



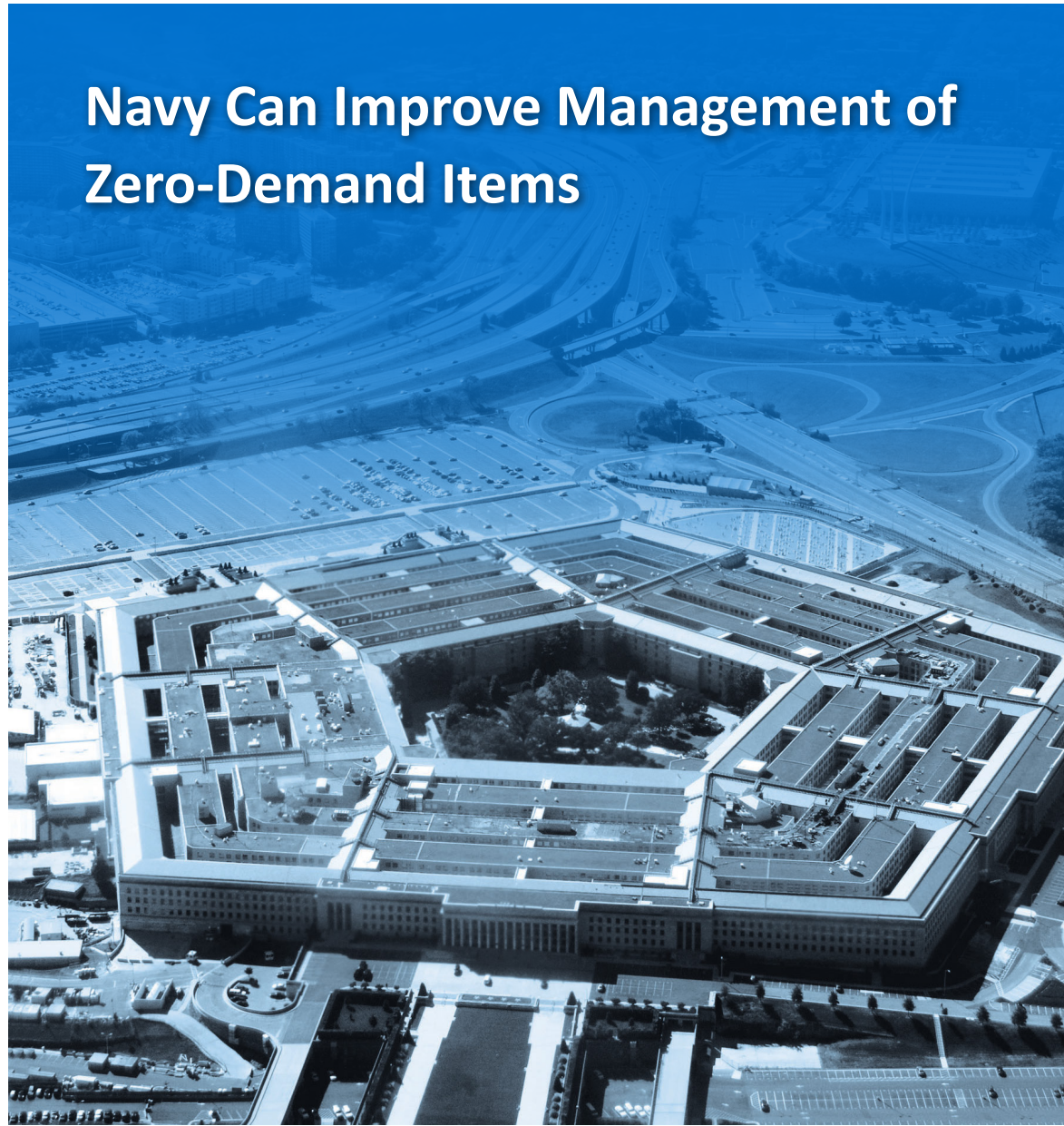
INSPECTOR GENERAL

U.S. Department of Defense

APRIL 25, 2014



Navy Can Improve Management of Zero-Demand Items



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Results in Brief

Navy Can Improve Management of Zero-Demand Items

April 25, 2014

Objective

We determined whether the Navy, in coordination with the Defense Logistics Agency (DLA), effectively identified and managed zero-demand stock.

Finding

Naval Supply Systems Command (NAVSUP) has reduced the number of zero-demand items through its disposal review process; however, NAVSUP needs additional improvements to identify and manage zero-demand items. For the 89 zero-demand items reviewed, NAVSUP personnel identified full or partial disposal actions for 23 items and provided a valid retention justification for 48 items. However, NAVSUP supply planners did not identify 18 additional zero-demand items, valued at \$26.1 million, as potential excess for disposal.

