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B-164497(1)
7-22-70



REPORT TO THE CONGRESS

Improvements Needed In Federal Aviation Administration Procedures For Determining Excess Spare Parts B-164497(1)

Department of Transportation

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

093346

~~743 152~~

JULY 22, 1970



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

B-164497(1)

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on improvements needed in procedures of the Federal Aviation Administration, Department of Transportation, for determining excess spare parts. The review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67)

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Transportation; and the Administrator, Federal Aviation Administration.

Comptroller General
of the United States

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D I G E S T

WHY THE REVIEW WAS MADE

During 1967 the Federal Aviation Administration (FAA) declared excess spare parts which had cost about \$9 million, to reduce quantities on hand at the Aeronautical Center Supply Depot (Center), Oklahoma City, Oklahoma, to newly established 5-year stockage limits. The parts had been purchased for use in maintaining FAA's network of air traffic control and air navigational aid facilities. The disposal was prompted, in part, by a 1966 Presidential memorandum directing that inventories be reviewed and that excess quantities be disposed of.

The General Accounting Office (GAO) decided to review the bases for a disposal program of such magnitude and was interested in ascertaining whether, following the disposals, FAA found it necessary to procure a significant quantity of any of the previously disposed of items.

FINDINGS AND CONCLUSIONS

FAA needs to improve the Center's procedures for determining whether items in the spare-parts inventory should be retained or declared excess.

Under the present inventory management system, estimated future needs for spare parts ~~were~~ based solely on quantities issued during the preceding 12 months and ^{the} current month without also considering data on the types and numbers of facilities in operation for which particular parts are needed and on the expected remaining useful lives of such facilities.

GAO estimates that, during the 23 months following fiscal year 1967, new requirements arose for parts [which cost about \$473,900]. The parts required were identical to spare parts which had been declared excess [during April, May, and June 1967 and which had cost about \$3.8 million (See pp. 6 and 7)].

Because FAA found it necessary, within 23 months of the disposals, to purchase a significant number of parts identical to those which had been declared excess, its spare-parts inventory procurement and management practices need considerable strengthening.

RECOMMENDATIONS OR SUGGESTIONS

FAA should

- assemble and organize into appropriate form information pertaining to (1) the types and numbers of facilities in use, (2) the particular spare parts needed to maintain each type of facility, and (3) the expected useful lives of the facilities,
- establish procedures designed to ensure that such information is appropriately used in inventory management decisions, and
- in the interim, declare spare parts excess only after it has been determined that they are obsolete or unfit for use or that continued retention would become economically impracticable (See pp. 15 and 16)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of Transportation agreed with many of the points in this report and acknowledged that FAA's inventory management procedures could be improved. The Department did not agree, however, that FAA had unwisely disposed of stock that should have been retained. The Department stated that significant savings had accrued to FAA and other Government agencies as a result of the disposal programs (See p 11.)

GAO concludes that the savings claimed by the Department, as accruing to FAA and other Government agencies are overstated and believes that FAA should direct its attention to improving its procurement and property management procedures to eliminate the need to undertake an inventory reduction program of similar magnitude in the future.

MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO is issuing this report to the Congress because of its interest in FAA's procurement and supply management and so that the Congress may be apprised of the need for improved management of spare-parts inventories used for the maintenance of FAA's network of air traffic control and air navigational aid facilities around the world.

CHAPTER 1

INTRODUCTION

The General Accounting Office has reviewed selected aspects of the Federal Aviation Administration's practices and procedures for managing operating material (spare parts) inventories. The scope of our review is described on page 17.

FAA requires numerous types of spare parts for the support and maintenance of its air traffic control and air navigational aid systems. The Center is the major supply center for FAA. The supply depot at the Center serves as (1) an interim storage base for major equipment items designated for installation at facility sites around the world and (2) the principal purchasing, warehousing, and distribution center for spare parts needed to service and maintain the operating air traffic control and air navigational aid facilities.

The Center maintains two basic inventories: (1) project material--major equipment for the establishment or modification of air traffic control and air navigation aid facilities and (2) spare parts--required to service and maintain existing FAA facilities, equipment, and aircraft.

