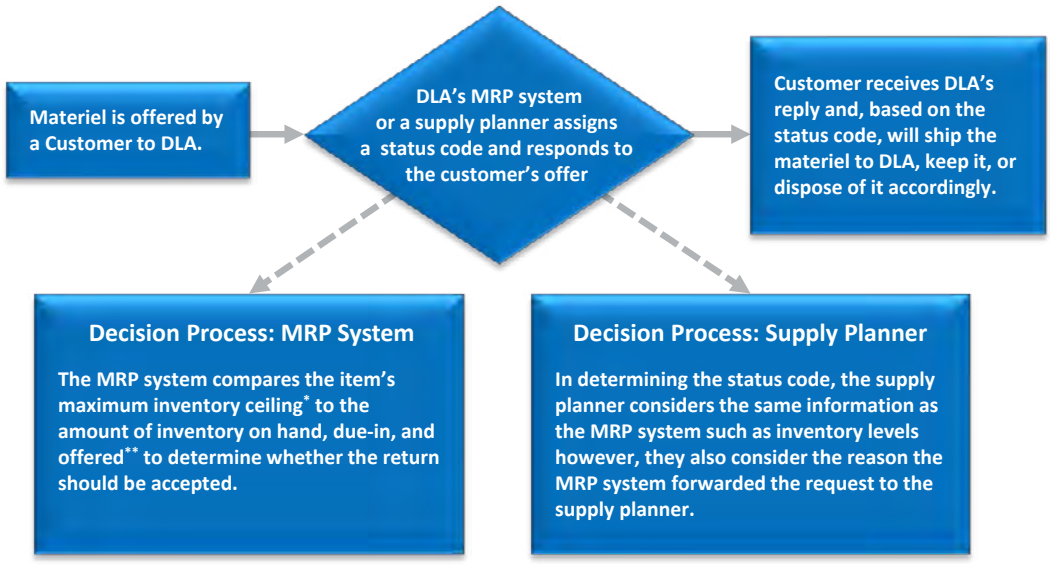
GAO

GAO-13-185R, "Afghanistan Drawdown Preparations: DoD Decision Makers Need Additional Analyses to Determine Costs and Benefits of Returning Excess Equipment," December 19, 2012

[18] The DoD - Electronic Mall or (DOD EMALL) is a web based online ordering platform meant to provide DoD and other State and Federal agencies a full service site to find and acquire goods and services from the commercial marketplace and government sources.

Appendix B

Process Flowchart for the Materiel Returns Program



Source: DoD IG Analysis of DLA MRP Process Documentation.

Appendix C

Summary of Sampling Methodology for Materiel Rejected by DLA

With the assistance of the DoD OIG Quantitative Methods Division, we used a statistical sample to project whether wholesale managers responsible for DLA's MRP were effectively managing excess materiel.

Quantitative Plan

The population consisted of 4,456 NIINs, with a total extended value of $21,235,945.84, after removing items with an extended value of less than $100. To determine whether wholesale managers properly rejected the items and the values associated with these items, the unit of measure we used for review were the NIINs customers requested to return for credit but were then rejected by wholesale managers. We used a stratified sample of 253 NIINs as the basis for our estimates. We used a 90-percent confidence interval and a precision of 3.93 percent for this project.

Sample Plan

We used a stratified sampling design based on PO obligated dollars and extended PO prices per NIIN. We used the RAND function in Excel to randomize within each stratum and selected the respective sample items without replacement.

Table 1. Stratum and Sample Sizes

Stratum	Population (N)	Sample (n)
1) >=50K, >=50K	41	41
2) >=50K, (>=10K, <50K)	102	30
3) >=50K, (>=1K, <10K)	258	30
4) >=50K, <1K	142	30
5) <50K, >=50K	22	22
6) <50K, (>=10K, <50K)	146	40
7) <50K, (>=1K, <10K)	1,148	30
8) <50K, <1K	2,597	30
Total	**4,456**	**253**

Statistical Projections and Interpretation

We calculated projections at the 90-percent confidence level:[19]

Table 2. Attribute Projection

	Lower Bound	Point Estimate	Upper Bound
Error Rate	0.526	0.634	0.742
Number of Errors	2,343	2,824	3,305

The projection of the number of errors, for example, can be interpreted that we are 90-percent confident there is between 2,343 and 3,305 NIINs that could have benefited DLA and its customers if they were accepted for return, with a point estimate of 2,824.

