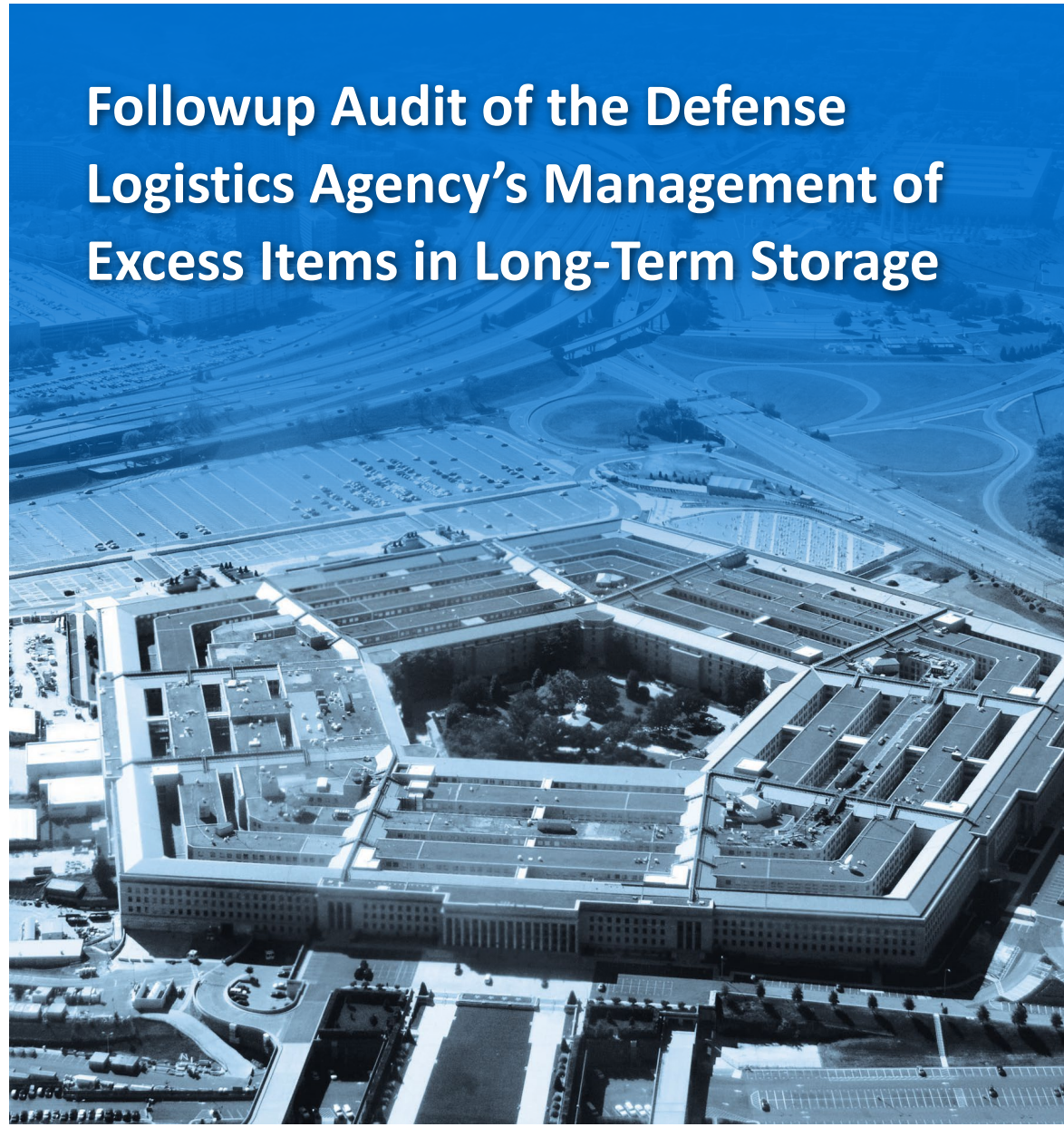




# INSPECTOR GENERAL

*U.S. Department of Defense*

SEPTEMBER 06, 2019



## Followup Audit of the Defense Logistics Agency's Management of Excess Items in Long-Term Storage

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





# Results in Brief

## *Followup Audit of the Defense Logistics Agency's Management of Excess Items in Long-Term Storage*

September 06, 2019

### Objective

The objective of this followup audit was to determine whether the Defense Logistics Agency (DLA) implemented the recommendations in DODIG-2016-036, "Management of Items in the Defense Logistics Agency's Long-Term Storage Needs Improvement," December 22, 2015, and whether the implemented actions corrected the problems identified in the report.

### Background

The DLA is the nation's combat logistics support agency and manages the global supply chain for the DoD, other Federal agencies, and partner nations. The DLA supplies spare parts and troop support consumables and manages the reuse and disposal of military equipment. Within the DLA, Disposition Services (DS) manages the reuse and disposal of excess property. One DLA DS program is Long-Term Storage (LTS), which stores excess munitions items and sensitive commercial items for use by the DLA, other DoD components, Foreign Military Sales programs, or other designated special programs. The DLA identifies and reuses LTS inventory to avoid unnecessary new purchases, fill backorders, and maintain stock levels at the depots. One way the DLA identifies LTS inventory for reuse is through an automated recoupment process. This process allows the DLA to identify excess property and use the already purchased assets to meet current demand and maintain the stock-on-hand at the depots.

### Background (cont'd)

In our prior report, issued in December 2015, we determined that the DLA did not effectively manage 3.5 million LTS inventory items, valued at \$1.6 billion, and unnecessarily incurred costs to store 768,571 items, valued at \$169.5 million, that far exceeded the historical demand. We also found that the DLA's automated recoupment process did not identify 87,135 LTS inventory items that the DLA could have reused to offset or reduce purchases for items valued at \$17.9 million already in LTS inventory.

