Audit Report

OFFICE OF THE INSPECTOR GENERAL

DISTRIBUTION OF EXCESS ARMY HELICOPTERS AND FLIGHT-SAFETY-CRITICAL HELICOPTER PARTS

Report No. 96-229 September 24, 1996

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Department of Defense

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Acronyms

AR
Army Regulation
ATCOM
Aviation and Troop Command
CMH
Center for Military History
CTS
Component Tracking System
DBOF
Defense Business Operations Fund
DLA
Defense Logistics Agency
DRMO
Defense Reutilization and Marketing Office
DRMS
Defense Reutilization and Marketing Service
FAA
Federal Aviation Administration
IRS
Internal Revenue Service
September 24, 1996

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DEPUTY UNDER SECRETARY OF DEFENSE
(LOGISTICS)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY


We are providing this report for your review and comments. Despite several months allowed for a response, the Army did not reply to a draft of this report in time for their comments to be incorporated in the final report. If comments are received, we will consider them as comments on the final report. Comments from the Under Secretary of Defense (Comptroller) were considered in preparing the final report.

After discussing the draft report with the Deputy Under Secretary of Defense (Logistics) and Army personnel, we added recommendations to the Deputy Under Secretary of Defense (Logistics) and to the Army Chief of Staff.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request comments on this final report from the Under Secretary of Defense (Comptroller), the Deputy Under Secretary of Defense (Logistics), the Army Chief of Staff, and the Commander, Aviation and Troop Command. We also request additional comments from the Under Secretary of Defense (Comptroller). Please provide comments by November 12, 1996. Part I of the report gives the specific requirements for additional comments.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. James L. Kornides, Audit Program Director, or Mr. Stuart D. Dunnett, Audit Project Manager, at (614) 751-1400. See Appendix E for the report distribution. The audit team members are listed inside the back cover.

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Assistant Inspector General
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Office of the Inspector General, DoD

Report No. 96-229 (Project No. 5FJ-5024.00) September 24, 1996

Disposition of Excess Army Helicopters and Flight-Safety-Critical Helicopter Parts

Executive Summary

Introduction. This is one in a series of reports resulting from our Audit of Controls Over the Reutilization, Transfer, Donation, and Sales of Munitions List Items (Project No. 5FJ-5024). The audit was requested by the Director, Defense Logistics Agency. The U.S. Army Aviation and Troop Command disposed of more than 750 excess Army helicopters between October 1993 and August 1995. The helicopters were no longer needed due to the downsizing of Army forces, and were provided to other DoD activities, Federal agencies, and state and local government organizations. During the same period, the Aviation and Troop Command transferred about $1.8 billion in excess helicopter parts to the Defense Reutilization and Marketing Service for disposal. The Aviation and Troop Command plans to redistribute or dispose of more than 1,900 additional helicopters between FYs 1996 and 2000.

Audit Objectives. The objective of this part of the audit was to determine whether the Army had effective controls over the redistribution and disposition of excess helicopters and helicopter parts.

Audit Results. The Aviation and Troop Command did not give the Defense Reutilization and Marketing Service correct instructions for disposing of flight-safety-critical helicopter parts. As a result, $37.5 million of flight-safety-critical parts were released to the public without safety inspections, and $153.1 million of salable parts were incorrectly coded for demilitarization (Finding A).

The Aviation and Troop Command transferred 170 helicopters to the U.S. Army Center for Military History for exchange purposes, although the helicopters were not historic property. The Center for Military History incorrectly exchanged 86 of the helicopters for other historic property or contractor services. The helicopters that were exchanged were not properly valued, and the exchanges were not reported to the Internal Revenue Service as required. The Center for Military History's actions did not comply with DoD policies on exchanges and the valuation requirements of title 10, United States Code, section 2572. The exchanges increased the risk that flight-safety-critical helicopter parts on the helicopters were released outside DoD without the necessary safety inspections (Finding B).

The Defense Reutilization and Marketing Service did not reimburse the Aviation and Troop Command for the sale of excess helicopters and related parts. As a result, the
Army's Defense Business Operations Fund will not receive approximately $60 million from the sale of helicopters and $10 million from the sale of helicopter engines. Redirecting these funds will give the Army the incentive to maximize proceeds on the sale of excess helicopters and related parts (Finding C).

The audit identified material management control weaknesses (Appendix A). We also identified benefits to public safety if better controls are maintained over the disposal of flight-safety-critical helicopter parts. The audit also identified monetary benefits of between $4.4 to $9 million that the Army can realize by selling 84 helicopters now in the possession of the Center for Military History. The Army can also realize $10 million of monetary benefits from the reimbursable sale of helicopter parts and $60 million from the reimbursable sale of 500 helicopters. Appendix C summarizes the potential benefits of the audit.

**Summary of Recommendations.** We recommend that the Commander, Aviation and Troop Command, modify the Component Tracking System to provide complete disposition instructions on flight-safety-critical parts by work-unit code. We also recommend that the Commander, Aviation and Troop Command, coordinate with the Defense Reutilization and Marketing Service and Regional Logistics Support Offices to modify the Component Tracking System to provide complete disposition instructions on flight-safety-critical parts by work-unit code; provide retroactive instructions for disposing of previously reutilized, transferred, donated, or exchanged flight-safety-critical parts; and research the history of the flight-safety-critical parts already on hand at Defense Reutilization and Marketing Offices and National Inventory Control Points before the parts are released.

We recommend that the Army Chief of Staff dispose of the 84 helicopters that were transferred to the Center for Military History in accordance with DoD and Army disposal policies; identify the 86 helicopters exchanged between the public and the Center for Military History to determine whether flight-safety-critical parts that were released should be recalled for inspection; and improve policies, procedures, and controls for implementing exchange provisions of DoD policies and title 10, United States Code, Secton 2572.

We recommend that the Under Secretary of Defense (Comptroller) approve reimbursement to the Army of 80 percent of the proceeds from the sale of excess helicopters and related parts.

We added a recommendation to the Deputy Under Secretary of Defense (Logistics). We recommend that the Deputy Under Secretary ask the Defense Logistics Agency and the Military Departments to identify and provide the current status of any efforts they have made to comply with a policy memorandum issued by the Assistant Deputy Under Secretary of Defense (Materiel and Resource Management).
Management Comments. The Commander, Aviation and Troop Command, and the Director of the Army Staff did not respond to a draft of this report in time for the comments to be incorporated in the final report. If comments are received, we will consider them as comments on the final report. The Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller), nonconcurred with Finding C. He stated that the DoD Office of General Counsel (Fiscal) determined that the Army could not be reimbursed for the sale of Army helicopters and related parts because the helicopters and parts were not Defense Business Operations Fund property. He stated that existing guidance in DoD Instruction 7310.1, "Disposition of Proceeds from DoD Sales of Surplus Property," would be clarified and reissued in DoD 7000.14-R, the "DoD Financial Management Regulation," volume 12, "Special Accounts, Funds, and Programs."