The projection of the error rate can be interpreted that we are 90-percent confident there is between 52.6 percent and 74.2 percent of the NIINs that could have benefited DLA and its customers if they were accepted for return, with a point estimate of 63.4 percent.

Table 3. Variable Projection

	Lower Bound	Point Estimate	Upper Bound
Dollar Error	$8,529,422	$9,254,140	$9,978,858

The projection of dollar errors can be interpreted that we are 90-percent confident there is between $8,529,422 and $9,978,858 dollar value of the NIINs that could have benefited DLA and its customers if they were accepted for return, with a point estimate of $9,254,140.

[19] The formula used in the projections are derived from the basic formulae given in "Sampling Techniques" by William G. Cochran, 3rd edition, pp. 56-58, 91-95, and 107-108.

Appendix D

List of 17 NIINs Where Supply Planners Provided Adequate Reasons for Rejecting Items

NIIN	Nomenclature	Quantity	Extended Value
002860567	BOLT, EYE	48,628	$233,900.68
007059542	HOSE ASSEMBLY, NONMETALLIC	189	$54,252.45
001727889	ELECTRON TUBE	6	$38,918.16
002304007	HOSE ASSEMBLY, NONMETALLIC	11	$24,662.00
010785710	FLANGE ASSY, GEARBOX	13	$14,173.64
000016892	FLOOR, AIRCRAFT	3	$12,748.05
011685178	FITTING, STRUCTURAL	16	$12,640.00
011182868	PARTS KIT, FLUID PRE	174	$7,495.92
011647073	VALVE, REGULATING, FL	8	$5,303.60
008892491	EXTINGUISHER, FIRE	125	$4,657.50
009903001	WIRE, ELECTRICAL	89	$4,103.79
000977307	BOLT, MACHINE	1,314	$1,800.18
011455907	VALVE, CHECK	1	$1,755.93
007661561	PANEL ASSEMBLY, ELEV	1	$1,000.00
010252151	CONNECTOR, PLUG, ELEC	2	$240.36
010667713	FILTER, FLUID	15	$212.40
009359053	COLLAR, PIN-RIVET	100	$122.00
	Total	**50,695**	**$417,986.66**

Appendix E

List of 155 NIINs DLA Could Have Potentially Authorized for Return to Satisfy Backorders, or Offset or Delay Procurements

NIIN	Nomenclature	Quantity	Extended Value
011838082	BARREL, GATLING GUN	74	$471,723.36
011735717	COWL ASSY, SIDE PANE	48	$335,290.08
005945014	HOSE ASSEMBLY, NONME	99	$318,443.40
012043781	CYLINDER ASSEMBLY, A	38	$226,893.82
009868334	ADAPTER ASSY, LAP BE	771	$199,928.01
011853071	DRIVE RING SET	131	$198,170.25
011858945	RETAINER-BEARING	25	$195,764.75
009350422	COT, FOLDING	2,646	$167,491.80
011138665	LIFE PRESERVER, VEST	2,288	$166,749.44
010965598	BOLT, MACHINE	1,593	$152,943.93
011358956	LEADING EDGE, AIRCRA	16	$141,024.00
004851692	PANEL, STRUCTURAL, AI	23	$138,345.00
011451639	CONE AND ROLLERS, TAPERED ROLLER BEARING	1,203	$119,253.39
011019857	BRUSH, ELECTRICAL CO	338	$118,519.70
145299082	SCREW	2,105	$108,765.35
008726968	BEARING, BALL, DUPLEX	139	$108,468.65
011713853	PITCH HORN ASSY	87	$105,299.58
010040712	CONTROL ASSEMBLY, PU	2	$93,822.28
005809557	INDICATOR, LIQUID QU	27	$89,014.68
006138795	TUBE, TORQUE, SLAT LE	6	$86,100.00
006759008	RELEASE, CANOPY, PARA	104	$83,102.24
010101443	CABLE ASSEMBLY, POWE	15	$78,310.20
011554522	BUSHING, ASSEMBLY	3,375	$77,355.00
010707556	PENDANT CONTROL ASS	6	$75,303.00
009376602	DISC, BRAKE	257	$74,021.14
011456414	HEATER	21	$70,499.10
011631018	BELL CRANK	83	$66,090.41
005489658	DUCT ASSEMBLY, AIR C	8	$65,306.40

