



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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LOGISTICS AND COMMUNICATIONS  
DIVISION

MAY 16, 1979

B-146828

The Honorable Harold Brown  
The Secretary of Defense

Dear Mr. Secretary:

We have completed our study of excess and obsolete items held in Department of Defense (DOD) inventories. We found that DOD was retaining millions of dollars of excess inventories for possible sales to foreign governments. Much of these inventories are peculiar to weapon systems no longer used by our armed forces. DOD could eliminate much of these inventories and save millions of dollars in inventory maintenance and storage costs by identifying foreign governments' needs and giving the governments the opportunity to purchase the items under its life-of-type buy policy.

Our observations are based on information obtained between June and November 1978 at Defense and Service headquarters, Air Force Logistics Command, Dayton, Ohio; Naval Aviation Supply Office, Philadelphia, Pa.; Naval Ships Parts Control Center and Navy Material Support Office, Mechanicsburg, Pa.; Army Security Assistance Center, Army Material Development and Readiness Command, New Cumberland, Pa.; Red River Army Depot, Texarkana, Tex.; and the San Antonio Air Logistics Center, San Antonio, Tex.

BACKGROUND

A large buildup of excess inventory has resulted from a 1973 self-imposed DOD moratorium on disposal of excess assets with potential foreign military applications. We were told that the moratorium was declared to prevent premature disposal of assets until the member services could establish better criteria for determining foreign governments' needs. Although the United States supports foreign governments through supply support arrangements, DOD recognizes that it should not store excess inventories indefinitely.



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This belief is clearly established in DOD's life-of-type buy policy for materials held to support weapon systems sold to foreign governments participating in cooperative logistics support arrangements. The Military Assistance and Sales Manual states:

"If an item becomes obsolete or excess to U.S. but not customer country requirements, the U.S. may request the country to withdraw its material equity from U.S. stocks. The country may purchase additional quantities of such items from existing U.S. stocks at a fair value computed in accordance with DOD Instruction 2140.1 plus applicable accessorial and administrative charges. The country may, with the approval of the U.S., place a final order for spares in sufficient range and quantity to support the equipment for its probable remaining useful life. Military Departments will alert countries to anticipated U.S. equipment phaseouts to permit a timely and orderly final procurement of spares."

*DOD's life-of-type buy policy*  
Under this policy, when DOD phases out a weapon system from its active inventory, it can offer foreign governments an opportunity to make a one-time purchase of spare parts to support the weapon system's remaining useful life. DOD can then dispose of the remaining inventory for the weapon system and end its support responsibility. If followed, this policy should maximize the potential proceeds from the sale of excess items and reduce supply administration costs.

*is the only service that has used the above policy*  
*the*  
The Army has established retention criteria for determining foreign governments' needs and has used the above policy to routinely dispose of unneeded inventory. Details of excess and obsolete stocks carried in respective service inventories and resulting supply administrative costs follow.

THE AIR FORCE AND NAVY SHOULD DISPOSE  
OF EXCESS AND OBSOLETE INVENTORY

The Air Force and Navy are retaining sizable inventories of excess items, some of which are peculiar to weapons that have been phased out of their systems. The inventories have been retained to (1) support contractual commitments made with foreign governments for weapon systems and (2) accommodate anticipated future sales to foreign governments.

The following sections discuss the excess or obsolete inventories the Air Force and Navy are maintaining at locations we visited and the supply maintenance costs that could be avoided if they disposed of the inventories.

Retention of unneeded inventory  
by the Air Force

Air Force regulations state that at least 1 year before a weapon system is phased out from the Air Force active inventory that foreign governments be given an opportunity to make a one-time life-of-type buy of needed components and repair parts. However, rather than offer the life-of-type buy to foreign governments, the Air Force continues to maintain a spare parts inventory for phased out weapon systems. An Air Force official said that the Air Force's philosophy is to honor long-term contractual commitments until foreign governments no longer need support. He said that this, coupled with the 1973 moratorium, has contributed to the Air Force's large inventory of excess items.

Information obtained at the Air Force Logistics Command disclosed that the Air Force is maintaining an \$88-million inventory of spare parts for five aircraft which are owned predominately by foreign governments. As the following chart shows, the Air Force has phased out two of the aircraft completely from its weapon systems inventory.

