

GAO

Report to the Honorable
Charles Grassley, U.S. Senate

January 1991

**PROPERTY
DISPOSAL**

**Controls Needed to
Preclude DOD Release
of Unsafe Surplus
M151 Jeeps**





United States
General Accounting Office
Washington, D.C. 20548

143068

**National Security and
International Affairs Division**

B-240702

January 2, 1991

The Honorable Charles Grassley
United States Senate

Dear Senator Grassley:

This report responds to your request that we review whether the Defense Logistics Agency complied with the Department of Defense's procedures to safeguard M151 jeeps sent to disposal offices and the Department's policy on the mutilation of M151 jeeps.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time we will send copies to interested congressional committees and other Members of Congress, the Secretaries of Defense and the Army, and the Directors of the Defense Logistics Agency and the Office of Management and Budget. We will also make copies available to others.

This report was prepared under the direction of Donna M. Heivilin, Director, Logistics Issues, who may be reached at (202) 275-8412 if you or your staff have any questions concerning this report. Other major contributors to this report are listed in appendix II.

Sincerely yours,

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

The M151 jeep is considered by the Army to be one of the most dangerous vehicles in its inventory because of the jeep's tendency to turn over easily when driven on paved roads. For that reason, the Department of Defense (DOD) has been trying since 1971 to keep civilians from owning M151 jeeps. Certain parts of excess M151 jeeps may be sold to civilians, whereas others must be mutilated and disposed of so that the jeeps cannot be reassembled. As a result of congressional concern about improper sales and disposals of M151 jeeps and other property, Senator Grassley asked GAO to determine whether the Defense Logistics Agency complied with DOD's procedures to safeguard M151 jeeps sent to disposal offices and DOD's policy on the mutilation of M151 jeeps.

Background

The Secretary of Defense has delegated responsibility for disposal of excess M151 jeeps and other property to the Defense Logistics Agency. The Agency disposes of excess property through its Defense Reutilization and Marketing Service, which is divided into 5 regions and 218 offices. According to the Agency, about \$8.9 billion of property was disposed of in fiscal year 1989. The Agency does not keep sufficient records to determine the sales proceeds from the disposal of M151 jeep parts, but the book value of an M151 jeep is \$16,214. The Army purchased about 185,000 M151 jeeps from 1961 to 1971. Currently, the Army has approximately 36,000 M151 jeeps in its inventory, 12,195 of which are scheduled to be retired by 1995.

Naval Investigative Service and Defense Reutilization and Marketing Service officials have reported that M151 jeeps are in great demand by civilians. However, DOD's policy states that excess M151 jeeps are not to be sold to civilians and that certain parts unique to the M151 jeep, such as the frame, be destroyed. Other parts from excess M151 jeeps can be advertised and sold to civilians either as vehicle components or scrap metal. Parts sold as vehicle components are sold in groups for a specified price. Parts sold as scrap metal are priced by weight.

Results in Brief

M151 jeeps are not being effectively controlled while being transferred from a military unit to a disposal office. The DOD Inspector General's Office and the Army Audit Agency have found that internal control procedures for property in transit between units and disposal offices are not working. They found that discrepancies in the records between what was sent and received were not being investigated. The lack of adherence to these and other internal control procedures increases the chance of theft.

Disposal offices are not following internal control procedures intended to safeguard M151 jeeps. GAO found that (1) vehicles removing M151 jeep parts from disposal offices were not adequately inspected, (2) required information was missing from forms used to control the removal of the sold parts, and (3) weight tickets used to control parts sold as scrap were not completed or safeguarded to prevent changes to recorded weights.

Further, the Defense Logistics Agency was not following DOD's policy requiring that certain parts unique to M151 jeeps be mutilated to prevent the jeeps from being restored to operable condition. As a result, commercial rebuilders have been constructing M151 jeeps and selling them to the public.

Principal Findings

DOD's Procedures to Safeguard Property In Transit Have Not Been Working

Both the DOD Inspector General's Office and the Army Audit Agency have found problems with the in-transit accountability system, which covers M151 jeeps and other property being transferred from units to disposal offices. The DOD Inspector General reported in 1985 that the internal control system over property in transit was ineffective partly because reports generated by the system were voluminous and consequently not often used. A follow-up review in 1989 by the DOD Inspector General's Office found that the system had not significantly improved. Units did not investigate discrepancies because it is time-consuming and little emphasis is placed on reconciling differences. One example of known theft involved 20 M151 jeeps that were transferred from units to a disposal office but never appeared on the disposal office's records. The accountability system for property in transit from the units to the disposal office should have identified this theft. Other cases involving thefts of M151 jeeps are currently under investigation.

The three disposal offices GAO visited were not following some fundamental internal control procedures that would strengthen accountability and discourage theft. The disposal offices did not (1) conduct thorough inspections of vehicles transporting M151 jeep parts from disposal areas, (2) annotate weight tickets for scrap items with all required information and control the weight tickets so that they could not be altered, and (3) control delivery passes for usable components or parts leaving their offices and annotate the passes with all required information.

The Federal Managers' Financial Integrity Act requires executive agencies to establish and maintain internal controls to provide reasonable assurance that, among other things, resource use is consistent with applicable laws, regulations, and policies and that resources are safeguarded to prevent waste, loss, and misuse. Each agency must report annually on the status of its controls. If the controls do not comply with standards established by the Comptroller General of the United States, the agency must report the weaknesses and describe how they will be corrected. The Defense Logistics Agency has not reported the lack of an effective accountability system for property in transit from units to disposal offices or the shortcomings in the disposal process.

DOD's Efforts to Prevent Reassembly of M151 Jeeps Have Not Worked

DOD directed the Defense Logistics Agency to develop disposal procedures requiring that certain parts unique to the M151 jeep be mutilated to prevent reassembly. The Defense Reutilization and Marketing Service, however, had required that only the frame of the jeep be mutilated and allowed the rest of the parts, including the suspensions, to be sold to the public. The suspensions are considered to be the primary cause of the M151 jeep's tendency to turn over easily when driven on paved roads. Civilians have been constructing jeeps using parts sold by disposal offices and a new frame. After GAO informed Defense Reutilization and Marketing Service officials that DOD's policy for disposing of M151 jeeps was not being followed, the Service issued instructions requiring that the suspensions and drive shafts (another part unique to the M151 jeep) be mutilated in addition to the frame.

Recommendations

GAO recommends that the Secretary of Defense

- direct management attention to solving the problems in the accountability system for property in transit from units to disposal offices,
- require the Defense Logistics Agency and its Defense Reutilization and Marketing Service to ensure that internal control procedures established to safeguard disposal items are followed, and
- include in the next annual DOD Financial Integrity Act report to the President and the Congress the need for an improved accountability system for property in transit from units to disposal offices as well as the need to follow controls during the disposal process and what corrective actions are being taken.

