

# Inspector General

United States  
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## Controls Over Excess Defense Articles Provided to Foreign Governments

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### **Acronyms**

DLA	Defense Logistics Agency
DRMO	Defense Reutilization and Marketing Office
DRMS	Defense Reutilization and Marketing Service
DSCA	Defense Security Cooperation Agency
DTR	Defense Transportation Regulation
LOA	Letter of Offer and Acceptance
MILDEP	Military Department
TCN	Transportation Control Number



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
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February 13, 2009

MEMORANDUM FOR COMMANDER, U.S. TRANSPORTATION COMMAND  
ASSISTANT SECRETARY OF THE AIR FORCE  
(FINANCIAL MANAGEMENT AND COMPROLLER)  
DIRECTOR, DEFENSE LOGISTICS AGENCY  
NAVAL INSPECTOR GENERAL

SUBJECT: Controls Over Excess Defense Articles Provided to Foreign Governments  
(Report No. D-2009-052)

We are providing this report for review and comment. We considered management comments from the U.S. Transportation Command, Department of the Navy, Department of the Air Force, and the Defense Logistics Agency when preparing the final report.

Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Logistics Agency's Executive Director for Materiel Policy, Process and Assessment comments on Recommendations 2.b. and 3.b. through 3.e. were not responsive. We request additional comments on these recommendations by March 13, 2009.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to [AUDROS@dodig.mil](mailto:AUDROS@dodig.mil). Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Robert Prinzbach at (703) 604-8907 (DSN 664-8907).

A handwritten signature in black ink, appearing to read "J. R. Oliva", is positioned above the typed name.

Joseph R. Oliva, CPA  
Assistant Inspector General  
Readiness, Operations, and Support



## Department of Defense Office of Inspector General

Report No. D-2009-052

February 13, 2009

(Project No. D2006-D000LG-0136.000)

### Controls Over Excess Defense Articles Provided to Foreign Governments

#### Executive Summary

**Who Should Read This Report and Why?** Individuals responsible for reporting and transferring excess defense articles to foreign governments should read this report because it discusses controls over approving, accounting for, and shipping such articles.

**Background.** From October 2001 through March 2006, DoD reported providing excess defense articles with an acquisition value of \$2 billion to 57 foreign governments friendly to the United States. Excess defense articles are DoD-owned items no longer needed and declared excess by the U.S. Armed Forces. The articles may require demilitarization (disassembly or destruction) when no longer needed by foreign governments to prevent transfers of excess defense articles to governments not friendly to the United States.

The Army and the Defense Logistics Agency provided approximately 99 percent (2,728,384 of 2,752,057) of the excess defense articles with an acquisition value of \$875 million to 37 foreign governments. Within the Army, we reviewed controls at the U.S. Army Security Assistance Command and did not detect control weaknesses. However, we did find weaknesses and focused our review on controls at the Defense Logistics Agency's Defense Reutilization and Marketing Service, which provided excess defense articles with an acquisition value of more than \$296 million to 19 foreign governments from October 2001 through March 2006. Also, we reviewed transportation offices managed by the Navy, Air Force, and Defense Logistics Agency that helped ship the excess defense articles from the Defense Reutilization and Marketing Service offices.

**Results.** The Defense Reutilization and Marketing Service and the DoD transportation offices reviewed did not fully account for the 7,373 line items of excess defense articles requiring demilitarization that were provided to the 19 foreign governments. A line item is a single-line entry on a reporting form or sales document that indicates a quantity of property having the same description, physical condition, and cost per item. On the basis of our statistical sample of 175 of 7,373 line items, we estimate:

- as many as 7,259 of 7,373 line items of excess defense articles, including M-16 rifles, M-60 machine guns, and armored personnel carriers, were not properly tracked, safeguarded, accounted for, or reconciled;
- as many as 291 of 7,373 line items of excess defense articles, including M-16 rifle parts, were shipped to foreign governments not authorized to have those items; and
- as many as 960 of 7,373 line items of excess defense articles shipped were turned in with incorrect information on how the articles should be demilitarized to prevent potential misuse.

As a result of deficiencies in controls over excess defense articles, the Defense Reutilization and Marketing Service and the DoD transportation offices increased the risk of providing foreign governments unauthorized property that could be used to threaten our national security.

We recommend that the U.S. Transportation Command revise the regulation that DoD transportation offices follow to require them to identify, track, and control each line item within a shipment. We recommend that the Deputy Chief of Staff for Logistics, Installations & Mission Support, Department of the Air Force; the Commander, Naval Supply Systems Command; and the Director, Defense Logistics Agency direct the DoD transportation offices to conduct periodic reviews of transportation documents to control the transport of small arms, and conduct periodic reviews of shipping documents to better account for excess defense articles shipped to foreign governments.

We recommend that the Defense Reutilization and Marketing Service: (1) specify which guidance to use for retaining documents for articles turned in to its offices; (2) develop policy to account for small arms; (3) determine whether small arms for which there is an inventory discrepancy are missing; (4) establish a procedure to prevent managers from authorizing shipments of excess defense articles not approved by the Defense Security Cooperation Agency; and (5) establish a process to notify foreign governments when the method of demilitarization changes for excess defense articles. See Finding section for detailed recommendations and Appendix B for statistical methodology.

**Management Comments and Audit Response.** We issued a draft of this report on March 14, 2008. The Chief of Staff [who is also the Director of Policy] for the Deputy Assistant Secretary of the Navy for Acquisition and Logistics Management responded for the Commander, Naval Supply Systems Command. He concurred, stating that the Navy will reiterate the requirement for two drivers' signatures on transportation documents, and that the Navy will reiterate requirements for retaining shipping documents.

The Air Force Assistant Deputy Chief of Staff for Logistics, Installations & Mission Support responded for the Deputy Chief of Staff for Logistics, Installations & Mission Support. He concurred, stating that the Air Force plans to update an Air Force instruction in July 2009 directing certification of two drivers' signatures on all transportation documents for small arms, and retention of all shipping documents for 10 years.

The Director of Program Analysis and Financial Management responded for the Commander of U.S. Transportation Command. He stated that the U.S. Transportation Command had no formal changes to make to the report. Regarding the recommendation, the Director did not concur or nonconcur but the U.S. Transportation Command updated the Defense Transportation Regulation, part II, chapter 203 in July 2008 requiring transportation offices to identify, track, and control all transportation control numbers linked to the lead transportation control number.

The Defense Logistics Agency Executive Director for Materiel Policy, Process and Assessment responded for the Director of the Defense Logistics Agency and nonconcurrent with only one of seven recommendations directed to the Defense Logistics Agency. She stated that the Defense Logistics Agency: (1) issued supplemental policy on April 22, 2008, based on the draft transportation regulation to be issued February 2009, requiring periodic reviews for two drivers' signatures on small arms transportation documents; (2) reiterated to its depots on September 6, 2006, the guidance to follow for retaining transportation documents; (3) issued clarifying guidance on May 27, 2008 for retaining turn-in documents; (4) implemented a system change that automatically updates its information system when small arms are recorded in the small arms system; (5) accounted for all small arms inventory identified at Crane, Indiana; (6) is reviewing case files quarterly to ensure that only approved items are authorized for shipment; and (7) concurred with the intent but not the recommendation to notify foreign countries of the current demilitarization codes for item disposal.

See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

The management comments from the Executive Director for Materiel Policy, Process and Assessment on five of the seven recommendations addressed to the Defense Logistics Agency were not responsive. The Executive Director's comments did not address our recommendations on: (2) policy requiring periodic reviews of bills of lading and other shipping documents for compliance with document retention requirements; (4) policy directing comparison of the number of small arms recorded in the Defense Logistics Agency's information and small arms systems with the small arms actually turned in; (5) a determination whether small arms are missing; (6) a document specifying the process for reviewing case managers' decisions to authorize shipments of excess defense articles; or (7) a document specifying the process for notifying foreign governments when the demilitarization codes for excess defense articles provided to them change.

We request that the Executive Director for Materiel Policy, Process and Assessment reconsider her position and provide comments on the final report by March 13, 2009.



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## Background

DoD is authorized by law to transfer excess defense articles to foreign governments under the Foreign Assistance Act of 1961 (Public Law 87-195), as amended, and the Arms Export Control Act of 1976 (Public Law 90-629), as amended. Excess defense articles are DoD-owned items no longer needed and declared excess by the U.S. Armed Forces. According to the Foreign Assistance Act, defense articles are provided to foreign governments for:

- promoting their internal security (including antiterrorism),
- helping to provide legitimate self-defense,
- permitting the government's participation in regional or joint arrangements consistent with the charter of the United Nations,
- assisting the United Nations with maintaining or restoring international peace and security, and
- assisting military forces with constructing public works and helping the economic and social development of the governments.

The Foreign Assistance Act and the Arms Export Control Act also address methods DoD can use to provide foreign governments excess defense articles.

**Authorized Methods for Transferring Excess Defense Articles.** The Foreign Assistance Act of 1961, as amended, authorizes DoD to grant excess defense articles to foreign governments. Also, excess defense articles may be sold to foreign governments through the Foreign Military Sales program,<sup>1</sup> authorized by the Arms Export Control Act. These excess defense articles can be offered at reduced or no cost to eligible foreign governments on an "as is, where is" basis.

Various Components are involved in controlling the transfer of excess defense articles to foreign governments.

**DoD Components That Control the Transfer of Excess Defense Articles.** It is DoD policy that its Components implement controls to prevent unauthorized transfers of excess defense articles to governments adverse to the United States. Various DoD Components play a role in controlling the transfer of excess defense articles to foreign governments and preventing unauthorized transfers. These Components include the Defense Logistics Agency (DLA) and its Defense Reutilization and Marketing Service (DRMS), as well as the Defense Security Cooperation Agency (DSCA).

**Defense Logistics Agency.** DLA is responsible for ensuring that all materiel it ships to Foreign Military Sales customers follows Foreign Military Sales program procedures. Materiels such as excess defense articles may be sold

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<sup>1</sup> The Foreign Military Sales program is the means for selling U.S. defense equipment, services, and training to foreign governments.

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to foreign governments through the Foreign Military Sales program. DRMS, a Component of DLA, maintains inventory of excess defense articles received from the Military Services that are available to eligible foreign governments. Managers at DRMS establish a case file<sup>2</sup> when a foreign country authorized to receive excess defense articles requests them; these managers, known as case managers,<sup>3</sup> then send a Letter of Offer and Acceptance (LOA)<sup>4</sup> to DSCA for review, approval, and signature.