This occurred because NAVSUP procedures do not require supply planners to comprehensively review zero-demand items to ensure they support valid requirements. As a result, NAVSUP is paying DLA storage costs for items no longer needed. In response to our audit, NAVSUP disposed of the 18 zero-demand items. This will allow NAVSUP to put to better use \$90,835 in associated storage costs annually, and \$454,175 over a 5-year period.

Recommendations

We recommend that the Commander, Naval Supply Systems Command, develop and implement procedures to clarify requirements related to the review of zero-demand items. The procedures should include collaboration with appropriate program offices and other stakeholders to verify the accuracy of the weapon system data and to validate that the items support valid requirements.

We also recommend that the Commander, Naval Supply Systems Command, in coordination with the Office of the Assistant Secretary of Defense for Logistics and Materiel Readiness, develop a phased approach, with milestones, for reviewing all zero-demand items.

Management Comments and Our Response

Comments from the Commander, Naval Supply Systems Command addressed the recommendations. The Commander, Naval Supply Systems Command agreed to develop and implement procedures to clarify requirements related to the review of zero-demand items; and coordinate with the Assistant Secretary of Defense for Logistics and Materiel Readiness to develop a phased approach with milestones for reviewing zero-demand items. Please see the Recommendations Table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Commander, Naval Supply Systems Command	None	1, 2



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE**
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

April 25, 2014

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE FOR LOGISTICS
AND MATERIEL READINESS
COMMANDER, NAVAL SUPPLY SYSTEMS COMMAND
NAVAL INSPECTOR GENERAL

SUBJECT: Navy Can Improve Management of Zero-Demand Items
(Report No. DODIG-2014-063)

We are providing this report for your information and use. We considered management comments on a draft of this report when preparing the final report. Comments from Naval Supply Systems Command conformed to the requirements of DoD Directive 7650.3; therefore, we do not require additional comments.

Naval Supply Systems Command has reduced the number of zero-demand items through its disposal review process. However, Naval Supply Systems Command needs additional improvements to identify and manage zero-demand items. For the 89 zero-demand items reviewed, Naval Supply Systems Command personnel did not identify 18 zero-demand items, valued at \$26.1 million, with no valid requirement as potential excess for disposal. As a result, Naval Supply Systems Command is paying Defense Logistics Agency storage costs for items no longer needed.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 699-7331 (DSN 499-7331).

A handwritten signature in black ink, reading "Carol N. Gorman", is positioned above the printed name.

Carol N. Gorman
Assistant Inspector General
Readiness and Cyber Operations



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Acronyms and Abbreviations



Introduction

Objective

Our objective was to determine whether the Navy, in coordination with the Defense Logistics Agency, is effectively identifying and managing zero-demand stock. See Appendix A for a discussion of the audit scope and methodology related to the audit objective.

Background

Public Law 111-84, “National Defense Authorization Act for Fiscal Year 2010,” Section 328, “Improvement of Inventory Management Practices,” October 28, 2009, established a formal requirement for the Secretary of Defense to submit a comprehensive plan for improving the inventory management systems of the Military Departments and the Defense Logistics Agency (DLA) with the objective of reducing the acquisition and storage of secondary item inventory that is excess to requirements. In response, DoD developed a Comprehensive Inventory Management Improvement Plan (CIMIP), dated October 2010, which has an overall objective to reduce both current inventory excesses as well as potential future excesses. One of the sub-objectives is to eliminate inventory items with a history of no recurring demand and a low probability of future demand, unless there is sufficient justification to retain the items. Specifically, DoD is taking action to review items that experience no demand over a period of 5 years or more.

Roles and Responsibilities

The Assistant Secretary of Defense for Logistics and Materiel Readiness (ASD[L&MR]) is responsible for developing DoD materiel management and disposition policies and ensuring uniform implementation throughout the DoD supply chain. ASD(L&MR) published the DoD CIMIP and oversees its implementation. The Office of the Deputy Assistant Secretary of Defense for Supply Chain Integration, within the Office of the ASD(L&MR), chairs inventory management working groups responsible for executing the DoD CIMIP and reviewing its progress.

The Naval Supply Systems Command (NAVSUP) provides life cycle weapon system support to the Navy. NAVSUP is responsible for over 400,000 class IX repair parts,¹ using funds from the Navy Working Capital Fund to buy and repair the parts and

¹ DoD groups materiel into 10 classes of supply. Class IX includes repair parts and components including kits, assemblies and subassemblies, and repairable and consumable items required for maintenance support of all equipment, excluding medical-specific repair parts.

sell them to Navy customers. NAVSUP Weapon Systems Support has offices in Philadelphia and Mechanicsburg, Pennsylvania. The Philadelphia site supports Naval aviation weapons systems, and the Mechanicsburg site supports ships, submarines, and nuclear propulsion systems. NAVSUP is responsible for evaluating excess inventory for disposal consideration and executing disposal actions as needed. NAVSUP personnel participate on DoD inventory management working groups and provide updates related to the implementation and progress of the DoD CIMIP actions specific to the Navy.