Agency Comments

DOD generally agreed with GAO's findings and recommendations and noted that corrective actions to improve the management of the disposal process are planned or ongoing. DOD did not agree that it should include in its next Financial Integrity Act report the need for an improved accountability system for property in transit from units to disposal offices. DOD stated that property accountability for the Army has already been included in its Financial Integrity Act report. However, DOD's Financial Integrity Act report does not include property accountability for the Defense Logistics Agency's disposal system as a problem requiring corrective action. DOD's comments are in appendix I.

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Abbreviations

DLA	Defense Logistics Agency
DOD	Department of Defense
GAO	General Accounting Office

Introduction

Excess military property is generally sent to Department of Defense (DOD) disposal offices in the United States for redistribution within DOD, transfer to other organizations, or sale to the public. The Secretary of Defense delegated responsibility for disposal of excess property to the Defense Logistics Agency (DLA). DLA disposes of excess property through its Defense Reutilization and Marketing Service, which is divided into 5 regions and 218 offices. According to the Defense Logistics Agency, about \$8.9 billion of property was disposed of in fiscal year 1989. Some property, because of its peculiar nature or its potential influence on public safety, may not be sold to the general public and may require special disposal procedures. This report focuses on the disposal of the M151 jeep, which requires special disposal procedures, including mutilating certain parts.

The military services use the M151 jeep to transport personnel, light cargo, and communications equipment over rough terrain in extreme climates. However, the jeep is being phased out of DOD's inventory. According to weapon system personnel at the U.S. Army Tank-Automotive Command, the Army purchased 184,552 M151 jeeps from 1961 to 1971, about 36,000 of which are still in use. About two-thirds of these jeeps are used in the continental United States, and about one-third are used overseas. By 1995, 12,195 are scheduled to be retired. According to a Defense Reutilization and Marketing Service official, the book value of an M151 jeep is \$16,214.

Safety Hazards of the M151 Jeep

The M151 jeep was designed for use over rough terrain and, because of its design, has a tendency to turn over easily when driven on paved roads. Army personnel receive specialized training to operate M151 jeeps. According to the Army Safety Center, from October 1981 to April 1986, M151 jeeps were involved in 2,395 accidents, resulting in 71 fatalities and 1,707 nonfatal injuries. According to a Department of Transportation official, statistics for civilians in M151 jeep accidents are not available because states register the jeeps under various categories, such as recreational vehicles.

In 1971 DOD recognized that selling these jeeps to the public could lead to highway safety hazards and potential government liability. Consequently, in May 1971 the Department of the Army requested that the Department of Transportation's National Highway Traffic Safety Administration provide comments and recommendations concerning the sale of M151 jeeps to the public. In a September 21, 1971, letter, the Administration recommended that M151 jeeps not be sold intact to the

public under any circumstance. The Administration also recommended that the excess jeeps be disposed of in a manner that prevents reassembly, for example, by destroying the frame and suspensions. DOD agreed with the Administration's recommendations and in 1973 issued instructions in the Defense Disposal Manual for DLA to mutilate the jeep in such a manner that it could not subsequently be reassembled. The instructions specified that the jeep's frame and suspensions must be destroyed.

Objectives, Scope, and Methodology

As a result of congressional concern about improper sales and disposals of M151 jeeps and other property, Senator Grassley asked that we determine whether DLA complied with DOD's policy to safeguard M151 jeeps sent to disposal offices and DOD's policy on the mutilation of M151 jeeps.

To perform our work, we interviewed officials and obtained documents on policies and procedures for excess property disposal from the Office of the Assistant Secretary of Defense for Production and Logistics and DLA Headquarters, Washington, D.C. We observed operations in disposal offices at Fort Hood, Texas; Fort Polk, Louisiana; and Fort Bragg, North Carolina; and met with officials to discuss mutilation requirements and disposal policies and procedures.

At the disposal offices we visited, we reviewed files containing the contract, material release documents, weight tickets, and mutilation certification to determine if required procedures had been followed when disposing of M151 jeeps (e.g., had the forms been properly completed). We also obtained sales catalogs to obtain information on jeep sales. We reviewed and traced the records of M151 jeeps from the time they entered the disposal yard until their frames were certified as mutilated.

We discussed procedures followed by disposal offices with the Defense Reutilization and Marketing Region, Memphis, Tennessee, which is the regional office responsible for the three disposal offices we visited. We interviewed officials at the Army Tank-Automotive Command, Warren, Michigan, and obtained the Army's schedule for retiring M151 jeeps. We obtained statistics of accidents involving the jeeps from the Army Safety Center and interviewed officials from the Department of Transportation and civilian attorneys to gather and interpret statistics regarding accidents involving the jeeps. We also discussed the Department of Transportation's recommendation that the jeeps not be sold to the general public with officials from that agency.

To obtain information on improper activities involving M151 jeeps, we interviewed officials from the Criminal Investigation Division, Fort Hood, Texas; the Office of the DOD Inspector General, Washington, D.C.; the Naval Investigative Service, Camp Lejeune, North Carolina; the Defense Reutilization and Marketing Region's Legal Counsel, Memphis, Tennessee; and the Defense Reutilization and Marketing Service's Office of Command Security, Battle Creek, Michigan.

To determine uses for excess jeep components, we interviewed individuals that purchased M151 jeep components from disposal offices. To determine how M151 jeeps are rebuilt and how customers license these jeeps, we visited a commercial firm in Texas that rebuilds M151 jeeps from excess parts. We also obtained documentation from the Department of Transportation regarding the number of states licensing M151 jeeps.

We conducted our review between October 1989 and July 1990 in accordance with generally accepted government auditing standards.

DOD Procedures to Safeguard M151 Jeeps Have Not Been Working

Procedures that ensure that property sent to disposal offices is safeguarded need to be followed. DOD has issued procedures for tracking property sent from a military unit to a disposal office, and the Defense Reutilization and Marketing Service has issued procedures for safeguarding property received at a disposal office. However, some of these procedures are not being followed.

The DOD Inspector General's Office and the Army Audit Agency have reviewed DOD's procedures to track property being sent from units to disposal offices and have found that these controls are not working. In our review of controls for M151 jeeps, we found that the three disposal offices we visited were not complying with some of the procedures to control excess property sold to the public. Thefts of M151 jeeps have occurred, and the lack of adherence to internal control procedures increases the chance of theft.

