# Audit Report

OFFICE OF THE INSPECTOR GENERAL

**TRANSFER OF THE MANAGEMENT OF CONSUMABLE ITEMS TO THE DEFENSE LOGISTICS AGENCY**

Report No. 94-071 March 31, 1994

Department of Defense

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**Acronyms**

| | |
|---|---|
| ASO | Aviation Supply Office |
| ATCOM | Aviation and Troop Command |
| CECOM | Communications and Electronics Command |
| CIT | Consumable Item Transfer |
| DCSC | Defense Construction Supply Center |
| DESC | Defense Electronics Supply Center |
| DGSC | Defense General Supply Center |
| DLA | Defense Logistics Agency |
| DMRD | Defense Management Report Decision |
| EC | Essentiality Code |
| GAO | General Accounting Office |
| GIM | Gaining Inventory Manager |
| IMC | Item Management Code |
| LIM | Loosing Inventory Manager |
| NSN | National Stock Number |
| SPCC | Ships Parts Control Center |
| WSGC | Weapons Systems Group Code |
| WSIC | Weapons Systems Indicator Code |
| WSSP | Weapons Systems Support Program |

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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March 31, 1994

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND TECHNOLOGY
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on the Transfer of the Management of Consumable Items to the Defense Logistics Agency (Report No. 94-071)

We are providing this report for your review and comments. It discusses the transfer of item management responsibilities for consumable items from the Services to the Defense Logistics Agency.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We received comments from the Deputy Under Secretary of Defense for Logistics, the Army, the Navy, the Air Force, and the Defense Logistics Agency, which were used in preparation of the final report. We request that the Deputy Under Secretary of Defense for Logistics provide additional comments for Recommendation B.3., and the Director, Defense Logistics Agency, provide additional comments for Recommendations B.2. and C.2. by May 31, 1994

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Charles Hoeger or Mr. Pat Golden at (215) 737-3881 (DSN 444-3881). Copies of the final report will be distributed to the activities in Appendix I. The audit team members are listed inside the back cover.

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Deputy Assistant Inspector General
for Auditing

## Office of the Inspector General, DoD

**Report No. 94-071** **March 31, 1994**
**(Project No. 2LD-5006)**

# TRANSFER OF THE MANAGEMENT OF CONSUMABLE ITEMS TO THE DEFENSE LOGISTICS AGENCY

## EXECUTIVE SUMMARY


**Introduction.** In July 1990, the Deputy Secretary of Defense approved the transfer of approximately 1.2 million Service-managed consumable items from the Services to the Defense Logistics Agency (DLA). The transfer of the consumable items was one of the recommendations of the Defense Management Report Decision 926, "Consolidation of Inventory Control Points," which maintained that DLA could manage the Services' consumable items with less resources than the Services used. The total savings projected from the consumable item transfer during FYs 1991 through 1995 was $318.7 million, mainly from personnel reductions. In Phase I of the transfer, all Category I consumable items (about 981,000 items that did not meet a DoD Item Management Code filter) would be transferred to DLA over 3 years commencing in mid-1991. This category was comprised of the least complex consumable items. In Phase II, scheduled to commence in 1994, Category II items (items that met the DoD Item Management Code filter) were to be reviewed to identify items requiring continued Service management. Items not needing continued Service management were to be transferred to DLA after 1994. The first increment of Phase I items was transferred to DLA in August 1991.

**Objectives.** The objectives of the audit were to determine if adequate procedures and internal controls were in place to ensure an orderly transfer of item management responsibilities for consumable items from the Services to DLA, and if the Services and DLA complied with applicable regulations.