**Defense Security Cooperation Agency.** DSCA directs, administers, and provides overall policy guidance for security cooperation in accordance with the Foreign Assistance Act of 1961. Security cooperation refers to the activities conducted with allies and friendly nations to build relationships that promote U.S. interests. Additionally, DSCA helps coordinate excess defense articles provided to foreign governments.

**Excess Defense Articles Provided to Foreign Governments.** From October 2001 through March 2006, DoD reported providing excess defense articles with an acquisition value of \$2 billion to 57 foreign governments. The Army and the Defense Logistics Agency are the two DoD Components that provided the largest quantities of excess defense articles to foreign governments from October 2001 through March 2006. The Army and the Defense Logistics Agency provided approximately 99 percent (2,728,384 of 2,752,057) of the excess defense articles with an acquisition value of \$875 million to 37 foreign governments during that period.

Within the Army, we reviewed controls at the U.S. Army Security Assistance Command and did not detect control weaknesses. However, we did find weaknesses and focused our review on controls at the Defense Logistics Agency's Defense Reutilization and Marketing Service, which provided excess defense articles with an acquisition value of more than \$296 million to 19 foreign governments from October 2001 through March 2006. DRMS reported providing 7,373 line items<sup>5</sup> of excess defense articles requiring demilitarization (comprising 321,196 articles provided as grants and sales) to 19 foreign governments from October 2001 through March 2006. To obtain excess defense articles, foreign governments or international organizations<sup>6</sup> submit a written request to the U.S. Government.

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<sup>2</sup> A case is a contractual sales agreement between the United States and an eligible foreign country or international organization, documented by a Letter of Offer and Acceptance.

<sup>3</sup> A case manager is an official responsible for all financial and logistical aspects of a case throughout its life cycle.

<sup>4</sup> A Letter of Offer and Acceptance is the document used by the U.S. Government to sell defense articles and services to a foreign country or international organization under authorities granted in the Arms Export Control Act.

<sup>5</sup> A line item is a single-line entry on a reporting form or sales document that indicates a quantity of property having the same description, physical condition, and cost per item.

<sup>6</sup> There was only one foreign organization included in our sample; therefore, we use the term foreign governments to represent both foreign organizations and foreign governments.

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**Process for Requesting Excess Defense Articles.** A foreign government sends a Letter of Request to the U.S. Government to obtain the price and availability of excess defense articles. Once the foreign government receives the requested information and determines it wants the articles, it sends a Letter of Request to the DoD security assistance office located in the country making the request. The security assistance office transmits the Letter of Request to a case manager in DRMS who develops a LOA. Next, the case manager sends the LOA to DSCA for review and signature. A copy of the LOA is also sent to the Department of State, and Congress (if congressional notification is required) for review. See Appendix D for a flow chart of the complete DoD process for requesting and controlling excess defense articles.

## Objectives

The overall audit objective was to assess the adequacy of controls over the transfer of excess defense articles to foreign governments. Specifically, we determined whether transferred property was adequately controlled and demilitarized<sup>7</sup> in accordance with the requirements of the Foreign Assistance Act of 1961 (Public Law 87-195), as amended, and the Arms Export Control Act of 1976 (Public Law 90-629), as amended. We also reviewed the management control program as it related to the overall audit objective. See Appendix A for the scope and methodology, and for prior coverage related to the objectives.

## Review of Internal Controls

We reviewed the adequacy of internal controls in place at the U.S. Army Security Assistance Command, DoD transportation offices, and DRMS over excess defense articles provided to foreign governments from October 2001 through March 2006. During our review, we also looked at the Defense Transportation Regulation that the U.S. Transportation Command develops and the DoD transportation offices use as guidance for transporting excess defense articles. We did not detect control weaknesses at the U.S. Army Security Assistance Command. However, we determined that the U.S. Transportation Command needs to revise the Defense Transportation Regulation to require the DoD transportation offices to identify, track, and control each line item they ship. We also identified control weaknesses in managing excess defense articles at DoD transportation offices and DRMS.

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<sup>7</sup> Demilitarization is the process used to render an item useless for military purposes. For excess defense articles provided to a foreign government, demilitarization occurs after a foreign government no longer needs or wants the excess article, according to a DRMS case manager.

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Implementing Recommendations 1., 2., and 3. will improve internal controls over excess defense articles provided to foreign governments. A copy of this report will be provided to the senior official responsible for internal controls in the U.S. Transportation Command, DoD transportation offices, and DRMS.

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## Controls Over the Transfer of Excess Defense Articles to Foreign Governments

DoD transportation offices<sup>8</sup> and DRMS did not have adequate controls to fully account for 7,373 line items of excess defense articles requiring demilitarization that have an acquisition value of more than \$296 million and were provided to 19 foreign governments from October 2001 through March 2006. Based on our statistical sample of 175 line items, we estimate that:

- as many as 7,259 of the 7,373 line items of excess defense articles, including M-16 rifles, M-60 machine guns, and armored personnel carriers, were not properly tracked, safeguarded, accounted for, or reconciled;
- as many as 291 of the 7,373 line items of excess defense articles, including M-16 rifle parts, were shipped to a foreign government not authorized to have those items; and
- as many as 960 of the 7,373 line items of excess defense articles shipped were turned in as excess with incorrect information on how the articles should be demilitarized to prevent potential misuse.

DoD transportation offices and DRMS did not have effective controls in place because of inadequate oversight and guidance for transferring excess defense articles. As a result of these deficiencies in controls over excess defense articles, DoD transportation offices and DRMS increased the risk of providing foreign governments unauthorized property that could be used to threaten our national security.

### Excess Defense Articles Provided to Foreign Governments

From October 2001 through March 2006, DoD reported providing excess defense articles with an acquisition value of \$2 billion to 57 foreign governments. The Army and the Defense Logistics Agency are the two DoD Components that provided the largest quantities of excess defense articles to foreign governments from October 2001 through March 2006. The Army and the Defense Logistics Agency provided approximately 99 percent (2,728,384 of 2,752,057) of the excess defense articles with an acquisition value of \$875 million to 37 foreign governments during that period. Within the Army, we reviewed controls at the U.S. Army Security Assistance Command and did not detect control weaknesses. However, we did find weaknesses and focused our review on controls at the Defense Logistics Agency's Defense Reutilization and Marketing Service, which

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<sup>8</sup> DoD transportation offices refer to transportation offices located on military installations and managed by the Navy, Air Force, and DLA. DLA manages transportation offices at the Army sites, according to the Transportation Manager at Anniston Army Depot.

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provided excess defense articles with an acquisition value of more than \$296 million to 19 foreign governments from October 2001 through March 2006.

## Audit Universe and Sample Selection

We received a database from DRMS that contained 7,373<sup>9</sup> line items of excess defense articles (321,196 excess defense articles) requiring demilitarization that were sent to foreign governments from October 2001 through March 2006. We statistically selected an initial sample of 45 line items of excess defense articles to assess the adequacy of controls in accounting for transfers of excess defense articles to foreign governments. We defined accounting for transfers as managing,<sup>10</sup> authorizing, and coding excess defense articles. Based on the results of the 45 line items, we increased our sample by 130 line items, for a total sample of 175 of 7,373 line items. The 175 line items represented 5,582 of 321,196 excess defense articles transferred to foreign governments from October 2001 through March 2006. (See Appendix B for our statistical methodology and Appendix C for the quantities and the value of excess defense articles provided to foreign governments.)

## Accounting for Transferred Articles

DoD transportation offices and DRMS did not always fully account for 7,373 line items of excess defense articles with an acquisition value of more than \$296 million that were provided to 19 foreign governments from October 2001 through March 2006. Based on our statistical sample of 175 line items, we estimated how many of the 7,373 line items were not properly managed, authorized, or coded.

**Controls Over Managing Excess Defense Articles.** We estimate that DoD transportation offices and DRMS did not adequately manage transfers of up to 7,259 of the 7,373 line items of excess defense articles to foreign governments. Controls over managing 165 of the 175 line items in our sample were deficient in the following categories:

- tracking items shipped (48 line items shipped could not be tracked),
- safeguarding small arms by requiring both drivers to sign for small arms (transportation documents for 6 line items of small arms lacked both drivers' signatures),
- retaining copies of shipping documents (documents were not on file for 116 line items),

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<sup>9</sup> The 7,373 line items represent excess defense articles that foreign governments must demilitarize—that is, render useless for military purposes—when they no longer need the items.

<sup>10</sup> We defined managing as consistently recording, safeguarding, accounting for, and reconciling excess defense articles.

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- accounting for excess defense articles turned in by the Military Services (turn-in documents for 12 line items were missing), and
  - reconciling the number of small arms<sup>11</sup> turned in and recorded in the DoD small arms system with the number of small arms recorded in the DRMS system (the numbers of small arms recorded in the two systems did not match for 1 line item).

**Tracking Items Shipped.** We determined that DoD transportation offices could not track 48 line items in our sample of excess defense articles shipped for the DRMOs to foreign governments. The transportation offices use a transportation control number (TCN) to track shipments. Defense Transportation Regulation (DTR) 4500.9-R, “Defense Transportation Regulation,” November 2004, developed by the U.S. Transportation Command, requires DoD transportation offices to ensure a TCN is assigned to all shipment units. DTR 4500.9-R also states that the TCN should be unique to each shipment. The TCN serves as a control to ensure shipments of line items requested are received by the requesting foreign governments. Specifically, DTR 4500.9-R states that the TCN is assigned to control every shipment unit throughout the transportation cycle of the Defense transportation system.

The regulation later defines a shipment unit as one of the following: (1) a single line item of supply; (2) two or more compatible line items having the same consignee/destination, commodity, category, and transportation account code; or (3) two or more compatible shipment units aggregated into a consolidated shipment unit.

The DoD transportation offices followed the guidance that defined a shipment unit. For example, a transportation office in Texarkana, Texas, controlled the shipment of a single line item of motor parts to a foreign government by recording a unique TCN—TISK4N6053M093—on a shipping document. In this case, we could track the line item shipped to the foreign government because the line item of motor parts requested by the foreign government was traceable to the TCN on the shipping document.

For a shipment of more than one line item, transportation officials following the guidance sometimes combined or consolidated similar or compatible line items and recorded one TCN (referred to as a “lead TCN”) on the shipping document. Sometimes the combined or consolidated line items represented more than one request for excess defense articles by a government. For example, we found that a DoD transportation office in Anniston, Alabama, had recorded TCN TSKA9N3121F008 on a shipping document for machine guns sent to Senegal. At the request of DRMO, the transportation officials consolidated this request for machine guns with another request Senegal made for machine guns. The transportation office assigned a different TCN—TSKA9N3121F019—to the second request for machine guns. We searched but were unable to find TCN TSKA9N3121F019 on any shipping document.