Audit Response. Statutory authority exists in title 10, United States Code, section 2210, for the credit of proceeds from the sale of the helicopters and parts to an Army appropriation. In addition, net proceeds from the sale of the helicopter parts are reimbursable under DoD Instruction 7310.1. Therefore, we request that the Under Secretary of Defense (Comptroller) reconsider his position and provide additional comments on the final report.

We request comments on the final report from the Under Secretary of Defense (Comptroller); the Deputy Under Secretary of Defense (Logistics); the Army Chief of Staff; and the Commander, Aviation and Troop Command. We request additional comments from the Under Secretary of Defense (Comptroller). We ask that comments be provided by November 12, 1996.
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Part I - Audit Results
Audit Results

Audit Background

This audit resulted from our Audit of Controls Over the Reutilization, Transfer, Donation and Sales of Munitions List Items (Project No. 5FJ-5024), which was requested by the Director, Defense Logistics Agency (DLA). This part of the audit focused on the effectiveness of the Army’s controls over the redistribution and disposal of helicopters and flight-safety-critical helicopter parts.

The Defense Reutilization and Marketing Service (DRMS), through authority delegated by the DLA, implements DoD policy for the disposal and demilitarization of excess and surplus Government property. DoD activities transfer most excess and surplus property to about 180 Defense Reutilization and Marketing Offices (DRMOs). The DRMOs redistribute the excess and surplus property to qualified recipients through various reutilization, transfer, and donation programs. Property that is not redistributed is sold to the public.

Excess aircraft are redistributed differently. The Military Departments are responsible for reutilizing, transferring, donating, reclaiming, and loaning excess aircraft before turning residual items over to the DRMS for sale.

The U.S. Army Aviation and Troop Command (ATCOM), in coordination with the Deputy Chief of Staff of the Army for Logistics, manages the disposal of DoD helicopters and related components. ATCOM disposed of more than 750 excess Army helicopters between October 1993 and August 1995. The helicopters, which were no longer needed because of the downsizing of Army forces, were provided to other DoD activities, Federal agencies, and State and local government agencies. During the same period, ATCOM transferred about $1.8 billion in excess helicopter parts to DRMS for disposal. ATCOM plans to redistribute or dispose of more than 1,900 additional helicopters between FYs 1996 and 2000.

The Army’s initial plan for retiring its helicopters, published on January 10, 1995, did not provide for the transfer of complete aircraft to DRMS for sale purposes because ATCOM was concerned about releasing potentially dangerous flight-safety-critical aircraft parts to the public. The DoD and the Army were also concerned that releasing large numbers of Army helicopters, which are easily converted to commercial applications, could have a harmful effect on the nation’s industrial base, since fewer helicopters would be manufactured if the market became saturated. At the time of the audit, the Army was testing the feasibility of selling about 900 of its 1900 excess helicopters through DRMS.
Finding A. Disposition of Excess Helicopter Parts

The Army's Aviation and Troop Command (ATCOM) did not give the Defense Reutilization and Marketing Service (DRMS) correct instructions for disposing of excess flight-safety-critical helicopter parts. This occurred because management control procedures were not followed, and the ATCOM tracking system for aircraft components was not complete or accurate. As a result, 1,931 flight-safety-critical parts with an acquisition cost of $37.5 million were released to the public without safety inspections, and 4,371 salable parts with an acquisition cost of $153.1 million were incorrectly coded for demilitarization.

Policy for Releasing Parts

ATCOM controls the release of excess flight-safety-critical aircraft parts from Army depot stocks to DRMOs. ATCOM follows Army Regulation (AR) 725-50, "Requisitioning, Receipt, and Issue System," January 26, 1993. The regulation gives instructions for the disposition of excess equipment. It requires item managers to suspend the release or sale of potentially dangerous items until the condition of the items can be investigated.

Release of Flight-Safety-Critical Aircraft Parts

ATCOM did not provide correct instructions for disposing of flight-safety-critical helicopter parts with an acquisition cost of $190.6 million. These parts were released to DRMS from October 1993 through August 1995. ATCOM coded flight-safety-critical parts for demilitarization, which allowed some of the parts to be transferred outside DoD without safety inspections, and directed DRMS to destroy the remaining parts that were in salable condition.

Existing Control Procedures

ATCOM provided incorrect disposal instructions because it did not follow existing control procedures in AR 725-50. Instead of suspending the release of potentially dangerous flight-safety-critical aircraft parts until they could be checked and reclassified, ATCOM inappropriately and inconsistently assigned demilitarization code D to usable flight-safety-critical aircraft parts.
Finding A. Disposition of Excess Helicopter Parts

DoD Manual 4160.21-M-1, "Defense Demilitarization Manual," October 21, 1991, requires that items with demilitarization code D must be completely destroyed by DRMOs prior to sale, or a contractor must destroy the items prior to sale. However, DRMOs can transfer and donate items with demilitarization code D to selected military museums, Federal agencies, and law enforcement agencies.

As a result, 1,931 potentially dangerous flight-safety-critical aircraft parts with an acquisition cost of $37.5 million were released without safety inspections. Specifically, from October 1993 to August 1995, DRMS supplied at least $23 million of flight-safety-critical aircraft parts, engines, and subcomponents to law enforcement agencies through Regional Logistics Support Offices under the DoD reutilization program. Under the DoD transfer and donation program, DRMS also supplied at least $14.5 million of aircraft parts to other recipients authorized by the General Services Administration.

Additionally, the ATCOM use of code D required the DRMOs to destroy the remaining 4,371 flight-safety-critical aircraft parts with an acquisition value of $153.1 million that were not donated or transferred, although all of these parts were usable property with commercial value.

Challenging ATCOM Decision. When DRMOs receive property with inappropriate or questionable demilitarization codes, they should challenge the codes so that usable Government property will not be destroyed and items on the Munitions List will not be released to the public. As of August 1995, the DRMOs at Corpus Christi and San Antonio, Texas, were challenging destruction orders for $153.1 million of flight-safety-critical aircraft parts that had been declared excess. However, ATCOM was using an inadequate tracking system to respond to the DRMO challenges.

Component Tracking System

The ATCOM Component Tracking System (CTS) provided inaccurate and incomplete information on flight-safety-critical helicopter parts in response to the DRMO challenges.

ATCOM established the CTS to maintain data on helicopter and fixed-wing aircraft parts as required by Army Technical Bulletin 1-1500-341-01, "Aircraft Components Requiring Maintenance Management and Historical Data Reports," June 30, 1994. ATCOM developed the CTS as a control mechanism for flight-safety-critical parts. However, based on the accuracy and completeness of the data we reviewed, the system needs to be improved. CTS did not track all flight-safety-critical aircraft parts, and the demilitarization codes on items tracked by the system were inconsistently assigned, causing inaccurate information.

Incomplete Data. CTS contained incomplete information on flight-safety-critical aircraft parts. For example, as of March 1995, CTS maintained records
Finding A. Disposition of Excess Helicopter Parts

on only 199 of 481 UH-1 helicopter parts that were designated as flight-safety-critical aircraft parts. CTS did not track the remaining 282 parts, and automatically generated destruction orders on any items that were not tracked by the system.

