The Honorable John F. Lehman  
The Secretary of the Navy  

Dear Mr. Secretary:

Subject: Management of Repairable Spare Aircraft Components Needs To Be Improved (PLRD-81-17)

We have reviewed the Navy's management of repairable spare aircraft components, including operational support inventory items and rotatable pool items. Although the management of these components has been the subject of past reviews, serious weaknesses still exist.

Much of the operational stock inventory material is excess to authorized allowances, and many of the allowances are higher than can be justified based on demand. At one air station, this excess totaled $9 million. These problems exist in spite of the fact that much of the material is managed under the Closed Loop Aeronautical Management Program (CLAMP), a program of intensified management for critical mission essential repairable components. Neither the Aviation Supply Office (ASO) nor the responsible base supply activities have kept accurate records of the rotatable spare material at the naval air rework facilities.

In order to properly manage repairable components and to achieve optimum use of available spares funding, allowances should be established and periodically adjusted to reflect experienced or projected demand. Material excess to activities' needs should be released to the supply system for redistribution and action should be taken to improve visibility over rotatable pool items.

BACKGROUND

Prior to 1977, rotatable pools of spare repairable components were authorized to support aircraft maintenance at both the depot level and the organizational and intermediate level. Pool items at the depot level were recorded on station supply
department records under purpose code "V" and pool items at the organizational and intermediate level were recorded under purpose code "W." 1/ To determine pool allowance levels, several factors were considered, including frequency of demand and repair cycle turn around time.

In about 1977, the "W" purpose rotatable pool items were combined with depot level repairables and aviation consumables to form the aviation operational support inventory. Authorized allowances for this inventory were based on attrition rates, repair frequency; and turnaround time, and are recorded under purpose code "W." Items recorded under purpose code "W" are reserved to meet local needs, but can be withdrawn by the item manager to meet high priority needs elsewhere in the system. Allowances for CLAMP-managed items are supposed to be computed in the same way as other operational support inventory items.

Over the years, numerous Naval Audit Service reports have cited deficiencies in the management of rotatable pool spare parts, including poor visibility over assets, retention of excess stocks, and failure to update authorized allowances. We reviewed these pools to see if deficiencies reported in the past had been corrected.

SCOPE

We made our review at the naval air rework facilities at Norfolk, Virginia, and Cherry Point, North Carolina, and at the Naval Air Station (NAS)-Oceana, Virginia Beach, Virginia, and the 2d Marine Aircraft Wing, Marine Corps Air Station (MCAS) Cherry Point, North Carolina. Analyses were performed on complete inventories or on random samples of inventory items depending on the complexity of analyses and the availability of information. Specific techniques used are identified in the report sections discussing our findings.

MUCH OPERATIONAL SUPPORT INVENTORY IS EXCESS TO REQUIREMENTS

Analyses of inventory records at NAS-Oceana and at Marine Aircraft Group-32, MCAS, Cherry Point, showed that much of the repairable operational support inventory material was excess

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1/ Purpose code "W" material is not subject to redistribution except to meet priority 1 and 2 requisitions.
to authorized allowances. Excesses at NAS-Oceana totaled $9 million. Although applicable instructions require such excesses to be transferred to wholesale stock for redistribution within the supply system, the excess material was still protected under purpose code "W."

Review of selected allowances at NAS-Oceana showed that many of the allowances were higher than are called for by applicable instructions and pertinent demand data.

Navy stock levels exceeded authorized allowances

Naval Supply Systems Command Instruction 4440.160 states that authorized allowance levels are also retention levels and that assets excess to those levels are to be transferred to wholesale stock to facilitate redistribution within the supply system. In some instances, such as with Marine Aircraft Groups or with CLAMP items, this transfer requires the material to be moved to the appropriate wholesale stock points.

Our review of $38 million in materials carried under purpose code "W" at NAS-Oceana showed that $9 million, or 24 percent of the total value, was excess to authorized allowances. About $7.4 million of this excess was managed by CLAMP. Although ASO had reasonably good visibility over the material, neither the item managers nor the naval air station personnel had taken action to transfer the excesses to a wholesale account. Transferring the material to a wholesale account would allow requisitions to be referred automatically, facilitating redistribution within the supply system and allowing optimum use of available items as provided for in the Navy's instruction.