Naval Sea Systems Command (NAVSEA), Naval Air Systems Command (NAVAIR), and Space and Naval Warfare Systems Command (SPAWAR) are stakeholders in the inventory management process. Specifically, stakeholder program office personnel collaborate with NAVSUP personnel regarding item retention and disposal decisions.

DLA provides integrated materiel management and logistic support for supply and service items to the military. Specifically, DLA is the primary operator of the defense supply and depot system and is responsible for the acquisition, receipt, storage, and issue of property, including Service-owned and managed items. The DLA distribution network consists of 26 distribution centers worldwide.

Materiel Management Policies

DoD Regulation 4140.1-R, “DoD Supply Chain Materiel Management Regulation,” May 23, 2003, requires DoD to maintain secondary item inventory levels that minimize the Department’s investment while providing the inventory needed to support both peacetime and war requirements. It also requires DoD to include all storage and disposal costs in materiel management decisions. Finally, the regulation states that the DoD must identify and purge items from the supply system that are no longer required.

NAVSUP Instruction 4500.13A, “Retention and Reutilization of Material Assets,” October 1, 2013, outlines procedures for inventory management decisions in the Navy, including semiannual disposal reviews and the review of zero-demand items. Prior to its issuance, NAVSUP followed a draft version of the instruction, as well as interim guidance, which included procedures for disposal reviews, but not the review of zero-demand items.

Navy Zero-Demand Items Stored in DLA Warehouses

In FY 2013, DoD spent approximately \$15.4 million to store items that had no demand for 5 or more years. As of October 2012, DLA reported approximately 500,000 unique National Stock Numbers (NSNs) with zero demand for 5 or more years, that occupy over 3.6 million cubic feet of space at DLA Distribution locations. The Navy owns and manages over 90,000 of those items, which occupy over 1.2 million cubic feet. The Navy pays DLA approximately \$5 million annually to store zero-demand items.

Review of Navy Zero-Demand Items

We examined a nonstatistical sample of 89 zero-demand items managed by NAVSUP. These items are valued at approximately \$227 million and occupy over 98,800 cubic feet of space at DLA and Navy locations. Of the 89 items, 67 have quantities stored at DLA locations² with an annual storage cost of approximately \$426,900. The remaining 22 items are stored at Navy locations.³

Review of Internal Controls

DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified an internal control weakness in the Navy’s procedures for managing zero-demand items. Specifically, NAVSUP procedures do not require a comprehensive review of zero-demand items, which resulted in the Navy retaining items that were no longer needed. We will provide a copy of this report to the senior official responsible for internal controls in the Department of the Navy.

² These 67 items may also have quantities stored at Navy locations.

³ According to NAVSUP personnel, the Navy does not separately calculate storage rates for items at Navy locations; therefore, a total storage cost for these items was not available.

Finding

Improvements Needed to Identify Zero-Demand Items No Longer Required

NAVSUP has reduced the number of zero-demand items through its disposal review process; however, NAVSUP needs additional improvements to identify and manage zero-demand items. For the 89 zero-demand items reviewed, NAVSUP personnel identified full or partial disposal actions for 23 items and provided a valid retention justification for 48 items. However, NAVSUP supply planners did not identify 18 additional zero-demand items, valued at \$26.1 million, as potential excess for disposal. This occurred because NAVSUP procedures do not require supply planners to comprehensively review zero-demand items to ensure they support valid requirements. As a result, NAVSUP is paying DLA storage costs for items no longer needed. In response to our audit, NAVSUP disposed of the 18 zero-demand items. This will allow NAVSUP to put to better use \$90,835 in associated storage costs annually, and \$454,175 over a 5-year period. In addition, disposing of these items reduced storage space requirements by approximately 16,500 cubic feet.

NAVSUP Has Reduced Zero-Demand Items

NAVSUP personnel identified full or partial disposal actions for 23 items in our sample, either through their semiannual disposal review process or through other ongoing disposal actions. In addition, through collaboration with stakeholders, NAVSUP personnel validated the retention of 48 items.