Controls Over Property In Transit Are Deficient

DOD procedures for tracking excess property being transferred to disposal offices specify actions that the Defense Reutilization and Marketing Service and military personnel must follow to safeguard excess military property. However, the DOD Inspector General's Office and the Army Audit Agency have found that these controls are not working. Furthermore, DLA has discontinued some procedures for controlling property in transit until revised procedures are implemented in 1992. According to an official of the Office of the Assistant Secretary of Defense for Production and Logistics, no one DOD office is responsible for ensuring that property sent to disposal offices is accounted for. The disposal offices are concerned about tracking property that has been received, whereas military units are concerned with tracking property that has been turned in. Although a system for tracking items sent from units to disposal offices has been established, reported discrepancies are not being resolved. The lack of effective procedures to safeguard property in transit from units to disposal offices increases the chance of theft.

DOD Procedures

The Military Standard Requisitioning and Issue Procedures (DOD 4000.25-1-M) provides that property be controlled from the time it leaves a unit until it arrives at a disposal office. When the property is transferred from a unit to a disposal office, the unit is required to notify the Defense Reutilization and Marketing Service what items are being shipped, the number of items, and the shipment date. The Defense Reutilization and Marketing Service then includes the items in its records.

When the disposal office receives the items, it notifies the Defense Reutilization and Marketing Service of the type of item, quantity, and date of receipt.

The Defense Reutilization and Marketing Service then compares the information received from the disposal office with information received from the unit. If a discrepancy exists, the Defense Reutilization and Marketing Service sends the unit a follow-up notice within 30 days. After receiving the notice, the unit is required to investigate the discrepancy and coordinate with the disposal office to resolve it. If the unit and the disposal office cannot resolve the discrepancy and the property cannot be accounted for, the unit is required to alert the applicable investigative agency. If the unit and the disposal office resolve the discrepancy, the unit must notify the Defense Reutilization and Marketing Service within 20 days after the date of the follow-up notice. Once the Defense Reutilization and Marketing Service receives notification that the discrepancy has been resolved, the file is closed. If a unit fails to respond to the first follow-up notice, the Defense Reutilization and Marketing Service sends the unit a second follow-up notice. If the unit does not respond to the second notice, the Defense Reutilization and Marketing Service takes no further action but leaves the file accessible for 2 years.

The Defense Reutilization and Marketing Service prepares monthly summary reports of property in transit. These reports have shown a large amount of property unaccounted for. For example, the April 1989 report showed that second follow-up notices had been sent for property with a book value of \$3.4 billion. A DLA official told us that these monthly reports are inaccurate and that the number of transactions and the dollar value of the property are inflated because some items are counted twice. For example, the \$3.4 billion in property that was not accounted for included items sent from units that were not shown as received by the disposal offices and items received by the disposal offices that were not shown as sent from the unit. DLA personnel could not tell us the actual dollar value of property that had been sent by the units and could not be accounted for by the disposal offices.

In July 1989 the Defense Reutilization and Marketing Service discontinued sending follow-up discrepancy notices to the units because it plans to revise its computer system for tracking property in transit from units to disposal offices. Since that time the Defense Reutilization and Marketing Service has not had any procedure in place to check on property sent to disposal offices but not shown as received. The Defense

Reutilization and Marketing Service plans to implement revised procedures for property in transit and resume sending follow-up notices to units in November 1992. We were told that these actions would not be implemented sooner because to do so would significantly impact a major system modernization program by DLA and the services.

Failure to Follow Procedures Results in Loss of Accountability

If proper procedures are not followed, excess property in transit from a unit to a disposal office cannot be adequately accounted for. For example, according to a Naval Investigative Service investigator, about 20 M151 jeeps were stolen from the disposal office at Camp Lejeune, North Carolina, between January 1985 and June 1988. The Chief of the disposal office said employees destroyed documents from the units showing the quantity of the jeeps and the date they were sent and concealed the jeeps in a remote disposal lot. The employees then accepted bribes from civilians to allow them to take the M151 jeeps intact from the lot concealed on truck beds. An investigator for the Naval Investigative Service and the Chief of the Camp Lejeune disposal office stated that if the units and disposal office had followed the Military Standard Requisitioning and Issue Procedures, the thefts could have been detected sooner.

Other disposal offices are investigating cases of thefts of M151 jeeps. Since these cases are ongoing, we could not obtain the details of the cases.

DOD Inspector General's Office and Army Audit Agency Have Found Problems

A December 24, 1985, report by the DOD Inspector General said that the internal control system for property in transit from units to disposal offices was ineffective partly because reports generated by the system were voluminous and consequently not often used. DLA concurred with this finding and said a working group would review and revise the procedures by February 1986. However, the DOD Inspector General's Office reviewed the system again in 1989 and found that the Defense Reutilization and Marketing Service had not significantly improved procedures for accounting for property in transit. An official from the DOD Inspector General's Office said that units were not responding to follow-up notices or investigating discrepancies because it is time-consuming and little emphasis is placed on reconciling these differences.

A February 28, 1989, report by the Army Audit Agency included a study of property disposal and transfer actions at Fort Monroe, Virginia, within an 18-month period ending September 30, 1987. The Agency

reviewed records for property with a total cost of \$709,607 and found property with a total cost of \$100,715 had been transferred to but was not shown as received by the disposal office. The Agency also found discrepancies existed between quantities shipped to and received by the disposal offices. For example, Fort Monroe's property book division transferred 241 items to the disposal office. However, disposal office records showed that only 117, or 48.5 percent, of these items were received. Therefore, 124 items with a total cost of \$16,540 were unaccounted for. The property book division did not compare receipt documents from the disposal office with documents used to control property leaving the command; therefore, the discrepancies were not investigated. In total, the command had no assurance that property totaling \$117,255, or 16.5 percent of the \$709,607 of property reviewed, was actually received by the disposal office.

Procedures to Control Property Being Sold Are Not Always Followed

The Defense Reutilization and Marketing Service advertises and sells excess M151 jeep parts to civilians either as vehicle components or scrap metal. When advertised as vehicle components, the jeep parts are sold in groups for a specified price. When advertised as scrap, the parts are sold by weight, requiring each load leaving the yard to be weighed. Both types of sales allow the purchaser to remove the parts from the jeeps at the disposal yards over a given period of time.

We found that the three disposal offices we visited were not complying with procedures established to prevent theft. Specifically, we found that records of property sold to civilians and removed from disposal offices were incomplete, vehicles transporting property from disposal areas were not inspected, and required information was not recorded on weight tickets that control property sold by weight. Also, one office did not safeguard the tickets to prevent changes to the information.

