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*Office of Inspector General*  
*Audit Report*

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**Inventory of Field Spare Parts**

**Federal Aviation Administration**

**Report Number: FE-1998-209**  
**Date Issued: September 29, 1998**





# Memorandum

U.S. Department of  
Transportation

Office of the Secretary  
of Transportation

Office of Inspector General

Subject: **ACTION: Report on Inventory of Field  
Spare Parts, FAA  
FE-1998-209**

Date: September 29, 1998

From:

**John L. Meche**

**Deputy Assistant Inspector General for Financial,  
Economic, and Information Technology**

Reply To

Attn Of: JA-20:x61496

To: Assistant Administrator for Financial Services

This report presents the results of our monitoring and testing of the Federal Aviation Administration (FAA) physical counts of spare parts in field inventories. Our audit objective was to assess the completeness and accuracy of physical inventory results on field spare parts. The audit was performed in conjunction with our Chief Financial Officer Act responsibilities to opine on the FAA financial statements for Fiscal Year (FY) 1998.

## **RESULTS-IN-BRIEF**

FAA made a concerted effort to physically count its inventory of spare parts at over 800 field units. This monumental task involved about 1,000 FAA and contractor employees. As of August 31, 1998, FAA reported it had performed physical inventories at 93 percent of its field units, physically verifying the existence of \$334 million in spare parts. When FAA has completed its quality control reviews and corrected the inaccurate counts identified by FAA and the Office of Inspector General (OIG), we would consider the resulting amount reported on the FY 1998 financial statement to be materially stated and properly supported. The physical inventory resulted in a net increase of 35,000 parts, valued at \$120 million, being added to accountable records. This labor-intensive effort will be required annually until FAA establishes a perpetual inventory system which provides a continuous record of field spare parts received, issued, and on-hand. FAA agreed to establish a perpetual inventory system for its field spare parts.

## **BACKGROUND**

Inventory system requirements published by the Joint Financial Management Improvement Program provide that all inventory acquisitions and expenditures should be recorded in accounting records. FAA Order 4250.9B, Field Material Management and Control, requires that an FAA designated custodian will conduct a 100 percent inventory of field spares on an annual basis. The inventory is to be conducted between October 1 and September 30 of each fiscal year.

During FY 1997, FAA performed physical inventories of field spares at 129 of 871 field sites. The results were used by FAA to estimate the field spares inventory for the FY 1997 financial statements. Based on our review and the methodology used in projecting the FY 1997 inventory value, we were unable to accept the results for financial statement reporting purposes<sup>1</sup>. In response to our concerns, FAA initiated a plan to conduct a 100 percent field spare inventory to support the FY 1998 financial statements.

## **SCOPE AND METHODOLOGY**

We monitored FAA actions in conducting a physical inventory of field spares. We accompanied FAA and contractor representatives to selected field sites to observe inventory-taking processes, and test the accuracy of counts. We also performed post-inventory counts at selected field sites, and provided FAA with timely information on our results to allow for follow-up action as deemed necessary by management. We conducted the audit in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States. We performed our work, between March and September 1998, at 14 field sites and at FAA Headquarters in Washington, D.C.

### **Physical Inventory Requirements**

Since FAA did not have a perpetual inventory system for its field spare parts, it has to rely on physical inventories to determine the quantities in its field inventory. Physical inventories involve the process of counting spare parts on-hand at a given date, and recording the results in the field spare module of the Logistics Inventory System. FAA has more than 140,000 spare parts at over 800 locations throughout the United States. Because of this, physical inventories are labor intensive and subject to error.

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<sup>1</sup> OIG Report Number FE-1998-098, March 25, 1998.

For this latest physical inventory, FAA estimated that more than 1,000 people were involved. There were over 800 field units, most with multiple field sites. The magnitude of this project required extensive oversight by FAA and OIG.

### Inventory Results

We performed test counts, after the FAA counts, at 14 reporting units. We found nine units did not perform accurate counts. For example, at one site we visited in August 1998, FAA had not included \$106,000 of communication equipment spares for newly commissioned systems. At a second site, we found FAA needed to add 100 records to the inventory, the quantity for 7 items was inaccurate, and 30 records needed to be deleted. The errors totaled over \$380,000. The FAA field inventory coordinator had not received the physical count procedures prepared by FAA Headquarters. Therefore, the coordinator was not aware that the count should have included all inventory, regardless of whether the inventory was previously recorded on inventory records. At both of these sites, FAA initiated corrective action.

We also reviewed FAA trip reports and found 11 of 21 reporting units exceeded FAA's quality control error rate of 10 percent. The error rate ranged from 12 to 70 percent. At the 11 reporting units, physical inventory recounts were made, and FAA monitored corrective action results.

When we found additional items needed to be added to, or deleted for, this inventory, we discussed corrections with local FAA officials. For each site visited where we concluded inventory results were not acceptable, we requested FAA to submit documentation to support the corrections. As of September 23, 1998, FAA had corrected counts at four of the nine units that had inaccurate counts.

### Inventory Practices

FAA's policy of performing 100 percent inventories on an annual basis is not cost effective, is subject to intense oversight by both FAA and OIG, and is susceptible to inventory results as discussed in this report. FAA cannot continue to rely on physical inventory counts at the end of each fiscal year to control and report the amount of inventory at field units. A perpetual inventory system, on the other hand, is less labor intensive, establishes accountability, and produces a history of transactions to include receipts, issues, and on-hand quantities. Physical inventories can be counted throughout the year on a statistical sampling basis as an added control to the perpetual inventory system. The establishment of a perpetual record system for field inventory, as recommended in our 1991 report<sup>2</sup>, would

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<sup>2</sup> OIG Report Number R4-FA-1-091, January 29, 1991.

provide FAA a tool to more effectively and efficiently manage these costly and sensitive spare parts.

### **RECOMMENDATION**

We recommend FAA establish a perpetual system for its inventory of field spare parts.

### **MANAGEMENT COMMENTS**

This report was discussed with the Assistant Administrator for Financial Services on September 24, 1998. He agreed with the finding and recommendation.

### **ACTION REQUIRED**

Please provide written comments, within 30 days, on specific actions taken or planned.

We appreciate the courtesies and cooperation of FAA representatives. If you have any questions, please call me at (202) 366-1496, or Harry Fitzkee at (410) 962-3612.

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