During fiscal year 1968, the Center filled about 444,000 requisitions for spare parts having an estimated cost of \$25.4 million. The Center had about 126,000 line items that cost about \$40.7 million in the spare-parts inventory as of April 30, 1969.

FAA's internal audit group reviewed supply operations at the Center during 1968 and issued a report in October 1968 that contained a number of recommendations for improving supply operations.

The principal officials of the Department of Transportation responsible for the administration of the activities discussed in this report are listed in appendix IV.

CHAPTER 2

IMPROVEMENTS NEEDED IN PROCEDURES

FOR DETERMINING EXCESS SPARE PARTS

During calendar year 1967, FAA declared excess spare parts which had cost about \$9 million, to reduce the inventory of parts to projected 5-year requirements. Our review showed that, as a general practice, parts were declared excess automatically on the basis of computer calculations and that the calculations were not subjected to review by inventory managers. Excess quantities were computed by projecting past issue data to future requirements without considering specifically the types and numbers of facilities in operation for which particular parts were needed and the expected remaining useful lives of such facilities.

We found that new requirements arose during the 23 months following fiscal year 1967 for significant quantities of spare parts identical to those which had been declared excess during April, May, and June 1967 when parts which cost about \$3.8 million were declared excess. We estimate that the newly required spare parts will cost FAA about \$473,900.

✓ We believe that FAA needs to improve the Center's practices and procedures for determining whether quantities of spare parts on hand are excess to its needs. The inventory management system should be revised to include procedures for providing item managers with information, in appropriate ✓ form, pertaining to the types and numbers of facilities in operation for which particular parts are needed and the expected remaining useful lives of such facilities.

Prior to 1967 FAA's general policy was to retain in inventory a 5 to 8 years' supply of those items normally carried in long supply. In October 1966, FAA initiated an inventory reduction program, prompted by a Presidential memorandum dated September 16, 1966, to the heads of departments and agencies directing that inventories be reviewed and that steps be taken to dispose of excess quantities.

FAA then established 5-year stockage limits for items carried in long supply and decided to declare excess those quantities on hand which exceeded computed 5-year requirements. According to FAA officials, the 5-year stockage limits had been established on the basis of their past experience in inventory management.

Under the present inventory management system, the computer at the Center is programmed to calculate, on the basis of the preceding 12 months' and the current month's demand:

1. Projected 5-year requirements.
2. Economic order quantities when, because of issues, stocks of individual line items have been reduced to reordering levels.
3. Quantities of individual items which appear to be excess to FAA's needs because total quantities on hand exceed the computed 5-year requirements.

Most items which fall into the third category above are subject to review by item managers, to determine whether the quantities computed as excess should be declared excess. We found, however, that item managers generally accepted computed excess calculations and thereby permitted computed excess quantities to be declared excess without review. Center officials advised us that (1) since most item managers had responsibility for 1,200 to 9,000 items, it had been practically impossible for item managers to review those items for which excess quantities were computed, (2) as a result, the computed excesses had been declared excess without the required review, and (3) unless item managers knew the uses for particular items, they could not have made informed judgments as to whether any portions of computed excess quantities should have been retained or declared excess.

FAA set as a goal the disposal, by the end of September 1967, of spare parts in the inventory that had cost about \$15 million. We were unable to ascertain whether this goal had been based on quantities computed to be in excess of the

newly established 5-year stockage limits or arbitrarily had been set without regard to computed excess quantities.

In October 1966, the Director of the Center initiated a staff study to determine ways of reducing the inventory. The report on the study showed that holding costs and disposal costs had not been considered in the study but posed the following two alternative courses of action.

1. Delay disposal actions until studies were completed to determine economic retention quantities and end-item application and until actions were taken to improve control over the inventory of spare parts.
2. Proceed with the disposals but risk (a) the need to repurchase like items at a total cost of \$5.2 million through fiscal year 1974, (b) reduced supply-support capabilities by disposing of critically essential items not readily procurable, and (c) criticism from operations and maintenance activities and audit offices.