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<sup>11</sup> Small arms include handguns, shoulder-fired weapons, light automatic weapons, recoilless rifles, mortars, rocket launchers, grenade launchers, and other weapons that are portable or can be fired without special mounts or firing devices, have potential use in civil disturbances, and are vulnerable to theft.

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When asked, the transportation officials told us that the TCN for the second request for machine guns—TSKA9N3121F019—was not recorded on any shipping document. Those officials explained to us that the TCN for the second request, although not recorded, was represented on the shipping document by the TCN on the initial request—TSKA9N3121F008, referred to as a “lead TCN.” This process appears to negate the purpose of a TCN: to provide a method for tracking the shipment of line items by assigning a unique number to each request made by a foreign government.

For 59 of the 175 line items in our sample, we reviewed 47 shipping documents,<sup>12</sup> mainly bills of lading<sup>13</sup> and Federal Express documents. For the remaining 116 line items, DoD transportation offices and DRMOs had no documents for us to review. Our review of the available shipping documents showed that:

- for 11 of 59 line items, DoD transportation offices could track shipments because the TCN recorded on the shipping document matched a single line item, but
- for 48 of 59 line items, DoD transportation offices could not track shipments because the TCN recorded on the shipping document was for a consolidated or containerized shipment of two or more line items.

The U.S. Transportation Command, which developed the DTR governing TCNs, needs to revise the regulation to require that, for each shipment to a foreign government, DoD transportation offices identify, track, and control all TCNs linked to the lead TCN. The lack of controls over the tracking of shipments to foreign governments increases the risk of articles being diverted from the intended government.

**Safeguarding Small Arms.** DoD transportation offices did not adequately safeguard the shipment of six line items of small arms in our sample. DLA uses a DD Form 1907, “Signature and Tally Record,” to track or control the movement of small arms. According to DTR 4500.9-R, drivers are required to sign a signature and tally record when they accept custody of small arms. The regulation also requires two drivers to protect and transport small arms. In discussions with transportation officials, we were told that small arms shipments required the signatures of two drivers on a signature and tally form.

To determine whether DoD transportation offices were requiring two drivers to sign the signature and tally records when transporting small arms, we reviewed controls at the DLA transportation office in Anniston, Alabama, and at the Navy transportation office in Crane, Indiana. There were 31 line items of small arms in our sample of 175. Of these, the DLA transportation office at Anniston shipped 20, and the Navy transportation office at Crane shipped 11. We

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<sup>12</sup> A shipping document can cover more than one line item. Therefore, there is no direct correlation between the number of shipping documents and the number of line items.

<sup>13</sup> A bill of lading is an official receipt, signed by the shipment owner or agent, specifying the goods to be shipped and stating the terms and conditions under which they will be transported.

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received signature and tally records for 22<sup>14</sup> of the 31 line items of small arms to assess compliance with DTR 4500.9-R and DRMS requirements. (The transportation offices in Anniston and Crane did not provide us signature and tally records for the remaining 9 of the 31 line items of small arms.) We determined that 6<sup>15</sup> of the 22 line items of small arms showed the signature of only 1 driver transporting more than 500 M-16 rifles.

DoD transportation offices can reduce the risks of diversion of small arms by enforcing the requirement that two drivers sign the signature and tally records.

**Retaining Copies of Shipping Documents.** The DoD transportation offices and DRMS did not retain copies of the shipping documents for 116 of the 175 line items of excess defense articles in our sample. According to DoD Regulation 5105.38-M, “Security Assistance Management Manual,” October 3, 2003, case managers must “ensure accessibility to bills of lading” for 10 years after completing a shipment of excess defense articles and closing the case. Also, DLA Records Schedule, section 940.05, “Foreign Military Sales Transportation Case Files,” April 2004, stipulates that case files containing records including bills of lading should be maintained for 30 years.

We determined that the DoD transportation offices and DRMS case managers did not retain bills of lading for 116 of the line items (2,862 of the 5,582 excess defense articles). DoD transportation offices and DRMS case managers could better account for excess defense articles shipped to foreign governments by periodically verifying that bills of lading are retained for at least 10 years.

**Accounting for Excess Defense Articles Turned in by the Military Services.** For 12 of 175 line items in our sample, DRMOs did not retain documents showing the number of excess defense articles turned in by the Military Services. The DLA Records Schedule, section 630.55, “Accounts Maintenance,” April 2004, and DRMS Instruction 4160.14, “Defense Reutilization Management System Operating Instructions for Disposition Management,” December 2006, state that turn-in documents, as well as documents used to research, maintain, and correct accounts, can be destroyed after 3 years. However, the DLA Records Schedule, section 610.10, “Item Case Files,” April 2004, states that “item release/receipt documents . . . used to account for property items until reutilization or disposal” can be destroyed after 2 years.

When asked which rule they followed, three DRMO managers told us that they retained turn-in documents for 3 years. One DRMO manager explained that she retained turn-in documents for 3 years for nondemilitarization articles and for 6 years for demilitarization articles. However, we determined that the DRMOs did not retain turn-in documents for 12 line items of excess defense articles in our sample.

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<sup>14</sup> The 22 line items include 15 line items from Anniston and 7 line items from Crane.

<sup>15</sup> The six line items with one signature on the signature and tally records were from Anniston. (The other nine line items from Anniston and the seven line items from Crane had the required two signatures on the signature and tally records.)

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DRMS should review its policies for retaining documents and specify a single time frame for retaining all turn-in documents to avoid confusion among its personnel. Document retention is necessary to facilitate research, maintenance, and correction of actions taken related to articles turned in by the Military Services.

**Reconciling the Number of Small Arms Turned in With the Number of Small Arms Recorded.** We determined that DRMO could not reconcile the number of small arms recorded in the small arms system with the number of small arms turned in to DRMO for 1 of 175 line items in our sample. Specifically, the DoD demilitarization center at Crane, Indiana, could not reconcile the number of small arms recorded in the Small Arms Serialization Program system with the number of small arms turned in and recorded in the Defense Reutilization and Marketing Automated Information System. DRMS Instruction 4160.14 requires that the number of small arms recorded in the Defense Reutilization and Marketing Automated Information System be reconciled with the number of small arms recorded in the Small Arms Serialization Program system. DRMO is responsible for accounting for the weapons in the DRMO inventory using the Defense Reutilization and Marketing Automated Information System. Also, DRMO is responsible for recording receipts, shipments, and demilitarization of small arms in the Small Arms Serialization Program system.

We compared the number of small arms turned in to DRMO and reported in the Defense Reutilization and Marketing Automated Information System with the number of small arms reported in the Small Arms Serialization Program system. We determined that the demilitarization center in Crane, Indiana, could not reconcile small arms entries for 1 of 175 line items in our sample. For that line item, the Defense Reutilization and Marketing Automated Information System showed 48 M16A1 rifles, whereas the Small Arms Serialization Program system showed 12 M16A1 rifles were turned in by the Army on May 1, 2001. The DRMOs need to constantly compare the number of small arms in the two systems to detect and correct discrepancies early and to reduce the potential for loss of weapons. For the discrepancy we identified between the two systems, we recommend that DRMS determine whether small arms are missing.

**Controls Over Authorizing Excess Defense Articles for Shipment.** For 4 of 175 line items in our sample, controls over authorizing excess defense articles for shipment were inadequate. The controls did not always ensure that foreign governments received only authorized excess defense articles. Based on the sample results, we estimate that DRMS inappropriately provided as many as 291 of 7,373 line items of excess defense articles to foreign governments from October 2001 through March 2006. According to DSCA officials, DRMS is limited to offering and transferring only those articles specified in the LOA that DSCA approved.

We determined that a DRMS case manager authorized the shipment of weapon parts to the Dominican Republic for four line items in our sample, although those parts were not approved in the LOA. The LOA represents an offer by the U.S. Government to sell items recorded in the LOA. The case manager informed us that the Dominican Republic stated that the weapon parts were to be used as

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training aids, which are authorized on the LOA. However, the weapon parts are not considered as training aids according to the Federal Supply Classification.<sup>16</sup>

DRMS should establish controls to prevent case managers from authorizing shipments of excess defense articles not in the LOA that DSCA approved.

**Controls Over Coding Excess Defense Articles.** Of the 175 line items in our sample, 12 had demilitarization code changes between when the Military Services turned in the items and when DRMS provided the items to foreign governments. Yet, DRMS did not have adequate controls to ensure that foreign governments always received notification of the changes. Based on the inadequacies found in this sample, we estimate that as many as 960 of 7,373 line items of excess defense articles had demilitarization coding changes that were not communicated to foreign governments receiving the excess defense articles.

For 12 line items in our sample, the demilitarization code on the turn-in documents that the Military Services submitted to DRMS changed, but foreign governments that received the items were not notified of the change. For example, on a turn-in document, the Army coded a steering control differential<sup>17</sup> as not requiring demilitarization—Code B. When DRMS provided this item to the foreign government on May 27, 2003, the code remained unchanged. The demilitarization code for the steering control differential changed to total destruction—Code D—on January 3, 2005. This change in code requires a more stringent disposal process. DRMS case managers told us that they did not inform the foreign government when the code changed.

DRMS needs to develop a system to notify foreign governments when the demilitarization codes for excess defense articles received by those governments change (especially if the new code requires a more stringent disposal process). Without notification of code changes, the foreign government may not properly remove the military capability from the articles when they are no longer needed, and unfriendly foreign persons or governments could acquire the articles and use them against the United States. DRMS can reduce the risk of excess articles falling into the wrong hands by notifying foreign governments of code changes. Also, DRMS will have greater assurance that friendly foreign governments have appropriate instructions to properly dispose of excess defense articles.

## **Providing Guidance and Oversight for Transfer of Excess Defense Articles**

DoD controls over excess defense articles were ineffective because of inadequate guidance and oversight. Specifically, DoD transportation offices did not provide

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<sup>16</sup>The Federal Supply Classification and its indexes have been developed and adopted by the Office of the Secretary of Defense for use in classifying items of supply, from ammunitions to yarn and thread. Training aids (classification code 6910) include items such as training films and maps and vehicle and aircraft instrument training aids, but exclude weapons.