Incomplete Forms and Records

The Defense Reutilization and Marketing Service's disposal operating procedures require that delivery passes be prepared and numbered sequentially for purchasers of excess property. These passes are used to record partial removal of excess property bought under a one-time contract and serve as receipts for disposal office customers. The type and quantity of property that a purchaser removes from a disposal office is also required on the pass. According to the Chief, Defense Reutilization and Marketing Service Contracting Division, delivery passes are numbered to enable the disposal offices to settle disputes regarding whether

a purchaser has removed all property under a particular contract. However, two of the three disposal offices we visited had not numbered their delivery passes and had not specified the quantity of property being removed on some passes.

Employees at the disposal offices told us that they maintain control of M151 jeep parts released to the purchaser by monitoring the loading of the purchaser's vehicle. They also stated that they are aware of the quantities being released and when a purchaser has removed all property under a contract.

**Vehicles Removing
Property From Disposal
Yards Are Not Adequately
Examined**

The Defense Reutilization and Marketing Service's disposal operating procedures require that all vehicles removing property from disposal offices be closely examined before leaving to verify that only sold property is removed. Of the three disposal offices we visited, only the Fort Bragg disposal office examined the contents of vehicles removing M151 jeep parts before they left the disposal office. Officials from the other disposal offices we visited stated that they observe vehicle loading but do not routinely inspect all vehicles as they leave the disposal yard.

**Poor Control Over Weight
Tickets**

When M151 jeep parts are advertised and sold as scrap, weighing and recording pertinent information is necessary to determine the exact purchase price and ensure that property is properly handled and tracked. The Defense Reutilization and Marketing Service's disposal operating procedures require that all weight tickets include (1) applicable contract and item numbers, (2) vehicle license number, and (3) an indication of whether the driver was in the vehicle while the vehicle was being weighed.

We found that many weight tickets at the Fort Bragg and Fort Hood disposal offices were incomplete. For example, about 48 percent of the weight tickets for one contract we reviewed at the Fort Bragg disposal office lacked at least one piece of information required by the disposal operating procedures. The vehicle license number, which is used to match weight tickets with vehicles leaving the yard, was frequently omitted. The jeep components sold at the Fort Polk disposal office on contracts we reviewed were sold as vehicle components; therefore, weight tickets were not used.

Disposal office employees told us that they are able to match tickets with the correct vehicles. For example, at Fort Bragg, the Material

Sorter and Classifier Foreman stated that an employee completing the weight ticket usually records the type of item that would be loaded onto the truck. Workers used a description of the item, rather than the vehicle license number, to match weight tickets with vehicles. However, we found that some weight tickets at Fort Bragg did not have a description or a license number. Even if a description was noted on the weight ticket, it is not a sound internal control practice, since descriptions of similar items such as tires are not sufficient to identify a particular item.

We also found that weight tickets at the Fort Hood disposal office are not controlled by disposal office personnel. Weight tickets are left unattended at the weighing station while vehicles are loaded. Consequently, empty truck weights shown on weight tickets can be increased, allowing greater weights to be removed than have been purchased. In contrast, weight tickets at the Fort Polk and Fort Bragg disposal offices are controlled by office personnel and are numbered before they are distributed. This allows the office employees to note whether all weight tickets for a sale have been returned.

Assessment of Internal Controls

The Federal Managers' Financial Integrity Act of 1982 requires that executive agencies establish and maintain systems of internal controls that conform to standards established by the Comptroller General of the United States. The act also requires that agencies evaluate these controls periodically and report to the President and the Congress annually on their status. These controls are to provide reasonable assurance (i.e., a satisfactory level of confidence, given considerations of costs, benefits, and risks) that resource use is consistent with applicable laws, regulations, and policies; resources are safeguarded to prevent waste, loss, and misuse; transactions and other events are adequately documented and fairly disclosed; and resources are accounted for. When internal controls do not comply with the established standards, the agency's annual report must identify the weaknesses and describe how they will be corrected.

DLA has not reported any deficiencies in the system to account for property in transit between units and disposal offices, even though prior reports have shown that the system is ineffective. DLA is presently revising procedures for property in transit; however, the revised procedures will not be implemented until November 1992. According to an official from the DOD Inspector General's Office, Army units place little emphasis on accountability for property in transit. Moreover, DLA has

not reported the shortcomings in the safeguards applied during the disposal process.

Conclusions

M151 jeeps are not being effectively safeguarded while in transit from a military unit to a disposal office and when leaving a disposal office. The practice of reconciling the items sent by military units with the items received by disposal offices was not being effectively carried out and then was discontinued pending DLA development of a new computer system.

The disposal offices we visited were not complying with established procedures designed to safeguard excess property and discourage theft and fraud. Required forms were not adequately filled out and controlled. If delivery passes are not controlled through sequential numbering and do not have the quantity of property removed recorded on the passes, disposal offices lose control and do not have reasonable assurance that property is safeguarded against loss and misappropriation. Also, if the vehicle contents are not examined as they leave the disposal yard and the contents are not compared to information on delivery passes, the disposal office property is vulnerable to theft.

The lack of an adequate accountability system for property being transferred from units to disposal offices and the inadequate safeguarding of property during the disposal process have not been reported, as required by the Federal Managers' Financial Integrity Act.

Recommendations

GAO recommends that the Secretary of Defense

- direct management attention to solving the problems in the accountability system for property in transit from units to disposal offices,
- require DLA and its Defense Reutilization and Marketing Service to ensure that internal control procedures established to safeguard disposal items are followed, and
- include in the next annual DOD Financial Integrity Act report to the President and the Congress the need for an improved accountability system for property in transit from units to disposal offices as well as the need to follow controls during the disposal process and what corrective actions are being taken.

Agency Comments and Our Evaluation

DOD generally agreed with our findings and recommendations. DOD stated that the accountability issue we raised is one of lack of compliance with existing property disposal policy and manual procedures. DOD agreed that the control procedures for property in transit from units to disposal offices were ineffective. According to DOD, the actions planned in 1989 to be implemented in November 1992 will improve control over property in transit from units to disposal offices.

DOD did not agree that it should include in its next Financial Integrity Act report the need for an improved accountability system for property in transit from units to disposal offices. DOD stated that property accountability for the Army has already been included in its Financial Integrity Act report. Also, DOD stated that the annual reporting covers numerous areas of property accountability, including Army in-transit visibility. DOD stated that the problem of in-transit property accountability is not substantial enough to warrant separate inclusion in its Financial Integrity Act report.

DOD stated that the Army began reporting property accountability as a high-risk material weakness in its fiscal year 1989 report. DOD's Financial Integrity Act report does include property accountability for the Army, stating that there have been persistent Army-wide management control deficiencies in maintaining property accountability records. It further notes that audits continually report that on-hand assets are not recorded, which increases the risk of undetected losses. However, our report covers the property disposal system for which DLA is responsible. DOD's Financial Integrity Act report does not include property accountability for DLA as a problem requiring corrective action.