In that report, we recommended that the DLA:

- implement a policy to establish a demand-based inventory management process for LTS inventory;
- determine acceptable inventory levels for LTS items, and dispose of items that exceed those levels;
- update the automated recoupment process to include all categories of inventory that are usable from LTS inventory; and
- determine why the DLA did not automatically reuse eligible LTS inventory items and correct those deficiencies in the automated recoupment process.

The DLA agreed with all of our prior report recommendations and agreed to take corrective actions.

### What We Reviewed

To verify the actions taken by the DLA in response to the prior report, we:

- analyzed the DLA policy that clarified LTS inventory retention requirements and established no-demand reviews and semi-annual inventory reduction reviews;
- compared DLA DS disposal transaction data from October 2018 through March 2019 to inventory records to verify compliance with the DLA policy for no-demand reviews;
- compared DLA DS disposal transaction data from October 2018 through March 2019 to the December 31, 2018, semi-annual inventory reduction review to verify compliance with the DLA policy;



# Results in Brief

## *Followup Audit of the Defense Logistics Agency's Management of Excess Items in Long-Term Storage*

### **What We Reviewed (cont'd)**

- compared the LTS inventory identified in our prior report to the LTS inventory on January 7, 2019, to determine whether the DLA reduced excess inventory;
- analyzed automated reuse transactions to determine whether the DLA included all categories of inventory for reuse in the automated recoupment process;
- compared the LTS inventory levels to DLA purchases to determine whether the DLA reused all eligible LTS inventory; and
- compared the May 16, 2019, LTS inventory to the May 17, 2019, Disposal Turn-In Document (DTID) table to determine whether stock levels were correct.<sup>1</sup>

### **Finding**

For this followup audit, we determined that the DLA had improved LTS inventory management and implemented all four recommendations from Report No. DODIG-2016-036, "Management of Items in the Defense Logistics Agency's Long-Term Storage Needs Improvement." The DLA implemented three recommendations related to policy, excess inventory, and the exclusion of specific categories of inventory from automated reuse. Specifically, we found that the DLA:

- clarified inventory retention requirements, established inventory disposal procedures, and disposed of inventory that exceeded historical demand levels; and
- reused specific categories of inventory previously excluded for reuse by the automated recoupment process.

As a result of the DLA's corrective actions in response to these three recommendations, from November 2014 to January 7, 2019, DLA LTS inventory decreased by about 2.72 million inventory items, valued at \$1.4 billion. Additionally, from November 2018 through February 2019, the DLA automatically reused 5,240 items, valued at \$699,571, that the DLA previously excluded from reuse. Therefore, we determined that the implemented actions were effective, and these three recommendations are closed.

At the beginning of this audit, the DLA had not implemented the fourth recommendation, which related to the DLA's automated recoupment process not reusing all eligible LTS inventory. The DLA concluded that the corrective actions implemented for the reuse of excluded categories of inventory would also resolve this recommendation. However, we determined that the corrective action for the reuse of excluded categories of inventory was not effective for this recommendation. As a result, the DLA unnecessarily purchased at least 361 items (36 National Item Identification Numbers [NIINs]), valued at \$342,282, already in LTS inventory.<sup>2</sup> Furthermore, we identified and informed DLA personnel about 7,201 items (291 NIINs) that the DTID table listed as not in stock, although the items were available for reuse in LTS inventory. After we informed the DLA on June 11, 2019, about the items that were listed as not in stock, DLA DS personnel took action to correct the stock levels reported in the DTID table for 13,377 related records, valued at \$93.8 million. As a result of the stock level correction, the DLA DS processed 802 reuse transactions valued at \$1.4 million on June 15, 2019. As a result of the actions the DLA took during this audit, we now consider this fourth recommendation closed.

<sup>1</sup> A DTID table identifies available DLA DS inventory to the automated recoupment process for reuse. LTS inventory that we reviewed consisted of inventory located at the distribution depots.

<sup>2</sup> A NIIN uniquely identifies each supply item.



# Results in Brief

## *Followup Audit of the Defense Logistics Agency's Management of Excess Items in Long-Term Storage*

### **Additional Problems Identified With Automated Recoupment**

During this followup audit, we identified an additional problem with the automated recoupment process. Although the process identified items for reuse, the DLA did not reuse those items because the DLA's Enterprise Business System (EBS) failed to create a purchase order (a reuse request for DLA DS inventory) in the automated recoupment process.

Specifically, in the reuse reports for January 13 through 26, 2019, we identified reuse requests that failed to create 135 purchase orders. This occurred because the EBS programming did not allow certain depot storage locations to store these items. However, DLA personnel identified that these depots were allowed to store the items. Because the EBS programming blocked those locations from storing the items, the EBS failed to create purchase orders. As a result, the purchase order failures prevented the reuse of 11,379 items valued at \$364,136.

### **Recommendation**

We recommend that the DLA Director update the EBS programming to correct the purchase order failures and verify that the update to the EBS works properly.

### **Management Actions Taken**

During the audit, we informed DLA Logistics Operations officials about the EBS purchase order failures that we identified. The officials agreed with our finding and immediately initiated corrective action. Specifically, the officials submitted a system change request on May 9, 2019, to update the EBS programming to correct the purchase order failures. On July 11, 2019, DLA Information Operations approved the system change request. DLA officials stated that the estimated implementation date for the system change request is November 15, 2019. The action taken is sufficient to resolve the recommendation. We will close the recommendation when we verify that the system change request was implemented and that there are no further occurrences of purchase order failures. Please see the Recommendation Table on the next page for the status of the recommendation.