<u>Aircraft</u>	<u>No. of air- craft owned by foreign governments</u>	<u>No. of air- craft owned by U.S. forces</u>	<u>Inventory value of peculiar spare parts</u>
			(in millions)
C-47	847	7	\$15.8
F-84	117	0	3.8
F-86	466	0	5.0
T-33	990	198	33.4
F-104	<u>1,534</u>	<u>74</u>	<u>30.0</u>
Total	<u>3,954</u>	<u>279</u>	<u>\$88.0</u>

We recognize that some of this inventory may be needed to support the aircraft still used by the United States. However we believe that the Air Force should validate these requirements and identify inventory that could be sold to foreign governments or otherwise disposed of.

In addition, as of March 1978, the San Antonio Air Logistics Center was maintaining a \$238-million inventory of excess reciprocating engines and related spare parts. A significant portion of this inventory is being held exclusively to support aircraft sold to foreign governments. (See enclosure I for a chart which gives a breakdown of this inventory.)

With the exception of the R-2000, R-2800, and R-3350 engine spare parts inventory, this inventory is being maintained predominantly to support aircraft owned by foreign governments. Some of the parts have been in the San Antonio Logistic Center inventory since 1959.

As mentioned earlier, the Air Force cited long-term contractual commitments (supply support arrangements) as the justification for keeping unneeded inventory items. To determine the amount of unneeded inventory held as a result of this practice, we analyzed five such items. We concluded that the Air Force is keeping a \$2.7-million inventory of these items when known foreign government contractual requirements are only \$130,675. Enclosure II contains our findings.

Also, we discovered that foreign governments pay the Air Force \$1,960 annually to stock 91 of the items under supply support arrangements. At the same time, the Air Force spends almost \$41,022 to store the full range of items. As a result, the Air Force spends about \$39,062 annually to maintain unneeded stock. For the reciprocating engines and related spare parts inventory (see enc. I), the Air Force is incurring about \$3.6 million annually in storage costs, while recovering only about \$20,000 from foreign governments under supply support arrangements. The Air Force is also incurring about \$1.3 million in annual storage costs for maintaining the spare parts for the five aircraft discussed on page 3 of this report.

To determine storage costs, we used the annual rate of 1.5 percent of the value of the inventory. This percentage is the rate that DOD charges foreign governments for items stored under contractual agreements.

#### Retention of unneeded inventory by the Navy

The Navy, like the Air Force, has not offered life-of-type buys to foreign governments for materials used on Navy weapon systems that are phasing out of its active inventory. A Navy official said that the Navy began holding excess material with foreign military use potential as a result of the 1973

DOD moratorium. He explained, however that in 1973, as well as today, the Navy did not have a procedure to identify those assets actually having foreign sale application, thus, the Navy decided to hold all excess material.

The Navy is holding about \$426 million of excess inventory on the basis that it has potential foreign government use. The inventory consists of \$163 million in excess aircraft material which the Aviation Supply Office controls and \$263 million in missiles, torpedos, and electronic testing equipment, which the Ships Parts Control Center controls. These items are being held even though foreign governments have made no commitment to buy them and it is costing the Navy about \$6.4 million annually to maintain them. The following schedule identifies the Navy's aircraft inventory.

Schedule Of Excess Aircraft Support Material  
With Potential Foreign Military Use

<u>Aircraft/engine</u>	<u>Inventory</u>
	(000 omitted)
P-2	\$ 10,330
S-2	5,838
F-8	26,495
H-34	15,141
H-46	4,240
T-34	539
A-4	60,819
T-58	5,726
J-65	15,702
J-52	11,179
R-1820	6,667
O-470-4	<u>114</u>
Total	<u>\$162,790</u>

An official with the Naval Supply Command advised us that the Navy is formulating plans to offer life-of-type buys for weapon systems to be phased out of its active inventory. For example, the Navy is phasing out its S-2 aircraft and intends to offer a one-time sale of the related repair parts inventory.

THE ARMY HAS MADE BEST EFFORT TO DISPOSE  
OF EXCESS AND OBSOLETE INVENTORY

As mentioned earlier, the Army is the only service that is applying the life-of-type buy policy on weapon systems phased out of its programs. Since 1975 the Army has offered about 70 life-of-type buys including howitzer cannons, launcher rockets, and M-45 tank repair parts. Although information on the amount of inventory sold to foreign governments under this policy was not readily available, Army officials said that this practice maximizes the Army's return on items sold and reduces supply maintenance costs.

AGENCY COMMENTS AND OUR EVALUATION

We provided the Assistant Secretary of Defense for Manpower, Reserve Affairs and Logistics, and responsible officials of the Air Force, Army, and Navy with advance copies of a preliminary draft of this report. Their comments on our findings and recommendations follow.