**Audit Results.** Generally, the Consumable Item Transfer Program was working effectively, and items were being appropriately transferred. However, we noted the following conditions that will adversely affect the overall management of the continuing Consumable Item Transfer Program.

o The savings anticipated from transferring the management of consumable items from the Services to the DLA will not be fully achieved. Items initially identified for transfer will remain under the Services' management, and staffing imbalances may occur at inventory control points (Finding A).

o The Services' inventory control points did not transfer essential logistics management data timely, or when transferred, the receiving DLA inventory control points did not always use the data. As a result, the logistics support expected from DLA inventory control points will probably be hampered (Finding B).

o The Services transferred disposable excess inventory to DLA when transferring the management of consumable items, and conversely, did not decapitalize all applicable assets on other items. As a result, unnecessary storage costs will be incurred and eventual DLA disposal decisions will require additional coordination with the Services' inventory managers (Finding C).

**Internal Controls.** The audit identified material internal control weaknesses as defined by DoD Directive 5010.38. Internal controls were not adequate to ensure that procedures for screening consumable items for potential transfer were followed and that excess inventory was not transferred with the consumable items. Further, controls were not adequate to ensure that all logistics data needed to manage the consumable items and provide uninterrupted supply support to the Services, were transferred timely and used by DLA. See Part I for the internal controls reviewed, and Part II, Findings A., B., and C., for details of the identified weaknesses.

**Potential Benefits of the Audit.** We could not quantify the monetary benefits resulting from the audit. The benefits associated with the audit recommendations are summarized in Appendix G.

**Summary of Recommendations.** We recommended that DoD prescribed criteria be followed in reviewing consumable items for transfer, staffing levels at DoD inventory control points be reviewed, communication and recording of essential logistics data for transferred items be improved and controls be implemented to ensure use of the data by DLA inventory managers. We also recommended that excess assets be disposed of before transfer action is taken and all applicable assets be transferred to the DLA wholesale managers.

**Management Comments.** The management responses generally concurred with our recommendations, and actions planned or taken satisfy the intent of our recommendations.

**Audit Response.** We request further comments from the Deputy Under Secretary of Defense for Logistics and the Director, Defense Logistics Agency, by May 31, 1994.

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This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

# Part I - Introduction

## Background

As of December 1989, DoD managed approximately 4.1 million consumable items. Of the 4.1 million items, 2.9 million were managed by the Defense Logistics Agency (DLA) inventory control points, and 1.2 million were managed by Army, Navy, Air Force, and Marine Corps (the Services) inventory control points.

Consumable items are items identified as not economically repairable but consumed in use or discarded when worn out or broken. Consumable items include not only common usage, low-cost supplies and minor parts, such as gasket materiels and fasteners, but also high-priced, sophisticated spare parts, such as precision valves, microswitches, and miniature components, which are vital to operating major weapons systems.

In November 1989, the Deputy Secretary of Defense directed a review of the recommendations of Defense Management Report Decision (DMRD) 926, "Consolidation of Inventory Control Points." One of the DMRD 926 recommendations was to transfer all Service-managed consumable items to DLA. The DMRD 926 maintained that DLA could manage the Services' consumable items with less resources than the Services used. The total savings projected from the consumable item transfer (CIT) during FYs 1991 through 1995 was estimated at $318.7 million, mainly from personnel reductions.

The Deputy Secretary of Defense approved the transfer of consumable items from the Services to DLA in July 1990. A management team, represented by members of the Office of the Secretary of Defense, the Services, and DLA was formed to address all facets of the CIT Program. The team developed an Item Management Code (IMC) filter criteria to categorize the Services' managed consumable items. The Deputy Assistant Secretary of Defense (Logistics) approved the filter criteria in December 1990. Consumable items were separated into two categories. Category I included routine, less complex, consumable supplies and spare parts. Category II included consumable items, that, because of their design instability, unique end item and critical applications, or requirements for intensive management, were considered appropriate for continued Service management until further evaluation could be made.

The Services and DLA developed a plan for the transfer of management, technical, and supply data in monthly increments. Consumable items were to be transferred in two phases. In Phase I, all Category I consumable items, estimated at 981,000 items, would be transferred to DLA during a 3-year period, commencing in mid-1991. In Phase II, Category II items were to be reviewed to identify those requiring continued Services' management. Any items not requiring continued Service management were to be transferred to DLA starting in 1994.