Our review of seven T-53 helicopter engines processed through CTS at the request of DRMO-Corpus Christi on August 25, 1995, showed that ATCOM gave instructions to destroy one of the engines and sell the remaining six. A condition of the sale was that the buyer must destroy the flight-safety-critical aircraft subcomponents in the engines not tracked by CTS. However, CTS could not identify the specific subcomponents.

According to Army Technical Bulletin 1-1500-341-01, T-53 engines have 68 flight-safety-critical subcomponents that should be tracked by 20 work-unit codes. However, CTS had not been designed to generate destruction orders by subcomponent, and substantive research was needed to determine whether the subcomponents of each engine should be destroyed or sold. CTS had limited data; it tracked only 16 flight-safety-critical aircraft subcomponents on the 7 engines.

Inconsistent Use of Demilitarization Code D. CTS did not assign demilitarization code D to all flight-safety-critical aircraft parts that required tracking. For example, as of July 1995, code D was assigned to 92 of 113 UH-1 flight-safety-critical parts managed by ATCOM. Because ATCOM inconsistently assigned demilitarization codes to flight-safety-critical aircraft parts, the control mechanism was ineffective.

CTS requires substantial improvement. CTS does not contain complete and accurate data and should be modified to generate complete disposition instructions for flight-safety-critical parts by work-unit code.

Interim Actions Taken

DLA has overall responsibility for policy on demilitarization codes. During our audit, DLA and ATCOM agreed that demilitarization code F should be assigned to flight-safety-critical aircraft parts as a temporary measure until a DoD-wide code is implemented in the supply system. Demilitarization code F does not require total destruction of parts at the time of disposal. When this code is assigned, item managers provide instructions to users at the time of disposal.

However, ATCOM did not take timely action to ensure that demilitarization code F was assigned to all flight-safety-critical aircraft parts. In August 1995, we queried the supply system for demilitarization codes on 90 National Stock Numbers, managed by ATCOM for the OH-58 helicopter system, which were included in the CTS. Only 66 of 90 items had been assigned demilitarization code F. We also queried the supply system for 1,621 National Stock Numbers
Finding A. Disposition of Excess Helicopter Parts

managed by ATCOM; DRMS provided us with these National Stock Numbers from its database of flight-safety-critical aircraft parts. Only 836 of the 1,621 items had been assigned demilitarization code F.

On September 1, 1995, DLA issued instructions for depot personnel to use demilitarization code F for the release of flight-safety-critical parts to DRMOs. In December 1995, as a result of the audit, ATCOM issued similar disposal instructions to its field activities for flight-safety-critical parts. ATCOM changed demilitarization codes on 849 active helicopter parts, 820 inactive parts, and 1,006 obsolete parts. ATCOM also identified 366 active parts and 333 inactive parts managed by DLA; DLA should assign demilitarization code F to these items.

Recent DoD Actions on Reutilizations and Transfers

Because of concerns about safety and the impact of excess Army helicopter parts on the commercial market, the Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management), Office of the Deputy Under Secretary of Defense (Logistics), issued two memorandums concerning helicopters and helicopter parts during our audit. On July 25, 1995, the Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management) asked DLA to prohibit law enforcement agencies that receive DoD helicopters and related parts and components from subsequently releasing unneeded materiel to the public through exchange, barter, or sale.

Also on July 25, 1995, the Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management), in a memorandum to the Assistant Commissioner, Office of Transportation and Property Management, General Services Administration, recommended that the General Services Administration prohibit Federal, State, and local Government organizations from exchanging, bartering, or selling excess or surplus helicopters and related parts that formerly belonged to DoD.

Summary

As noted above, the ATCOM corrected some deficiencies we identified; those deficiencies had allowed helicopter components to be released without inspection, or to be destroyed although they were salable, pending safety inspections. However, weaknesses in control mechanisms still exist, and helicopter components could be destroyed unnecessarily or released without adequate proof of their safety. Specifically, the Army did not maintain complete instructions in the CTS for managing the disposition of excess components, and did not provide information on the history and use of previously released components to help determine whether these components were safe for continued use or sale.
Finding A. Disposition of Excess Helicopter Parts

Recommendations for Corrective Action

A. We recommend that the Commander, Aviation and Troop Command:

1. Modify the Component Tracking System to provide complete instructions on flight-safety-critical helicopter parts by work-unit code.

2. Coordinate with the Defense Reutilization and Marketing Service and Regional Logistics Support Offices to:

   a. provide retroactive instructions for the disposal of previously reused, transferred, donated, or exchanged flight-safety-critical parts; and

   b. complete substantive research on the history of the flight-safety-critical parts already on hand at Defense Reutilization and Marketing Offices and National Inventory Control Points before releasing these parts.

Management Comments Required

The Commander, Aviation and Troop Command, did not comment on a draft of the report. Therefore, we request that the Commander, Aviation and Troop Command, provide comments on the final report.
Finding B. Controls Over Helicopter Exchanges

ATCOM transferred 170* helicopters to the Center for Military History (CMH) for exchange purposes, although the helicopters were not historic property. The CMH exchanged 86 of the helicopters for historic property or contractor services. The property that was exchanged was not properly valued, and the exchanges were not reported to the Internal Revenue Service (IRS) as required. We attributed these conditions to inadequate management controls. The CMH actions did not comply with DoD policies on exchanges and the valuation requirements of title 10, United States Code, section 2572 (10 U.S.C. 2572). The exchanges also increased the risk that dangerous flight-safety-critical helicopters and parts could be released outside DoD without proper inspection.

Policies for Exchanging Historic Helicopters

On May 23, 1988, the Deputy Assistant Secretary of Defense (Logistics) delegated the responsibility for implementing controls over exchanges of items, including aircraft, to the Military Departments. The Military Departments were instructed to comply immediately with 41 Code of Federal Regulations (C.F.R.) 101-46.203, "Special Authorizations," which allows exchanges for Federal museums as long as the exchanged property is historic and the exchange is in the Government's best interest.

Paragraph (b), 41 C.F.R. 101-46.203, states:

In acquiring items for historical preservation or display at Federal Museums, Executive agencies may exchange historic items in the museum property account without regard to the Federal supply classification group or the requirement in Section 101-46.202 to replace items on a one-for-one basis, provided the exchange transaction is documented and certified by the agency head to be in the best interest of the Government and all other provisions of this part are met. The documentation must contain a determination that the item exchanged and the item acquired are historic items as defined in Section 101-46.001-3. Historic items so exchanged shall be reflected separately on the annual report required by Section 101-46.305.

Requirements for the utilization and disposal of Government personal property pursuant to exchange and sale authority are set out in 41 C.F.R. 101-46.001 through 101-46.004. Historic items are defined as follows:

*The 170 helicopters did not include Cobra helicopters that the Army CMH received and exchanged. The Cobra exchanges were not audited because they were the subject of a separate investigation by law enforcement agencies.
Finding B. Controls Over Helicopter Exchanges

...property having added value for display purposes because of its historical significance that is greater than the fair market value of the item for continued use. Items that are commonly available and remain in use for their intended purpose, such as military aircraft still in use by active or reserve units, are not historic items.