Despite the risks assumed under alternative 2 above, the study report recommended that the Center proceed with disposals. FAA adopted the recommendation even though the report contained no definite indications that overall savings would result. We were not able to determine why alternative 2 had been recommended and subsequently adopted by FAA.

In calendar year 1967, the Center declared excess spare parts which had cost about \$9 million, to reduce quantities on hand to 5-year stockage limits. Additional spare parts which had cost about \$1.5 million were disposed of during the same year due to expiration of shelf life, condemnation, or obsolescence. Through June 30, 1968, when this disposal effort was substantially completed, FAA had disposed of spare parts which had cost about \$12 million.

During April, May, and June 1967, the Center declared excess various quantities of 11,200 line items for which quantities on hand exceeded projected 5-year requirements. The cost of the items declared excess was about \$3.8 million. Shortly after the end of fiscal year 1967, it became

necessary to purchase various quantities of spare parts identical to those declared excess during the 3-month period.

To ascertain the extent to which FAA had found it necessary to purchase such parts, we selected for review a sample of the parts declared excess during April, May, and June 1967. Our sample included all line items for which the total cost of all parts on hand was \$4,000 or more and a random selection of line items of lesser total cost. Our sample comprised a total of 478 line items having a recorded cost of \$1.2 million.

Our review of the 478 sample items showed that new requirements for spare parts which cost about \$87,200 arose for various quantities of 112 of the 478 items during the 23-month period that followed the end of June 1967. For example, we found that, for 68 of the items, the Center had already purchased parts which cost about \$46,600 and the Center estimated that additional purchases through June 30, 1972, would cost about \$3,400. For the remaining 44 items, the Center estimated it would cost about \$37,200 to purchase parts to meet its known or projected requirements.

By statistically projecting the results of our review of the 478 sample items to the 11,200 items declared excess during April, May, and June 1967, we estimated that the total cost of new requirements for spare parts identical to those declared excess would be about \$473,900. Of this amount, \$292,100 represented the estimated cost of items already purchased that were identical to those declared excess and \$181,800 represented the cost of probable future purchases through June 1972. (See app. I.) Our statistical computations showed that there was a 95-percent probability that the estimated cost of total new requirements ranged from \$328,900 to \$618,800 and that the cost was more likely to total about \$473,900.

Under the Center's inventory management system, items for which demands are uneven can be repeatedly purchased and disposed of. The Center's computer is programmed to calculate for each item, on the basis of the preceding 12 months' and the current month's demands, projected 5-year requirements, quantities to be disposed of, and

economic order quantities. Quantities to be bought, as calculated by the computer, may be increased by the Center's procurement personnel if they find that larger quantities can be bought at significantly lower unit prices or if the items are relatively inexpensive. Consequently, items with uneven demands may be acquired and disposed of and identical items purchased and again disposed of when decisions are based solely on past demand data.

For example, our sample of 478 items declared excess during the 3-month test period included 24 items which were identical to items later purchased and which were again in an excess position and subject to disposal in April or June 1969 when we reviewed the items. To illustrate further, the Center disposed of 174 units of one item in April 1967, purchased 100 in August 1967, and had 44 excess to its computed stockage limit when we reviewed the items in April 1969. The Center's records showed for these months:

| | <u>April</u> <u>1967</u> | <u>August</u> <u>1967</u> | <u>April</u> <u>1969</u> |
|--------------------------------------|-----------------------------|------------------------------|-----------------------------|
| Quantity on hand | 174 | - | 74 |
| Demands | - | 21 | 5 |
| Forecast annual demands | - | 21 | 6 |
| Stockage limit (5-year supply) | - | 105 | 30 |
| Quantity disposed of | 174 | - | - |
| Quantity purchased | - | 100 | - |
| Quantity in excess of stockage limit | - | - | 44 |

Because inventory management costs could justify disposal of supplies even though future procurements of such stock might be necessary, we evaluated the effect that the disposals in question had on such costs. We concluded that the savings so realized were minimal in comparison with the costs of new requirements.

Center officials furnished us with a statement of inventory management costs for the fiscal year ended June 30, 1965, the latest period for which such costs had been computed. The Center's statement showed that annual inventory

management costs for various categories of parts ranged from 13.5 percent to 18.4 percent of average inventory costs.