<sup>17</sup> A steering control differential is used in an armored, tracked vehicle such as a personnel carrier to help control and steer the vehicle.

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adequate guidance and oversight for documenting shipments of excess defense articles. In addition, DRMS did not provide adequate guidance and oversight for documenting turn-ins, reconciling small arms, or shipping and coding those articles.

**Guidance and Oversight for Shipments.** DoD transportation offices could not always trace the line items of excess defense articles shipped to the line items of articles that the foreign governments requested because of inadequate transportation guidance. DTR 4500.9-R states that the TCN is assigned to control a shipment throughout the transportation cycle of the Defense transportation system. However, the application of one TCN (lead TCN) to a shipment of two or more line items (consolidated and containerized) was not adequate for matching each line item shipped with a line item that the foreign government requested. DoD transportation offices need to improve transportation guidance to identify, track, and control all TCNs for line items linked to the lead TCN.

In addition to inadequately tracking shipments of excess defense articles, the DoD transportation offices did not adequately oversee the use of signature and tally records. DTR 4500.9-R requires the use of signature and tally records to secure small arms shipments. Better oversight of this process is needed to improve security on shipments of small arms.

Besides establishing better oversight for shipments of small arms, DoD transportation offices and DRMS managers need to improve monitoring of retention of bills of lading. The Security Assistance Management Manual and DLA Records Schedule, section 940.05, require DoD transportation offices and DRMS managers to retain bills of lading for 10 years and 30 years, respectively, after all actions related to excess defense articles are completed and the case is closed. The DoD transportation offices and DRMS managers need to periodically verify that their personnel retain bills of lading for at least 10 years.

**Guidance on Retaining Turn-in Documents.** DRMS gave inconsistent guidance on retaining turn-in documents. The DLA Records Schedule, section 610.10, states that item release or receipt documents can be destroyed after 2 years. However, the DLA Records Schedule, section 630.55, states that turn-in documents can be destroyed after 3 years. The majority of DRMO managers that we interviewed stated they kept turn-in documents for 3 years. DRMS should modify its guidance to help avoid confusion on the time frame for retaining turn-in documents.

**Guidance for Reconciling Small Arms.** DRMS did not enforce its guidance for reconciling the number of small arms turned in to the DRMOs with the number of small arms recorded in the small arms system. DRMS Instruction 4160.14 requires continual reconciliation of the number of small arms in the Defense Reutilization and Marketing Automated Information System with the number of small arms in the Small Arms Serialization Program system. DRMOs did not always reconcile the number of the small arms in the Defense Reutilization and Marketing Automated Information System with the number of small arms in the Small Arms Serialization Program system. Therefore, DRMS needs to periodically verify that reconciliation is occurring. It should also establish a policy requiring DRMOs to take action to reconcile the number of small arms

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specified on each turn-in document with both the number actually turned in and the number that the Military Services recorded in the Small Arms Serialization Program system. This action should be taken before DRMS accepts small arms from the Military Services and enters the number of small arms in the Defense Reutilization and Marketing Automated Information System. Further, DRMS needs to determine whether the small arms discrepancy we identified between the Small Arms Serialization Program system and the Defense Reutilization and Marketing Automated Information System indicates that small arms are missing.

**Guidance for Authorizing Excess Defense Articles.** DRMS management did not always ensure that case managers provided foreign governments only excess defense articles authorized by the LOA. DoD 5105.38-M, “Security Assistance Management Manual,” October 3, 2003, states that the scope of the LOA “is limited to described item and/or service categories and the purchaser-furnished case and/or line dollar value.”

However, a case manager provided weapon parts to the Dominican Republic that were not included in the category of property authorized on the LOA. Therefore, DRMS needs to establish and document a process for reviewing case managers’ decisions on shipments of excess defense articles to foreign governments.

**Guidance for Coding Changes to Excess Defense Articles.** DRMS management did not have adequate guidance in place for notifying a foreign government when a demilitarization code changed for excess defense articles provided to the foreign government. For the articles we reviewed, code changes occurred generally after the excess defense articles had been shipped to the foreign government. DRMS could keep a foreign government informed of demilitarization code changes to excess defense articles by developing a notification procedure.

## **Risk of Providing Unauthorized Property to Foreign Governments**

As a result of inadequate controls over managing, authorizing, and coding excess defense articles, DoD transportation offices and DRMS increased the risk of providing foreign governments unauthorized property that could be used to threaten national security.

This increase in risk was a result of:

- inadequate controls over documenting the transportation and turn-in of excess defense articles and the reconciliation of small arms;
- lack of transportation documents and TCNs to track shipments;
- lack of drivers’ signatures on the signature and tally records to secure small arms shipments;

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- unauthorized property (such as weapon parts not authorized on the LOA) provided to a foreign government; and
  - lack of communication of demilitarization code changes to foreign governments that received the excess defense articles.

In April 2001, DRMS acknowledged this risk when it reported on its Web site that “inappropriate management of this property [excess DoD property turned in for disposal] could potentially threaten our national security or damage U.S. foreign policy.”

## **Management Comments on Report Content and Audit Response**

**Management Comments.** The Chief of Staff [who is also the Director of Policy] for the Deputy Assistant Secretary of the Navy for Acquisitions and Logistics Management, responding for the Commander of the Naval Supply Systems Command, stated that the Department of the Navy concurs with the finding. The Director of Program Analysis and Financial Management, responding for the Commander of the U.S. Transportation Command, stated that the U.S. Transportation Command had no formal changes to make to the report.

The Executive Director for Materiel Policy, Process and Assessment, responding for the Director of the Defense Logistics Agency, provided additional comments on the report that do not relate to the finding or recommendations. The Executive Director stated that the Defense Logistics Agency is not the DoD program manager for all transfers, as we reported in the Defense Logistics Agency paragraph on page 2 of the draft report. Additionally, she suggested that references to demilitarization be removed from the Objectives paragraph because the report does not cover examination of demilitarization. Further, the Executive Director suggested that we rephrase footnote 9 to prevent it from being misleading or misconstrued.

**Audit Response.** We revised the first sentence of the Defense Logistics Agency paragraph by deleting the reference to the Defense Logistics Agency as the DoD program manager for all transfers and adding information from the Defense Logistics Agency’s Foreign Military Sales Handbook to describe the Defense Logistics Agency’s role in shipping materiel to Foreign Military Sales customers. We considered the Executive Director’s suggestion to remove demilitarization from the Objectives paragraph. However, we decided to keep demilitarization in the Objectives paragraph because we include in the report our review of demilitarization codes applied to excess defense articles and the need to notify foreign governments of any changes to the demilitarization codes for disposing of excess defense articles. We clarified footnote 9, the definition of DoD transportation offices, by stating that transportation offices are located on military installations and managed by Navy, Air Force, and the Defense Logistics Agency.

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## Recommendations, Management Comments, and Audit Response

**1. We recommend that the Commander, U.S. Transportation Command revise the DTR 4500.9-R, “Defense Transportation Regulation,” November 2004, to require that, for each shipment to a foreign government, transportation offices identify, track, and control all transportation control numbers linked to the lead transportation control number.**

**Management Comments.** The Director of Program Analysis and Financial Management, responding for the Commander of the U.S. Transportation Command, did not concur or nonconcur but provided us the language that the U.S. Transportation Command plans to add to the Defense Transportation Regulation, part II, chapter 203, to require transportation offices to identify, track, and control all transportation control numbers.

**Audit Response.** The Director of Program Analysis and Financial Management’s comments were responsive. Follow-up showed that the U.S. Transportation Command updated the Defense Transportation Regulation, part II, chapter 203 in July 2008, requiring transportation offices to identify, track, and control all transportation control numbers linked to the lead transportation control number.

**2. We recommend that the Deputy Chief of Staff for Logistics, Installations & Mission Support, Department of the Air Force; the Commander, Naval Supply Systems Command; and the Director, Defense Logistics Agency:**

**a. Issue policy requiring periodic reviews of signature and tally sheets to verify that transportation offices are obtaining two drivers’ signatures before transporting small arms.**

**Air Force Deputy Chief of Staff for Logistics, Installations & Mission Support Comments.** The Assistant Deputy Chief of Staff for Logistics, Installations & Mission Support, responding for the Deputy Chief of Staff for Logistics, Installations & Mission Support, concurred, stating that the U.S. Air Force has issued a policy message directing certification of dual driver signatures on all signature and tally records for small arms. This policy message will be incorporated in the next revision of Air Force Instruction 24-203, “Preparation and Movement of Air Force Cargo,” scheduled for July 2009. Additionally, the Assistant Deputy Chief of Staff reported that the Air Force further identified signature and tally records as a compliance item in Air Force Instruction 90-201, “Inspector General Activities.”

**Audit Response.** The Assistant Deputy Chief of Staff’s comments were responsive. The actions taken and revisions planned address the recommendation.

**Naval Supply Systems Command Comments.** The Chief of Staff [who is also the Director of Policy] for the Deputy Assistant Secretary of the Navy for Acquisition and Logistics Management, responding for the Commander, Naval Supply Systems Command, concurred. The Chief of Staff stated that the Navy

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would develop a policy message to all shippers to reiterate the requirement to obtain all appropriate drivers' signatures on the signature and tally form, and would transmit this policy message by April 30, 2008. The Chief of Staff reported that this requirement shall be enforced through periodic official inspections of Navy transportation offices by the Inspector General, Safety and Security, and others.

**Audit Response.** The Chief of Staff's comments were responsive. The actions taken and planned address the recommendation. Follow-up showed that the Navy issued a policy message on April 8, 2008, that required the transportation offices to obtain drivers' signatures on signature and tally forms and to update inspection and evaluation procedures to include monitoring compliance with this requirement.

**Defense Logistics Agency Comments.** The Executive Director for Materiel Policy, Process and Assessment, responding for the Director of the Defense Logistics Agency, concurred, stating that the Defense Logistics Agency would develop a policy statement for its Defense Distribution Depots. She said the policy statement would require a periodic review of shipment documentation to verify that two driver signatures appear on the signature and tally record when shipments of small arms require two (dual) drivers to transport the materiel. The Defense Logistics Agency expected to complete the policy statement by the fourth quarter of FY 2008.

**Audit Response.** The Executive Director for Materiel Policy, Process and Assessment's comments were responsive. Follow-up showed that the Defense Logistics Agency issued supplemental policy for its Defense Distribution Center on April 22, 2008, based on the draft transportation regulation to be issued February 2009, requiring periodic reviews of the signature and tally record for signatures of both drivers transporting shipments of small arms.