The DoD policy instructing the Military Departments to follow C.F.R. 101-46.203 was not rescinded, and the Military Departments did not request waivers from the policy.

DoD Manual 4160.21-M, "Defense Reutilization and Marketing Manual," March 1990, allows the Military Departments to transfer complete aircraft to other DoD activities to meet valid requirements. ATCOM used this authority to transfer helicopters to the CMH as complete aircraft.

In a November 5, 1992, memorandum, the Deputy Director, Materiel and Resource Policy, Office of the Assistant Secretary of Defense (Production and Logistics), revised the provisions of DoD Manual 4160.21-M for transfers to DoD and Service museums. The memorandum, "Transfers to DoD and Military Services Museums," directed immediate implementation of the revisions. The DLA was directed to incorporate the revisions in the next change to DoD Manual 4160.21-M.

The 1992 revisions included new definitions and provided procedures for DoD and Service museums to use in obtaining and exchanging DoD property. The revisions defined "historical artifact" and "exchange," with exchanges limited to replacing an historical artifact or property with another historical artifact by trade, or exchanging an item of historical property or goods for services based on the fair market value of the artifact. Revised requisitioning procedures required museums to identify items of historical interest that were to be used in exchanges or trades with organizations or persons outside the DoD. Further, unless specific approvals were obtained, all transactions involving items drawn from the DRMOS expressly for the purpose of exchange must be completed within 12 months; and, with the exception of historical artifacts, stockpiling of property obtained from DRMOS sources for future exchanges was prohibited. Other requirements addressed recordkeeping, reporting, and accountability. The revisions cited the legal authority as 10 U.S.C. 2572 or 40 U.S.C. 481(c).

In a memorandum, "Surplus Helicopters," July 25, 1995, the Assistant Deputy Under Secretary of Defense (Distribution Management) (the Assistant Deputy Under Secretary) addressed concerns of the Federal Aviation Administration and segments of the helicopter industry about DoD plans to dispose of about 3,000 helicopters during the next 5 years and the effect of the disposal, including liability to the Army and the impact on the helicopter market. He requested that the Services immediately amend their regulations to prohibit their museums from providing surplus helicopters and related parts and components to private individuals or organizations. He also asked DLA to revise its regulations to prohibit such transactions by law enforcement organizations that receive surplus helicopters. He stated, "The regulations should require these items to be returned to a Defense Reutilization and Marketing Office for further disposal." He asked for copies of revised regulations within 60 days.
Finding B. Controls Over Helicopter Exchanges

On July 25, 1995, the Assistant Deputy Under Secretary also sent a letter to the Assistant Commissioner, General Services Administration, Office of Transportation and Property Management, Federal Supply Service, addressing the safety, liability, and market impact concerns of the FAA and the civil sector. He said that DoD considered the concerns to be of sufficient importance that "we are taking steps to prohibit future exchange, barter, or sales by law enforcement agencies who receive helicopters directly from DoD for counter-drug activities. We are also placing a similar prohibition on military museums." To prevent similar occurrences outside of DoD, he recommended that GSA implement a prohibition on Federal, state, and local Government organizations that had excess or surplus helicopters formerly belonging to DoD.

In a December 4, 1995, memorandum, the Assistant Deputy Under Secretary expanded the prohibition on exchanges to fixed-wing aircraft and related parts.

Legal Authorities


books, manuscripts, works of art, historic artifacts, drawings, plans, models, and condemned or obsolete combat material that are not needed by the Armed Forces for any of the following items or services if such items or services directly benefit the historical collection of the armed forces: (A) similar items held by any individual, organization, institution, agency, or nation; (B) conservation supplies, equipment, facilities or systems; (C) search, salvage, or transportation services; (D) restoration, conservation or preservation services; or (E) educational programs.

The 1996 amendments did not change the kinds of items that could be exchanged under the statute, but substituted the italicized language above for language providing that the items or services obtainable by exchange were "similar items held by an individual, organization, institution, agency, or nation or for search, salvage, transportation, and restoration services which directly benefit the historical collection of the armed forces."

The amendments did not change the long-standing statutory requirement that prohibits exchanges unless the monetary value of the property transferred, or services provided, to the United States is not less than the value of the property transferred by the United States. A waiver of this limitation is allowed, but only when the Secretary concerned determines that the item to be received by the United States in the exchange will significantly enhance the historic collection of the property administered by the Secretary.

Accountability Over Materiel. Accountability over the disposition of historic property is prescribed by AR 870-5, "Military History: Responsibilities,
Finding B. Controls Over Helicopter Exchanges

Policies and Procedures," July 12, 1993, and AR 870-20, "Museums and Historic Artifacts," January 9, 1987. AR 870-5 specifically prohibits the reuse of historic artifacts for their original purposes. AR 870-20 requires the CMH to dispose of excess historic artifacts in accordance with DoD Manual 4160.21-M. Neither regulation provides procedures for the transfer or exchange of condemned or obsolete combat material that is not otherwise historic property.

CMH controls the disposition of the Army’s historic property. AR 870-5 designates the Commander/Chief of Military History as the principal advisor to the Secretary of the Army and the Chief of Staff of the Army for historical matters. The proponent of AR 870-5 is the Director of the Army Staff.

Transfer and Exchange of Helicopters

From January 1991 to June 1995, ATCOM transferred 170 helicopters to CMH to be used for exchange purposes. The helicopters were not historic property as defined by 41 C.F.R. 101-46.0001-4 or DoD Manual 4160-21-M. These helicopters were 116 UH-1 Iroquois (Hueys) and 54 CH-54s (Skycranes). CMH personnel told us the helicopters had been designated as historical artifacts in accordance with AR 870-20.

The 170 helicopters were commercially salable items that the Army considered excess. Specifically, the helicopters did not have added value for display purposes because of their historic significance, and the added value was not greater than the fair market value would be if the item were in continued use. Also, the helicopters were commonly available military aircraft that remained in use for their intended purpose, and therefore were not obsolete or historic items. AR 870-5 specifically prohibits the reuse of historic artifacts for their original purposes.

Between January 1991 and June 1995, CMH incorrectly exchanged 86 of the helicopters for historic property or contractor services. The helicopters were exchanged without being properly valued, and exchanges with individuals were not reported to the IRS as required.

Exchange for Historic Artifacts. CMH exchanged 80 helicopters for historic artifacts. For example, on June 6, 1994, CMH exchanged two helicopters for a historic landing craft. Similar historic artifacts, including tanks, aircraft, and vehicles from World War II, were acquired in exchange for 78 other helicopters.