Although we did not question FAA's computation of inventory management costs, we believe that several of the cost elements (interest on investment in the inventory, inventory over-and-short adjustments, and initial cost of inventory disposed of) would not be significantly reduced as a result of inventory disposals. These cost elements represented about 85 percent of total inventory management costs.

In our opinion, inventory management costs which could be reduced by disposals of inventory ranged only from 1.7 percent to 3 percent of average inventory costs. These included costs incident to quantitative and financial management, care and preservation costs, storage and physical inventory costs, and space rental costs. Substantial portions of these costs could be saved, however, only if all the parts on hand were disposed of. Space rental costs, for example, could be saved only if storage areas, previously occupied by those items disposed of completely, were later used to store new inventory items for which warehouse space would otherwise have to be expanded.

Our sample of 478 items included 189 items that the Center had disposed of entirely. Of these 189 items, 123 had been deleted from the stock management records to save stock management costs. We recognized that some holding costs might have been saved by the complete disposal of the 189 items. Any savings for these items were offset, however, by the procurement of various quantities of 20 of the items at a cost of \$3,235.

Center officials advised us that storage space was not a factor involved in the disposals and that no use had been made of the storage space made available by disposals. That such space was not critical was further demonstrated in our inspection of storage sites. For the remaining 289 of the 478 items, the Center had disposed of only part of the stocks on hand. For these items, any savings incident to the disposals appeared to be very nominal. We inspected the storage sites for 269 of the 289 items. In our

opinion, the spaces occupied by about 87 percent of these items were ample for storage of both the retained quantities and the quantities disposed of. Since stock management records had to be maintained and periodically reviewed, stock management costs were not decreased. For some of the items, the costs of preserving and inventorying might have decreased slightly, but there appeared to have been little, if any, savings attributable to disposal of these items.

For example, Center records show that 2,446 units of one item were on hand at one storage bin as of April 1, 1967. During April 1967, the Center declared 200 units excess because the quantity on hand exceeded the 5-year stockage limit. In June 1969, 4,000 units were on hand. We estimated that the bin would hold about 20,000 units; therefore, we believe that no cost savings were realized from the disposal of 200 units in April 1967.

CHAPTER 3

AGENCY COMMENTS AND OUR EVALUATION

The Assistant Secretary for Administration, Department of Transportation, stated in a letter dated December 11, 1969 (see app. III), that the Department agreed with many of our points and acknowledged that FAA's inventory management procedures could be improved. He stated also that FAA had been improving and refining its inventory management procedures on a continuing basis and would continue to do so.

Although we acknowledge that FAA has been making an effort to improve and refine its inventory management procedures, we believe that these efforts might not attain the improvements needed for determining whether quantities of spare parts on hand are excess. For example, the Assistant Secretary stated that, under new inventory procedures, inventory managers are required to review all items where the line-item value of apparently excess stock is more than \$20. We believe that, to make such reviews effective and to ensure informed judgments as to whether apparently excess stock should be declared excess or retained, equipment application data should be recorded for all inventory classifications and used by inventory managers in their reviews.

The Assistant Secretary did not agree that FAA had unwisely disposed of stock that should have been retained and stated that our estimated cost of \$473,900 for new FAA requirements for spare parts declared excess during the 3-month period covered by our review should be offset against the savings that resulted from FAA's inventory reduction program.

He stated that about \$1.8 million had been saved by FAA and other Government agencies as a result of FAA's excessing of parts that cost about \$3.8 million during the 3-month period covered by our review. He explained that (1) other Government agencies had realized probable savings of about \$1.2 million through the avoidance of commercial purchases by acquiring about 32 percent of the parts

declared excess by FAA, (2) interest on the \$1.2 million for 5 years would amount to an additional savings of \$270,000, and (3) FAA would have saved about \$313,500 in inventory holding costs over 5 years. According to data furnished to us by FAA, the savings referred to by the Assistant Secretary resulted from disposals of spare parts which cost about \$12 million during the period October 1, 1966, through June 30, 1968.