List of 155 NIINs DLA Could Have Potentially Authorized for Return to Satisfy Backorders, or Offset or Delay Procurements (cont'd)

NIIN	Nomenclature	Quantity	Extended Value
012031881	VALVE, PNEUMATIC INF	46	$64,975.00
007075075	BRAKE ASSY, DRAG SPO	2	$63,000.00
001000611	CUP, TAPERED ROLLER BEARING	2,043	$58,695.39
001568618	CHAMBER, COMBUSTION	10	$57,250.00
001107833	TRANSFORMER, POWER	13	$53,638.00
004929408	VIBRATOR, IGNITION C	24	$49,772.88
011895975	HOSE ASSEMBLY, METAL	17	$42,544.71
010067389	FIRESHIELD ASSEMBLY	4	$38,583.76
007031448	RELAY, ELECTROMAGNET	16	$32,047.36
010301090	HANGER QUICK RELEAS	140	$27,333.60
006315577	LADDER, AIRCRAFT BOA	30	$25,362.00
011431231	SHROUD ASSEMBLY, ROT	9	$24,723.00
011643964	BELL CRANK	35	$24,040.45
012088459	SUPPORT, STRUCTURAL	11	$23,301.63
002641235	DUCT ASSEMBLY, AIR C	5	$21,592.50
010941560	TRANSDUCER, RESISTAN	18	$20,250.00
011611212	GEARSHAFT, SPUR	1	$19,972.00
002406501	SHEET, METAL	718	$18,955.20
009492087	ADAPTER, PRESSURE FU	67	$18,934.87
008721480	TRIPPER, CIRCUIT BRE	1	$17,419.00
002121150	TIE DOWN, CARGO, AIRC	106	$17,407.32
010783306	SKIN, AIRCRAFT	1	$17,311.73
005431423	AMPLIFIER, AUDIO FRE	6	$17,227.14
011592862	BOLT, FLUID PASSAGE	19	$17,209.25
000747148	MOTOR, ALTERNATING C	2	$16,608.16
010225868	BALLAST, LAMP	7	$16,241.19
011857701	COOLER, AIR, ELECTRON	1	$15,145.54
001355669	SPACER, SLEEVE	5	$15,062.50
010429224	FAIRING, AIRCRAFT	4	$15,040.00
004312549	CARTRIDGE, HYDRAULIC	1	$14,905.00
001720144	BEARING ASSEMBLY, ACTUATOR	7	$14,693.00
010841168	TUBE, METALLIC	4,439	$14,559.92

List of 155 NIINs DLA Could Have Potentially Authorized for Return to Satisfy Backorders, or Offset or Delay Procurements (cont'd)

NIIN	Nomenclature	Quantity	Extended Value
010461412	DUCT ASSEMBLY, AIR C	13	$12,844.00
011751067	BUSHING, SLEEVE	1,777	$12,136.91
005267175	COMPENSATOR, LIQUID	8	$12,077.04
002836399	COUPLING, TUBE	402	$11,895.18
000714780	TARGET, SILHOUETTE	78	$11,480.04
002335901	AMPLIFIER-POWER SUPPLY	6	$11,418.00
011078048	CABLE ASSEMBLY, RADI	4	$10,996.00
011497395	VALVE, SOLENOID	2	$10,846.00
010700971	HOOK ASSY, HOIST	2	$10,492.00
010038538	DISC, BRAKE	30	$10,135.50
010691023	ADAPTER, STRAIGHT, FL	4	$10,000.00
008545080	TUBE ASSEMBLY, BLEED	5	$9,875.00
011210485	CLAMP, LOOP	2,638	$9,813.36
011828994	LATCH, SNAPSLIDE FAS	34	$8,680.88
006048367	TUBE, METALLIC	40	$8,289.20
010605926	VALVE ASSEMBLY, MOTO	6	$8,044.38
011577757	REACTOR	14	$5,974.78
011626537	DUCT ASSEMBLY, AIR C	4	$5,952.00
011619627	VALVE, REGULATING, FL	2	$5,898.00
010911961	MODULATOR, RADAR	4	$5,400.00
145449777	ADJUSTER, SLACK, AIRC	12	$5,296.56
002899199	HOSE, NONMETALLIC	386	$5,199.42
000430904	HOSE ASSEMBLY, NONME	1	$4,234.55
006566162	TRAILING EDGE, AIRCR	2	$3,800.00
009701204	CYLINDER HEAD, DIESE	3	$3,662.40
011164246	CABLE ASSEMBLY, SPEC	14	$3,524.50
011800798	GUIDE, VALVE STEM	4	$2,851.12
011836402	SWITCH, ROTARY	18	$2,655.00
004031231	REGULATOR, OXYGEN	4	$2,600.00
011001746	CUSHION, SEAT, AIRCRA	5	$2,405.75
007186020	HOSE ASSEMBLY, NONMETALLIC	13	$2,364.96
005238557	EJECTOR ASSEMBLY, OU	2	$2,308.00