Except for the Air Force, DOD staff officials generally agreed that excess and obsolete items should be removed from active inventory either through life-of-type buy offerings or through normal disposal practices. However, they expressed concern that our report oversimplified the disposal of such inventories. They explained that life-of-type buy offerings to foreign governments required an evaluation on a case-by-case basis considering factors such as:

- The prevailing political and foreign policy issues and implications.
- The foreign government budget process and ability to buy the items.
- If a life-of-type buy offering would be cost effective.
- Whether the inventory must be retained to honor contractual agreements with the foreign government.

Air Force representatives said that until criteria is established to determine foreign governments' needs, the Air Force prefers to hold inventories applicable to equipment used by foreign governments.

We agree that life-of-type buy offerings on unneeded repair parts inventories should be evaluated on a case-by-case basis; however, we believe that the evaluations should be initiated at the time decisions are made to phase out the weapon system. As discussed in this report, some of the obsolete and excess items we identified have been retained in inventories for years. It would seem, for example, that the Air Force has had ample time to evaluate foreign governments' requirements for the reciprocating engine parts held in the San Antonio Air Logistics Center.

#### CONCLUSIONS AND RECOMMENDATIONS

The military services can make better use of their storage facilities and reduce inventory and administrative supply costs if they immediately purge unneeded items from their inventories, either through life-of-type buys or through normal disposal practices. The Army has been taking action to reduce its inventory of obsolete items by offering the items to foreign governments under a life-of-type buy policy discussed in DOD's military assistance and sales manual. We believe the Air Force and Navy should also adopt the life-of-type buy policy as a means of eliminating unneeded items from their inventories.

Accordingly, we recommend that you direct the military services to

- identify the excess and obsolete inventory currently held in their supply systems,
- develop procedures for determining foreign governments' requirements for this material, and
- utilize the life-of-type buy policy and normal disposal practices to dispose of unneeded items promptly.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

B-146828

We are sending copies of this report to the Director, Office of Management and Budget; Chairmen, Senate Committee on Governmental Affairs, House Committee on Government Operations, and House and Senate Committees on Appropriations and Armed Services; and the Secretaries of the Air Force, Army, and Navy.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "R. W. Gutmann".

R. W. Gutmann  
Director

Enclosures - 2



SPARE PARTS INVENTORY FOR RECIPROCATING ENGINES

Engine type	Value of reparable item inventory		Total	Value: known requirements	Net excess inventory value
	<u>Serviceable</u>	<u>Unserviceable</u>			
	(millions)				
R-1300	\$ 1.33	\$ 1.55	\$ 2.88	\$ .15	\$ 2.73
R-1820	2.19	1.88	4.07	.41	3.66
R-1830	3.49	20.87	24.36	.67	23.69
R-2000	7.83	13.77	21.60	1.73	19.87
R-2800	11.89	16.44	28.33	8.80	19.53
R-3350	15.24	28.79	44.03	3.08	40.95
R-4360	<u>10.03</u>	<u>24.62</u>	<u>34.65</u>	<u>0</u>	<u>34.65</u>
total	<u>\$52.00</u>	<u>\$107.92</u>	<u>\$159.92</u>	<u>\$14.84</u>	<u>\$145.08</u>

UNNEEDED INVENTORY FOR FIVE ANALYZED ITEMS

Item and national stock no.	Unit cost	FMS (note a) contract requirements		Total inventory		Total unneeded inventory	
		Qty	Cost	Qty	Cost	Qty	Cost
Crank shaft for R-1300 engine 2810-00-723-6447PB	\$6,823.00	14	\$ 95,522	83	\$ 566,309	69	\$ 470,787
Cylinder (complete) for R-1300 engine 2810-00-839-9754PB	1,895.00	5	9,475	134	253,930	129	244,455
Cylinder (studding) for R-1300 engine 2810-00-947-4512PB	825.00	20	16,500	479	395,175	459	378,675
Cylinder (studding) for R-1820 engine 2810-00-780-6480PB	1,274.00	4	5,096	356	453,544	352	448,448
Link rod for R-1830 engine 2810-00-118-9631PD	85.04	48	4,082	12,534	1,065,891	12,486	1,061,809
<b>Total</b>		<u>91</u>	<u>\$130,675</u>	<u>13,586</u>	<u>\$2,734,849</u>	<u>13,495</u>	<u>\$2,604,174</u>

a/foreign military sales.