NAVSUP Disposal Review Process

NAVSUP Instruction 4500.13A requires NAVSUP personnel to semiannually conduct a disposal review to identify Navy items with potential excess that should be considered for disposal or reutilization. Potential excess is inventory determined by NAVSUP to exceed retention limits, which are comprised of funded requirements, economic retention levels,⁴ and contingency retention levels.⁵ During the semiannual disposal reviews, NAVSUP uses the Navy Enterprise Resource Planning (ERP) system to apply on-hand quantities to the retention limits to determine if there is

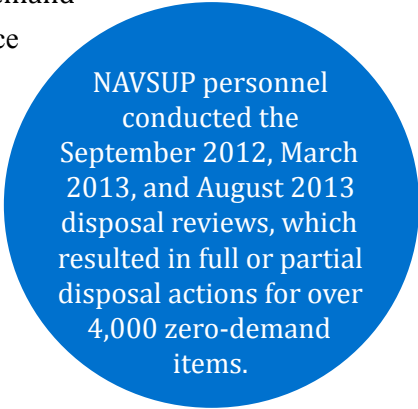
⁴ Economic retention items are assets determined to be more economical to retain than dispose of. Economic retention levels are determined based on where a weapon system or item is in its life cycle.

⁵ Types of contingency retention justifications include potential foreign military sales, diminishing manufacturing sources and materiel shortages, and weapon system exclusions.

potential excess, and supply planners are required to conduct a comprehensive review of those items. This review includes collaborating with stakeholders to determine if the items had any valid requirements; otherwise, the NAVSUP supply planner can dispose of the items. In addition to the semiannual disposal reviews, NAVSUP personnel can conduct ad hoc disposal actions when they identify items that no longer support valid requirements.

NAVSUP Disposed of Some Zero-Demand Items

In accordance with NAVSUP Instruction 4500.13A, NAVSUP personnel conducted the September 2012, March 2013, and August 2013 disposal reviews, which resulted in full or partial disposal actions for over 4,000 zero-demand items. These disposal actions will reduce storage space requirements by about 30,000 cubic feet. In the August 2013 disposal review, NAVSUP personnel identified full or partial disposal actions for 14 items in our sample. For example, NAVSUP personnel disposed of 63 antennas used on radar systems, which had an annual storage cost of \$30,500. The antennas were previously retained to support foreign military sales (FMS) customers.



NAVSUP personnel conducted the September 2012, March 2013, and August 2013 disposal reviews, which resulted in full or partial disposal actions for over 4,000 zero-demand items.

In addition, NAVSUP identified nine items in our sample for ad hoc disposal outside of the semiannual reviews. For example, NAVSUP personnel were disposing of 21 aircraft pods, valued at \$14.5 million, during the August 2013 disposal review. NAVSUP personnel explained that because the aircraft pods involve hazardous materials and must be demilitarized, additional coordination is required to dispose of the items.

Valid Retention for Zero-Demand Items

NAVSUP personnel collaborated with stakeholders and provided a valid retention justification for 48 items. DoD Regulation 4140.1-R and NAVSUP Instruction 4500.13A outline categories of contingency retention justifications, such as FMS reserve and military operational necessity, and NAVSUP justified retaining 48 items based on these contingency factors. Specifically:

- NAVSUP retained 35 items due to military operational necessity and weapon system exclusions. For example, NAVSUP retained a speed gear assembly, valued at \$1.2 million, due to the lack of operational ability for a propulsion weapon system if the item is not available.

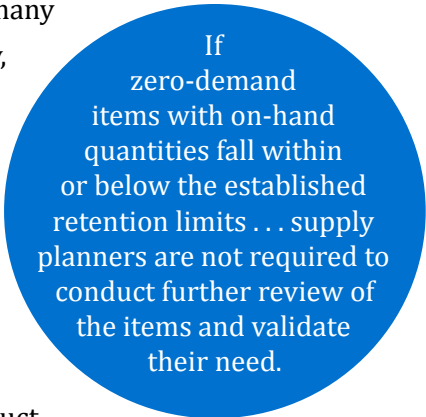
- NAVSUP retained six items due to potential security assistance or FMS use. For example, NAVAIR program office personnel recommended that NAVSUP retain four radom boom assemblies, valued at \$113,725, for potential FMS use on P-3 A/B aircraft models.
- NAVSUP retained four items due to procurement constraints, diminishing manufacturing sources, and materiel shortages. For example, NAVSUP retained a metallic tube, valued at \$25,154, because there is a low vendor base for the item and it is difficult to procure.
- NAVSUP retained three items due to reclamation and cannibalization. For example, NAVSUP retained three sponson assemblies, valued at \$412,244, because NAVAIR intends to use the items for planned future repairs.