A random sample of 145 purpose code "W" items, valued at about $1 million, stocked by Marine Aircraft Group 32 at MCAS, Cherry Point, disclosed that assets valued at about $58,000 (5.8 percent) were excess to allowances. While this is a small percentage, considering the $142 million inventory of items under purpose code "W" in the 2d Marine Aircraft Wing, there could be a substantial dollar value of excess. This has increased significance because item managers have less visibility over material in the custody of the Marine Air Groups which are not reporting stock points.

Many allowances are unjustifiably high

Operational support inventory fixed allowances are set at negotiation conferences. Field Aviation Supply Office Instruction (FASOINST) 4441.16F provides that such conferences be held for naval air stations at least every 2 years. As of October 1980, a conference had not been held for NAS-Oceana since 1977.
A random sample of 34 of NAS-Oceana's operating support inventory items disclosed that authorized allowances for 25 of the items (76 percent) were higher than could be justified based on experienced demand and the applicable allowance tables contained in FASOINST 4441.16E. These items were largely CLAMP items.

ACCOUNTABILITY FOR ROTATABLE SPARES NEEDS TO BE IMPROVED

Our review of rotatable spares at the naval air rework facilities at Norfolk and Cherry Point disclosed that supporting supply activities did not have accurate records of the material on hand at the facilities. Although regulations required periodic physical inventories and reconciliation of the facilities and supply records, it appears that physical inventories had not been done.

Aviation Supply Office instructions required quarterly inventories of "V" pool assets (FASOINST 4700.25F) and periodic reconciliations of ASO, the supply department, and the naval air rework facility records (FASOINST 4700.30). However, effective inventories and reconciliations have not been done. Comparison of Norfolk's stock records to information developed at its naval air rework facility showed the following variations in the value of "V" pool items:

Naval Supply Center:
- Accountable records: $505,973
- Custody receipt file: 181,048
- GAO inventory: 96,147
  (and review of facility records)

The ASO computer showed that its records agreed with the supply center computer. Although we were not able to fully reconcile the differences between the above records, there were several instances in which items turned in by the naval air rework facility to the supply center were not dropped from the center's computer.

Stock records at MCAS, Cherry Point, for purpose code "V" pool items at the naval air rework facility at Cherry Point showed the custody receipt file and the Master Stock Item Record agreed. However, our physical inventory of selected items showed discrepancies between the above records and the material on hand. For example, although ASO and supply department records showed the facility had two spare main landing gear struts (NSN-1620-00-078-0128), they were not on hand. An informal record showed that one of the items had been issued on June 23, 1978, more than 2 years earlier, with no replacement. There was no record of what had happened to the other unit.
In another instance, neither ASO nor the supply department records showed any aileron drop actuators (NSN 1680-00-179-0001) on hand in the pool. However, the naval air rework facility had two items on hand. In yet another instance, ASO and the supply department record showed the facility as having 2 lubrication pumps (NSN 4320-00-833-2720), but 10 pumps were on hand.

The above discrepancies indicate that effective physical inventories and record reconciliations have not been done. FASOINST 4700.31 (dated July 1, 1980) requires semiannual physical inventory of purpose code "V" assets and a quarterly reconciliation of stock records. While the new instruction, if implemented, should correct the deficiencies discussed in this section, it should be noted that similar management procedures were provided for in earlier instructions but have not been consistently followed.

CONCLUSIONS AND RECOMMENDATIONS

Although we support the repairable pool concept, management of these pools needs to be improved. In spite of repeated management reviews and the publication of instructions intended to correct reported deficiencies, management deficiencies persist. Spares allowances are not always updated to reflect experienced demand, and assets excess to established allowances are not always returned to the wholesale system to allow for automatic referral of requisitions and to facilitate redistribution. Moreover, accountability for rotatable pool items at the facilities is weak.

We believe that published instructions for managing repairable components are adequate and that the above discrepancies have resulted from failure to consistently follow applicable instructions.

In order to allow proper management of repairable components and to achieve optimum use of available spares funding, we recommend that you:

--Direct the Commander, Naval Supply Systems Command, to reemphasize to the ASO and the operating activities the need to consistently follow established procedures for setting and adjusting spares allowances and for managing assets on hand.

--Direct the Auditor General to make follow up reviews to ensure that these procedures are consistently followed.
As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement of actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Defense; and the Chairmen of the above-mentioned committees.

Sincerely yours,

Donald J. Horan
Director