We analyzed the disposals of spare parts identified by FAA as having been transferred to other Government agencies during the period, October 1, 1966, through June 30, 1968. The records showed that parts which cost about \$3.8 million had been transferred to other Government agencies. Our analysis of these transfers showed, however, that parts which cost about \$663,000, or 5.5 percent, had been transferred to Federal Government agencies and that parts which had cost about \$3.2 million had been transferred to the Military Affiliate Radio System, an organization of individual civilian and military radio operators, radio clubs, and military unit radio stations which offer backup support to the military services' radio system during emergencies.

The Congress does not appropriate funds for the acquisition, operation, maintenance, or administration of the System's individual member radio stations; therefore, it does not appear that any significant amounts of appropriated funds had been saved as a result of the transfers to the System.

It is also questionable whether the property transferred to the System was effectively utilized by its members. Recently our Office reviewed and reported on excess Government property transferred to the System. In a report to the Congress entitled "Opportunity for Savings by Increasing Transfers of Excess Property Among Federal Agencies" (B-146929, March 21, 1969), we reported that excess FAA property had been transferred to a System activity which had no identified requirement for the property. At the same time, certain Department of Defense activities had current and future requirements for substantial quantities of identical items.

In a report entitled "Opportunities for Improving Management of Excess Property Transferred to the Military Affiliate Radio System" (B-144239, February 27, 1970), we reported also that System organizations exercised little control over property acquired and held in its warehouses or over property issued to its members. Furthermore, consideration was not being given to the ability of individuals to utilize certain equipment before distributing it to them.

We therefore do not agree with the Assistant Secretary's view that savings of about \$1.5 million were realized by other Federal agencies as a result of FAA's inventory reduction program during the period covered by our review.

We believe that, even if the parts disposed of had been ultimately acquired and fully utilized by Federal agencies and if the savings claimed had been realized, it would be appropriate to offset such savings against the \$6.8 million loss which resulted from the sale of parts which cost about \$7 million. (See app. II.) We believe also that it is more important for FAA to direct its attention to improving its procurement and property management procedures to eliminate the need to undertake an inventory reduction program of similar magnitude in the future. Also, the fact that FAA found it necessary to purchase a significant number of items identical to those disposed of clearly points out that FAA's operating inventory procurement and management practices and procedures need considerable strengthening.

The Assistant Secretary's estimated possible savings of \$313,500 in inventory holding costs over a 5-year period apparently was based on the assumptions that (1) the items declared excess during the period we selected for review had been disposed of entirely and (2) the related warehouse space would be released for the storage of new items being brought into the supply system and thus avoid the need to possibly expand warehouse facilities. The savings of \$313,500 were computed by applying the lower annual rate (1.7 percent) of probable holding costs to the total value (\$3.8 million) of spare parts declared excess during the test period.

As described on page 9, most of the savings relative to reduced holding costs could be realized only if all quantities of an item on hand were declared excess and removed from the storage bin. Our test of 478 items showed that 189 items had been disposed of entirely and that only 123 items (26 percent) had been eliminated from the stock management records.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

FAA's procedures are not adequate to prevent unwarranted disposal of substantial quantities of spare parts, as demonstrated by FAA's purchase of substantial quantities of like parts within 2 years after the parts were declared excess.

Inventory managers should be provided with appropriate end-item information, such as the types and numbers of facilities in use on which particular spare parts are used and the expected useful lives of such facilities. The availability and appropriate evaluation of such information should enable inventory managers to expedite disposal of items for which future needs no longer exist, as well as to prevent disposal of items for which future needs still exist.

We recognize that the initial assembly and organization of such information might be time-consuming, mainly because, according to FAA officials, there are no reliable central property records of FAA's operating air navigation and air traffic control facilities and related equipment. The matters discussed in this report, however, illustrate the need for such records.

Also, in view of our estimated cost of \$473,900 for additional requirements for spare parts which arose within 2 years of the disposals of like parts during the 3-month test period, FAA should make a ~~concerted~~ effort to assemble such information in appropriate form for use in its supply management activities.