NAVSUP Procedures Do Not Require a Comprehensive Review of Zero-Demand Items

Although NAVSUP's semiannual disposal review process identified some zero-demand items for disposal, additional improvements are needed to reduce the Navy's zero-demand inventory and minimize the Department's investment in inventories, as required by DoD Regulation 4140.1-R. Specifically, NAVSUP supply planners did not identify 18 zero-demand items in our sample, valued at \$26.1 million, for disposal even though these items were obsolete or associated with retired weapon systems. NAVSUP personnel did not identify the 18 items for disposal because procedures do not require supply planners to comprehensively review zero-demand items. See Appendix B for information about these 18 items.

Disposal Review Process Protects Many Zero-Demand Items from Disposal

NAVSUP's disposal review process protects many zero-demand items from disposal. Specifically, NAVSUP Instruction 4500.13A provides detailed procedures for conducting semiannual disposal reviews to identify potential excess based on retention limits. However, if zero-demand items with on-hand quantities fall within or below the established retention limits, the Navy ERP system would not identify the items as potential excess; therefore, supply planners are not required to conduct



If zero-demand items with on-hand quantities fall within or below the established retention limits . . . supply planners are not required to conduct further review of the items and validate their need.

further review of the items and validate their need. For instance, of our universe of 104,349 zero-demand items, NAVSUP procedures protected approximately 65,000 items during the disposal reviews because on-hand quantities were within or below economic retention limits.

In addition, NAVSUP personnel did not identify 18 items in our sample during their August 2013 disposal review, although personnel subsequently reviewed the items at our request and acknowledged that the items did not support valid requirements and should be disposed of. Specifically, 17 items were protected during disposal reviews due to economic retention limits. The remaining item was on a performance-based logistics contract and was therefore protected under the “procurement constraints” category for contingency retention justifications.

For example, NAVSUP personnel did not evaluate a helical gear, valued at \$1.3 million, because the quantity of one was below the retention limit. The helical gear had an annual storage cost of \$21,349, and was used on the decommissioned USS *Enterprise* (CVN-65). As a result of our audit, NAVSUP personnel stated that they contacted the NAVSEA program office for the weapon system, and they recommended the item for disposal. In another example, NAVSUP retained a launching valve, valued at \$1.5 million, because the quantity of one was below the retention limit. The audit team contacted NAVAIR program office personnel, who stated that the valve was last used on the USS *Lexington* (AVT-16). The Navy decommissioned the USS *Lexington* in November 1991, and it is now a museum ship for a private organization. As a result of our audit, NAVSUP personnel disposed of the valve.

NAVSUP Instruction Does Not Provide Clear Guidance for Validating Weapon System Application Data

In October 2013, NAVSUP updated NAVSUP Instruction 4500.13A to include requirements specific to the review of zero-demand items, to meet the goals and requirements of the DoD CIMIP. The updated instruction requires NAVSUP personnel to review items with on-hand quantities that have no demand in 5 or more years, verifying they have a weapon system application. In addition, zero-demand items with no application will be considered for disposal.

While NAVSUP Instruction 4500.13A requires validation with the program office for items with no identified weapon system application, it does not require NAVSUP personnel to verify, with the appropriate program office or stakeholder, that

items with an identified application still support valid requirements, and that application data in the Navy ERP system is accurate. For instance, NAVSUP retained a resonator receiver, valued at \$438,567, which had not had demand in at least 10 years. According to NAVSUP personnel, the item supported the P-3 aircraft. However, NAVAIR program office personnel identified that the item supported the inactive OV-10 aircraft. Therefore, NAVSUP personnel disposed of the item. In another example, NAVSUP retained 901 inner tubes for aircraft tires, valued at \$303,790, with an annual storage cost of \$13,629. According to Navy ERP system data and NAVSUP personnel, the inner tubes had application on the A-4 and T-2 aircraft. At our request, NAVSUP personnel reviewed the inner tubes and determined that they no longer supported a valid requirement since the A-4 and T-2 aircraft are no longer used. Therefore, NAVSUP personnel took action to dispose of the inner tubes.

In addition, NAVSUP Instruction 4500.13A does not provide clear guidance for validating weapon system application data. During our audit, NAVSUP was trying to determine how to use Navy ERP system data to associate individual NSNs with specific weapon system applications. NAVSUP personnel stated that one method they could use to identify weapon system application is whether an item appears on an allowance parts list (APL) for maritime items, or a bill of material for aviation items. However, we identified, and NAVSUP personnel acknowledged, potential drawbacks with this methodology, because there were instances where an item was part of an APL with no users. Specifically, using APLs and data from the Navy ERP system, NAVSUP personnel identified a weapon system application for 85 of our 89 sample items, including 15 of the 18 items they agreed to dispose of as a result of our audit. Therefore, relying solely on application data obtained from the Navy ERP system does not provide assurance that items support valid requirements. For example, NAVSUP retained a power mast adapter, valued at \$391, with an annual storage cost of \$1,176, because the quantity of one was within retention limits and the item was associated with an APL. According to SPAWAR program office personnel, the item is for an antenna group for the AN/SSQ-108A(V) direction-finding system that the Navy retired 10 years ago. SPAWAR personnel recommended that NAVSUP retire the NSN and dispose of the remaining inventory.