**b. Issue policy requiring periodic reviews of bills of lading and other shipping documents to verify that transportation offices and case managers retain the documents for at least 10 years.**

**Air Force Deputy Chief of Staff for Logistics, Installations & Mission Support Comments.** The Assistant Deputy Chief of Staff for Logistics, Installations & Mission Support, responding for the Deputy Chief of Staff for Logistics, Installations & Mission Support, concurred, stating that the U.S. Air Force has issued a policy message directing retention of all bills of lading for 10 years. The Air Force will incorporate this policy message in the next revision of Air Force Instruction 24-203, scheduled for July 2009. Additionally, the Assistant Deputy Chief of Staff reported that the Air Force further identified bill of lading records retention as a compliance item in Air Force Instruction 90-201, "Inspector General Activities."

**Audit Response.** The Assistant Deputy Chief of Staff's comments were responsive. The actions taken and revisions planned address the recommendation.

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**Naval Supply Systems Command Comments.** The Chief of Staff [who is also the Director of Policy] for the Deputy Assistant Secretary of the Navy for Acquisition and Logistics Management, responding for the Commander, Naval Supply Systems Command, concurred. The Chief of Staff stated that the Navy would develop a policy message to all shippers to reiterate the 10-year document retention requirement. The Navy planned to issue this policy guidance by April 30, 2008. The Chief of Staff reported that this requirement would be enforced through periodic official inspections of Navy transportation offices by the Inspector General, Safety and Security, and others.

**Audit Response.** The Chief of Staff's comments were responsive. Follow-up showed that the Navy issued a policy message on April 8, 2008, that required the transportation offices to retain all shipping documents for the required 10-year period and to update inspection and evaluation procedures to include monitoring compliance with this requirement.

**Defense Logistics Agency Comments.** The Executive Director for Materiel Policy, Process and Assessment, responding for the Director of the Defense Logistics Agency, concurred, noting that the Defense Logistics Agency Records Management policy states that Foreign Military Sales transportation case files must be retained in the current file area for 2 years, retired to the Federal Records Center for 28 years, and destroyed after 30 years. The Executive Director reported that the Defense Logistics Agency reiterated the guidance to its depots on September 6, 2006, emphasizing to Defense Logistics Agency shippers that it is their responsibility to follow Foreign Military Sales guidance on retaining transportation paperwork.

**Audit Response.** The Executive Director's comments were not responsive. Although the Executive Director reported that the Defense Logistics Agency reiterated guidance for retaining transportation paperwork to its depots on September 6, 2006, we found that transportation guidance was not being followed. Therefore, we still recommend that the Defense Logistics Agency issue policy requiring periodic reviews of bills of lading and other shipping documents to verify that transportation offices and case managers retain the documents for at least 10 years. Accordingly, we request that the Executive Director reconsider her position on the recommendation and provide additional comments in response to the final report.

**3. We recommend that the Director, Defense Reutilization and Marketing Service:**

**a. Issue written instructions clarifying which guidance the Defense Reutilization and Marketing Offices and demilitarization centers should follow for retaining turn-in documents for excess defense articles.**

**Management Comments.** The Executive Director for Materiel Policy, Process and Assessment, responding for the Director of the Defense Logistics Agency, concurred, stating that the Defense Logistics Agency was in the process of clarifying the guidance the Defense Reutilization and Marketing Offices and demilitarization centers should follow for retaining turn-in documents for excess defense articles.

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**Audit Response.** The Executive Director's comments were responsive. Follow-up showed that the Defense Logistics Agency added clarifying guidance to the Defense Reutilization and Marketing Service's Operating Instructions for Disposition Management on May 27, 2008, requiring release/receipt documents to be kept for 3 years.

**b. Issue policy directing Defense Reutilization and Marketing Offices and demilitarization centers to reconcile the number of small arms recorded on each turn-in document with both the number actually turned in and the number recorded by the Military Services in the Small Arms Serialization Program system before accepting the small arms from the Military Services and entering the number of small arms in the Defense Reutilization and Marketing Automated Information System.**

**Management Comments.** The Executive Director for Materiel Policy, Process and Assessment, responding for the Director of the Defense Logistics Agency, concurred, stating that the Defense Logistics Agency resolved the problem after it was first identified in 2006. The Defense Reutilization and Marketing Service implemented a system change that automatically updates the Defense Reutilization and Marketing Automated Information System when a transaction is recorded in the Small Arms Serialization Program.

**Audit Response.** The Executive Director's comments were not responsive. The Executive Director's comments do not address the recommendation to compare the number of small arms in the systems with the small arms actually turned in. Therefore, we still recommend that the Defense Logistics Agency issue policy requiring reconciliation of the number of small arms in the Small Arms Serialization Program system and in the Defense Reutilization and Marketing Automated Information System with the number of arms turned in to the demilitarization centers. Accordingly, we request that the Executive Director reconsider her position on the recommendation and provide additional comments in response to the final report.

**c. Determine whether the discrepancy identified at Crane, Indiana, between the number of small arms recorded in the Small Arms Serialization Program system and the number recorded in the Defense Reutilization and Marketing Automated Information System indicates that small arms are missing.**

**Management Comments.** The Executive Director for Materiel Policy, Process and Assessment, responding for the Director of the Defense Logistics Agency, neither concurred nor nonconcurred but stated that all of the weapons identified at Crane, Indiana, were accounted for under two disposal turn-in documents. Following receipt of the weapons, all 48 weapons were accounted for and recorded in the Small Arms Serialization Program system under disposal turn-in document numbers W59TYJ10710005A and W59TYJ10670004A, which list 12 serial numbers and 36 serial numbers, respectively.

**Audit Response.** The Executive Director's comments were not responsive. Disposal turn-in document number W59TYJ10670004A lists 52 items, not 36 items, recorded in the Small Arms Serialization Program system and the

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Defense Reutilization and Marketing Automated Information System. Therefore, we still recommend that the Defense Logistics Agency determine whether small arms are missing, given the difference in the numbers of small arms reported in the two systems for turn-in document number W59TYJ10710005A. Accordingly, we request that the Executive Director reconsider her position on the recommendation and provide additional comments in response to the final report.

**d. Establish and document a process for reviewing case managers' decisions to authorize shipments of excess defense articles so that articles not specified on a Letter of Offer and Acceptance are not authorized for shipment to a foreign government.**

**Management Comments.** The Executive Director for Materiel Policy, Process and Assessment, responding for the Director of the Defense Logistics Agency, concurred, stating that the Foreign Military Sales supervisor is now conducting quarterly reviews of case files to ensure that only approved items are authorized for shipment. In addition, the Executive Director reported that case managers will authorize only shipments of items specifically allowed on a Letter of Offer and Acceptance. Further, if additional items are requested after the Letter of Offer and Acceptance is signed, the Foreign Military Sales case manager will forward the new request to the Foreign Military Sales supervisor to forward to the Defense Security Cooperation Agency for final determination.

**Audit Response.** The Executive Director's comments were not responsive. Although the Executive Director stated that the Foreign Military Sales supervisor is now conducting quarterly reviews of case files and that case managers will authorize only shipments allowed on a Letter of Offer and Acceptance, she did not identify the process established nor the document that specified the process for reviewing case managers' decisions to authorize shipments of excess defense articles. Accordingly, we request that the Executive Director reconsider her position on the recommendation and provide additional comments in response to the final report.

**e. Establish and document a process to notify foreign governments when the demilitarization codes for excess defense articles provided to them change.**

**Management Comments.** The Executive Director for Materiel Policy, Process and Assessment, responding for the Director of the Defense Logistics Agency, concurred with the intent but not the recommendation. The Executive Director stated that the Security Assistance Management Manual, 5105.38-M, sections C2.5.2 and C8.6.2, instructs the Security Assistance Officer to provide the excess defense article recipient with proper requirements for item disposal, including current demilitarization code, demilitarization method, and any other codes that changed after the materiel was first transferred to that country—for example, hazardous designation or changes in Commerce Control List Items.

**Audit Response.** The Executive Director's comments were not responsive. We reviewed in sections C2.5.2 and C8.6.2, and the instructions do not specify that foreign governments be provided the current demilitarization code to use for item disposal. We request that the Executive Director reconsider her position and

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provide comments on the final report indicating what actions will be taken to notify foreign governments when demilitarization codes change so that the foreign governments use the correct demilitarization code and method to dispose of excess defense articles.

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## Appendix A. Scope and Methodology

We conducted this performance audit from March 1, 2006, through March 14, 2008, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed documents and data in systems supporting the processes for turning excess defense articles in to the DRMOs and transferring those articles to foreign governments from October 1, 2001, through March 31, 2006.

We reviewed the Federal laws and regulations, including the Foreign Assistance Act and Arms Export Control Act. Also, we reviewed DoD directives, instructions, and manuals related to the transfer of excess defense articles to foreign governments. In addition, we assessed the management controls within the excess defense articles process.

We interviewed personnel in the following organizations:

- Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics;
- Defense Logistics Agency;
- Defense Reutilization and Marketing Service;
- Defense Logistics Information Service;
- Defense Security Cooperation Agency;
- Office of the Assistant Secretary of the Army for Acquisition, Logistics, and Technology;
- U.S. Army Security Assistance Command;
- Navy International Programs; and
- Air Force Logistics Readiness.

Our contacts with personnel in these organizations included discussions on the excess defense articles process and systems, and the organizations' roles and responsibilities.

We assessed the controls over excess defense articles to determine whether unauthorized excess defense articles were transferred to foreign governments. Also, we assessed whether proper demilitarization coding was recorded for articles sent to foreign countries.

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From October 2001 through March 2006, DoD reported providing excess defense articles with an acquisition value of \$2 billion to 57 foreign governments. The Army and DLA are the two DoD Components that provided the largest quantities of excess defense articles to foreign governments from October 2001 through March 2006. The Army and DLA provided approximately 99 percent (2,728,384 of 2,752,057) of excess defense articles to foreign governments during that period.

Within the Army, we reviewed controls at the U.S. Army Security Assistance Command and did not detect control weaknesses. However, we did find weaknesses in controls at the DLA DRMS. Accordingly, we focused our review on DRMS, which provided excess defense articles with an acquisition value of more than \$296 million to 19 foreign governments from October 2001 through March 2006.