RECOMMENDATIONS TO THE FAA ADMINISTRATOR

We recommend that, to make reviews by inventory managers more effective and to ensure informed judgments as to whether apparently excess stocks should be declared excess, the FAA Administrator

- assemble and organize into appropriate form information pertaining to (1) the types and numbers of facilities in use, (2) the particular spare parts needed to maintain each type of facility, and (3) the expected useful lives of the facilities;
- establish procedures designed to ensure that such information is appropriately used in inventory management decisions; and
- in the interim, declare spare parts excess only after it has been determined that they are obsolete or unfit for use or that continued retention would become economically impracticable.

CHAPTER 5

SCOPE OF REVIEW

Our review, which was performed at the Center and at FAA headquarters in Washington, D.C., was directed toward determining the propriety of spare-parts disposals initiated in 1967 to comply with newly established stockage limits--a 5-year supply on the basis of past demand data. We examined, in detail, into the disposal and procurement activity for a representative sample of inventory items disposed of in various quantities during April, May, and June 1967, to ascertain whether FAA had found it necessary to purchase significant quantities of any of the items disposed of. Also, we reviewed the record of all property disposals made between October 1, 1966, and June 30, 1968, to identify the recipients of the items disposed of.

We examined into FAA's inventory management and procurement policies and procedures as well as records specifically applicable to the administration of the disposal program. We discussed our findings with officials at FAA headquarters and at the Center. Our review was not directed toward an overall evaluation of the FAA's inventory management procedures and practices.

APPENDIXES

ESTIMATED NUMBER AND COST OF ITEMS
DISPOSED OF DURING THE 3-MONTH
TEST PERIOD SUBSEQUENTLY PURCHASED
OR FOR WHICH THERE WERE KNOWN REQUIREMENTS
THROUGH JUNE 1972

| | <u>Items costing</u> | | | | <u>Total</u> | |
|---|--------------------------|---------------|------------------------|---------------|---------------|----------------------|
| | <u>Less than \$4,000</u> | | <u>\$4,000 or more</u> | | <u>Number</u> | <u>Amount</u> |
| | <u>Number</u> | <u>Amount</u> | <u>Number</u> | <u>Amount</u> | | |
| Items disposed of | 11,081 | \$2,669,600 | 119 | \$1,122,900 | 11,200 | \$3,792,500 |
| Items in sample | 359 | 79,700 | 119 | 1,122,900 | 478 | 1,202,600 |
| Sample items subsequently required | 95 | 11,900 | 17 | 75,300 | 112 | 87,200 |
| Percent of sample items subsequently required | 26 46% | 14 9% | 14 3% | 6 7% | - | - |
| Estimated total items subsequently required | 2,932 | 398,600 | 17 | 75,300 | 2,949 | 473,900 ^a |

^aWe estimated, on the basis of our sample, that, through May 1969 purchases to fill these requirements totaled about \$292,100 and the estimated 5-year demand forecast for items not yet purchased totaled about \$181,800. Our statistical computations show that there is a 95 percent probability that the estimated cost of new requirements ranges from \$328,900 to \$618,800 and that the cost is more likely about \$473,900.

APPENDIX II

SCHEDULE SHOWING AMOUNT AND DISPOSITION
OF SPARE PARTS DECLARED EXCESS TO FAA'S NEEDS
DURING THE PERIOD
OCTOBER 1, 1966, THROUGH JUNE 30, 1968

| <u>To whom transferred</u> | <u>Recorded cost</u> | <u>Percent</u> |
|--|----------------------|----------------|
| Transferred to other Government agencies | \$ 662,857 | 5.5 |
| Sold (for about 3 percent of cost) | 6,987,377 | 58.2 |
| Donated to Military Affiliate Radio System | 3,168,665 | 26.4 |
| Donated to State governments | 665,018 | 5.5 |
| Transferred to other FAA locations | 518,502 | 4.3 |
| Donated to others (mainly colleges and universities) | <u>6,418</u> | <u>.1</u> |
| Total | <u>\$12,008,837</u> | <u>100.0</u> |



OFFICE OF THE SECRETARY OF TRANSPORTATION
WASHINGTON, D C 20590

ASSISTANT SECRETARY
FOR ADMINISTRATION

December 11, 1969

Mr. Bernard Sacks
Assistant Director
Civil Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Sacks

This is in reply to your request for our comments on your draft report to Congress entitled "Need to Revise Policies and Procedures for Determining Excess or Surplus Spare Parts, Federal Aviation Administration." In your report you state that because of insufficient management information, FAA's inventory managers authorized disposal of substantial quantities of spare parts which were later required to meet agency needs.