Exchange for Services. CMH exchanged six UH-1 helicopters for services. CMH made an exchange-for-services agreement with a private corporation for FYs 1995 through 1999. The agreement provided for exchanging 6 of the 86 helicopters for storage fees, transportation costs, and administrative costs of storing the remaining 80 helicopters.
Finding B. Controls Over Helicopter Exchanges

As of June 1995, CMH records showed that the contractor had furnished $390,000 in services in exchange for the six helicopters. When the helicopters were exchanged for services, the agreement did not restrict the contractor’s use or reuse of the helicopters or parts. CMH did not ensure that flight-safety-critical helicopter parts would receive the safety inspections required by Army and DoD regulations.

Valuation of Helicopters. CMH also did not ensure that property or services received by the Army were more valuable than the property transferred out of CMH, as required by 10 U.S.C. 2572. Specifically, CMH did not inspect the helicopters when it received them, or properly appraise the helicopters’ value before exchanging them. Instead, CMH assigned arbitrary values to the helicopters.

Arbitrary Values Assigned. Instead of inspecting the condition and configuration of the helicopters, CMH assigned arbitrary values to helicopters based on the prices of similar aircraft as quoted in trade publications. ATCOM personnel said that the value of a helicopter should be estimated only after an analysis of the helicopter’s condition and configuration, based on prior maintenance and historical data.

For example, CMH traded two CH-54 helicopters and miscellaneous parts, valued by CMH at $535,000, for the historic landing craft. The CH-54 helicopters were mission-ready (fully operational) when ATCOM transferred them to CMH. We found nothing to indicate that the CH-54 helicopters were less than fully operational when CMH exchanged them.

CMH valuation records showed that similar commercial versions of the CH-54 helicopters had cost approximately $13 million in 1992; we estimated that the total value of the helicopters was at least $1,080,000 ($540,000 each). At the time of the exchange, CMH records indicated that the CH-54s needed to be rebuilt. Accordingly, we based our estimate on 35 percent of the standard price assigned to the CH-54s in 1992. This percentage is a minimum valuation of unserviceable aircraft, as prescribed by DoD disposal regulations. However, in November 1992, CMH arbitrarily valued all CH-54 helicopters at $250,000 each, regardless of condition. The $250,000 valuation was not reasonable.

In addition, CMH placed a unit value of $65,000 on the UH-1 helicopters covered by the exchange-for-services agreement. According to ATCOM, the UH-1s were transferred as complete aircraft in unflyable condition because the engines needed repairs for flight-safety reasons. In August 1995, DRMS sold a UH-1 helicopter in unflyable condition for $133,000. Based on that sale, CMH’s assignment of $65,000 as a unit value for unflyable UH-1 helicopters was not reasonable.

Since 1991, CMH has exchanged commercially salable helicopters with a value we estimated at between $13.5 million and $28.9 million. These amounts were based on unit values of $65,000 to $133,000 for 43 UH-1 helicopters exchanged, and $250,000 to $540,000 for 43 CH-54 helicopters exchanged. We did not analyze all property received in the exchanges because the
Finding B. Controls Over Helicopter Exchanges

transaction records were not in auditable condition. CMH should provide for adequate documentation of exchange transactions.

Reporting to the IRS. CMH did not report the helicopter exchange transactions to the IRS, as required by IRS Temporary Regulation 5f.6045-1, July 17, 1984.

IRS Requirements. The IRS treats exchanges as sales, and requires agencies to use IRS Form 1099-B, "Proceeds From Broker and Barter Exchange Transactions," to identify income from barter exchanges. Government agencies that complete barter exchanges must file IRS Form 1099-B for transactions with individuals and other nonexempt recipients.

IRS Temporary Regulation 5f.6045-1 allows exemptions to the reporting requirements for certain corporations and organizations. However, CMH did not report the exchange transactions, and had not established whether the recipients of exchanged property were exempt from the reporting requirements. CMH data showed that exchanges were made with 28 private individuals. CMH personnel could produce no evidence that IRS Forms 1099-B were filed for any of the exchange transactions, or that exemptions were claimed.

Actions Taken and Additional Actions Required

During the audit, the Deputy Chief of Staff of the Army (Logistics) stopped all transfers of helicopters to CMH. However, he did not take further action to comply with the policy direction issued by the Assistant Deputy Under Secretary on July 25, 1995. He did not prohibit the CMH exchange of helicopters and helicopter parts previously transferred to CMH by ATCOM; he did not require that those helicopters be disposed of through DRM0; and he did not issue implementing regulations to ensure compliance with the Assistant Deputy Under Secretary's request. Because he did not require that the remaining 84 commercially salable helicopters be disposed of in accordance with AR 870-20 and DoD Manual 4160.21-M, those helicopters, which are being stored by a private contractor, are still recorded on CMH records and are considered exchangeable.

The Office of the Deputy Chief of Staff of the Army (Logistics) stated that it is revising its plan for retiring aircraft, and that the revision will prohibit inappropriate exchanges of helicopters and related parts. However, the Director of the Army Staff has not ensured that the provisions of 10 U.S.C. 2572 are followed.

Similarly, the DLA and the other Military Departments have not issued regulations to comply with the Assistant Deputy Under Secretary's memorandum of July 25, 1995.

The Commander/Chief of Military History needs to dispose of the 84 helicopters in accordance with DoD disposal policies. We estimated that the
commercial value of the 84 helicopters is between $5.5 million and $11.2 million, based on the unit value of $65,000 assigned by CMH and the recent sale of a UH-1 helicopter by DRMS for $133,000. To develop a more precise estimate, the 84 helicopters would have to be appraised and may have to be inspected. We calculate that the Army could realize between $4.4 million and $9 million by allowing DRMS to sell the 84 helicopters; this calculation is based on an 80-percent reimbursement of the value assigned to the helicopters by CMH and the recent DRMS sale.

Summary

During the audit, DoD and the Army took action to stop helicopters from being transferred to CMH for exchange purposes. However, additional actions were needed to prevent the exchange of helicopters already transferred to CMH, to evaluate aircraft that have been released by CMH and determine whether they contain dangerous parts, and to implement 10 U.S.C. 2572 and DoD policy.

Recommendations for Corrective Action

Added and Redirected Recommendations. The Director of the Army Staff did not comment on a draft of the report. Based on discussions with Deputy Under Secretary of Defense (Logistics) and Army personnel, we added a recommendation to the Deputy Under Secretary of Defense (Logistics) and redirected Recommendation B.2. from the Director of the Army Staff to the Army Chief of Staff.

B.1. We recommend that the Deputy Under Secretary of Defense (Logistics) require the Defense Logistics Agency and the Services to identify and provide the current status of any efforts they have made to comply with the July 25, 1995, policy memorandum issued by the Assistant Deputy Under Secretary (Materiel and Resource Management).