List of 155 NIINs DLA Could Have Potentially Authorized for Return to Satisfy Backorders, or Offset or Delay Procurements (cont'd)

NIIN	Nomenclature	Quantity	Extended Value
004503622	PARTS KIT, WINDSHIEL	54	$2,180.52
005711295	HOOK ASSEMBLY, RAMP	5	$2,114.40
011320790	BUSHING, BIFILAR	30	$1,809.90
003220956	FILTER BOWL ASSEMBL	5	$1,778.35
011224505	SETSCREW	149	$1,670.29
007535581	KEEPER, BELT-STRAP	3,450	$1,587.00
011125989	FILTER ELEMENT, FLUI	15	$1,580.85
004604698	LATCH SET, RIM	33	$1,564.86
011485819	TRANSMITTER, LIQUID	1	$1,509.38
006244059	HOSE, NONMETALLIC	92	$1,397.48
002769390	CONNECTOR, PLUG, ELEC	181	$1,350.26
010239801	CLEVIS, ROD END	15	$1,279.05
010422627	BUSHING	5	$1,245.00
011987660	LATCH ASSEMBLY, DETE	1	$1,194.47
010965592	BOLT, MACHINE	14	$1,178.10
009541431	TRANSDUCER, MOTIONAL	1	$1,159.95
010386025	CASE, SPARE BARREL	91	$1,102.92
007302247	CONNECTOR, OXYGEN MA	133	$1,061.34
001981050	BALL, BEARING	272	$897.60
004225505	BODY, LOCK, LANDING G	1	$875.00
012001727	VALVE, SAFETY RELIEF	3	$856.62
011024683	SEAL, PLAIN	17	$812.94
010350829	ROD ASSEMBLY, DRIVING	18	$775.44
009752968	PUBLIC ADDRESS SET	1	$747.22
012068699	BEARING, PLAIN, SELF-ALIGNING	4	$684.60
006391791	BOLT, INTERNAL WRENC	393	$601.29
010433392	TUBE ASSEMBLY, METAL	1	$562.10
009313633	BRACKET, DUCT SUPPOR	18	$507.60
011643834	FLANGE, DRIVE, AUXILI	1	$505.94
008577419	O-RING	44	$487.08
011291230	SLIDE, FEED, OUTER	6	$416.16
005059586	NUT, SELF-LOCKING, GA	3	$407.58

List of 155 NIINs DLA Could Have Potentially Authorized for Return to Satisfy Backorders, or Offset or Delay Procurements (cont'd)