DOD Efforts to Prevent Reassembly of M151 Jeeps Have Not Worked

DOD has tried to prevent civilians from rebuilding M151 jeeps from excess parts. In 1973 DOD issued instructions in the Defense Disposal Manual for DLA to mutilate M151 jeeps "...in a manner that will prevent subsequent reassembly." The manual specified that the frame and suspensions must be destroyed. However, DLA has recently required that only the jeep's frame be mutilated. The disposal offices have been selling the suspensions, which are unique to the M151 jeep, and other usable parts to the public. As a result, the jeeps are being rebuilt, and at least 15 states have licensed these jeeps.

DLA Disposal Procedures Did Not Follow DOD Policy

In 1973 the Deputy Assistant Secretary of Defense for Supply, Maintenance, and Services instructed DLA to ensure that the excess M151 jeeps could not be restored to an operable condition. The Deputy Assistant Secretary also stated that parts unique to the M151 jeep should be mutilated, thereby ensuring that DOD would not be a source of repair parts for reassembled vehicles.

In its Defense Disposal Manual (DOD 4160.21-M), dated June 1973, DOD authorized disposal offices to sell M151 jeep components, provided that the frame and suspensions were destroyed. The suspensions were required to be mutilated because they are considered to be the primary cause of the jeep's tendency to roll over easily when driven on paved roads.

However, the current Defense Utilization and Disposal Manual (DOD 4160.21-M), dated September 1982, requires that only the body of M151 jeeps be shredded, crushed, or mangled. Vehicle components such as the engine, radiator, and transmission may be removed and sold. This manual does not specify that the suspensions must be mutilated. As a result, only the bodies of the M151 jeeps were being mutilated, and disposal offices were advertising and selling the M151 components, including the suspensions. For example, the Defense Marketing and Reutilization Service's January 18, 1989, sales catalog showed that the front and rear suspensions were advertised. Civilians could purchase the components and use them to rebuild the jeep. The following is an excerpt from that sales catalog.

130. VEHICLE COMPONENTS (EXCLUDING UNITIZED BODY):

From 5 each M151A1 and 30 each M151A2 truck utility, 1/4 ton, 4x4, components and accessories included but not limited to:

- 25 Ea. Engine, gasoline, 4 cylinder, water cooled
- 22 Ea. Radiator
- 22 Ea. Transmission, 4 speed, with transfer

34 Ea. Steering column
34 Ea. Hood
140 Ea. Wheels and tires
25 Ea. Front differential
35 Ea. Front wheel drive unit and suspension
25 Ea. Rear differential
35 Ea. Rear wheel drive unit and suspension
25 Ea. Windshield
34 Ea. Front bumper
32 Ea. Grill
34 Ea. Gas tank

We asked DOD officials why the requirements in the manual had been relaxed to allow the disposal offices to sell the M151 suspensions. An official of the Office of the Assistant Secretary of Defense for Production and Logistics stated that he did not know why the manual had been changed or why the disposal offices were not following DOD's policy.

Officials at Defense Reutilization and Marketing Service headquarters agreed that the disposal offices were not complying with DOD's intent to prevent civilians from owning M151 jeeps. After our visit on April 11, 1990, the Defense Reutilization and Marketing Service changed its procedures to require that the M151 jeep's drive shafts and suspensions be mutilated in addition to the frame. The Service has approved a change to its disposal manual to formalize this procedure change, and the change is being printed for distribution.

M151 Jeeps Are Being Rebuilt and Licensed

The M151 components sold by disposal offices are being used to rebuild the jeeps. We visited a commercial rebuilder of M151 jeeps, who told us that he reconstructs the jeeps by attaching components purchased from disposal offices to a body that he builds.

The National Highway Traffic Safety Administration has actively worked since 1972 to prevent the licensing of M151 jeeps to civilians. However, a 1989 survey conducted by the American Association of Motor Vehicle Administrators revealed that at least 15 states register M151 jeeps. According to the survey, other states may also license them unknowingly because the jeeps may be licensed under other categories, such as recreational vehicles or rebuilt trucks. According to the Department of Transportation's Office of General Counsel, states set vehicle registration and licensing requirements, and the Department of Transportation lacks the authority to prohibit them from licensing M151 jeeps.

Conclusions

DLA's disposal procedures did not follow DOD's policy to prevent excess M151 jeeps from being restored to an operable condition. The sale of M151 parts has permitted commercial rebuilders to reconstruct jeeps for sale to the public. The Defense Reutilization and Marketing Service now requires disposal offices to mutilate the M151 jeep's suspensions and drive shafts in addition to the frame. If properly implemented, DLA will be in compliance with DOD's policy on the disposal of M151 jeeps.

Agency Comments and Our Evaluation

DOD agreed with our finding that DLA's disposal procedures for the M151 jeep did not follow DOD's policy. DLA sent instructions to the disposal offices to mutilate the drive shafts and suspensions. In addition, DOD said a change to its disposal manual (DOD 4160.21-M) is to be published by November 1990 with these instructions. If these procedures are properly implemented, DLA will be in compliance with DOD's policy for disposal of M151 jeeps.

Comments From the Department of Defense



PRODUCTION AND
LOGISTICS

(L/SD)

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301-8000

November 5, 1990

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "PROPERTY DISPOSAL: Controls For Safeguarding M151 Jeep Disposal Are Not Working," dated September 19, 1990 (GAO Code 398011), OSD Case 8462. The DoD generally concurs with the draft report.

The M151 jeep has been proven to be dangerous and the DoD is making a continuous effort to keep the vehicle out of the hands of civilians, as the item is phased out of the inventory. The revision of the disposal procedures is necessary as part of the continuing effort to avoid jeep rebuilding and to react to corresponding actions from rebuilders. Significant actions by the DoD include development of an automated system for property accountability that is scheduled for completion in 1992, and developing improvements to decrease the possibility of rebuilding of the vehicles. In the meantime, the DoD is attempting to ensure that the manual procedures currently in place are being followed.

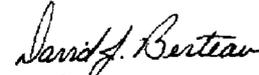
Internal control issues involving the M151 jeep disposal process were identified in the report. Corrective actions are being taken to resolve those issues through the revision of the DoD in-transit control procedures scheduled for completion in November 1992. Modification to the system is a labor intensive effort that is continually underway. The DoD recognizes that improvements in property accountability are needed and, to the extent necessary, the problems have been reported in prior Financial Integrity Act reports. The DoD has determined that the magnitude of the problem of in-transit property disposal is not substantial enough to warrant separate inclusion in the Financial Integrity Act report.

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The report findings and recommendations are addressed in greater detail in the enclosure. The DoD appreciates the opportunity to comment on the draft report.