The first increment of Phase I items was transferred to DLA in August 1991. During the initial transfers of items, system problems were detected in the Air Force transfer of supply and procurement due-in data. Therefore, the Air Force

transfer was suspended until the system problems were corrected. The Air Force resumed transferring items in April 1992. As of March 1993, the Services had transferred 360,000 consumable items to DLA. The total number of items included in Category I had decreased by about 181,000 to 800,000, and the number of Category II items was about 400,000.

## Objectives

The objectives of the audit were to determine if adequate procedures and internal controls were in place to ensure an orderly transfer of item management responsibilities for consumable items from the Services to DLA, and if the Services and DLA complied with applicable DoD regulations.

## Scope and Methodology

Our review included the 189,354 consumable items that were transferred to DLA gaining inventory managers (GIMs) from the Services' losing inventory managers (LIMs) as of May 1992. Our statistical sample of 275 items from the universe of 189,354 items included four GIMs and six LIMs. The four GIMs in our audit were DLA supply centers, and the six LIMs included two Army, two Navy, and two Air Force inventory control points. The six LIMs accounted for 136,297 of the 189,354 items transferred. The selection of audit sites and the statistical sample are discussed in Appendix A.

At the GIMs and LIMs, we compared logistics and procurement data transferred from the LIMs to the GIMs' logistics information systems and reviewed technical data packages that were transferred with consumable items. To resolve any deficiencies or differences in the data transferred, we interviewed the applicable inventory managers or equipment specialists at the GIMs and LIMs. Except to resolve item-identified differences, we made no independent assessments of the reliability of computer-processed data used in the audit.

This economy and efficiency audit was made from May 1992 through March 1993. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly, included such tests of internal controls as were considered necessary. The organizations we visited or contacted are in Appendix H.

## Internal Controls

The audit evaluated the process by which the Services and DLA implemented the DoD Internal Control Management Program as it relates to the transfer of consumable items to DLA. The audit identified material internal control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Internal controls were not adequate to ensure that procedures for screening consumable items for potential transfer were followed and that excess inventory was not transferred with the consumable items. Further, controls were not adequate to ensure that all logistics data needed to manage the consumable items, and provide uninterrupted supply support to the Services, were transferred timely and used by DLA. Recommendations A.1., B.1.a., B.1.b., and C.3., if implemented, will correct the weaknesses. No quantifiable monetary benefits were identified. A copy of the final report will be provided to senior officials responsible for internal controls within the Army, Navy, Air Force, and DLA.

## Prior Audits

The General Accounting Office (GAO); the Inspector General, DoD; and the Air Force Audit Agency have evaluated issues related to the transfer of consumable items in the last 5 years.

GAO Report No. NSIAD 92-262 (OSD Case No. 9109), "Air Force Logistics: Need to Improve Management Transfers of On-Order Items That Can Be Terminated," was issued on August 28, 1992. The report stated that the Air Force was missing opportunities to cancel unneeded orders because it was transferring management of items to DLA without ensuring that analyses of recommended terminations were complete. GAO recommended that the Air Force maintain control of consumable items with on-order excesses that are being transferred to DLA, and that complete and accurate requirements information be provided to DLA with subsequent notification of changes. The Air Force concurred, and in November 1992, directed the Air Logistics Centers to take corrective action.