Personnel from NAVSUP and SPAWAR stated that there may be other items associated with the retired AN/SSQ-108A(V) that should also be disposed of. Subsequently, NAVSUP personnel identified over 200 zero-demand items associated with APLs for the AN/SSQ-108A(V), but did not have any active users listed.

NAVSUP personnel stated that they will work with configuration data managers and SPAWAR program office stakeholders to determine whether the items can be disposed of.

Although NAVSUP updated NAVSUP Instruction 4500.13A to include a review of zero-demand items, the instruction does not specify procedures for this review, such as how personnel will verify weapon system application. Therefore, NAVSUP should develop and implement procedures for comprehensively reviewing zero-demand items, to include collaboration with stakeholders to validate that items support valid requirements. To be consistent with DoD CIMIP goals, NAVSUP should coordinate with the Office of the ASD(L&MR) to develop a phased approach, with milestones, for reviewing zero-demand items.

NAVSUP is Paying Storage Costs for Items No Longer Needed

Without a comprehensive review of zero-demand items, NAVSUP risks paying additional storage cost for items that are no longer needed. According to DLA, the Navy pays approximately \$5 million annually to store over 90,000 zero-demand items. We reviewed 89 zero-demand items and identified 18, with an annual storage cost of \$90,835, that did not support active weapon systems. In response to our audit, NAVSUP disposed of these 18 items. This will allow NAVSUP to put to better use \$454,175 over a 5-year period. In addition, disposing of the 18 items reduced storage space requirements by approximately 16,500 cubic feet.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Commander, Naval Supply Systems Command, develop and implement procedures to clarify requirements related to the review of zero-demand items. The procedures should include collaboration with appropriate program offices and other stakeholders to verify the accuracy of the weapon system data and to validate that the items support valid requirements.

Naval Supply Systems Command Comments

The Commander, Naval Supply Systems Command agreed, stating policies and procedures will be developed and implemented to clarify zero-demand review requirements including procedures requiring collaboration with appropriate program offices and stakeholders. Specifically, the Commander stated that as a result of the Comprehensive Inventory Management Improvement Plan and audit attention, the command convened a working group with Naval Supply Systems Command Weapon Systems Support to review current zero-demand items and perform application validations. Naval Supply Systems Command Weapon Systems Support also convened continuous process improvement events for foreign military sales reserve and excess defense articles that included review of zero-demand items for disposal. The Commander also stated policies and procedures will be updated to ensure all zero-demand items are validated and recorded or assets are disposed of and items are de-cataloged. The target completion date is October 1, 2014.

Our Response

Comments from the Commander, Naval Supply Systems Command addressed all specifics of the recommendation, and no further comments are required.

Recommendation 2

We recommend that the Commander, Naval Supply Systems Command, in coordination with the Office of the Assistant Secretary of Defense for Logistics and Materiel Readiness, develop a phased approach, with milestones, for reviewing all zero-demand items.

Naval Supply Systems Command Comments

The Commander, Naval Supply Systems Command agreed, stating that, in coordination with the Assistant Secretary of Defense for Logistics and Materiel Readiness, Naval Supply Systems Command will develop a phased approach with milestones and prioritized steps for reviewing and taking action for items with and without application. In addition, the Commander stated Naval Supply Systems Command would establish a sustainment review process for zero-demand items. The target completion date for the phased approach is August 1, 2014.

Our Response

Comments from the Commander, Naval Supply Systems Command addressed all specifics of the recommendation, and no further comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from May 2013 through March 2014 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 used the Navy ERP system and the DLA's Distribution Standard System (DSS) to identify a universe of Navy-owned items with zero demand in 5 or more years, as of October 1, 2012. The Navy ERP system data identified 104,349 zero-demand items and the DSS data identified 92,657 zero-demand items. Using data from both systems, we selected a nonstatistical sample of 91 zero-demand items. We subsequently learned that 2 of these items did not have assets on-hand; therefore, our sample included 89 items.