During the survey phase of the audit, we looked at controls that the U.S. Army Security Assistance Command and DRMS had over excess defense articles. We reviewed 16 of 69 line items of excess defense articles requiring demilitarization that the U.S. Army Security Assistance Command managed from October 24, 2002, through April 20, 2006. We did not detect control weaknesses. We reviewed 45 of the 7,373 line items of excess defense articles that DRMS managed from October 1, 2001, through March 31, 2006. We did find weaknesses in controls at DRMS.

During the audit phase of the review, we statistically selected an additional 130 line items from the remaining 7,328\* line items of excess defense articles requiring demilitarization that DRMS managed from October 1, 2001, through March 31, 2006.

**Limitation to Scope.** We did not review all excess defense articles that DoD Components provided to foreign governments for the following reasons:

- insufficient personnel resources and time, and
- difficulty of acquiring documents from Military Service locations to assess controls over excess defense articles provided to foreign governments.

We limited our audit work to reviewing controls over excess defense articles requiring demilitarization that DRMS transferred to foreign governments. The Military Services turned these excess defense articles in to DRMS field offices, and DRMS transferred them to foreign governments.

\*The 7,328 line items represent 7,373 line items less the initial sample of 45 line items of excess defense articles.

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**Use of Computer-Processed Data.** We relied on computer-processed data from the:

- DoD Security Assistance Management System,
- Defense Reutilization and Marketing Automated Integrated System, and
- Small Arms Serialization Program system.

We assessed and summarized detailed data on excess defense articles cases for excess defense articles provided to foreign governments. We did not find any material errors that would preclude our use of the computer-processed data to meet the audit objectives or that would change the conclusions in the report. We concluded that the system controls were adequate for our purposes in conducting this audit.

**Use of Technical Assistance.** We received technical assistance from the DoD Office of Inspector General’s Quantitative Methods Division to obtain our sample and to estimate the extent of weaknesses in the excess defense articles process. See Appendix B for the detailed methodology used in selecting our sample and estimating the extent of the weaknesses based on results of the sample.

## Prior Coverage

During the last 5 years, GAO and the Department of Defense Inspector General (DoD IG) have issued four reports discussing controls over excess defense articles. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

## GAO

GAO-05-277, “DoD Excess Property: Management Control Breakdowns Result in Substantial Waste and Inefficiency,” May 13, 2005

GAO-04-15NI, “DoD Excess Property: Risk Assessment Needed on Public Sales of Equipment That Could Be Used to Make Biological Agents,” November 19, 2003

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**DoD IG**

D-2004-095, "Navy Controls Over Materiel Sent to Defense Reutilization and Marketing Offices," June 24, 2004

D-2003-101, "Logistics: Law Enforcement Support Office Excess Property Program," June 13, 2003

## Appendix B. Statistical Methodology

**Objective.** The sampling objective was to test controls and to estimate the rate and occurrence of errors found for the transfer of excess defense articles that require demilitarization.

**Population.** The population of excess defense articles sent to foreign governments from October 1, 2001, through March 31, 2006, that requires demilitarization was 7,373 line items.

**Sample.** Our sample consisted of two strata. The first stratum consisted of 45 out of 7,373 line items selected during the survey phase of our audit. The second stratum consisted of 130 out of the remaining 7,328 line items that we selected during the audit phase of our audit. We randomly selected line items from the population of excess defense articles. We used the measures of “correct” or “incorrect” to indicate whether a selected item met the audit criteria and to help determine the errors associated with our estimates.

**Line Items With Deficiencies.** On the basis of the audit results, we estimated the number and percentage of line items that had deficiencies in the following categories: (1) missing/unsupported documentation (categorized by transportation, turn-ins, and small arms documentation), (2) unauthorized excess defense articles provided to foreign governments, and (3) incorrect demilitarization codes (see the table). We were 95 percent confident that our estimates of the number and percentages of errors are not more than the upper bounds<sup>1</sup> found in the table.

<u>Type of Inadequacy</u>	<u>Number</u>		<u>Percent</u>	
	<u>Point Estimate</u> <sup>2</sup>	<u>Upper Bound</u>	<u>Point Estimate</u>	<u>Upper Bound</u>
Missing/unsupported documentation	6,975	7,259	94.6	98.5
Unauthorized articles provided to foreign governments	115	291	1.6	3.9
Incorrect demilitarization code	621	960	8.4	13.0

<sup>1</sup> GAO Report No. GAO/PEMD-10.1.11, “Quantitative Data Analysis: An Introduction,” May 1992, defines upper bound as the upper limit of the confidence interval, which is an estimate of a population parameter consisting of a range of values.

<sup>2</sup> GAO Report No. GAO/PEMD-10.1.11, “Quantitative Data Analysis: An Introduction,” May 1992, defines point estimate as “an estimate of a population parameter that is a single numerical value.”

## Appendix C. Excess Defense Articles Provided to Foreign Governments

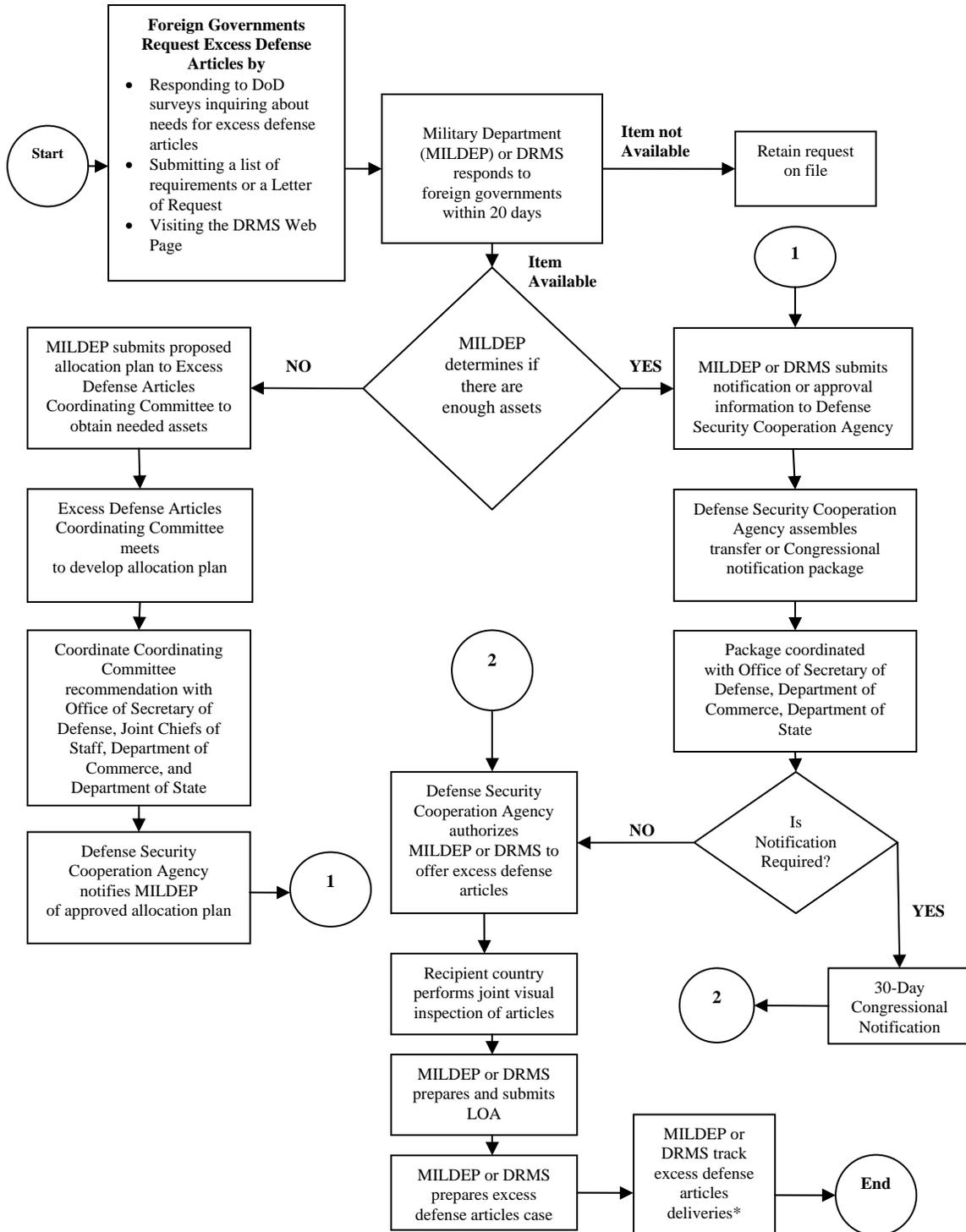
<b>Quantities and Cost of Excess Defense Articles That DRMS Provided to Foreign Governments From October 2001 Through March 2006</b>			
Type of Article <sup>1</sup> (Based on the Federal Supply Classification Code)	No. of Line Items	Quantity	Acquisition Cost
Aircraft and Airframe Structural Components	19	78	\$ 28,976.60
Aircraft Components and Accessories	6	39	27,531.21
Assemblies Interchangeable Between Weapons in Two or More Classes	5	35	115,076.00
Bearings	1	12	118.92
Camouflage and Deception Equipment	55	1,193	740,357.65
Clothing and Individual Equipment	2,655	49,256	14,936,328.11
Communication Equipment	476	9,471	75,159,931.03
Containers, Packaging, and Packaging Supplies	3	20	4,098.00
Drugs and Biologicals	1	193	856.92
Electrical and Electronic Equipment Components	627	16,998	6,681,267.22
Electrical Wire and Power Distribution Equipment	5	55	273,011.95
Engine Accessories	17	315	601,004.16
Engines, Turbines, and Components	66	259	6,168,925.42
Fire Control Transmitting and Receiving Equipment, Except Airborne	2	3	40,204.00
Fire Fighting, Rescue, and Safety Equipment	24	1,439	325,614.42
Guns, 75 millimeter through 125 millimeter	20	365	259,591.56
Guns, over 150 millimeter through 200 millimeter	9	63	415,190.79
Guns, over 30 millimeter up to 75 millimeter	82	1,416	458,720.02
Guns, through 30 millimeter	2,177	207,776	\$51,101,138.62

<sup>1</sup>The gray shading in this column represents the class of articles included in the sample of 175 line items of excess defense articles.