GAO Report No. NSIAD 92-23 (OSD Case No. 8891), "Defense Procurement -- Improvement is Needed in Technical Data Management," was issued on February 25, 1992. The report stated that due to the scheduled transfer of 1 million items to DLA, DoD estimates that about 5 million aperture cards containing technical data will be sent to DLA repositories. DLA had not yet begun to convert its technical data from aperture cards to optical disk format. The Army and the Air Force intended to transfer part of the technical data in digital format, further straining the DLA repositories' ability to access technical data. GAO concluded that automation efforts in DoD had fallen behind schedule primarily because of funding and personnel shortages. In response, DoD stated that its scheduled implementation of an automated system should

improve its ability to retrieve and disseminate stored technical data but downgrading the automation efforts could impede the DoD's ability to store and retrieve technical data.

GAO Report No. NSIAD 92-40 (OSD Case No. 8784), "Navy Supply -- Some Aircraft and Ship Parts Should Be Replaced Rather Than Repaired," was issued on December 2, 1991. GAO stated that given the forthcoming transfer of 335,000 consumable items from Navy management to DLA management, it was more important than ever that the Navy's categorization of repairables and consumables be current and accurate. Navy policies require economy-of-repair reviews for questionable repairable items. However, some items were excluded from this review process because the other Services procured them and others had not been procured in 2 years. As a result, the Navy was repairing spares that could be more economically replaced. DoD officials agreed that increased emphasis should be placed on economy-of-repair reviews, considering the transfer of consumable items to DLA.

Inspector General, DoD, Report No. 90-050, "Quick-Reaction Report on Requirements for Wholesale Inventories to Support the Target Acquisition Designation Sight Point Night Vision Sensor System," was issued on March 23, 1990. The report stated, in part, that the transfer of supply management data to the Army Aviation Systems Command (currently the Aviation and Troop Command [ATCOM]) did not go smoothly. The Army Materiel Command had not established effective procedures and controls to automatically transfer supply management data between its subordinate commodity commands. To correct the deficiency, the Army Materiel Command implemented an automated program, through an emergency system change request, to transfer supply management data among Army inventory managers and from Army inventory managers to DLA inventory managers.

Air Force Audit Agency Report No. 92061017, "Audit of the Transfer of Consumable Spares and Repair Parts to the Defense Logistics Agency," was issued on April 10, 1992. The Air Force Audit Agency concluded that consumable items were properly considered for management transfer to DLA. However, consumable item data were not correctly processed through Air Force data systems to facilitate timely and accurate transfers. The Air Force Materiel Command initiated system changes to correct the cited conditions.

# Part II - Findings and Recommendations

# Finding A. Consumable Item Transfer Program Benefits

Although the Consumable Item Transfer Program had resulted in a significant transfer of consumable items, anticipated savings and benefits will not be fully achieved. The condition occurred because of an inadequate initial base line of items to be transferred, changes in the Item Management Code filter criteria, and because prescribed procedures were not fully complied with. As a result, items initially identified for transfer to DLA will remain under the Services' management and staffing imbalances may occur at the inventory control points.

## Background

**Consumable Item Transfer Plan.** DMRD 926 discussed a number of organizational and functional changes for the management of secondary items in DoD. The report proposed several alternatives for reducing the number of inventory control points and recommended that consumable items, managed by the Services, be transferred to DLA over a 3-year period with attendant personnel and funding savings. The report postulated total savings of $319 million and end-strength reductions of 10,624 personnel during the 5-year period FY 1991 through FY 1995, which would result from the proposed CIT Program.

In November 1989, the Deputy Secretary of Defense directed a review of the DMRD 926 and the development of detailed implementation plans. A study team made up of members from the Office of the Secretary of Defense, the Services, and DLA completed its final report in July 1990 and concluded that:

o the transfer of 981,000 Category I consumable items to DLA would be cost-effective and beneficial.

o the transfer of Category I items would produce estimated annual recurring savings of $45 million to $49 million beginning in FY 1995, recognizing that the estimated savings did not consider the impact of other approved or proposed Services' reductions in the outyears.

o the remaining consumable items (Category II) would be retained by the Services pending development and implementation of a new filter criteria and validation of the rationale for continued Service management. Items not meeting the new filter criteria would be transferred to DLA beginning in FY 1994. Additional savings would be realized from the transfer, but the savings were not quantified.