B.2. We recommend that the Army Chief of Staff:

a. Take control of the disposition of the 84 helicopters that were transferred to the Center for Military History and ensure that all disposal actions fully comply with law, with DoD policy and directives, and with Defense Logistics Agency and Army regulations. He should direct Army officials to determine whether any Army component needs the helicopters; if Army components do not need the helicopters, he should direct Army officials to coordinate with the Defense Reutilization and Marketing Office to determine whether any Armed Forces component needs the helicopters before taking any action with regard to any helicopter.
Finding B. Controls Over Helicopter Exchanges

b. Identify the end users of the 86 helicopters that were exchanged for historic artifacts and services by the Center for Military History. Determine whether applicable flight-safety bulletins have been provided to the end users, and whether any dangerous parts need to be recalled for destruction.

c. Ensure the prompt issuance of Army regulations for Center for Military History exchanges that comply with title 10, United States Code, section 2572, and DoD policy, particularly addressing the exchange and valuation of excess or surplus helicopters and aircraft.

d. Implement policies, procedures, and controls consistent with law and DoD policy that:

1. Prohibit the exchange of property that has not been properly valued;

2. Require documentation of the valuation process of items for all exchange transactions; and

3. Report exchanges to the Internal Revenue Service, as required by Federal tax regulations.

Management Comments Required

We request that the Deputy Under Secretary of Defense (Logistics) and Army Chief of Staff provide comments on the final report.
Finding C. Reimbursement for Sales of Helicopters and Related Parts

The DRMS did not reimburse the Army for the sales of excess helicopters and related parts. This occurred because the Army did not file a claim through the Under Secretary of Defense (Comptroller) for reimbursement from the sale of excess Defense Business Operations Fund (DBOF) property. As a result, the Army’s DBOF account will not receive approximately $60 million from the sale of helicopters and $10 million from the sale of on-hand helicopter engines. Redirecting these funds would give the Army the incentive to maximize proceeds on the sale of excess helicopters and related parts.

DoD Reimbursement Policies

Reimbursement of Sales Proceeds. DoD Instruction 7310.1, "Disposition of Proceeds from DoD Sales of Surplus Property," revised July 26, 1993, requires that proceeds from the sales of excess DBOF property, including supply items, be deposited into the applicable DoD Component's business area account.

The regulation provides for DRMS to be reimbursed 20 percent for sales of surplus property (to cover processing costs) and for the DBOF business area (ATCOM, in this case) to be reimbursed 80 percent.

ATCOM and DRMS are both DBOF activities, and are entitled to retain a portion of the proceeds from the sale of excess property that ATCOM turns in to DRMS.

Reimbursement for Sales of Supply Management Property

In order to obtain reimbursement when DRMS sells excess materiel, a qualified recipient must file a claim for reimbursement on its turn-in document, designating the account to be reimbursed. ATCOM was not filing claims for reimbursement for the sale of excess DBOF property.

Army financial managers stated that ATCOM was not filing claims for reimbursement for the sale of helicopter parts because the Army had overlooked the opportunity. They said that the responsibility for most accounting policies was transferred to the Defense Finance and Accounting Service when DBOF was implemented. In addition, the Under Secretary of Defense (Comptroller) was given centralized cash management responsibilities. Army financial
Finding C. Reimbursement for Sales of Helicopters and Related Parts

Managers said that these factors caused them to overlook the provisions of DoD Instruction 7310.1. Cash management responsibilities were returned to the Military Departments in January 1995.

The Army financial managers did not believe they were entitled to reimbursement for the sale of the helicopters because the helicopters were paid for with procurement appropriations.

Reimbursable Amounts

Proceeds From Sales of Helicopters and Engines. We estimated that proceeds from the sale of the helicopters could generate about $75 million for DoD, based on the sale of 500 helicopters valued at $150,000 each. ATCOM would be entitled to 80 percent ($60 million) under existing policy. We estimated that reimbursements to ATCOM for the sale of the engines could be approximately $10 million, based on an 80-percent reimbursement for the sale of 900 helicopter engines valued at $15,000 each. Our estimates were computed as follows:

Sale of Helicopters. Based on current projections, ATCOM will retire 731 UH-1 helicopters during FYs 1996 and 1997. The UH-1 program manager projects that ATCOM will need to sell or store over 500 flyable UH-1s during FY 1996.

A test sale of a UH-1 helicopter by the DRMS generated proceeds of $133,000. According to Army maintenance personnel, the helicopter was in relatively good condition except for the engine, which had potentially dangerous flight-safety-critical parts and required modifications to make it flyable.

We believe that sales proceeds will be greater on the 500 UH-1s scheduled to be sold in the future, because these helicopters will be transferred to DRMS with operational engines that do not require modification. We estimated that each helicopter would bring a sale price of at least $150,000.

We estimated that proceeds from the helicopters could total $75 million, based on the sale of 500 helicopters valued at $150,000 each. ATCOM will be entitled to 80 percent ($60 million) under existing policy, and DRMS would receive $15 million.

DRMS will incur storage and processing costs for these helicopters. We were informed that storage costs should be no more than $7,000 per helicopter. We could not estimate the other processing costs because DRMS does not have a reliable system for tracking costs. However, we believe that the $15 million reimbursement that DRMS will receive should more than cover any additional processing costs.

Sale of Engines. DRMS is determining the disposition of about 900 helicopter engines on hand at DRMO-Corpus Christi and DRMO-San Antonio.
Finding C. Reimbursement for Sales of Helicopters and Related Parts

The engines have an acquisition value of over $120 million. The sales value is directly related to the quality of historical maintenance data available on related assemblies and components. For example, the DRMS International Sales Office indicated that documentation affected the proceeds received on previous sales of helicopter engines. Data from the International Sales Office showed that prior returns from the sale of T-53 engines ranged from $1,800 to $16,600 each. The International Sales Office believes that proceeds can be tripled on helicopter engines if adequate documentation is provided to the seller.

Conclusion

As a result of our audit, on October 2, 1995, the Acting Assistant Secretary of the Army (Financial Management and Comptroller) requested approval from the Under Secretary of Defense (Comptroller) to claim 80-percent reimbursement for the sale of excess helicopters and related parts. Reimbursement would give the Army incentive to complete substantive research that would maximize sales proceeds. Accordingly, we believe that the Under Secretary of Defense (Comptroller) should approve the Army's request.

Recommendations, Management Comments, and Audit Response

C. We recommend that the Under Secretary of Defense (Comptroller) approve the request from the Assistant Secretary of the Army (Financial Management and Comptroller) for 80-percent reimbursement for the sale of excess helicopters and related parts.

Management Comments. The Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller), nonconcurred, stating that the General Counsel of the Department of Defense (Fiscal) had determined that the Army could not be reimbursed for the sale of Army helicopters and related parts because the helicopters and parts were not DBOF property. He stated that his office would clarify existing guidance in DoD Instruction 7310.1, "Disposition of Proceeds from DoD Sales of Surplus Property," and reissue DoD 7000.14-R, the "DoD Financial Management Regulation," volume 12, "Special Accounts, Funds, and Programs."