## Recommendation Table

Management	Recommendation Unresolved	Recommendation Resolved	Recommendation Closed
Director, Defense Logistics Agency	None	Yes	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** – OIG verified that the agreed upon corrective actions were implemented.



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

September 06, 2019

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION  
AND SUSTAINMENT  
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Followup Audit of the Defense Logistics Agency's Management of Excess  
Items in Long-Term Storage (Report No. DODIG-2019-121)

This final report provides the results of the DoD Office of Inspector General's audit. We conducted this audit from November 2018 through September 2019 in accordance with generally accepted government auditing standards. During the audit, we advised Defense Logistics Agency officials of the deficiencies we identified. Management agreed to address the recommendation presented in the report and initiated actions to address our concerns. Therefore, the recommendation is considered resolved and open. The recommendation may be closed when we receive adequate documentation showing that all agreed-upon actions to implement the recommendation have been completed. Therefore, please provide us, within 90 days, your response concerning specific actions in process or completed on the recommendation. Your response should be sent to [followup@dodig.mil](mailto:followup@dodig.mil).

We appreciate the cooperation and assistance received during the audit. Please direct questions to me at [richard.vasquez@dodig.mil](mailto:richard.vasquez@dodig.mil), (703) 604-8938 (DSN 664-8938).

A handwritten signature in black ink, reading "Richard B. Vasquez".

Richard B. Vasquez  
Assistant Inspector General for Audit  
Readiness and Global Operations

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# Introduction

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## Objective

The objective of this followup audit was to determine whether the Defense Logistics Agency (DLA) implemented the recommendations in DODIG-2016-036, “Management of Items in the Defense Logistics Agency’s Long-Term Storage Needs Improvement,” December 22, 2015, and whether the implemented actions corrected the problems identified in the report.

## Background

### *The DLA and the Long-Term Storage Program*

The DLA is the nation’s combat logistics support agency and manages the global supply chain for the Military Services, combatant commands, other Federal agencies, and partner nations. The DLA supplies spare parts, fuel, and troop support consumables; provides catalogs and other logistics information products; provides document automation and production services; and manages the reuse and disposal of military equipment. Within the DLA, Disposition Services (DS) manages the reuse and disposal of excess property and military equipment.<sup>3</sup> One DLA DS program is the Long-Term Storage (LTS) program. The LTS program allows the DLA, other DoD components, Foreign Military Sales programs, or other designated special programs to reuse LTS inventory.<sup>4</sup> The LTS program includes two categories of property.

- Munitions list items that are defense-related property specifically designed, developed, configured, adapted, or modified for military use (known as Demilitarization [DEMIL] Code B items).<sup>5</sup>
- Sensitive commercial items with the potential for military use (known as sensitive DEMIL Code Q items).

The DLA has two ways to identify LTS inventory items for reuse: an automated recoupment process and a manual recoupment process.<sup>6</sup>

- **Automated Recoupment.** The DLA’s automated recoupment process runs nightly within the DLA’s Enterprise Business System (EBS), the DLA’s materiel management system, to identify whether the DLA can meet

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<sup>3</sup> Disposition is the reuse, transfer, donation, sale, or disposal of items. The property for reuse and disposal is property other than real property (real estate) of the U.S. Government.

<sup>4</sup> The DLA DS stores LTS inventory at a facility in Columbus, Ohio, and at other DLA locations (distribution depots). The DLA DS manages LTS inventory stored at the distribution depots in the Distribution Standard System.

<sup>5</sup> Demilitarization takes DoD property, makes the property safe, and eliminates the military capabilities and design features.

<sup>6</sup> The DLA uses the term recoupment when it reuses excess inventory to avoid new purchases, fill backorders, and maintain depot stock levels. The automated recoupment process considers all excess inventory, including LTS, for reuse.

purchase requirements, such as replenishing spare parts or acquiring new items for the military, with the existing LTS inventory and other DLA DS inventory.<sup>7</sup> Within the EBS, a Disposal Turn-In Document (DTID) table identifies available DLA DS inventory so that the automated recoupment process can determine whether to reuse the items. When the automated recoupment process identifies a requirement for the inventory, the EBS creates a purchase order for the items. The automated recoupment process enables the DLA to avoid buying new items, fill backorders, and maintain depot stock levels.

- **Manual Recoupment.** The manual recoupment process allows DLA personnel to reuse LTS inventory items when not reused through the automated recoupment process. DLA personnel manually request items through the DLA DS website.

### ***Summary of Prior Report***

In our prior report, we determined that the DLA did not effectively manage LTS inventory, consisting of 3.5 million LTS inventory items (68,534 unique national item identification numbers [NIINs]), valued at \$1.6 billion.<sup>8</sup> The DLA stored items in LTS inventory that exceeded historical demand for the items; therefore, there was no reason to keep the excess items. This occurred because the DLA did not review LTS items for continued retention after 2 years to determine acceptable inventory levels based on historical demand. As a result, the DLA unnecessarily incurred costs to store 768,571 LTS inventory items, valued at \$169.5 million, that far exceeded the historical demand.

To correct these problems, we recommended that the DLA Director:

- implement a policy to establish a demand-based inventory management process for LTS inventory; and
- determine acceptable inventory levels for items in LTS, based on the revised policy, and dispose of inventory items that exceed those inventory levels.