Sincerely,



David J. Berteau

Principal Deputy Assistant Secretary of
Defense (Production and Logistics)

Enclosure

GAO DRAFT REPORT - DATED SEPTEMBER 13, 1990
(GAO CODE 398011) OSD CASE 8462

"PROPERTY DISPOSAL: CONTROLS FOR SAFEGUARDING
M151 JEEP DISPOSAL ARE NOT WORKING"

DEPARTMENT OF DEFENSE COMMENTS

* * * * *

FINDINGS

FINDING A: Need for Proper Disposal of the M151 Jeep. The GAO reported that the M151 jeep is used by the Services to transport personnel, light cargo, and communications equipment over rough terrain in extreme climates, but the vehicle is now being phased out of the DoD inventory. The GAO further reported that the Army considers the M151 to be one of the most dangerous vehicles in the inventory, because of the jeep's tendency to turn over easily when driven on paved roads. The GAO found that, as a result, the DoD has been trying, since 1971, to keep civilians from owning the M151 jeeps.

The GAO explained that excess military property is generally sent to DoD disposal offices for redistribution within the Department, transfer to other organizations, or sale to the public--a responsibility that is handled by the Defense Logistics Agency through its Defense Reutilization and Marketing Service. In recognition of the M151 safety hazards the GAO found that it is DoD policy that M151 jeeps are not to be sold to civilians. The GAO further found that in order to accomplish that policy, in 1973, the DoD issued instructions for the Defense Logistics Agency to mutilate the M151 jeep in such a manner as to prevent its subsequent re-assembly, which was to be accomplished by destroying the frame and suspensions. (pp. 2-3, pp. 10-12/GAO Draft Report)

DOD RESPONSE: Concur.

FINDING B: Procedures To Safeguard Disposal Of M151 Jeeps Are Not Working. The GAO reported that DoD procedures provide that property be controlled from the time it leaves a unit until it arrives at a disposal office. The GAO explained that those procedures specify the actions that the Defense Reutilization and Marketing Service and military personnel must follow to safeguard excess military property,

Now on pp. 2, 8-9.

including the issuance of follow-up notices, when information from the disposal office does not agree with information from the unit. The GAO noted that the Marketing Service has also issued procedures for safeguarding property received at the disposal offices. The GAO found, however, that the Marketing Service discontinued sending follow-up discrepancy reports in July 1989, because it plans to revise its computer systems for tracking property in transit. The GAO also found that the Marketing Service does not plan to implement the revised procedures and resume sending follow-up notices until November 1992.

The GAO reported that the Marketing Service prepares monthly summary reports of property in transit. According to the GAO, those reports have shown a large amount of property unaccounted for. As an example, the GAO reported that the April 1989 report showed that second follow-up notices had been sent for \$3.4 billion in property. According to the GAO, a Defense Logistics Agency official said the monthly reports identify the actual dollar value of property that had been sent by the units and could not be accounted for.

The GAO also found indications of a loss of accountability. As an example, the GAO discussed an incident identified by a Naval Investigative Service investigator involving the theft of about 20 M151 jeeps between 1985 and 1988. According to the GAO, DoD officials said that, if the units and disposal offices had followed required procedures, the thefts should have been detected sooner. The GAO noted that other incidents of theft are also under investigation. The GAO concluded that DoD procedures to safeguard M151 jeeps are not being followed, which has resulted in a loss of accountability. The GAO also concluded that the situation is an indication that controls over property in transit are deficient. (pp. 3-6, pp. 15-19/GAO Draft Report)

DOD RESPONSE: Concur. The Marketing Service discontinued sending follow-up discrepancy reports; however, the manual system remains in effect and the DoD is attempting to ensure that the manual procedures are being followed. The reports were discontinued because they proved to be ineffective and generated too much paperwork with too little return. The Defense Logistics Agency uses a "batch lotting" system for low cost items that are consolidated for record keeping purposes because, individually, they do not warrant separate records. The DoD is developing the automated system to reduce the need for manual input which is subject to procedural non-compliance. Making refinements to a manual system that is being phased out would require a resource commitment that would not be cost effective. The automated system will be in place in 1992 and will be a considerably faster and more responsive system.

In the meantime, DoD is following the procedures in the manual system and is emphasizing to users the need to comply with those procedures. Prior to February 21, 1989, the lowest economical tracking value was established at \$100 for most items and at \$50 for front end screening items. To increase productivity, the value was raised to \$250 for both batch lots and front end screening for the Services. Items in batch lots cannot be tracked individually for automated follow up. The implementation date for the change was delayed to November 1992, to accommodate system changes required by the Services. Without the change, the volume of items reported for follow-up would have increased to the point of system breakdown. Because there was still a manual system in place, the automated system was discontinued to avoid flooding the generators with follow-up notices for items \$100 to \$250 that actually had been received.

The GAO indicates that \$3.4 billion in property is unaccounted for. That figure is misleading because there are duplicate counts between the Marketing Offices and the Military Service generator systems. The DoD recognizes that the method has proven to be unreliable and has not used it since February 1989. The DoD would like to emphasize, as stated in the report, that the monthly reports are inaccurate. The revised system for 1992 will provide for improved management reporting.

The accountability issue raised by the GAO is actually one of lack of compliance with existing property disposal policy and manual procedures. In the case of the theft of M151 jeeps, it reflects a deliberate misuse by individuals. Even the revised automated system will not preclude that type of deliberate misuse.

FINDING C: Problems Found By Previous Audits. The GAO reported that, in December 1985, the DoD Inspector General asserted that the internal control system over property in transit was ineffective, partly because reports generated by the system were voluminous and consequently were largely unused. According to the GAO, the Defense Logistics Agency concurred with that finding and established a working group to review and revise the property control procedures by February 1986. The GAO further reported, however, that according to a DoD Inspector General official, the system was reviewed again in 1989, but the Defense Reutilization and Marketing Service had not improved procedures for in transit accountability significantly--and units were not responding to follow-up notices or conducting discrepancy reconciliations.