On July 3, 1990, the Deputy Secretary of Defense approved the July 1990 final report recommendations and directed that item management responsibility for consumable items be transferred from the Services to DLA.

## Achievement of Anticipated Benefits

The CIT Program's anticipated annual benefits of between $45 million and $49 million was predicated on the transfer of 981,000 items (Category I). However, as discussed below, only about 762,000 items will be transferred because of an inadequate initial base line of items to be transferred. Further, anticipated savings from the Category II transfers will be reduced due to changes in the IMC filter criteria, and because prescribed procedures were not fully complied with.

**Category I Item Baseline.** The number of Category I items to be transferred was initially overstated by about 219,000 items because of an inadequate baseline. Savings were based on the premise that DLA could manage the line items with less resources than the Services. This significant difference in the baseline will have an impact on the achievement of projected benefits.

**Items to be Transferred.** The number of consumable items to be transferred during this initial phase of the CIT program will be significantly below the projected transfers. Based on the March 1993 program status, we anticipate that this initial phase will result in the transfer of about 761,700 items, about 22 percent below the original estimate of 981,000 items. The reduction was attributed primarily to an overstatement of the number of items to be transferred. At the beginning of the CIT Program, the Services reported about 1,452,000 consumable items for possible transfer; however, the official DoD record, maintained by the Defense Logistics Services Center, showed that the Services managed only about 1,233,000 consumable items, an overstatement of 219,000 items. A viable initial base of candidate items had not been established and, at the conclusion of our audit, DLA was attempting to identify and categorize the base line.

**Screening Criteria.** The number of items retained by the Services has increased because of changes in the screening criteria. To identify the candidates for Category I and Category II transfer to DLA, DoD prescribed the use of IMC criteria. The IMC provides a description of the items' technical, military, and management characteristics of supply, guiding the determination of the appropriate inventory manager.

The Deputy Assistant Secretary of Defense (Logistics) memorandum of December 10, 1990, "Consumable Item Transfer Policy," prescribed criteria for identifying consumable items for transfer from the Services to DLA. The memorandum included a revised IMC criteria filter chart, as an advanced change to DoD Manual 4140.26M "Defense Integrated Materiel Management Manual for Consumable Items," to be applied to all consumable items managed by the Services. Items not meeting the filter criteria, the less complex items,

were to be identified as transfers to DLA under Category I. Items meeting the criteria were to be retained under the Services' management pending further analysis under Category II. For example, a part with close manufacturing tolerances that had a critical application and a documented safety history would be retained. The revised IMC filter criteria reduced the rationale and the number of codes that the Services could use to justify item management retention. (See Appendix B for a description of the IMCs.)

However, based on the work of a Category II working group, DoD issued additional filter criteria. The Deputy Assistant Secretary of Defense (Logistics) October 28, 1992, memorandum gave the Services the authority to retain all consumable items recorded under five IMCs, "J", "L", "N", "P", and "W." The memorandum gave the Services authority to retain items based on the Services' particular experience in managing the items (for example, IMC "P" items are nuclear items managed solely by the Navy). The revised criteria significantly reduced the number of Category II items anticipated to be transferred. For the six LIMs in our audit, 130,627 items were identified to be retained under these five IMCs. The Services were to review the items in the remaining five IMCs, "A", "C", "F", "H", and "S," and submit a justification for their retention to the Deputy Assistant Secretary of Defense (Logistics).

DoD's most recent transfer policy for Category II items was issued on March 22, 1993. The Deputy Assistant Secretary of Defense (Logistics) memorandum stated that after reviewing the Services' justifications for the remaining IMCs, in addition to the five IMCs authorized for Service retention in October 1992, the Army was authorized to retain management of tires (1,050 items in IMC "F", managed by a LIM not in our audit) and the Navy was authorized to retain management of 29,000 items in IMC "H", nationally vital programs. All other items were identified as "presumption of transfer" items pending DLA's review of required data and an assessment of its ability to manage the materiel. A working group was established to develop a plan of action and milestones.