We also found that the DLA's automated recoupment process did not identify 87,135 LTS inventory items (2,962 NIINs) that the DLA could have reused. This occurred because the DLA excluded certain categories of LTS inventory from the automated recoupment process.<sup>9</sup> In addition, the DLA's automated recoupment

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<sup>7</sup> The automated recoupment process identifies DLA DS inventory that is in condition code A. These items are new, used, repaired, or reconditioned material that is serviceable and issuable to customers without limitation or restriction.

<sup>8</sup> Report No. DODIG-2016-036, "Management of Items in the Defense Logistics Agency's Long-Term Storage Needs Improvement," December 22, 2015.

ANIIIN uniquely identifies each supply item.

<sup>9</sup> These exclusions contained categories such as shelf-life, flight safety material, and life-support material.

process did not identify all LTS items eligible for reuse. As a result, the DLA missed opportunities to offset or reduce purchases for items valued at \$17.9 million that were already in LTS inventory.

To correct these problems, we recommended that the DLA Director:

- update the automated recoupment process to include all categories of inventory to ensure that the DLA reused all items from the LTS inventory, and
- determine why the DLA did not automatically reuse eligible LTS inventory items and correct those deficiencies in the automated recoupment process.

The DLA Logistics Operations Deputy Director, responding for the DLA Director, agreed with all of our recommendations and agreed to take corrective actions.<sup>10</sup>

### ***What We Reviewed***

To verify the DLA's actions taken for the management of LTS inventory in response to the prior report, we:

- analyzed the DLA policy that clarified LTS inventory retention requirements and established no-demand reviews and semi-annual inventory reduction reviews;
- compared DLA DS disposal transaction data from October 2018 through March 2019 to inventory records to verify compliance with the DLA policy for no-demand reviews;
- compared DLA DS disposal transaction data from October 2018 through March 2019 to the December 31, 2018, semi-annual inventory reduction review to verify compliance with the DLA policy;
- compared the DLA DS LTS inventory identified in our prior report to the inventory on January 7, 2019, to determine whether the DLA reduced the amount of excess inventory;
- analyzed automated reuse transactions from November 2018 through February 2019 to determine whether the DLA included all categories of inventory in the automated recoupment process;

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<sup>10</sup> The DoD OIG followed up on the management actions taken in response to our FY 2016 report. Prior to the start of this audit, the DoD OIG followup review identified two recommendations as closed and two recommendations as open.

- compared the LTS inventory levels as of December 31, 2018, to DLA purchases from October 2018 through December 2018, to determine whether the DLA reused all eligible LTS inventory; and
- compared the May 16, 2019, LTS inventory to the May 17, 2019, DTID table to determine whether DTID stock levels were correct.<sup>11</sup>

## Review of Internal Controls

DoD Instruction 5010.40 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 the controls.<sup>12</sup>

We identified an internal control weakness with the DLA's automated recoupment process. We will provide a copy of the report to the senior official responsible for internal controls in the DLA.

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<sup>11</sup> We reviewed DLA DS disposal transaction data from October 2018 through March 2019 for items with no demand stored at the Columbus facility, and October 1, 2018, through January 15, 2019, for items stored at the distribution depots.

Memorandum for DLA Disposition Services, "Directive-Type Memorandum (DTM) 16-009, Authority to Remove and Mutilate Demilitarization (DEMIL) Code B and Sensitive DEMIL Code Q Items," August 11, 2016.

The May 16, 2019, LTS inventory we reviewed consisted of inventory located at the distribution depots and we did not review the inventory stored at the Columbus warehouse.

<sup>12</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

## Finding

### LTS Inventory Management Improved, but Did Not Result in the Reuse of All Eligible Inventory

The DLA had improved LTS inventory management and implemented all four recommendations from Report No. DODIG-2016-036, “Management of Items in the Defense Logistics Agency’s Long-Term Storage Needs Improvement.” The DLA implemented three recommendations related to policy, excess inventory, and the exclusion of specific categories of LTS inventory from automated reuse. Specifically, we found that the DLA:

- issued a policy memorandum that clarified inventory retention requirements and established inventory disposal procedures;
- disposed of inventory that exceeded historical demand levels; and
- reused specific categories of inventory previously excluded for reuse by the automated recoupment process.

As a result of the DLA’s corrective actions in response to these three recommendations, from November 2014 to January 7, 2019, DLA LTS inventory decreased by about 2.72 million inventory items, valued at \$1.4 billion.<sup>13</sup> Additionally, from November 2018 through February 2019, the DLA automatically reused 5,240 items (196 NIINs), valued at \$699,571, that the DLA previously excluded from reuse. We determined that the corrective actions taken were effective and these three recommendations are closed.

At the beginning of this audit, the DLA had not implemented the fourth recommendation, which related to the automated recoupment process not reusing all eligible LTS inventory. The DLA concluded that the corrective actions implemented for the reuse of excluded categories of inventory would also resolve this recommendation. However, we determined that the corrective action for the reuse of excluded categories of inventory was not effective for this recommendation. Therefore, the DLA unnecessarily purchased at least 361 items (36 NIINs), valued at \$342,282, already in LTS inventory. Furthermore, we identified, and informed DLA personnel about, 7,201 items (291 NIINs) that the DTID table listed as not in stock, although the items were available for reuse in LTS inventory. After we informed the DLA on June 11, 2019, about the items that were listed as not in stock, DLA DS personnel took action to correct the stock levels

<sup>13</sup> DLA LTS inventory decreased from 3.5 million inventory items (68,534 NIINs), valued at \$1.6 billion (as of November 2014), to 782,486 items (15,222 NIINs), valued at \$200 million (as of January 7, 2019).

reported in the DTID table for 13,377 related records, valued at \$93.8 million. As a result of the stock level correction, the DLA DS processed 802 reuse transactions, valued at \$1.4 million, on June 15, 2019. As a result of the actions the DLA took during this audit, we now consider this fourth recommendation closed.

