
July 1997

FEDERAL PROPERTY DISPOSAL

Information on DOD's Personal Property Disposal Process



**National Security and
International Affairs Division**

B-276848

July 8, 1997

The Honorable John R. Kasich
Chairman, Committee on the Budget
House of Representatives

The Honorable Collin C. Peterson
The Honorable Peter A. DeFazio
House of Representatives

In response to your request, we obtained information on the Department of Defense's (DOD) personal property disposal process. Our specific objectives were to determine (1) the way the disposal process works, (2) DOD's rate of return when it sells this property and the private sector's rate of return on certain sales, and (3) the best business practices and innovative techniques DOD is using or considering for use in disposing of unwanted personal property. On March 25, 1997, we briefed your staff on the information we have obtained. This report documents the information presented at that briefing.

Background

The Federal Property and Administrative Services Act of 1949 (P.L. 81-152), as amended, placed responsibility for the disposition of government real and personal property with the General Services Administration (GSA). GSA delegated disposal of DOD personal property to the Secretary of Defense, who in turn delegated it to the Defense Logistics Agency (DLA). Under DLA, the Defense Reutilization and Marketing Service (DRMS) carries out the disposal function. Personal property not disposed of by DRMS, for example, nuclear devices and cryptographic equipment, which are disposed of by the military services themselves, are not discussed in this report.

DRMS has about 170 Defense Reutilization and Marketing Offices (DRMO) worldwide that receive and dispose of personal property for DOD activities. In fiscal year 1996, DRMS disposed of millions of items with a reported acquisition value (the amount originally paid for the item or most recently paid for a like item) of almost \$24 billion.

Results in Brief

The DOD disposal process, which is governed by numerous laws and regulations, starts when DOD activities turn in items to the DRMOs for disposal. Upon receipt, DRMO personnel inspect the items for condition,

acquisition value, and special handling requirements such as those for pilferable or militarily sensitive items. Items are accumulated for 14 to 28 days and then processed together. DRMS' disposition priorities are to (1) reutilize property within DOD, transfer items to other federal agencies and organizations with equivalent priority for the purpose of obtaining excess property and (2) donate the remaining items to eligible entities such as state and local governments, among many others. Items that remain after these priorities have been served are sold to the general public or disposed of, primarily through service contracts.

DRMS' overall rate of return on the reported acquisition value of all usable property it sold in fiscal year 1996 was 1.97 percent. When compared with the private sector's rate of return for similar items, DRMS' rates are low. Airline companies, for example, report receiving 40 to 50 percent of the manufacturer's list price for aircraft parts.¹ There are many reasons for DRMS' lower rate of return. For example, many of the aircraft parts it disposes of only have military application, and those with commercial application are not certified by the Federal Aviation Administration, a requirement for commercial use. Another factor lowering DRMS' rate of return is that the best items are reutilized, transferred, or donated, leaving the least marketable items available for sale. The volume and types of items DRMS disposes of annually (about 4 million line items) also make it difficult for DRMS to develop expertise or to tailor disposal strategies for individual items like the private sector does. Moreover, the quantities, constant influx of items, and time limits on the various phases of the process drive DRMS' emphasis on moving items through the process quickly to make room for incoming items.

DOD is seeking to improve its process by using more commercial practices and making greater use of the private sector in disposing of property. Among the key initiatives it is employing or considering include contracting with private auctioneering companies to conduct property sales, using the Internet to advertise available property, selling the property to private contractors that will then dispose of it and share the proceeds with DOD, and restructuring DRMS' organization to operate and compete more like a private enterprise.

¹Commercial Practices: Opportunities Exist to Enhance DOD's Sales of Surplus Aircraft Parts (GAO/NSIAD-94-189, Sept. 23, 1994).

Scope and Methodology

We interviewed DLA and DRMS officials and reviewed documentary information provided by them on the DOD personal property disposal process and on the initiatives underway or planned to use best commercial practices and innovative techniques to improve DOD's property disposal operations. We also obtained quantitative data and statistics, produced by DOD systems, on disposal operations and the rate of return achieved on property sales. We did not independently verify the reliability of that data. In addition, we used information on rates of return for aircraft parts obtained from private sector airline officials during a prior GAO evaluation since aircraft parts represent a significant percentage of the acquisition value of DOD's personal property sales.