The GAO also reported that, in February 1989, the Army Audit Agency reported on property disposal and transfer actions at Fort Monroe, Virginia. According to the GAO, the Army Audit Agency reviewed a total of \$709,607 of property and found 171 turn-in actions, with a

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Now on pp. 2-3, 11, 13-14.

total cost of \$100,715, that were not received by the disposal office. In addition, the GAO noted that the Army Audit Agency found discrepancies existed between quantities shipped to and received by the disposal offices. According to the GAO, the audit report showed that 124 items, costing \$16,540, were unaccounted for out of 241 items listed on the Fort Monroe property book. The GAO further pointed out that the discrepancies were not investigated. (pp. 3-5, p. 15, pp. 20-21/GAO Draft Report)

DOD RESPONSE: Concur. Procedures were developed in 1989 to correct the ineffectiveness of in-transit control and were programmed into the Defense Logistics Agency disposal system. However, they were removed as a result of delays agreed to at a September 1989, Military Standard Requisitioning and Issue Procedures focal point meeting. At the time, there was some discussion as to whether or not to leave the programs in the disposal system and insert a block that would override the in-transit procedures until the new implementation date of November 1992. It was decided that it would have been more time-consuming to program a block than to pull out the in-transit procedures and re-insert them in 1992, when the Military Services' systems were modernized. In the meantime, the Defense Logistics Agency is re-emphasizing the need to comply with the current manual procedures.

Actions taken or planned by the Army to implement corrective action at Fort Monroe in response to the 1989 Army Audit Agency report, addressing property accountability, were satisfied as of May 11, 1989. Those actions included implementation of revised procedures prescribing that turn-in documents be compared with both the receipt documents from the Marketing Offices and the turn-in document register and to follow up if any discrepancies arise. The revised procedures were effective in the 4th quarter of FY 1988.

FINDING D: Procedures To Control Property Being Sold Are Not Always Followed. The GAO reported that the Defense Reutilization and Marketing Service advertises and sells excess M151 jeep parts to civilians, either as vehicle components or scrap metal. The GAO found, however, that the three disposal offices it visited were not complying with procedures established to prevent theft. As one example, the GAO reported that disposal procedures require that receipt/delivery passes be prepared and numbered sequentially for one-time contracts awarded to purchasers of excess property. The GAO found, however, that two of the three disposal offices had not numbered their delivery passes and had not specified the quantity of property removed on some passes.

In another example, the GAO reported that the procedures require that all vehicles removing property from disposal offices be closely

examined before leaving to verify that only sold property is removed. The GAO found, however, that only the Fort Bragg disposal office examined the contents of vehicles removing M151 parts before they left the disposal office.

The GAO also found poor control over weight tickets by the disposal offices. The GAO explained that, when M151 jeep parts are advertised and sold as scrap, weighing and recording pertinent information is necessary to determine the exact purchase price and ensure the property is properly handled and tracked. The GAO observed disposal procedures require that all weight tickets contain specific identifying information to ensure proper control. The GAO found, however, that many weight tickets at the Fort Bragg and Fort Hood disposal offices did not contain the required information. In addition, the GAO found that weight tickets at Fort Hood were not controlled by disposal officer personnel. The GAO concluded that disposal offices are not following established internal controls intended to safeguard M151 jeeps. The GAO further concluded that the lack of adherence to these and other internal control procedures increases the chance of theft. (pp. 3-5, p. 15, pp. 21-25, p. 27/GAO Draft Report)

Now on pp. 2-3, 11,
14-16, 17.

DOD RESPONSE: Concur. The DoD procedures do not require close examination of all vehicles to verify if unauthorized property is being removed. The procedures do require random verification of 10 percent or 5 vehicles per month, and verification of the removal of only sold property during the loading process. In addition, disposal office employees receive instruction on how to take precautions to protect property from theft in connection with the performance of their normal duties. The Defense Logistics Agency has reviewed policies and implementing procedures regarding safeguards addressed in the findings and found them to be in order. The GAO examples reflect instances of Defense Reutilization and Marketing Office noncompliance with established policies and procedures. The Defense Logistics Agency is in the process of advising the Defense Reutilization and Marketing Service to ensure compliance and provide follow-up to prevent recurrence. Evaluation of compliance with the in-place policies and procedures will be included in future Defense Logistics Agency staff assistance visits to the Defense Reutilization and Marketing Service.

FINDING E: GAO Assessment Of Internal Controls. The GAO reported that the Federal Managers' Financial Integrity Act of 1982 requires that Executive Branch agencies establish and maintain systems of internal controls conforming to standards established by the Comptroller General--and that agencies periodically evaluate and annually report on the status of such controls. The GAO pointed out that when controls do not comply with established standards, the

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agency's annual report must identify the weaknesses involved and describe the plan for corrective action. The GAO found, however, that neither the Army nor the Defense Logistics Agency have reported any deficiency in the transit accountability system for shipments between units and disposal offices, even though prior reports have shown the system to be ineffective (also see Finding C). Although acknowledging the Defense Logistics Agency is currently revising its in transit accountability procedures, the GAO concluded that it will be November 1992, before the revised procedures are in place. According to the GAO, a DoD Inspector General representative had observed that the Army units place little emphasis on in transit accountability. The GAO also pointed out that the Defense Logistics Agency has not reported on the shortcomings in the safeguards applied during the disposal process itself. The GAO concluded that the DoD should include in its next Financial Integrity Act Statement of Assurance the need for an improved accountability system for property in transit, as well as during the disposal process itself, and identify what corrective actions are being taken. (pp. 4-6, p. 15, pp. 25-28/GAO Draft Report)

DOD RESPONSE: Partially concur. The GAO correctly points out that there are weaknesses in the in-transit control procedures and that the revised procedures are scheduled for November 1992. The DoD is well aware of the problems occurring with the manual system and is taking action to reduce these problems until the revised system is in place as noted in the DoD response to Findings B, C and D.

The Army began reporting property accountability as a high risk material weakness area in its FY 1989 report. The report covers numerous areas of property accountability, including internal Army in-transit visibility. Integral to correction of the material weakness is ongoing development and implementation of substantive changes to the Army supply system. In addition, the Army Command Supply Discipline Program is being broadened to include additional checks on the system. In-transit visibility is one of the areas being strengthened. The Defense Logistics Agency has taken action regarding identified property accountability weaknesses. In compliance with the Financial Integrity Act, the Director of the Defense Logistics Agency has included property accountability in internal management control reviews and made property accountability a mandatory item for review by Internal Review staffs.

To the extent possible, the problems have been reported in terms of general property accountability; there is no need to report separately on each commodity. In addition, the magnitude of the jeep problem is not substantial enough to warrant inclusion in the report. Therefore, the problems with M151 jeep disposal should not be addressed specifically in the Financial Integrity Act report.

Finding F: Defense Logistics Agency Disposal Procedures Did Not Follow DoD Policy. The GAO reported that, in 1973, the Deputy Assistant Secretary of Defense for Supply, Maintenance, and Services instructed the Defense Logistics Agency to ensure excess M151 jeeps cannot be restored to an operable condition, and that parts unique to the M151 be mutilated; thereby ensuring that the DoD would not act as a source of repair parts for reassembled vehicles. The GAO noted that the 1973 Defense Disposal Manual authorized disposal offices to sell M151 jeep components, provided that the frame and suspensions were destroyed. The GAO found, however, that the current Defense Utilization and Disposal Manual only requires that the body of M151 jeeps be shredded, crushed, or mangled. The GAO found that, as a result, only the bodies of M151 jeeps were being mutilated and disposal offices were advertising and selling the M151 components, including the suspensions. The GAO asserted that the current practice allows purchasers to buy components and rebuild the jeep.