## **The DLA Implemented Three of Four Prior Report Recommendations That Improved the Management of Long-Term Storage Inventory**

The DLA improved LTS inventory management practices and implemented all four recommendations from Report No. DODIG-2016-036, “Management of Items in the Defense Logistics Agency’s Long-Term Storage Needs Improvement.” Specifically, the DLA implemented the three recommendations related to policy, excess inventory, and the exclusion of specific categories of LTS inventory from automated reuse prior to the initiation of our followup audit. The DLA implemented the recommendation related to the automated recoupment process not reusing all eligible LTS inventory during our followup audit.

### ***The DLA Issued a New LTS Policy for Managing Inventory***

The DLA implemented the recommendation to establish a demand-based LTS inventory management process. In our prior report, we determined that the DLA stored items in LTS inventory that exceeded historical demand because the DLA LTS inventory policy did not specify procedures for the DLA to determine acceptable inventory levels to justify continued item retention.

On August 11, 2016, the DLA issued a policy memorandum that clarified the LTS inventory retention requirements and established inventory disposal procedures that required the DLA DS to:

- establish and maintain a retention level equal to 2 years’ demand for each item in storage that the DLA previously reused;
- remove, destroy, and sell as scrap items that exceed the 2-year demand retention level or had no demand; and
- semi-annually review the demand for adjustments to the retention quantity.<sup>14</sup>

The DLA took corrective action and established a policy for maintaining LTS inventory, meeting the intent of the recommendation. Therefore, this recommendation is closed. The policy also included procedures for the DLA to

<sup>14</sup> Memorandum for DLA Disposition Services, “Directive-Type Memorandum (DTM) 16-009, Authority to Remove and Mutilate Demilitarization (DEMIL) Code B and Sensitive DEMIL Code Q Items,” August 11, 2016.

reduce excess inventory to address our second recommendation. The following section of this report discusses the results of the actions the DLA took to implement the new policy.

### ***The DLA Reduced Excess Inventory by \$1.4 Billion***

The DLA implemented the recommendation to determine acceptable retention levels for LTS inventory and dispose of the inventory that exceeded those levels. In our prior report, we identified that the DLA retained all quantities of an LTS item if there was demand for the item within the preceding 2 years, including demand for as few as one item. By retaining unneeded amounts of LTS inventory, the DLA incurred costs to store 768,571 LTS inventory items valued at \$169.5 million.

The DLA implemented its August 2016 policy for LTS inventory and disposed of inventory that exceeded historical demand levels. Specifically, the DLA policy required a review of items with no demand and a semi-annual review of items with demand to determine whether those items should be designated for disposal. To verify that the DLA implemented the policy, we compared the DLA monthly no-demand item lists and semi-annual inventory reviews to DLA disposal transactions and inventory records.

- **Monthly Reviews of No-Demand Item Lists.** DLA DS personnel stated that they perform monthly reviews of LTS inventory items that had no demand in the previous 2 years to determine whether the DLA can destroy the items. We compared the DLA monthly no-demand item lists to DLA DS disposal transaction data from October 2018 through March 2019. We verified that the DLA implemented the monthly no-demand inventory reductions by confirming that the DLA DS removed the items from its inventory records. We determined that during this period, the DLA DS identified 11,285 items (656 NIINS) for disposal, valued at \$19.9 million, that had zero demand.<sup>15</sup> For example, the DLA DS identified:
  - 28 engine plates for disposal that had no demand in the prior 2 years, and we verified that the DLA DS removed the items, with a total value of \$107,604, from inventory records;
  - 5 distribution boxes for disposal that had no demand in the prior 2 years, and we verified that the DLA DS removed the items, with a total value of \$706,530, from inventory records;

<sup>15</sup> We reviewed DLA DS disposal transaction data from October 2018 through March 2019 that identified 9,544 LTS items (609 NIINS), valued at \$7.8 million, for items with no demand stored at the Columbus facility. We also reviewed DLA DS disposal transaction data from October 2018 through January 2019 that identified 1,741 LTS items (47 NIINS), valued at \$12.1 million, for items with no demand stored at the distribution depots.

- 9 line valves for disposal that had no demand in the prior 2 years, and we verified that the DLA DS removed the items, with a total value of \$122,094, from inventory records.<sup>16</sup>

Therefore, we concluded that the DLA performed the monthly no-demand reviews as required by the August 2016 policy.

- **Semi-Annual Reviews of Demand.** DLA DS personnel stated that they perform semi-annual inventory reduction reviews of LTS inventory stored at the Columbus facility based on 2-year demand history to determine whether the DLA can destroy the items. We verified that the DLA implemented the semi-annual inventory reductions by confirming that the DLA DS removed excess items from its inventory records after its most recent semi-annual review, which occurred in December 2018. We determined that as a result of the December 31, 2018, semi-annual inventory reduction review, the DLA DS removed 105,216 items (293 NIINs), valued at \$7.9 million, from inventory that exceeded the demand for the item. For example, the DLA DS identified:
  - 59 indicator panel lights for disposal that exceeded demand, and we verified that the DLA DS removed the items, with a total value of \$1.7 million, from the inventory records.
  - 17 torque meters for disposal that exceeded demand, and we verified that the DLA DS removed the items, with a total value of \$164,594, from the inventory records.
  - 33 cable assemblies for disposal that exceeded demand, and we verified that the DLA DS removed the items, with a total value of \$125,776, from the inventory records.<sup>17</sup>

Therefore, we concluded that the DLA performed the semi-annual inventory reviews required by the August 2016 policy.