NIIN	Nomenclature	Quantity	Extended Value
002539356	COVER, ACCESS, AIRCRA	1	$378.95
011280818	WINDOW, FRONT	1	$373.00
002838124	FAIRING, AIRCRAFT	1	$371.69
008825114	FUSE, INCLOSED LINK	6	$370.98
008812064	PULLEY, GROOVE	26	$358.02
010934439	STOP LIGHT-TAILLIGH	8	$331.92
004583885	TRANSFORMER, POWER	1	$280.00
011655936	PARTS KIT, OUTFLOW V	1	$279.53
010830274	HOSE SET, NONMETALLI	8	$268.56
010722635	O-RING	48	$253.44
000525506	CAP ASSY, LOX VALVE	6	$232.26
010552159	CONVEYOR ELEMENT, AM	7	$223.37
002935122	RIVET BLIND	214	$216.14
007668191	VALVE, GATE	1	$193.03
010591948	BOLT, CLOSE TOLERANC	4	$183.68
010965433	COUNTERWEIGHT, TAIL	96	$166.08
000170527	RELAY, ELECTROMAGNET	1	$164.00
012088683	RETAINER, HELICAL CO	1	$161.00
005385216	SWITCH, TOGGLE	1	$159.00
009652204	DECORATION SET, INDI	23	$144.67
012098286	STANDOFF, THREADED, S	5	$139.80
006706809	FITTING, SIDEWALL SE	2	$130.28
011900942	PLUG, MACHINE THREAD	3	$123.27
008995748	INSULATOR DISK, THER	15	$122.25
010298880	SCREW, MACHINE	80	$120.00
011302791	NUT, SELF-LOCKING	68	$119.00
011343630	HAMMER AND HAMMER PIN	13	$107.51
000179546	HANDLE ASSEMBLY,CHA	8	$106.40
011747718	INNER TUBE, PNEUMATI	11	$103.95
010069150	BEARING, PLAIN,SELF-ALIGNING	13	$103.35
008755330	PARTS KIT, SIGHT IND	5	$100.50
	Total	**34,608**	**$5,301,238.51**

Appendix F

List of 34 NIINs Included in DLA's Auto-TC Table

NIIN	Nomenclature	Quantity	Extended Value
002710010	BEARING, ROLLER, AIRFRAME	1197	$448,875.00
011858935	BEAM ASSY, PYLON	45	$431,145.45
002915323	CLAMP, LOOP	3776	$756,030.72
010756640	SLIDE, ESCAPE, AIRCRAFT	30	$333,888.60
011849102	BATTERY, STORAGE	46	$330,328.30
011648251	BEARING, ROLLER, AIRFRAME	572	$287,653.08
001297833	PLYWOOD, CONSTRUCTION	7201	$217,756.95
010225437	CELL, BATTERY	39	$191,794.98
005496581	ADAPTER, BATTERY TERMINAL	2238	$115,771.74
010297153	COVER, FACEPIECE	400	$78,972.00
010606855	BATTERY, STORAGE	133	$56,163.24
010744230	LIGHT, CHEMILUMINESC	4248	$44,943.84
010602531	SEAL, PLAIN ENCLOSED	386	$40,530.00
002646572	DESICCANT, ACTIVATED	176	$25,933.60
003652869	SCREW, MACHINE	1701	$23,014.53
002319931	BOLT, CLOSE TOLERANCE	1977	$22,438.95
002321882	SHEET, METAL	71	$21,127.47
010137424	CLAMP, LOOP	4868	$14,117.20
002582054	GOGGLES, INDUSTRIAL	126	$12,734.82
001032976	CLAMP, LOOP	4304	$12,524.64
003695724	BOLT, MACHINE	139	$11,856.70
003752091	CLAMP, LOOP	2077	$10,198.07
008071475	NUT, SELF-LOCKING, EX	37900	$8,717.00
000277423	BEARING, BALL, AIRFRAME	365	$5,756.05
002206194	LUMBER, SOFTWOOD, DIM	9449	$3,874.09
006859059	TAPE, INSULATION, ELECTRICAL	421	$3,599.55
002417332	PIN, COTTER	435	$1,631.25
010870377	INSULATION SLEEVING, ELECTRICAL	507	$1,409.46
002668677	GLOVES, RUBBER, INDUSTRIAL	126	$1,359.54
000811982	SEAL, PLAIN ENCASED	4	$979.40

List of 34 NIINs Included in DLA's Auto-TC Table (cont'd)

NIIN	Nomenclature	Quantity	Extended Value
009857845	BATTERY, NONRECHARGE	181	$859.75
011382503	GLOVES, CHEMICAL PROTECTIVE	50	$677.00
008596149	BOLT, INTERNALLY RELIEVED BODY	21	$496.02
011856237	BOLT, MACHINE	6	$344.40
	Total	**85,215**	**$3,517,503.39**

Management Comments

Defense Logistics Agency

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

NOV 0 6 2015

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL
(READINESS AND CYBER OPERATIONS)

SUBJECT: Response to DoDIG Draft Report "DLA Materiel Returns Program Could Be Managed More Effectively" (Project No. D2014-D000RD-0040.000)

Attached is the Defense Logistics Agency's (DLA) response to the subject Draft Report. We appreciate the opportunity to review and comment on the findings and recommendations. Management comments and recommendations are outlined on the attachment.