For the 89 items, we reviewed information from the Navy ERP system and DLA DSS to obtain quantity, storage location, cubic feet occupied, storage rate, asset cost, condition code, life cycle indicator, and demand history. We also reviewed information provided by NAVSUP personnel regarding weapon system application. For each sample item, we interviewed NAVSUP Weapon Systems Support supply planners and contacted stakeholders from NAVAIR, NAVSEA, and SPAWAR to obtain a decision and rationale for retaining or disposing of the item. We based our determination of a valid retention decision on DoD and NAVSUP policy that outlines specific categories of items that can be retained. We also reviewed information from NAVSUP's September 2012, March 2013, and August 2013 disposal reviews, and matched disposal actions against the zero-demand universe data.

We interviewed personnel from NAVSUP and the Office of the Deputy Secretary of Defense for Supply Chain Integration to obtain clarification regarding the policies and procedures, reduction goals, and reporting requirements related to zero-demand items. Specifically, we reviewed the following DoD and NAVSUP policies:

- DoD Regulation 4140.1-R, "DoD Supply Chain Materiel Management Regulation," May 23, 2003

- DoD Comprehensive Inventory Management Improvement Plan, October 2010
- NAVSUP Instruction 4500.13A, “Retention and Reutilization of Material Assets,” October 1, 2013*
- NAVSUP Instruction 4500.13, “Retention and Reutilization of Material Assets,” January 12, 1990
- “Naval Supply Systems Command Interim Retention and Disposal Process Policy,” July 17, 2012
- “Naval Supply Systems Command Revised Interim Retention and Disposal Policy,” January 18, 2013

Use of Computer-Processed Data

We relied on data from the Navy ERP system and DLA DSS to support our audit finding and conclusions. The Navy ERP system stores supply chain management information for Navy-owned items. DLA DSS stores distribution information for items stored at DLA locations. Specifically, we relied on queries of zero-demand data from the Navy ERP system and DLA DSS, which included item quantity, cube size, and storage cost.

To assess the reliability of the data, we discussed quantity information with NAVSUP supply planners and DLA personnel. Based on this information, we determined that the data from Navy ERP and DLA DSS were sufficiently reliable for the purposes of this report.

Use of Technical Assistance

We obtained support from the DoD Office of Inspector General Quantitative Methods Division in developing a nonstatistical sample for review.

Prior Coverage

No prior coverage has been conducted on the subject during the last 5 years.

* We also reviewed a draft of this instruction, which NAVSUP personnel provided on June 24, 2013.

Appendix B

Items Disposed of Due to Our Audit

NAVSUP identified and disposed of the 18 items listed below due to our audit. As a result, NAVSUP can put \$90,835 to better use annually and \$454,175 over the next 5 years.

NSN	Item Description	Years with No Demand	Quantity	Total Cubic Feet	Total Asset Cost	Annual Storage Cost
3010-01-224-9865	Speed Gear Assembly	10+	1	2,922.3900	\$1,230,540	\$16,015
3020-00-912-6980	Helical Gear Set	10+	1	3,895.8300	1,347,748	21,349
3950-00-600-1812	Power Drum Winch	10+	1	1,007.7200	27,622	5,522
5825-01-047-5147	Mast Adapter	7	1	214.5830	391	1,176
4470-01-377-7062	Main Tube Assembly	10+	1	0.0008	41,994	0 ^A
6130-00-045-6491	Power Supply	10+	1	135.7630	2,534	744
5998-01-229-4635	Circuit Card Assembly	10+	1	0.0723	150	0 ^A
6115-01-503-5268	Alternative Generator	7	1	720.7639	6,250,000	382
1560-01-511-0102	Aircrafts Parts Kit	5	1	28.1481	3,543,178	154
1720-01-008-0503	Launching Valve	10+	1	0.1082	1,496,038	1
5855-01-319-9757	Resonator/Receiver	10+	1	4.8750	438,567	27
1615-00-148-9202	Rotor Hub Assembly	10+	6	3,857.8860	1,454,541	21,141
2620-00-294-6632	Inner Tube	5	901	1,792.8747	303,790	13,629 ^B
5865-01-084-6775	Counter Transmitter	6	12	379.1904	4,513,916	2,078
5895-01-332-3931	Digital Comparator	10+	6	68.4444	4,006,997	375
5895-01-357-4219	Digital Computer	5	3	10.3887	1,305,118	38 ^B
1560-00-075-8079	Fuselage Section	10+	1	1,410.0000	135,198	7,727
4920-00-174-8255	Holding Fixture	10+	1	87.1883	2,174	478
Total^C				16,536.1544	\$26,100,497	\$90,835

^A These NSNs occupy a small cubic area, which makes the annual storage costs round to \$0.

^B These NSNs have items at DLA and Navy locations, but the annual storage costs only reflect quantities stored by DLA.

^C Columns do not add due to rounding.

Source: Navy ERP system and DLA DSS data as of October 1, 2012.