The DLA took corrective actions, established a policy for maintaining LTS inventory, and implemented the policy by disposing of LTS inventory in excess of the established inventory levels. To determine how much the DLA reduced LTS inventory since our prior report, we compared the November 2014 LTS inventory to the January 7, 2019, LTS inventory. During this timeframe, DLA LTS inventory decreased by about 2.72 million inventory items, valued at \$1.4 billion. Specifically, LTS inventory decreased from 3.5 million inventory items (68,534 NIINs), valued at \$1.6 billion, to 782,486 items (15,222 NIINs), valued at \$200 million. We determined that the DLA complied with the August 2016 policy and effectively implemented the recommendation; therefore, we consider this recommendation closed.

<sup>16</sup> The engine plate NIIN is 013396380. The distribution box NIIN is 014215914. The line valve NIIN is 013206983.

<sup>17</sup> The indicator panel light NIIN is 013420497. The torque meter NIIN is 013018222. The cable assembly NIIN is 011145501.



### ***The DLA Automatically Reused Items Previously Excluded***

The DLA implemented the recommendation to consider all categories of reusable LTS inventory for reuse. In the prior report, we identified that the DLA automated recoupment process excluded certain categories of inventory from reuse in the EBS.<sup>18</sup> As a result, the DLA excluded 51,589 LTS items that could have been reused within the DLA.

### ***The DLA Updated the Automated Recoupment Process***

The DLA updated the automated recoupment process to allow for the reuse of 11 of the 12 categories of inventory that the DLA previously excluded from reuse. Specifically, the DLA can now reuse materials categorized as flight safety, first article testing, and life support if the material was turned in from a DLA distribution depot. The DLA implemented the automated recoupment process update in October 2018. The update still excluded one category (exclusion items) for valid reasons. Items in the exclusion category have a history of counterfeit parts and quality issues. Therefore, we determined that the DLA's update to the automated recoupment process to reuse the 11 categories of inventory met the intent of the recommendation.

### ***The DLA Reused Inventory From Previously Excluded Categories***

To verify that the DLA reused items from the 11 previously excluded categories of inventory, we reviewed automated reuse transactions from November 2018 through February 2019.<sup>19</sup> We determined that the DLA reused 5,240 items (196 NIINs), valued at \$699,571, from 10 of the 11 categories. For example, on February 7, 2019, the DLA reused 1 video recorder, valued at \$18,467, that had a first article testing requirement.<sup>20</sup> The DLA did not reuse items from 1 of the 11 categories (local purchase) because the DLA did not request items from this category for reuse during the timeframe of our review. Therefore, we concluded that automated recoupment occurred for 10 of the 11 categories of previously excluded items. Based on our analysis of the 10 categories, this is sufficient to conclude that the updated automated recoupment process is reusing previously excluded items. The table lists the DLA's reuse of items from November 2018 through February 2019 by quantity and dollar value in the 10 previously excluded categories.

<sup>18</sup> The 12 exclusion categories identified in the prior report included: shelf life, flight safety, life support, customer-direct (long-term contract), obsolete items, local purchase items, nonstock items, semi-active items, special-procedure items, hazardous material, first-article test, and exclusion items.

<sup>19</sup> We analyzed both LTS inventory and other DLA DS inventory to verify that the DLA's changes to the automated recoupment process for excluded categories occurred.

<sup>20</sup> The video recorder NIIN is 013199740.

Table. The DLA Reused Previously Excluded Categories of Items

Exclusion Category		Unit of Measure	Exclusion Category Totals
1	First Article Testing	Quantity	2,056
		Value	\$175,019
2	Life Support Equipment	Quantity	248
		Value	\$12,469
3	Flight Safety	Quantity	73
		Value	\$44,646
4	Special Procedure Code	Quantity	54
		Value	\$85,733
5	Hazardous Material	Quantity	70
		Value	\$295
6	Shelf Life	Quantity	21
		Value	\$795
7	Customer Direct	Quantity	128
		Value	\$16,005
8	Obsolete	Quantity	99
		Value	\$1,790
9	Nonstock	Quantity	2,487
		Value	\$362,692
10	Semi-Active	Quantity	4
		Value	\$127
<b>Totals</b>		<b>Quantity</b>	<b>5,240</b>
		<b>Value</b>	<b>\$699,571</b>

Note: We limited items to one category if they contained multiple exclusions.

Source: The DLA.

### *The DLA Reused Inventory Totaling \$699,571*

We determined that the DLA took corrective action and considered previously excluded categories of inventory for reuse from November 2018 through February 2019, resulting in the automated reuse of 5,240 items, valued at \$699,571. Therefore, we consider this recommendation closed.

## The DLA Purchased New Items Instead of Reusing Eligible LTS Inventory, but Took Corrective Action

At the start of this audit, the DLA had not implemented the recommendation from our prior report to reuse all eligible inventory during the automated recoupment process. In the prior report, we determined that the DLA's automated recoupment process did not reuse all eligible LTS inventory to reduce purchase orders or maintain needed stock at the depots.

### *The DLA Can Still Improve the Automated Recoupment Process*

DLA personnel concluded that the corrective action taken to remove excluded categories of inventory from automated reuse would also correct the problem of not reusing all eligible LTS inventory. However, these two findings related to automated recoupment cannot be resolved in the same way.