Audit Response. The comments of the Under Secretary of Defense (Comptroller) were not responsive to our recommendation. The legal opinion cited by the Under Secretary of Defense (Comptroller) stated that in the absence of specific statutory authority to the contrary, the gross proceeds from the disposition of personal property under the Federal Property and Administrative Act of 1949 are to be deposited in the U.S. Treasury as miscellaneous receipts.
Finding C. Reimbursement for Sales of Helicopters and Related Parts

The cited opinion states that the only circumstances under which DRMS may place the 20-percent bid deposit (which offsets the expenses of disposal) into the DRMS DBOF account (47X4930.5N) is in the case of revolving fund or nonappropriated fund property, or where there is other statutory authority for DRMS to be reimbursed for the costs of disposal out of the proceeds. However, at the time of the audit, DRMS was depositing 100 percent of the gross proceeds from the sale of the helicopters and helicopter parts in account 47X4930.5N.

Statutory authority exists for the credit of proceeds from the sale of the helicopters and their related parts to an Army appropriation. Title 10, United States Code, section 2210, states that current applicable appropriations of DoD may be credited with proceeds from the disposal of supplies that are not financed by stock fund established under title 10, United States Code, section 2208. In addition, net proceeds from the sale of the helicopter parts are reimbursable under DoD Instruction 7310.1.

Applying those criteria, we still recommend that the Army be reimbursed the proceeds from the sale of helicopters and their associated parts. We request that the Under Secretary of Defense (Comptroller) reconsider his position and provide additional comments on the final report. The comments should include completion dates of planned actions.
Part II - Additional Information
Appendix A. Scope and Methodology

Scope

Army Controls. We reviewed the adequacy of Army controls over the release of flight-safety-critical aircraft parts to qualified recipients through the DoD disposal system. ATCOM data for the period October 1, 1993, through August 1, 1995, showed that 357 helicopters were reutilized through the DoD Regional Logistics Support Offices, 192 were transferred to qualified recipients by the General Services Administration, and 208 were either donated or transferred for historical purposes.

During the same period, ATCOM released about $1.8 billion in supply management materiel to DRMOs. Of the 20,328 items managed by ATCOM, 3,753 items were classified as flight-safety-critical aircraft parts. We did not determine the amount of flight-safety-critical aircraft parts released by ATCOM, because the universe of disposal actions for flight-safety-critical aircraft parts was not readily identifiable. We limited our review to controls over $23 million of reutilizations, $14.5 million of transfers, and $153.1 million of flight-safety-critical aircraft parts on hand at DRMO-Corpus Christi and DRMO-San Antonio. We also reviewed ATCOM controls over the identification and mutilation of potentially dangerous flight-safety-critical aircraft parts. Specifically, we tested the adequacy of the ATCOM CTS, which was used to control destruction orders on flight-safety-critical aircraft parts. As of March 3, 1995, CTS tracked 2,843 parts.

Use of Computer-Processed Data. DRMS could not provide us with an accurate listing of reutilizations, transfers, and donations of flight-safety-critical aircraft parts. We reconstructed limited data from Federal Supply Class 2840 (materiel related to aircraft engines). Our data showed that since January 1994, DRMS had processed at least $23 million in reutilizations of flight-safety-critical aircraft parts in Federal Supply Class 2840 to DoD Regional Logistics Support Offices for transfers to law enforcement agencies. We also reconstructed data on transfers of at least $14.5 million of flight-safety-critical aircraft parts from Federal Supply Class 2840. These transfers to qualified recipients had occurred since January 1994 and were authorized by the General Services Administration. Federal Supply Class 2840 was 1 of 40 Federal Supply Classes that contained flight-safety-critical aircraft parts. We could not determine how many transactions DRMS had processed for flight-safety-critical aircraft parts from October 1, 1993, through August 1995. This was because
Appendix A. Scope and Methodology

DoD did not have a mechanism for identifying flight-safety-critical aircraft parts, and because the DRMS database we used to identify flight-safety-critical aircraft parts transactions was incomplete.

CMH Records. Because CMH did not have an automated system for maintaining records on exchange transactions, we based our review of CMH exchange transactions on records maintained on personal computers at CMH. We performed limited tests on the accuracy of the data by tracing helicopter serial numbers to data maintained by ATCOM. From January 1, 1991, through June 14, 1995, ATCOM transferred 170 commercially-salable helicopters to CMH.

Methodology

Testing Methodology. We did not use statistical sampling methodology during this audit. Instead, we relied on judgmental samples processed through DRMO-Corpus Christi and DRMO-San Antonio to test ATCOM controls over the disposition of excess helicopters and flight-safety-critical aircraft parts. As of July 13, 1995, flight-safety-critical aircraft parts valued at $153.1 million were still on hand at the two DRMOs.

Audit Period, Standard, and Locations. We performed this economy and efficiency audit from April through September 1995 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. See Appendix D for a list of the organizations we visited or contacted.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of Management Control Program. We reviewed the ATCOM reporting of control weaknesses under its management control program. ATCOM did not specifically report a material management control weakness related to the inadequacies of its methods for disposing of flight-safety-critical parts. The ATCOM assessable units were broad and did not address the particular weakness we identified. Recommendations A.1. and A.2., if implemented, will assist in correcting the weaknesses. We also reviewed CMH reporting under the management control program. CMH did not report a material management control weakness in its adherence to policies governing the exchange of historic artifacts. Recommendations B.1., B.2., and B.3., if implemented, will assist in correcting the weaknesses.
Appendix B. Summary of Prior Audits and Other Reports

General Accounting Office Report. General Accounting Office Report No. NSIAD-94-189 (OSD Case No. 9733), "Opportunities Exist to Enhance DoD's Sales of Surplus Aircraft Parts," September 1994, stated that DoD proceeds from the sale of commercially-salable surplus aircraft parts averaged less than 1 percent of the price DoD paid for the parts. The report stated that DoD did not mutilate or destroy many flight-safety-critical parts that were sold as scrap, and did not require buyers to warrant or certify that all scrap parts purchased would be used only as scrap. The report recommended that the Secretary of Defense provide greater financial incentives to enhance the proceeds from sales of usable aircraft parts, and direct DLA and the Military Departments to identify commercially-salable aircraft parts and maintain documentation that would be adequate for certification by the FAA.

The report also recommended that DLA secure from buyers a warranty that DoD parts sold as scrap will be used only as scrap and will not be resold as usable. DLA should also assess the cost-effectiveness of mutilating scrap parts in-house, especially the parts most likely to be reused in the commercial aviation market. Management concurred with the recommendations. After the report was issued, the Army played a major role in establishing DoD policy on the control of flight-safety-critical parts. ATCOM cochaired a Process Action Team on flight safety that was formed to address recommendations in the report.

DoD and the FAA are implementing recommendations made in the report. On May 8, 1995, DoD and the FAA released a report entitled "Flight-Safety-Critical Aircraft Parts Process Action Team," addressing specific actions that will be taken to correct reported deficiencies. DoD stated that it will identify all flight-safety-critical aircraft parts during the provisioning process and will ensure that flight-safety-critical aircraft parts are properly disposed of.