The point of contact for this audit is [redacted], DLA Office of the Inspector General, [redacted], or email: [redacted].

VINCE GRIFFITH
Rear Admiral, SC, USN
Director, J-3 DLA Logistics Operations

Attachment:
As stated

Defense Logistics Agency (cont'd)

Response to DoD IG Draft Report "DLA Materiel Returns Program Could Be Managed More Effectively" (Project No. D2014-D000RD-0040.000)

As requested, Defense Logistics Agency (DLA) is providing the following response to Recommendations A.1, A.2, B.1 and B.2

RECOMMENDATION A.1: We recommend the Director, Defense Logistics Agency develop Materiel Returns Program guidance that includes, as a minimum, procedures for supply planners on how to assess and respond to customer return requests for the following:

1. critical safety items;
2. aviation life support equipment items;
3. shelf life items;
4. items requiring first article testing;
5. items undergoing technical reviews;
6. low demand items;
7. items with low-dollar values;
8. items with adequate stock on hand; and
9. items on long term contracts.

Response: DLA concurs with the recommendation. DLA is in the process of a focused effort to develop improvements to our Demand and Supply Planning functions. One of the areas we are addressing is our Material Returns Program (MRP). Finalized requirements for system changes were submitted in early November 2015 with changes scheduled for completion by end of April 2016

RECOMMENDATION A.2: We recommend the Director, Defense Logistics Agency develop mandatory initial and periodic Materiel Returns Program specific training that aligns with the guidance developed in response to Recommendation A.1.

Response: DLA concurs with the recommendation. DLA will work with our Training Coordinator and Business Process Analysts (BPAs) at our Primary Level Field Activity to provide refresher training to Supply Planners pertaining to Customer Returns. Target implementation date for training: End of March 2016

RECOMMENDATION B.1: Recommend the Director, Defense Logistics Agency develop guidance to require personnel to document their decisions and rationale for including items on the Auto-TC table.

Response: DLA concurs with the recommendation. DLA has developed a draft Request for Change (RFC) to expand the MRP functionality in the Auto-TC Table into an Auto Returns Table. The new Auto Returns table will allow the system to provide a specified response to return requests that is tailored to a special project and project code handling. The table will also have mandatory columns named: FSC, NIIN, Action, Date of Entry, Expiration Date, Reason and Created By. Target Implementation date for new Auto Returns Table: End of April 2016

RECOMMENDATION B.2: We recommend the Director, Defense Logistics Agency implement an oversight process to periodically review and update items on the Auto-TC table.

Response: DLA concurs with the recommendation. DLA plans on adding an access code for our BPAs to manage the new Auto Returns table where they can periodically review and update the table as needed. Target Implementation date: End of April 2016

Acronyms and Abbreviations

DLA	Defense Logistics Agency
DLM	Defense Logistics Management
DORRA	DLA Office of Operations Research and Resource Analysis
MRP	Materiel Returns Program
NIIN	National Item Identification Number
PO	Purchase Order
PR	Purchase Request

Whistleblower Protection
U.S. Department of Defense

The Whistleblower Protection Enhancement Act of 2012 requires the Inspector General to designate a Whistleblower Protection Ombudsman to educate agency employees about prohibitions on retaliation, and rights and remedies against retaliation for protected disclosures. The designated ombudsman is the DoD Hotline Director. For more information on your rights and remedies against retaliation, visit www.dodig.mil/programs/whistleblower.

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

Congressional Liaison
congressional@dodig.mil; 703.604.8324

Media Contact
public.affairs@dodig.mil; 703.604.8324

For Report Notifications
http://www.dodig.mil/pubs/email_update.cfm

Twitter
twitter.com/DoD_IG

DoD Hotline
dodig.mil/hotline

DEPARTMENT OF DEFENSE | INSPECTOR GENERAL

4800 Mark Center Drive
Alexandria, VA 22350-1500
www.dodig.mil
Defense Hotline 1.800.424.9098