The GAO reported that an official in the Office of the Secretary of Defense did not know why the DoD regulation had been changed or why the disposal offices were not following DoD policy. The GAO further reported that Defense Reutilization and Marketing Service officials agreed they were not complying with the DoD intent to prevent civilians from owning M151 jeeps. The GAO observed that, as a result of its audit work, the Marketing Service subsequently changed its procedures for mutilating the M151 to include drive shafts and suspensions. The GAO concluded that, if properly implemented, that action should bring the Marketing Service into compliance with DoD policy regarding the disposal of M151 jeeps. (p. 4, pp. 6-7, pp. 29-33/GAO Draft Report)

DOD RESPONSE: Concur. Change 1 to the DoD 4160.21-M, Defense Reutilization and Marketing Manual will be published by November 1990, with explicit M151 vehicle mutilation processing guidance. Pertinent language is quoted as follows:

"a. The engine, radiator, and transmission (drive shaft, front and rear suspension system not included) shall be cut out or unbolted from the M151 unitized body...The drive shaft and front and rear suspension systems attached to the M151 or turned in detached from the vehicle shall be included in the DRMO's M151 mutilation process."

"b. The unitized body, drive shaft, and front and rear suspension systems shall be shredded, crushed, or mangled in such a manner as to completely prevent rebuild into a usable unitized body."

The Defense Reutilization and Marketing Service interim guidance was issued July 2, 1990, pending formal publication of Change 1. The

interim guidance is substantially as discussed above. The specificity of language in the policy guidance leaves no room for misinterpretation or "taking out of context" the DoD policy on the M151 mutilation process.

FINDING G: M151 Jeeps Are Being Rebuilt And Licensed. According to the GAO, it visited a commercial rebuilder of M151 jeeps and was told that he reconstructs the jeeps by attaching components purchased from disposal offices to a body that he builds. The GAO also found that, even though the National Highway Traffic Safety Administration has, since 1972, worked actively to prevent the licensing of M151 jeeps to the general public, a 1989 survey by the American Association of Motor Vehicle Administrators revealed that at least 15 states currently register M151 jeeps. In addition, the GAO reported that the survey indicated other states may also unknowingly license the M151 as other categories of vehicles. The GAO concluded that the DoD efforts to prevent reassembly of M151 jeeps have not worked. (p. 4, pp. 6-7, p. 29, p. 32/GAO Draft Report)

Now on pp. 3, 4, 19, 20-21.

DOD RESPONSE: Concur. Since 1973, the Defense Logistics Agency has issued guidance via the Defense Reutilization and Marketing Manual, DoD 4160.21-M, requiring mutilation of the M151 series vehicles to comply with the recommendations of the National Highway Traffic Safety Administration. That guidance has been modified several times in order to preclude misunderstandings and close loopholes that ingenious rebuilders may have discovered. Though DoD policy and procedures make it very difficult, a resourceful entrepreneur can build replicas. Actual M151 jeeps cannot be purchased; however, replicas can presently be purchased in the Philippines. They are constructed from widely available spare vehicle parts and custom made bodies and suspensions. These replicas can be constructed to be identical to the original M151 vehicles. If a market exists, the demand will be fulfilled with vehicles to satisfy that demand. However, the DoD has no authority to stop reassembly of the vehicle. It should be noted that there were about 184,000 M151 jeeps purchased between 1961 and 1971, of which 36,000 are still in use, approximately 148,000 have been turned in for disposal, and only a relatively small number have been stolen. While the DoD is concerned over this loss, it is not considered to be significant.

* * * * *

RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense direct management attention to solving the problems in the

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accountability system for property in transit from units to disposal offices. (p. 7, p. 28/GAO Draft Report)

DOD RESPONSE: Concur. Since the problem was first identified by the DoD Inspector General (1985) and the GAO (1990), positive corrective actions have been pursued by the DoD. The Military Standard Requisitioning and Issue Procedures and implementation of the existing system has been directed toward reducing the in-transit problem. Military Standard Requisitioning and Issue Procedures letters number 16, 17, and 158B are scheduled for implementation in 1992. Those letters will result in several improvements. The dollar value for in-transit control will be raised from \$100 to \$800. The in-transit report will be revised to require quarterly preparation, each turn-in activity will be listed separately, and a detailed explanation was added for each report column. New status codes will be added for shipment confirmation. The shipping activity will be required to provide a status transaction for shipments of usable property regardless of dollar value. Shipment status transactions will be provided and will include the unit price. Those changes will result in a totally redesigned DoD-wide in-transit control/visibility system designed by the Defense Logistics Agency and the Military Services. That system, initially scheduled for implementation in 1990, is now expected to be implemented in November 1992. In the meantime, the DoD is attempting to ensure that manual procedures currently in place are followed. In addition, monitoring of the Military Standard Requisitioning and Issue Procedures are being conducted through the Defense Logistics Standard Systems Office.

Now on pp. 4, 17.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense require the Defense Logistics Agency and its Defense Reutilization and Marketing Service to ensure that internal control procedures established to safeguard disposal items are followed. (p. 7, p. 28/GAO Draft Report)

DOD RESPONSE: Partially concur. The policies and implementing procedures regarding the addressed safeguards are in order. The GAO findings are instances of noncompliance with already in-place established policies and procedures. The Office of the Secretary will continue to work with the Defense Logistics Agency to ensure compliance with current policy and procedures to prevent recurrence. The areas of non-compliance identified by the GAO will be included as special interest items in future compliance evaluation visits to property disposal sites.

RECOMMENDATION 3: The GAO recommended that the Secretary of Defense include in the next annual DoD Financial Integrity Act report to the President and the Congress the need for an improved accountability system for property in transit from units to disposal offices, as

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well as during the disposal process itself, and identify what corrective actions are being taken. (p. 7, p. 28/GAO Draft Report)

DOD RESPONSE: Partially concur. The DoD agrees with the need for corrective action to improve the in-transit control system during the disposal process. The DoD is taking corrective actions and a modernized system is being developed. The DoD recognizes that improvements in property accountability are needed and has identified this area in prior Financial Integrity Act reports. However, the magnitude of the problem for in-transit property disposal is not significant enough for separate reporting. The overall issue of property accountability/disposal has already been included in the Army annual reporting of internal control weaknesses.

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