**Quantities and Cost of Excess Defense Articles That DRMS Provided to Foreign Governments From October 2001 Through March 2006 (cont'd)**

Type of Article (Based on the Federal Supply Classification Code)	No. of Line Items	Quantity	Acquisition Cost
Hardware and Abrasives	42	2,050	\$ 25,943.85
Instruments and Laboratory Equipment	210	5,210	1,913,186.86
Launchers, Guided Missile	14	25	111,174.34
Launchers, Rockets, and Pyrotechnic	51	192	11,184,799.63
Maintenance and Repair Shop Equipment	10	900	188,566.82
Mechanical Power Transmission Equipment	25	191	37,444.09
Medical, Dental, and Veterinary Equipment and Supplies	2	110	40,406.30
Miscellaneous Fire Control Equipment	1	6	648.00
Miscellaneous Weapons	2	5	305.96
Motor Vehicles, Trailers, and Cycles	326	439	117,473,962.00
Optical Sighting and Ranging Equipment	43	1,152	404,989.83
Photographic Equipment	10	21	185,795.41
Pipe, Tubing, Hose, and Fittings	2	27	5,517.09
Pumps and Compressors	1	1	22,130.00
Training Aids and Devices	3	4	56,154.00
Vehicular Equipment Components	381	21,877	7,107,013.93
<b>Total</b>	7,373	321,196	\$296,095,980.71

# Appendix D. Excess Defense Articles Process



\*The DoD transportation offices are involved in shipping the excess defense articles that the MILDEP and DRMS track

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# Department of the Navy Comments



**DEPARTMENT OF THE NAVY**  
**OFFICE OF THE ASSISTANT SECRETARY**  
**RESEARCH, DEVELOPMENT AND ACQUISITION**  
**1000 NAVY PENTAGON**  
**WASHINGTON DC 20350-1000**

MEMORANDUM FOR: INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: DODIG Draft of a Proposed Report "Controls Over Excess Defense Articles Provided to Foreign Governments" D2006-D000LG-0136.000

Reference: (a) SECNAV Tasker 2008UGENERAL-004515c  
(b) DODIG Draft of a Proposed Report "Controls Over Excess Defense Articles Provided to Foreign Governments" D2006-D000LG-0136.000

In response to reference (a), the Department of the Navy (DoN) has reviewed reference (b). The DoN concurs with the Finding and the two DoN related recommendations.

A handwritten signature in black ink, appearing to read "M. F. Hayward".

M. F. Hayward  
Chief of Staff/Policy  
Deputy Assistant Secretary of the Navy  
(Acquisition and Logistics Management)

Attachments:  
As stated

NAVY COMMENTS TO DODIG DRAFT REPORT OF 14 MARCH 2008  
ON CONTROLS OVER EXCESS DEFENSE ARTICLES  
PROVIDED TO FOREIGN GOVERNMENTS  
(D2006-D000LG-0136.000)

**Finding: Controls over the Transfer of Excess Defense  
Articles to Foreign Governments**

DoD transportation offices and Defense Reutilization and Marketing Service (DRMS) did not have adequate controls to fully account for 7,373 line items of excess defense articles requiring demilitarization that have an acquisition value of more than \$296 million and were provided to 19 foreign governments from October 2001 through 2006. Based on our statistical sample of 175 line items, we estimate that:

- as many as 7,259 of the 7,373 line items of excess defense articles, including M-16 rifles, M-60 machine guns, and armored personnel carriers, were not properly tracked, safeguarded, accounted for, or reconciled;
- as many as 291 of the 7,373 line items of excess defense articles, including M-16 rifle parts, were shipped to a foreign government not authorized to have those items; and
- as many as 960 of the 7,373 line items of excess defense articles shipped were turned in as excess with incorrect information on how the articles should be demilitarized to prevent potential misuse.

DoD transportation offices and DRMS did not have fully effective controls in place because of inadequate oversight and guidance for transferring excess defense articles. As a result of these deficiencies in controls over excess defense articles, DoD transportation offices and DRMS increased the risk of providing foreign governments unauthorized property that could be used to threaten our national security.

**Navy Comment:**

Navy concurs with the finding. The preponderance of excess defense articles shipped to foreign governments originate at Army or Defense Logistics Agency activities, and we note that the tracking issues identified at the Navy shipping

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site in Crane, IN were exacerbated by the requisitioning documentation process used by Defense Reutilization and Marketing Service (DRMS).

**Recommendations:**

2a. We recommend that the Deputy Chief of Staff for Logistics, Installations, and Mission Support, Department of the Air Force; the Commander, Naval Supply Systems Command; and the Director, Defense Logistics Agency issue policy requiring periodic reviews of signature and tally sheets to verify that transportation offices are obtaining two drivers' signatures before transporting small arms.

Concur. Navy will develop a policy message to all shippers to reiterate the requirement for obtaining all appropriate drivers' signatures on the DD 1907 (Signature and Tally). This policy message shall be transmitted no later than (NLT) 30 April 2008. Additionally, this requirement shall be enforced through the use of existing official inspections (e.g., Inspector General; Safety and Security, etc.) of Navy transportation offices that are conducted periodically by their respective claimants.

2b. We recommend that the Deputy Chief of Staff for Logistics, installations, and Mission Support, Department of the Air Force; the Commander, Naval Supply Systems Command; and the Director, Defense Logistics Agency issue policy requiring periodic reviews of bills of lading and other shipping documents to verify that transportation offices and case managers retain the documents for at least 10 years.

Concur. Navy will develop a policy message to all shippers to reiterate the document retention requirements (10 years) found in DoD 5101.38-M and SECNAV M-5210.1. Additionally, this requirement shall be enforced through the use of existing official inspections (e.g., Inspector General; Safety and Security, etc.) of Navy transportation offices that are conducted periodically by their respective claimants. This policy guidance shall be issued concurrently with the policy message identified for recommendation 2.a NLT 30 April 2008.

# Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE  
HEADQUARTERS UNITED STATES AIR FORCE  
WASHINGTON DC

APR 21 2008

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING  
OFFICE OF THE INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE

FROM: HQ USAF/A4/7  
1030 Air Force Pentagon  
Washington, DC 20330-1030

SUBJECT: DoDIG Draft Audit Report, Controls Over Excess Defense Articles Provided to  
Foreign Governments (Project Number D2006LG-0136)

This is in reply to your memorandum requesting the assistant secretary of the Air Force (Financial Management and Comptroller) to provide comments on subject report.

The USAF concurs with your recommendation to issue policy requiring periodic reviews of signature and tally sheets to verify that transportation offices are obtaining two drivers' signatures before transporting small arms. We have issued a policy message directing certification of dual drive signatures on all signature and tally records for small arms. This will be incorporated in the next revision of Air Force Instruction (AFI) 24-203, Preparation and Movement of Air Force Cargo, scheduled for Jul 09. We have further identified signature and tally records as a compliance item in AFI 90-201, Inspector General Activities, currently in review.

Additionally, the USAF concurs with your recommendation to issue policy requiring periodic reviews of bills of lading and other shipping documents to verify that transportation offices retain the documents for at least 10 years. We have issued a policy message directing retention of all bills of lading for 10 years. This will be incorporated in the next revision of AFI 24-203, scheduled for Jul 09. We have further identified bill of lading records retention as a compliance item in AFI 90-201, currently in review.

My POC is Mr James Wakeley, AF/A4RM, [james.wakeley@pentagon.af.mil](mailto:james.wakeley@pentagon.af.mil), DSN 227-4744.

  
MICHAEL A. SIMONE, P.E.  
Asst DCS/Logistics, Installations &  
Mission Support

# U.S. Transportation Command Comments



UNITED STATES TRANSPORTATION COMMAND  
508 SCOTT DRIVE  
SCOTT AIR FORCE BASE, ILLINOIS 62225-5357

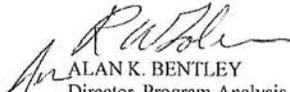
APR 14 2008

MEMORANDUM FOR INSPECTOR GENERAL DEPARTMENT OF DEFENSE  
ATTN: MS TOWANDA L. STEWART

FROM: TCJ8

SUBJECT: Report on Controls Over Excess Defense Articles Provided to Foreign  
Governments (Project No. D2006-D000LG-0136.000), 14 Mar 08

1. We reviewed subject draft report and made no formal changes to the report.
2. We have attached our proposed language to update the Defense Transportation Regulation part II, chapter 203.
3. USTRANSCOM point of contact for this report is Ms Andrea Landwehr, TCJ8-A, DSN 779-5037, Commercial 618-229-5037, or email [andrea.landwehr@ustranscom.mil](mailto:andrea.landwehr@ustranscom.mil).

  
ALAN K. BENTLEY  
Director, Program Analysis  
and Financial Management

Attachment:  
TCJ5/J4 Reply-Proposed Language

cc:  
TCJ5/J4  
TCIG

- (2) SEAVANs may be stuffed for more than one consignee when stopoff services are used. When stopoff services are used, SEAVANs will be loaded in order of stopoffs along the route to the final destination.
- (3) SUs of ammunition, explosives, and other HAZMAT may be loaded into the same conveyance provided the transportation compatibility provisions of the following references are met:

<u>Mode</u>	<u>Publication</u>
Commercial Air Transport	IATA/ICAO Regulations/Title 49CFR175, <u>Carriage by Aircraft</u>
Military Air Transport	AFMAN 24-204(1), TM 38-250, MCO P4030.191, NAVSUP Pub 505, DLA1 4145.3, and DCMAD 1, CH 3.4 (HM24)
Rail	Title 49CFR174, <u>Carriage by Rail</u>
Motor	Title 49CFR177, <u>Carriage by Public Highway</u>
Water	International Maritime Organization IMDG Regulations/Title 49CFR176, <u>Carriage by Vessel</u>

- d. Report SU unit consolidations IAW Paragraphs B.7.a and B.7.b below.
- 7. Transportation Control Number (TCN). The TCN is a 17-position alphanumeric character set assigned to control a shipment throughout the transportation cycle of the DTS. The TCN is assigned, usually by the shipper, to each SU for control from origin to ultimate consignee. The SEAVAN TCN is assigned by the WCA/OCCA at the time of clearance. Because it is a control used throughout the transportation system, the assigned TCN will not be changed except as authorized for partial or split shipments.
  - a. Detailed instructions for constructing all types of TCNs are contained in Appendix L.
  - b. Whenever a shipper consolidates two or more SU TCNs into a higher-level SU consolidation, the shipper generates a Shipment Consolidation Notice transaction for routing to the DAAS, IAW with Table 203-2. These procedures are for use by DLA and resulting data is provided to the Army Logistics Support Activity (LOGSA). Other shippers may use these procedures at their options. The purpose of the Shipment Consolidation Notice transaction is to provide visibility for all levels of consolidation for shipments in the DTS by linking together the TCNs of nested shipments units in a hierarchical array. The Shipment Consolidation Notice transaction reports the new TCN or TCNs that result from SU TCN-level consolidations; that is, any consolidation that results in another TCN beyond the TCN reported by the origin shipper in the Shipment Status transaction (AS\_ or Defense Logistics Management System (DLMS) EDI IC 856S).
  - c. "For each shipment to a foreign government that is consolidated for movement, TOs/shippers will identify, track and control all TCNs linked to the lead TCN".
- 8. Pieces, Weight, and Cube. The pieces, weight, and cube for each SU must be determined. In all cases, they are expressed as whole numbers. Fractions or decimals are rounded to the next higher whole number. Numbers less than one are rounded to one.