We conducted our work from November 1996 through March 1997 in accordance with generally accepted government auditing standards.

Agency Comments

In its comments on a draft of this report, DOD agreed with the information presented. We also made the suggested clarification changes referred to in its response where appropriate in the report. DOD's comments are included as appendix I.

We are sending copies of this report to the Chairmen, Senate Committee on Armed Services, House Committee on National Security, and Senate and House Committees on Appropriations; the Secretary of Defense; the Administrator of the General Services Administration; the Director of the Defense Logistics Agency; the Commander of the Defense Reutilization and Marketing Service; and the Director, Office of Management and Budget. Copies will also be made available to others upon request.

If you or your staff have any questions concerning this report, please contact me on (202) 512-8412 or my Assistant Director, Kenneth R. Knouse, Jr., on (202) 512-9280. The major contributors to this report are listed in appendix II.



David R. Warren, Director
Defense Management Issues

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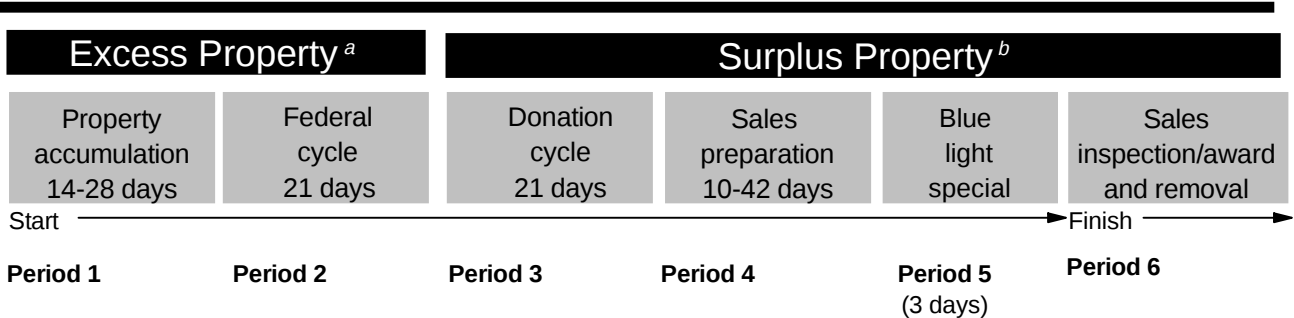
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Abbreviations

DLA	Defense Logistics Agency
DOD	Department of Defense
DRMO	Defense Reutilization and Marketing Office
DRMS	Defense Reutilization and Marketing Service
FMS	Foreign Military Sales
GAO	U.S. General Accounting Office
GSA	General Services Administration

DOD's Disposal Process

GAO How It Works



- Excess property sent to Defense Reutilization and Marketing Offices
 - Items inspected, demilitarization (rendering an item militarily unusable) and condition codes verified, and type of sale determined (i.e., international, local, or retail).
 - Items requiring special handling such as hazardous material and hazardous waste, precious metals, and items requiring demilitarization are identified in order to apply extra controls.

^aProperty not needed by DOD activities is considered to be excess and is available for reutilization by other DOD activities, transfer to other federal agencies, and transfer to organizations that have been given priority equal to that of the federal government for the purpose of obtaining excess personal property.

^bProperty not needed by the federal government or organizations with equal priority is considered surplus and is available for donation to eligible organizations or for sale.

GAO How It Works (Cont.)

- Items are accumulated for 14 to 28 days.
 - Items collected during period are processed together.
 - All customers may screen and tag items at anytime during the process, but items may only be issued and removed in accordance with established priorities.
 - Federal requisition and removal
-

GAO How It Works (Cont.)