Management Comments

Naval Supply Systems Command



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IN REPLY REFER TO
7510
Ser NOIG/013

APR 01 2014

From: Commander, Naval Supply Systems Command
To: Department of Defense Office of Inspector General,
Program Director, Readiness and Cyber Operations

Subj: DODIG DRAFT AUDIT REPORT ON NAVY CAN IMPROVE MANAGEMENT
OF ZERO-DEMAND ITEMS (D2013-D000LD-0146.000)

Ref: (a) Draft Audit Report D2013-D000LD-0146.000 of 6 Mar 14

Encl: (1) DoDIG Draft Report, Navy Can Improve Management of
Zero-Demand Items (Project No. D2013-D000LD-0146.000)
of 6 March 2014

1. Per reference (a), enclosure (1) provides our comments on
Recommendations 1 and 2.

2. For any questions, please contact our Chief of Staff,
[REDACTED]


J. A. YUEN

Copy to:
NAVINGEN

Naval Supply Systems Command (cont'd)

DEPARTMENT OF DEFENSE INSPECTOR GENERAL (DODIG) DRAFT REPORT,
 "Navy Can Improve Management of Zero-Demand Items" (Project No.
 D2013-D000LD-0146.000) OF 6 March 2014

Finding-

Naval Supply Systems Command (NAVSUP) has reduced the number of zero-demand items through its disposal review process; however, NAVSUP needs additional improvements to identify and manage zero-demand items. For the 89 zero-demand items reviewed, NAVSUP personnel identified full or partial disposal actions for 23 items and provided a valid retention justification for 48 items. However, NAVSUP supply planners did not identify 18 additional zero-demand items, valued at \$26.1 million, as potential excess for disposal.

This occurred because NAVSUP procedures do not require supply planners to comprehensively review zero-demand items to ensure they support valid requirements. As a result, NAVSUP is paying DLA storage costs for items no longer needed. In response to our audit, NAVSUP disposed of the 18 zero-demand items. This will allow NAVSUP to put to better use \$90,835 in associated storage costs annually, and \$454,175 over a 5-year period.

Recommendation 1: Commander, Naval Supply Systems Command, develop and implement procedures to clarify requirements related to the review of zero-demand items. The procedures should include collaboration with appropriate program offices and other stakeholders to verify the accuracy of the weapon system data and to validate that the items support valid requirements.

NAVSUP response: NAVSUP concurs with recommendation. NAVSUP will develop and implement procedures to clarify zero-demand review requirements. The procedures will include collaboration with appropriate program offices and other stakeholders to verify the accuracy of weapon system data and validate that the items support valid requirements.

As a result of the Comprehensive Inventory Management Improvement Plan and audit attention, NAVSUP has convened a working group with NAVSUP Weapon Systems Support (WSS) participation to review current zero-demand items and perform application validations across this range of items. Additionally, NAVSUP WSS has convened Foreign Military Sales Reserve and Excess Defense Article, Continuous Process Improvement events to document and improve processes - including review of zero demand items for disposal.

Enclosure (1)

Naval Supply Systems Command (cont'd)

NAVSUP plans to address review of zero-demand items by updating policy and procedures to ensure all zero-demand items are reviewed with outcomes of either item applications validated and recorded; or assets disposed and items de-cataloged. The target date for completion of policy update is 1 October 2014. Implementation of procedures will be aligned with the phased approach in Recommendation 2.

Recommendation 2: Commander, Naval Supply Systems Command, in coordination with the Office of the Assistant Secretary of Defense for Logistics and Materiel Readiness (ASN (LM&R)), develop a phased approach, with milestones, for reviewing all zero-demand items.

NAVSUP response: NAVSUP concurs with recommendation. NAVSUP will, in coordination with ASN (L&MR), develop a phased approach with milestones for reviewing all zero-demand items.

NAVSUP expects phases to include prioritized steps for:
1) Review and action for items with no application; 2) Review and action for items with application, and 3) Establishment of a sustainment review process for items with zero-demand. The target date for development of a coordinated, phased approach with milestones is 1 August 2014.

Enclosure (1)

Acronyms and Abbreviations

APL	Allowance Parts List
ASD(L&MR)	Assistant Secretary of Defense for Logistics and Materiel Readiness
CIMIP	Comprehensive Inventory Management Improvement Plan
DLA	Defense Logistics Agency
DSS	Distribution Standard System
ERP	Enterprise Resource Planning
FMS	Foreign Military Sales
NAVAIR	Naval Air Systems Command
NAVSEA	Naval Sea Systems Command
NAVSUP	Naval Supply Systems Command
NSN	National Stock Number
SPAWAR	Space and Naval Warfare Systems Command



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