**Category II Item Screening Procedures.** Category II items at the six LIMs in our sample showed that the LIMs either did not use the prescribed IMC filter criteria, or miscoded items when items were identified for Category II classification. At the time of our audit, the six LIMs had identified 259,598 items as Category II items. A review of the 259,598 items showed that 130,627 items were in IMCs that the Deputy Assistant Secretary of Defense (Logistics) had authorized for retention through the revised IMC filter criteria policy of March 22, 1993, and 86,089 items were to be transferred to DLA as directed by the Deputy Assistant Secretary of Defense (Logistics). The remaining 42,882 items were carried in outdated IMCs not authorized for retention, and should have been transferred. Two of the six LIMs were improperly retaining items based on outdated IMCs, while all six LIMs were retaining some items based on improper coding (see Appendix C).

**Items Not Authorized for Retention.** Two of the six LIMs, the ATCOM and the Navy Aviation Supply Office (ASO), had items not authorized for retention. The items were assigned outdated IMC codes not permitted for use by the current Deputy Assistant Secretary of Defense (Logistics) coding structure.

**ATCOM.** ATCOM identified 16,631 Category II items as a result of a mechanical edit process. Of the 16,631 items, 807 items were in IMCs that were authorized for retention, and the remaining 15,824 items were in IMCs no longer authorized for use; and therefore, should have been transferred. Of the 15,824 items, 5,148 were Army depot support items that ATCOM refused to transfer because ATCOM believed they could be managed better at ATCOM.

**ASO.** ASO identified 43,864 Category II items as a result of a mechanical edit and manual review process. Of the 43,864 items, 16,806 items were in IMCs authorized for retention and 27,058 were in IMCs no longer authorized for use; and therefore, should have been transferred.

**Sampling of Category II Items.** All six LIMs were retaining some items based on improper coding. Our sample of 150 Category II items (25 each from the six LIMs) included 90 items identified to IMCs directed for transfer to DLA, and 60 items assigned to IMCs authorized for retention based on the Deputy Assistant Secretary of Defense (Logistics) March 1993 policy memorandum. However, of the 60 items with IMCs authorized for the Services' management retention, 29 items either had no documentation to support the IMC code assigned, or the responsible item managers at the LIMs indicated that the items were miscoded and should have been transferred to DLA based on existing criteria.

## Potential Staffing Imbalances

The DMRD 926 approved by the Deputy Secretary of Defense recommended, in part, that the Services transfer all consumable items to DLA, which would result in an estimated savings of $319 million and 10,624 workyears (3,143 personnel spaces). The Inventory Control Point Study Group's final report revised the DMRD 926 recommendations and proposed instead a two-phased transfer program with the initial transfer of 981,000 Phase I items over a 3-year period beginning in August 1991. The study group identified 2,267 personnel spaces in the losing Services as the resource requirements associated with managing the items included in the Phase I transfer. By developing this estimate, the group recognized the different organizational structures in the Services, the difficulty in allocating specific spaces to specific types of items managed, and the cross-cutting effect of other DMRDs on the same resources. As a result of our audit, we determined that about 762,000 items (22 percent less than the estimated 981,000 items) would be transferred to DLA in Phase I. Additionally, changes in the IMC filter criteria resulted in the Services retaining items initially identified for transfer. Although

DLA and the Services did not track personnel space gains and reductions based on the number of items that were transferred, we believe that the reduced number of items to be transferred will have a significant effect on staffing levels at the GIMs and the LIMs and the projected CIT Program savings.