- Military services, federal agencies, and other entities given priority equal to DOD, such as certain law enforcement organizations and nonprofit humanitarian relief agencies, are given 14 days to requisition and 14 days to remove items unless otherwise agreed with the DRMO.
 - Donee requisition and removal
 - Approved donees are given 14 days to requisition remaining items and 14 days to remove them unless otherwise agreed with the DRMO.
 - Donees include state and local governments, boy and girl scouts, museums, and others.
-

GAO How It Works (Cont.)

- Once federal and other organizations and donees have made selections, remaining items are prepared for sale.
 - 3-day "blue light" special
 - Items previously tagged (i.e., marked by a qualified organization whose intention is to take the items) but not taken within the prescribed timeframe are available during this 3-day period for removal and use by other qualified organizations.
 - Items inspected, winning bids awarded, and items removed
-

GAO How It Works (Cont.)

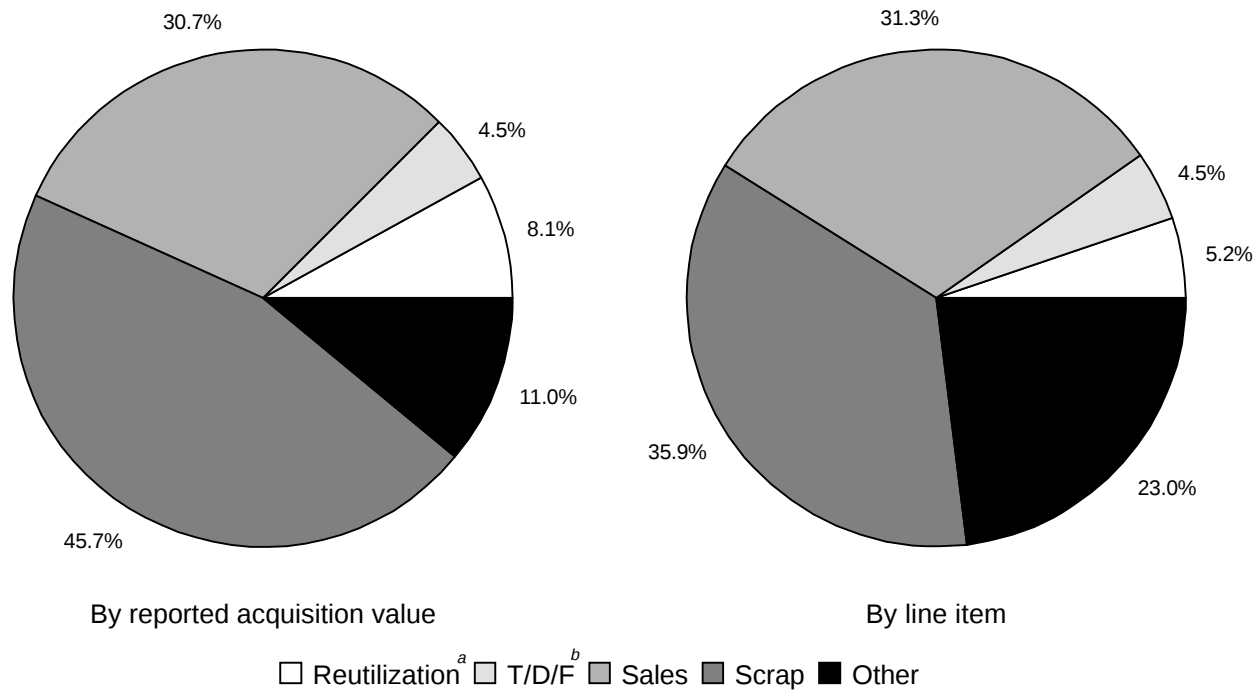
- Three types of sales
 - **International sales**--items with global appeal such as machine tools (i.e., potential buyers throughout the United States and overseas) or property that requires additional controls such as hazardous materials.
 - Catalog published when 200 to 400 items are accumulated (buyers submit sealed bids).
 - Items remain at the DRMO.
 - High bidder for items requiring extra controls or demilitarization undergoes clearance process before award.
-

GAO How It Works (Cont.)