We asked DLA personnel why the automated recoupment process did not reuse these items. DLA personnel stated that the DTID table within the EBS that identifies available inventory to the automated recoupment process for reuse showed that the items were not in stock at the distribution depots and, therefore, not available for reuse. DLA DS personnel determined that those DTID stock levels were incorrect and stated that they have to adjust the stock levels manually in the EBS to correct the error and make the items available for reuse. A DLA DS official explained that the incorrect DTID stock levels occurred because the DLA DS does not have a systematic process to reconcile stock levels. The official further stated that the DLA is working on a systematic process to identify when stock levels do not balance.

### *The DLA Purchased Items That Were Available in LTS inventory*

We determined that the DLA was still not reusing all eligible LTS inventory by comparing the December 31, 2018, LTS inventory to DLA purchases from October 2018 through December 2018. Specifically, we found that the DLA purchased 361 items (36 NIINs), with a total value of \$342,282, instead of reusing items already on hand. For example, in 2018, the DLA purchased:

- 59 cable assemblies, with a total value of \$15,930, but had 174 cable assemblies in LTS inventory at a DLA distribution depot that could have been reused; and
- 9 clutch covers, with a total value of \$74,823, but had 9 clutch covers in LTS inventory at a DLA distribution depot that could have been reused.<sup>21</sup>

<sup>21</sup> The cable assembly NIIN is 014785080. The clutch cover NIIN is 015298878.

During the audit, DLA DS personnel performed manual adjustments for the 361 items (36 NIINs) that we identified which resulted in the reuse of 259 items (30 NIINs), with a total value of \$205,020, and the disposal of 102 items (6 NIINs) with a total value of \$137,262.

We performed an additional review of the DTID stock levels to determine whether there was additional LTS inventory with incorrect stock levels listed in the DTID table. The DLA DS provided us with a record of the May 16, 2019, LTS inventory consisting of 6,536 NIINs (177,755 items) stored at the distribution depots.<sup>22</sup> In addition, the DLA provided us with the stock levels contained in the DTID table as of May 17, 2019. We nonstatistically sampled the DTID table and reviewed 436 NIINs (7 percent of the NIINs in LTS inventory stored at the distribution depots) that existed in both the LTS inventory record and the DTID table. We determined that the DTID table incorrectly listed 291 (7,201 items) of the 436 NIINs as not in stock although they were available for reuse in LTS inventory.

### *The DLA DS took Corrective Actions*

On June 11, 2019, we told DLA personnel that the DTID table still incorrectly listed 291 NIINs (7,201 items) as not in stock although they were available for reuse in LTS inventory. After we told the DLA about these items, DLA DS personnel took action to determine the extent of the incorrect stock levels. On June 13, 2019, the DLA DS identified and corrected the DTID table for 13,377 records, valued at \$93.8 million, to reflect available DLA DS inventory. As a result, the DLA DS processed 802 reuse transactions, valued at \$1.4 million, on June 15, 2019. This correction to the DTID table stock levels fixed the problem and means that the LTS inventory is available for reuse. As a result of the DLA's actions, this recommendation is closed.

*On June 13, 2019, the DLA DS identified and corrected the DTID table for 13,377 records, valued at \$93.8 million, to reflect available DLA DS inventory.*

## **Additional Recoupment Process Problems Identified**

We identified an additional problem with the automated recoupment process. Although the process identified items for reuse, the EBS failed to create a purchase order, and the DLA did not reuse those items.<sup>23</sup> Specifically, in the reuse report for January 13 through 26, 2019, we identified reuse requests that failed to create 135 purchase orders.

<sup>22</sup> We did not review the inventory stored at the Columbus warehouse because our analysis did not provide an indication that there was an issue with this inventory.

<sup>23</sup> A purchase order in the automated recoupment process is a reuse request for DLA DS inventory.

Until we identified the issue to DLA personnel, they were not aware of the EBS failures to create purchase orders even though they had access to the same reuse reports. After we informed DLA personnel about the failures, they determined that the EBS programming did not allow certain depot storage locations to store these items, which resulted in the DLA not reusing the items. In other words, the automated recoupment process was attempting to send reuse items to a certain depot that was not programmed in the EBS to accept the items. DLA personnel stated that the depots should have been allowed to physically store the items and that this should have been reflected in the EBS programming. Because the programming in the EBS blocked those locations from the available list of locations that could store the items, the EBS also failed to create purchase orders, preventing the reuse of these items. DLA personnel stated that the EBS programming required updating to correct the error.

*As a result of the 135 purchase order failures, 11,379 items, valued at \$364,136, were not reused. As of May 17, 2019, the items were still available for reuse.*

As a result of the 135 purchase order failures, 11,379 items, valued at \$364,136, were not reused; however, as of May 17, 2019, the items were still available for reuse. For example, the DLA's automated recoupment

process identified five wiring harnesses for reuse, with a total value of \$18,395; however, the EBS failed to create a purchase order and the DLA did not reuse the harnesses.<sup>24</sup>

The DLA Director should update the automated recoupment process within EBS to allow those depot storage locations to store the items, which would then allow a purchase order to be automatically created. The Director should test the system to verify that the update works properly, and that these actions correct the issue.

## Conclusion

The DLA took action to implement and resolve all four recommendations from our prior report. Specifically, the DLA established and followed a new demand-based inventory policy, made changes in EBS to allow for the automated reuse of previously excluded items, and corrected DLA DS inventory stock levels in EBS. These actions resulted in the DLA:

- reducing its LTS inventory by about 2.72 million inventory items, valued at \$1.4 billion, from November 2014 to January 7, 2019;
- automatically reusing 5,240 items, valued at \$699,571, from November 2018 through February 2019; and
- processing 802 reuse transactions valued at \$1.4 million.