Inspector General, DoD, Report. Inspector General, DoD, Report No. 95-025, "Distribution of Proceeds From the Sale of Reimbursable Scrap Property," was issued on November 8, 1994. The objective of the audit was to determine whether the distribution of proceeds to qualified recipients from the sale of reimbursable scrap materiel was controlled in accordance with public law and DoD guidance. The report stated that the DRMS did not adequately control the distribution of proceeds from the sale of scrap materiel that qualified for reimbursement, and expenses related to the sale and processing of the scrap materiel were not recovered before distribution of the proceeds to qualified DoD recipients. As a result, recycling programs at installations were receiving proceeds that should have been distributed to DBOF activities to reduce operating expenses. Additionally, $8.5 million of FY 1993 expenses incurred for processing reimbursable scrap was not recovered before the distribution of proceeds. The report recommended that the DRMS stop distributing to installation recycling programs the proceeds from the sale of scrap turned in by DBOF activities, recover the operating expenses incurred in processing
reimbursable scrap, and require that audit trails be created for reimbursements. Management generally concurred with the recommendations. However, the Under Secretary of Defense (Comptroller) has not implemented a method of recovering operating expenses.
Appendix C. Summary of Potential Benefits Resulting From Audit

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<th>Recommendation Reference</th>
<th>Description of Benefit</th>
<th>Amount and/or Type of Benefit</th>
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<tr>
<td>A.1.a., A.1.b.</td>
<td>Management controls. Implement controls over the Army exchange program. Require flight-safety-critical materiel and exchange property to be properly controlled.</td>
<td>Nonmonetary</td>
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<td>B.1., B.2., B.3., C.</td>
<td>Economy and efficiency. Increase sales proceeds for excess Army materiel and reimburse the proceeds to the Army’s Supply Management business area.</td>
<td>Funds put to better use.</td>
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Appendix D. Organizations Visited or Contacted

Office of the Secretary of Defense
Office of the Under Secretary of Defense (Comptroller), Arlington, VA
Office of the Deputy Under Secretary of Defense (Logistics), Arlington, VA

Department of the Army
Deputy Chief of Staff for Logistics, Arlington, VA
Center for Military History, Washington, DC
Aviation and Troop Support Command, St. Louis, MO
Corpus Christi Army Depot, Corpus Christi, TX

Defense Organizations
Defense Logistics Agency
Defense Reutilization and Marketing Service, Battle Creek, MI
International Sales Office, Defense Reutilization and Marketing Service, Memphis, TN
Defense Reutilization and Marketing Office-Corpus Christi, Corpus Christi, TX
Defense Reutilization and Marketing Office-San Antonio, Kelly Air Force Base, TX
Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Acquisition and Technology)
  Deputy Under Secretary of Defense (Logistics)
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Director of the Army Staff
Chief, Center for Military History
Commander, Aviation and Troop Support Command
Auditor General, Department of the Army

Department of the Navy

Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
  Commander, Defense Reutilization and Marketing Service
Inspector General, Central Imagery Office
Inspector General, Defense Intelligence Agency
Director, National Security Agency
Non-Defense Federal Organizations

Office of Management and Budget
General Accounting Office
  National Security and International Affairs Division, Technical Information Center
  National Security and International Affairs Division, Defense and National Aeronautics and Space Administration Management Issues
  National Security and International Affairs Division, Military Operations and Capabilities Issues
Inspector General, Department of Transportation
Inspector General, General Services Administration

Chairman and Ranking Minority Member of each of the following Congressional Committees and Subcommittees:

  Senate Committee on Appropriations
  Senate Subcommittee on Defense, Committee on Appropriations
  Senate Committee on Armed Services
  Senate Committee on Governmental Affairs
  House Committee on Appropriations
  House Subcommittee on National Security, Committee on Appropriations
  House Committee on Government Reform and Oversight
  House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
  House Committee on National Security
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Part III - Management Comments
MEMORANDUM FOR ACTING DIRECTOR, FINANCE AND ACCOUNTING
DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on Disposition of Excess Army Helicopters and Flight-Safety-Critical
Helicopter Parts (Project No. 393-502)

Your office provided the subject draft report for review and comment, and requested our
comments in preparing the final report.

This office generally agrees with the draft audit report. However, we do not agree with
the recommended action associated with finding C. Our comments regarding finding C are as
follows:

Recommendation C: We recommend that the Under Secretary of Defense (Comptroller)
approve the request from the Assistant Secretary of the Army (Financial Management and
Comptroller) for 80 percent reimbursement for the sale of excess helicopters and related parts.

Management Comments. Nonconcur. The ODGCF] has advised that, since the Army
helicopters were not DSOF property—property either acquired with DSOF funds or otherwise
capitalized into the DSOF—there is no statutory authority for the Army to retain a portion of the
proceeds from the sale of the helicopters and its related parts. In this regard, this office is
working to clarify the policy guidance previously issued in DoD Instruction 7310.1, “Disposition
of Proceeds from DoD Sales of Surplus Property” and release the Instruction in Volume 12,
“Special Accounts, Funds and Programs” of the DoD Financial Management Regulation (DoD
7000.14-R). It is expected that Volume 12 will be published by September 30, 1996. Attached
for your information is a copy of the reply to the Assistant Secretary of the Army (Financial
Management and Comptroller) request.

Questions regarding this matter may be directed to Mr. De W. Ritchie, Jr. He may be
contacted on (703) 697-5135.

Alvin Tucker
Deputy Chief Financial Officer

Attachment
MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Audit Report on Disposition of Excess Army Helicopters and Flight-Safety-Critical Helicopter Parts (Project No. SF-5034)

You previously requested approval to retain, retroactively, proceeds from the sale of excess helicopters, helicopter engines and related parts—proceeds that had been retained by the Defense Reutilization and Marketing Service (DRMS). In a prior letter to you, I advised that the policies contained in DoD Instruction 7310.1 were undergoing review and, upon completion of that review, this office would address your concern.

The ODCC(F) has advised that, since the Army helicopters were not DBOF property—property neither acquired with DBOF funds or otherwise capitalized into the DBOF—there is no statutory authority for the Army to retain a portion of the proceeds from the sale of the helicopters and its related parts.

However, when it is necessary for a helicopter to be moved from its current location to another location, the DRMS shall pay the second destination transportation costs and storage costs to the extent that such costs are consistent with arrangements negotiated in advance between the Army and the DRMS.

This office is working to clarify the policy guidance previously issued in DoD Instruction 7310.1, “Disposition of Proceeds from DoD Sales of Surplus Property” and release the Instruction in Volume 12, “Special Accounts, Funds and Programs” of the DoD Financial Management Regulation (DoD 7000.14-R).

Questions regarding this matter may be directed to Mr. De W. Ritchie, Jr. He may be reached on (703) 697-3133.

[Signature]
Deputy Chief Financial Officer
Audit Team Members

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

F. Jay Lane
James L. Kornides
Stuart D. Dunnett
Curt W. Malthouse
Susanne B. Allen
INTERNET DOCUMENT INFORMATION FORM

A. Report Title: Distribution of Excess Army Helicopters and Flight-Safety-Critical Helicopter Parts

B. DATE Report Downloaded From the Internet: 11/22/99

C. Report’s Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by: DTIC-OCA, Initials: __VM__ Preparation Date 11/22/99

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.