-
- **Local sales**--items that do not meet international appeal criteria
 - Catalog sales (buyers submit sealed bids and have 10 calendar days to pay for and remove items)
 - Auction at the DRMO (buyers submit bids on the spot and have 5 working days to pay for and remove items)
 - **Retail sales**--40 DRMOs with retail stores
 - Items with commercial appeal, such as computers, furniture, clothing, shoes, etc.
 - Items must be paid for and removed the same day.
-

DRMS' Disposal Statistics

GAO Average Dispositions, FY 1992-96



^aSome property declared excess by one activity within DOD is reutilized by other DOD activities.

^bIncludes personal property (1) transferred (2.1%) to other federal agencies or organizations given priority equal to that of the federal government, (2) donated (2.1%) to eligible organizations, and (3) sold (.3%) to foreign military sales customers—the system through which government-to-government sales of military equipment are made.

Note: Totals for line item dispositions do not add due to rounding.

GAO Disposition by Reported Acquisition Value, FY 1992-96

Dollars in millions	FY 1992	FY 1993 ^b	FY 1994	FY 1995	FY 1996
Reutilization	1,600 7%	1,770 5%	2,146 8%	2,295 9%	2,848 12%
Transfers	540 2%	532 2%	532 2%	575 2%	465 2%
Donations	502 2%	610 2%	648 2%	551 2%	592 2%
Sales	5,100 22%	9,100 26%	8,722 34%	9,189 38%	8,459 35%
FMS	99 <1%	18 <1%	84 <1%	42 <1%	133 1%
Scrap	9,882 43%	14,553 42%	13,557 53%	11,372 48%	11,099 47%
Other ^a	5,744 24%	7,878 23%	344 1%	318 1%	305 1%
Total	23,467 100%	34,461 100%	26,033 100%	24,342 100%	23,901 100%

^aAccording to DRMS personnel, the "other" category was significantly larger in fiscal years 1992 and 1993 than in subsequent years because it was used as a "catch all" category.

^bFiscal year 1993 disposals were larger than other years because of DOD base closures and drawdowns (force reductions).

Rate of Return on Sales

GAO Overall Rate of Return

Rate of return is the proceeds from the sale of usable items divided by the reported acquisition value of usable property sold.

- FY 1994--1.83%
- FY 1995--2.28%
- FY 1996--1.97%

DRMS' overall rate of return is based on all usable items sold.

GAO Higher Rate of Return Overseas During
FY 1996

- Continental U.S.--1.77%
 - Europe--6.98%
 - Pacific--2.88% (not as high as Europe due to (1) bilateral agreements that give the host country first opportunity to buy the items, (2) a smaller customer base, and (3) higher shipping costs due to longer distances)
 - **Reasons for Better Overseas Rates of Return:**
 - Fewer transfer and donation customers
 - Better items available for sale
-

GAO Airlines' Proceeds for Aircraft Parts Are
Higher Than DOD's

- United often receives about 50% of manufacturers' list price.
 - Delta generally receives 40% to 50% of manufacturers' list price.
 - DOD receives less than 1% of reported acquisition value on aircraft parts sales.
-

GAO **Airlines' Proceeds for Aircraft Parts Are
Higher Than DOD's (Cont.)**

- **Reasons for lower rate of return on aircraft parts**
 - DOD surplus aircraft parts are not certified by the Federal Aviation Administration for use on commercial aircraft.
 - Limited pursuit by DOD of best practices such as (1) identifying highly marketable commercial-type parts and their civil applications, (2) keeping parts separately at the time of sale or grouping like parts together, and (3) using active marketing techniques.
 - DOD staff lack expertise in identifying parts with commercial applicability.
-

GAO Some Reasons DOD Has Lower Rates of Return Than the Private Sector

• DOD

- Emphasizes moving items quickly and complying with laws
- Handles huge quantities, types, and conditions of items
- Cannot develop disposal expertise for 7 million active line items
- Has rigid disposal system defined by laws and regulations; all items treated the same
- Best items are taken through transfers and donations
- Sells items that are usually not new

• Private sector

- Emphasizes maximizing return
 - Handles few quantities, types, and conditions of items
 - Can develop disposal expertise for fewer items
 - Can tailor disposal strategy on an individual item basis
 - Best items are not taken through transfers and donations
 - Sells items that often were overbought or did not sell well (i.e., new items)
-

DRMS' Improvement Efforts

GAO DOD Recognizes Improvement Needed

- DRMS has a vision for the future.
- DRMS is reengineering the disposal process and implementing initiatives for improvement.