<sup>24</sup> The wiring harness NIIN is 123633202.

In addition, we identified a problem with the creation of purchase orders in the automated recoupment process. However, by implementing the recommendation we make in this report, the DLA can improve its use of existing inventory and avoid purchasing items already in inventory.

## Recommendation

### ***Recommendation 1***

**We recommend that the Defense Logistics Agency Director update the Enterprise Business System programming to correct the purchase order failures and verify that the update to the Enterprise Business System works properly.**

## Management Actions Taken

During the audit, we informed DLA Logistics Operations officials about the EBS purchase order failures that we identified. The officials agreed with our finding and immediately initiated corrective action. Specifically, the officials submitted a system change request on May 9, 2019, to update the EBS programming to correct the purchase order failures. On July 11, 2019, DLA Information Operations approved the system change request. DLA officials stated that the estimated implementation date for the system change request is November 15, 2019. The action taken is sufficient to resolve the recommendation. We will close the recommendation when we verify that the system change request was implemented and that there are no further occurrences of purchase order failures.

## Appendix

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### Scope and Methodology

We conducted this performance audit from November 2018 through September 2019 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.

### *Site Visits and Interviews*

We visited and interviewed officials at the following locations.

- DLA Headquarters, Fort Belvoir, Virginia, to determine whether the DoD established an LTS inventory policy based on historical demand.
- DLA DS Headquarters, Battle Creek, Michigan, to determine how the DLA implemented the LTS policy, including performing monthly and semi-annual reviews.
- DLA Aviation, Richmond, Virginia, to determine whether the DLA implemented changes to the automated recoupment process.

### *Documentation and Data Reviewed*

We reviewed DLA policy, monthly and semi-annual inventory reviews, disposal transaction data, automated recoupment process changes, and automated reuse data provided by the DLA. Overall, we compared the November 2014 LTS inventory levels from our prior report to the LTS inventory levels as of January 7, 2019, to determine whether the DLA reduced excess inventory levels from the prior report.

### *Demand-Based Inventory and Disposal of Excess Inventory*

We reviewed the DLA memorandum, "Directive-Type Memorandum (DTM) 16-009, Authority to Remove and Mutilate Demilitarization (DEMIL) Code B and Sensitive DEMIL Code Q Items," August 11, 2016. We reviewed this policy to identify the requirements for retaining and disposing of LTS inventory. The policy required the DLA to perform no-demand reviews and semi-annual inventory reduction reviews based on historical demand. To verify that the DLA complied with this policy, we:

- compared DLA DS disposal transaction data from October 2018 through March 2019 for items with no demand stored at the Columbus facility and October 2018 through January 2019 for items with no demand stored at the distribution depots; and

- compared DLA DS disposal transaction data from October 2018 through March 2019 to the December 31, 2018, semi-annual inventory reduction review.

### *Reuse of Existing Inventory and Automated Recoupment Process*

We reviewed automated recoupment process functional specifications from the DLA. We verified that the DLA updated functional specifications for the 12 categories of previously excluded items. We used the updated functional specifications and compared them to the functional specifications in place from the prior audit to verify that the process allowed for the reuse of all categories of previously excluded items. To verify that the system changes worked, we reviewed automated reuse transactions from November 2018 through February 2019.

We reviewed LTS inventory levels as of December 31, 2018, and compared the inventory to DLA purchases from October through December 2018. We compared the date of the purchases to the date the item entered the LTS inventory to determine whether there was LTS inventory available that the DLA could have reused instead of purchased. In addition, we nonstatistically sampled the May 16, 2019, LTS inventory and compared it to the May 17, 2019, DTID table to determine whether DTID stock levels were correct.

### **Use of Computer-Processed Data**

We used computer-processed data provided by the DLA. We used DLA records from the Distribution Standard System to determine LTS inventory at the Columbus LTS storage facility and 18 distribution depot locations, as of December 31, 2018. We received a spreadsheet of 960 purchase orders for all LTS NIINs from the DLA for the period from October 1, 2018, through December 31, 2018. We used LTS inventory disposal transaction data provided by the DLA DS from October 2018 through March 2019. We reviewed automated reuse transactions from November 2018 through February 2019 received from the DLA. We also received the May 17, 2019, DTID table and the May 16, 2019, LTS inventory located at the DLA distribution depots. We found this data to be sufficiently reliable for the purposes of this audit.

### **Prior Coverage**

During the last 5 years, the DoD Office of Inspector General (DoD OIG) issued one report discussing LTS. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.



**DoD OIG**

Report No. DODIG-2016-036, "Management of Items in the Defense Logistics Agency's Long-Term Storage Needs Improvement," December 22, 2015

The DLA did not effectively manage LTS inventory. Specifically, the DLA stored items in LTS inventory that exceeded historical demand, meaning the DLA should not have kept the items. As a result, the DLA incurred costs to store 768,571 LTS inventory items, valued at \$169.5 million, that exceeded the historical demand. In addition, in 2014, the DLA reused 216,003 LTS inventory items, valued at \$55.4 million, through its automated process to identify items for reuse (automated recoupment). However, the DLA's process did not identify 87,135 LTS inventory items that it could have reused. As a result, in 2014, the DLA missed opportunities to offset or reduce purchases for items valued at \$17.9 million that were already in LTS inventory.

## Acronyms and Abbreviations

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- DLA** Defense Logistics Agency
- DS** Disposition Services
- DTID** Disposal Turn-In-Document
- EBS** Enterprise Business System
- LTS** Long-Term Storage
- NIIN** National Item Identification Number

# **Whistleblower Protection**

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**Congressional Liaison**

703.604.8324

**Media Contact**

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