We agree with many of the points in your report and recognize that FAA's inventory management procedures can be improved. FAA has been improving them on a continuing basis and will continue to do so. For example, current procedures require a personal review by the inventory manager on all items where the line item value of stock to be excessed is more than \$20.00. This procedure replaced one in use during the period you reviewed which placed much more reliance on computer generated lists of excess. Your discussion of FAA's procedures for computing inventory holding costs makes several valid points. However, the inventory management procedures of all non-defense agencies are governed by regulations of the General Services Administration and we believe that your questions on the effectiveness of those procedures should be addressed to that agency.

We feel that despite these valid points, your report overall does not support your contention that FAA unwisely disposed of stock that should have been retained. You pointed out that for the \$3.8 million of stock excessed during the three months of your test period, FAA would probably have repurchase requirements of about \$474,000 over a five-year period. It is appropriate

that this cost be offset against the savings that resulted from FAA's excess program. Using only the lower of your estimates of actual reducible holding costs (1.65 percent) and applying it to the three-month period you sampled, FAA would have saved about \$313,500 in holding costs over a five-year period ($\$3.8 \text{ million} \times 1.65 \times 5$). We likewise found that other Government agencies acquired about 32 percent of the material FAA excessed. Applying this percentage to the \$3.8 million excessed during your test period, it is probable that about \$1.2 million of commercial purchases by other agencies was avoided by FAA's excessing program during that period. Interest on \$1.2 million for the five-year period would amount to an additional \$270,000. While these figures are approximations, we are confident that actual savings will have exceeded probable repurchase costs.

Although we feel that this excessing program was economically successful, FAA is steadily refining its supply management techniques. For example, the Depot records have for years included equipment application data for a large percentage of aircraft items and this data is now being recorded for all new items being added to stock. Further, FAA plans to add this information to existing stock records for recurring exchange and repair items and insurance stock which represent the bulk of its total inventory value.

We believe that FAA's continuing program of improving inventory management procedures meets the basic intent of your recommendations and no other specific changes are necessary at this time.

Thank you for this opportunity to comment on your report.

Sincerely,



Alan L. Dean

PRINCIPAL OFFICIALS
OF THE DEPARTMENT OF TRANSPORTATION
RESPONSIBLE FOR THE ADMINISTRATION
OF ACTIVITIES DISCUSSED IN THIS REPORT

| Tenure of office | |
|------------------|----|
| From | To |

DEPARTMENT OF TRANSPORTATION

SECRETARY OF TRANSPORTATION:

| | | |
|---------------|-----------|-----------|
| John A. Volpe | Jan. 1969 | Present |
| Alan S. Boyd | Apr. 1967 | Jan. 1969 |

FEDERAL AVIATION ADMINISTRATION

ADMINISTRATOR:

| | | |
|--------------------------|-----------|-----------|
| John H. Shaffer | Mar. 1969 | Present |
| David D. Thomas (acting) | Aug. 1968 | Mar. 1969 |
| General William F. McKee | July 1965 | July 1968 |

DIRECTOR, AERONAUTICAL CENTER:

| | | |
|-------------------|-----------|-----------|
| Christian B. Walk | Mar. 1970 | Present |
| W. Lloyd Lane | Aug. 1964 | Mar. 1970 |

DIRECTOR, LOGISTICS SERVICE:

| | | |
|----------------------|-----------|-----------|
| Paul Comulada | Feb. 1970 | Present |
| J. B. Hogan (acting) | Nov. 1969 | Feb. 1970 |
| Donald S. King | Mar. 1966 | Oct. 1969 |