GAO DRMS' Vision for the Future

- **Disposal operations will cost less and provide more value to the taxpayer.**
 - **Private sector will be used to help if it makes good business sense.**
 - **Military services and customers will choose and pay for the type and level of services and products they require.**
 - **DRMS will transmit information electronically about property instead of physically moving property.**
 - Accountability maintained through centralized information system.
 - DRMS and customers will use information technology.
 - **DRMS will become an administrator of contracts.**
-

GAO Key Initiatives

- **Auctioneering Contracts**
 - One contract currently ongoing.
 - Five contracts previously awarded with only three contractors participating in sales.
 - **Use of the Internet for Advertising**
 - Customers can get information about available items.
 - Bids can be submitted on the Internet (but not payment).
-

GAO Key Initiatives (Cont.)

- **Recycling Control Point (RCP) Concept**
 - Property remains at the depots to save labor and other costs.
 - Screening and sales processes automated.
 - Seven depots have implemented this concept.
 - Plan to expand to other depots and retail level.
 - **Financial Advisor** contract awarded to assist in developing proposals for joint venture arrangements with private sector.
-

GAO Key Initiatives (Cont.)

- **Profit-Sharing with Private Sector**

- Prototype sales contract for medical, dental, and veterinary property awarded in April 1997 to three contractors.
 - Contractors will pay DRMS 75% of its historical rate of return up front.
 - Contractors will also pay DRMS a "shared bid percentage" (ranging from 22.4% to 33.2% depending on geographical area) on all resale proceeds higher than the 75% historical rate of return.
 - Similar type of contract to be offered for other commodities such as laboratory and test equipment, and trucks, tractors, and wheeled vehicles.
-

GAO Key Initiatives (Cont.)

- **Enterprise Management**
 - Organizational design concept DOD chose to improve efficiency through use of private sector business practices and selective outsourcing.
 - Concept used by public organizations like Minnesota's Department of Administration, which separated operations into (1) those inherently governmental, (2) utility functions the private sector can help with, and (3) those that could be done entirely by the private sector if most efficient.
-

GAO Key Initiatives (Cont.)

- DRMS plans to phase in Enterprise Management over 3 years.
 - Arthur Andersen LLP will help develop implementation plan.
 - Implementation includes examining mission-essential functions and reengineering them, if needed, and determining the most cost-effective way to do them (in-house or outsource).
-

GAO Key Initiatives (Cont.)

- **Reorganizing into three units**

1. **CORPORATE/LEADERSHIP**--Includes inherently governmental functions, such as senior management and legal functions, to be handled by government employees.
 2. **UTILITY**--Includes reutilization, transfer, and donation functions. The government will be the sole provider but may use private firms to help. DRMS proposes to provide these services on a fee basis.
 3. **MARKETPLACE**--Includes surplus property sales and hazardous waste disposal. DRMS plans to contract with the private sector to handle sales. Activities will be able to choose whether they want to use DRMS' services for a fee or sell the property themselves.
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Comments From the Department of Defense



ACQUISITION AND
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09 JUN 1997

(L/MDM)

Mr. David R. Warren
Director, Defense Management Issues
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20508

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) DRAFT REPORT, "FEDERAL PROPERTY DISPOSAL: Information on DoD's Personal Property Disposal Process," Dated May 13, 1997 (GAO Code 709226/OSD Case 1354). The DoD concurs with the draft report. Technical comments have been provided under separate cover.

The Department appreciates the opportunity to comment.

Sincerely,

A handwritten signature in cursive script, reading "John F. Phillips", is written over the typed name.

John F. Phillips
Deputy Under Secretary
of Defense (Logistics)



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