II-203-6

# Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
8725 JOHN J. KINGMAN ROAD, SUITE 2533  
FORT BELVOIR, VIRGINIA 22060-6221

IN REPLY  
REFER TO J-3Y

APR 21 2008

MEMORANDUM FOR DA (MR. MELVIN NICHOLISON)

SUBJECT: Draft OIG Report No. D-3006-0136, "Controls Over Excess Defense Articles Provided to Foreign Governments," March 14, 2008 (Project No. D2006-D000LG-0136.000)

In response to OIG memorandum, March 18, 2008, subject as above, the requested information is provided in TAB B. Should you have any questions, my point of contact is Ms. Hadiza Abdullah, J-3YP-D1, 767-3624, Hadiza.Abdullah@dla.mil.

A handwritten signature in cursive script, appearing to read "Kathy Cutler".

KATHY CUTLER  
Executive Director  
Materiel Policy, Process and Assessment

Attachment

Federal Recycling Program  Printed on Recycled Paper

**DLA Responses to DODIG Proposed Draft Report, March 14, 2008** Controls Over  
Excess Defense Articles Provided to Foreign Governments Project No. D2006 D000LG-  
0136.000

**Comments on Report Content**

**Reference Page 2:** The first paragraph states, "According to DSCA officials, DLA acts as the DoD program manager for implementing policies and procedures to control transfers of DOD excess defense articles."

**DLA Comment:** This statement is incorrect. DLA is not the DOD program manager for all transfers. DLA prepares FMS cases for cataloging services, disposal services, and Excess Defense Articles (EDA).

**Reference Page 3:** The first two sentences of the "Objectives" paragraph: "The overall objective was to assess the adequacy of controls over the transfer of excess defense articles to foreign governments. Specifically, we determined whether transferred property was adequately controlled and demilitarized in accordance with the Foreign Assistance Act...."

**DLA Comment:** While we understood an original objective of the audit was to examine demilitarization, the report does not cover it. Therefore, we suggest that references to demilitarization be removed from the 2<sup>nd</sup> sentence to avoid confusion.

**Reference Page 5:** Footnote 9: "DoD transportation offices refer to transportation offices at DRMS office sites managed by the Navy, Air Force and DLA."

**DLA Comment:** The footnote is misleading and could be misconstrued, since DRMS does not have transportation "offices." Suggest footnote read instead: DoD transportation offices refer to transportation offices located on military installations and managed by Navy, Air Force, and DLA.

**Recommendation 2**

2. We recommend that the Deputy Chief of Staff for Logistics, Installations, and Mission Support, Department of the Air Force; the Commander, Naval Supply Missions Command; and the Director, Defense Logistics Agency:

a. Issue policy requiring periodic reviews of signature and tally sheets to verify that transportation offices are obtaining two drivers' signatures before transporting small arms.

**DLA Comments:** Concur. We will direct the Defense Distribution Depots to perform periodic reviews to ensure the signatures of both drivers (when shipped under Dual Driver Protective Service) appear on the DD Form 1907, Signature and Tally Record form, when transporting small arms.

Revised

Revised and  
renumbered  
as Footnote  
8

The Defense Transportation Regulation (DTR), Part II, Chapter 205, signature and tally record, found at [http://www.transcom.mil/j5/pt/dtrpart2/dtr\\_part\\_ii\\_205.pdf](http://www.transcom.mil/j5/pt/dtrpart2/dtr_part_ii_205.pdf), requires signatures of both drivers, if there are two drivers, transporting material under the requirement of a "Signature and Tally Record" service.

DLA will develop a policy statement for DLA Defense Distribution Depots which requires the periodic review of shipment documentation to verify that two driver signatures appear on the signature and tally record, DD Form 1907, when shipments of small arms require two (dual) drivers to transport the material.

**Disposition:**

- (x) Action is Ongoing. ECD: 4QFY08
- ( ) Action is considered complete

b. Issue policy requiring periodic reviews of bills of lading and other shipping documents to verify that transportation offices and case managers retain the documents for at least 10 years.

**DLA Comments:** Concur. The DLA Records Management policy states that Foreign Military Sales (FMS) Transportation Case Files must be retained in the current file area for 2 years then retire to Federal Records Center for 28 years; then destroyed after 30 years.

DLA reiterated guidance to DLA depots on Wednesday, September 06, 2006 7:15 AM, Subject: RE: Guidance: Foreign Military Sales (FMS) Transportation Case Files in "DLA Records Schedule", which emphasized to Defense Logistics Agency shippers that it is their responsibility to follow FMS transportation paperwork retention guidance at ONE BOOK Chapter on RECORDS MANAGEMENT and the DLA Records Schedule 940.05 Foreign Military Sales (FMS) Transportation Case Files.

940.05 Foreign Military Sales (FMS) Transportation Case Files.

Case files which contain all records required to monitor and process the delivery of material and services to FMS customers, from receipt to closing of the case. Includes Government Bills of Lading (GBL), Commercial Bills of Lading (CBL), Notices of Availability (NOA), Transportation Control Movement Documents (TCMD), Issue Release/Receipt Documents (IRRD), inspection and receiving reports, air bills, supply transactions, transfer to carrier documents, acceptance data and all similarly related materials used to effect transfer of FMS shipments to carriers.

NOTE: For convenience of search and retrieval, these files should be maintained in document number sequence. (Cut off at end of Fiscal Year, maintain in current file area for 2 years, then retire to Federal Records Center. Destroy when 30 years old.)

DLA Records Schedule is found at:

<https://today.dla.mil/I-6/records/documents/DLA%20Records%20Schedule%20Apr%2006.doc>

ONE BOOK Chapter (DLA Policy) on RECORDS MANAGEMENT

([https://dla1.eportal.dla.mil/irj/servlet/prt/portal/prtroot/com.sap.km.cm.docs/ewpAgencyDocumentsPublic/HQ/DES/DES-B/One%20Book%20Electronic%20Library\\_0\\_1.%20One%20Book%20Chapters%20and%20Flowcharts/Records%20Management/Policy.doc](https://dla1.eportal.dla.mil/irj/servlet/prt/portal/prtroot/com.sap.km.cm.docs/ewpAgencyDocumentsPublic/HQ/DES/DES-B/One%20Book%20Electronic%20Library_0_1.%20One%20Book%20Chapters%20and%20Flowcharts/Records%20Management/Policy.doc))

**Disposition:**

- Action is Ongoing
- Action is considered complete

**Recommendation 3**

3. We recommend that the Director, Defense Reutilization and Marketing Service:

a. Issue written instructions clarifying which guidance the Defense Reutilization and Marketing Offices and demilitarization centers should follow for retaining turn-in documents for excess defense articles

**DLA Comments:** Concur. The guidance is being clarified as a result of the DOD finding.

**Disposition:**

- Action is Ongoing
- Action is considered complete

b. Issue policy directing Defense Reutilization and Marketing Offices and demilitarization centers to reconcile the number of small arms recorded on each turn-in document with the number actually turned in and the number that the Military Services recorded in the Small Arms Serialization Program (SASP) system before accepting the small arms from the Military Services and entering the number of small arms in the Defense Reutilization and Marketing Automated Information System (DAISY).

**DLA Comments:** Concur. DRMS resolved the problem after it was first identified in 2006. DRMS implemented a system change that automatically updates DAISY when a transaction is recorded in the SASP. In other words, data is input in SASP, which then "feeds" DAISY.

**Disposition:**

- Action is Ongoing
- Action is considered complete

c. Determine whether the discrepancy identified at Crane, Indiana between the number of small arms recorded in the SASP system and the number recorded in the DAISY indicates that small arms are missing.

**DLA Comments:** Completed. All of the weapons identified at Crane, Indiana, were accounted for under two Disposal Turn-In Documents (DTIDs). Following receipt, all 48 weapons were accounted for and then sent to Senegal under the Foreign Military Sales (FMS) Program. The generating activity (Army) provided a serial number listing with Disposal Turn-In Document (DTID) W59TYJ10710005A; but also included several other serial numbers under DTID W59TYJ1067004A. These two DTIDs together account for all the "missing" items: DTID, W59TYJ1067004A, lists 36 of the serial numbers recorded in SASP. DTID W59TYJ10710005A lists 12 serial numbers recorded in SASP, but includes a list of all 48 weapons.

**Disposition:**

- Action is Ongoing
- Action is considered complete

d. Establish and document a process for reviewing case managers' decisions to authorize shipments of excess defense articles so that articles not allowed on a Letter of Offer and Acceptance are not authorized for shipment to a foreign government.

**DLA Comments:** Concur. The FMS supervisor is now conducting quarterly reviews of case files to ensure that only approved items are authorized for shipment. In addition, case managers will only authorize shipments of items that are specifically allowed on a Letter of Authorization (LOA). If additional items are requested after the LOA has been signed, the FMS Case Manager will forward the "new" request to the FMS supervisor, who will send to the Defense Security Cooperation Agency (DSCA) for final determination.

**Disposition:**

- Action is Ongoing
- Action is considered complete

e. Establish and document a process to notify foreign governments when the demilitarization codes for excess defense articles provided to them change.

**DLA Comments:** Concur with the intent but not the recommendation. Currently, an established process is in place that meets the recommendation's intent. Per instructions outlined in the Security Assistance Manual, 5105.38-M, recipients of Excess Defense Articles (EDA) must first notify their Security Assistance Officer (SAO) in country when ready to dispose of EDA items. The SAO (who is generally a U.S. military officer stationed in country), provides the EDA recipient with the proper requirements for item disposal: current demilitarization code, demilitarization method and any other code changes that occurred since the material was first transferred to that country (hazardous designation, changes in Commerce Control List Items, etc). Responsibilities of the SAO are identified in C2.5.2 and C8.6.2.

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**Disposition:**

- Action is Ongoing
- Action is considered complete





# Inspector General Department of Defense