## Recommendations, Management Comments, and Audit Response

**1. We recommend that the Commanders, Army Materiel Command, Naval Supply Systems Command, and Air Force Materiel Command, direct the inventory control points to screen all remaining consumable items in accordance with the procedures established by the Deputy Under Secretary of Defense for Logistics and to transfer all items not meeting the prescribed filter criteria.**

**Army Comments.** The Army concurred with the recommendation and stated that the Army retained some items to support depot repair programs because of fluctuating demands due to changes in depot repair schedules. However, it is the Army's intention to transfer to DLA all consumable items that meet the DoD IMC filter criteria. See Part IV of this report for a complete text of the Army's comments.

**Navy Comments.** The Navy concurred with the recommendation and stated that the Navy inventory control points continuously review their consumable items to ensure compliance with the DoD IMC filter. The Navy also stated that the 27,058 items cited in the finding were coded incorrectly under a code previously authorized for retention. The items are authorized for retention under IMC "C" (design critical) and ASO has been directed to update the Master Data File appropriately. The Navy further stated that the 27,058 items will be reviewed for retention and transfer after the Deputy Under Secretary of Defense for Logistics decision is made on the disposition on the remaining Category II items (that is, IMCs "C", "A", "S", and "F"). See Part IV of this report for a complete text of the Navy's comments.

**Air Force Comments.** The Air Force concurred with the recommendation and stated that the Commander, Air Force Materiel Command, will ensure that all consumable items that did not transfer during Phase I will be reviewed during Phase II for possible transfer to DLA. See Part IV of this report for a complete text of the Air Force's comments

**2. We recommend that the Deputy Under Secretary of Defense for Logistics review projected staffing levels at DoD inventory control points to ensure that they reflect current item assignment criteria and associated work load for the items managed.**

**Management Comments.** The Deputy Under Secretary of Defense for Logistics concurred with the recommendation and stated that a base line review of Phase I items was under way. However, because Phase I is only two-thirds complete, and the Deputy Under Secretary has not made a decision on the estimated 200,000 items that could be transferred under Phase II, staffing level reviews will begin during the second quarter of 1995. See Part IV of this report for a complete text of the Deputy Under Secretary of Defense for Logistics comments.

# Finding B. Transfer of Supply Management Data

The Services' inventory managers did not transfer essential logistics management data timely, or when transferred, the receiving Defense Logistics Agency inventory managers did not always use the data. The conditions occurred because controls were not established to ensure that transferred data were timely, complete, and accurate; no methodology was developed to incorporate program requirements data into the transfer process; and administrative lead times were substantially reduced. As a result, to the extent that the conditions occur and Defense Logistics Agency inventory managers do not correct them, weapons systems availability could be adversely affected.

## Background

Policies and procedures for reassigning materiel management responsibilities from one inventory manager to another are contained in DoD Manual 4140.26M. Because of the enormous number of items to be transferred in the CIT Program, a consumable item subgroup was established to develop a plan that would ensure an orderly transition. Supply management, technical, and quality data were to be transferred using the record format prescribed in Appendix G of DoD Manual 4140.26M. Contract history data were to be transferred in the record format prescribed in Appendix H of the DoD Manual. Data from each appendix were to be transferred from the LIMs to the GIMs via electronic transmission except technical data, which were to be sent to the GIMs in hard copy.

## Transferring Logistics Data

Key logistics data transferred to the GIMs were often not timely, complete, or accurate. We reviewed 267 consumable items that were transferred from the LIMs to the GIMs and found that key logistics information, such as weapons system support codes and technical data were not always timely, complete, or accurate. Additionally, the GIMs did not use program requirements data that was transferred and substantially reduced the procurement administrative lead times for certain items. As a result, there was no assurance that adequate supply support would continue for those items transferred with incomplete or inaccurate logistics data.

**Weapons System Support Codes.** DLA inventory managers were not appropriately coding and managing items essential for weapons systems support, in part, because of delays in processing weapons systems support code

transactions. Based on our sampling results, we projected that 52,139 of 136,297 items transferred by the six LIMs in our audit had discrepancies in weapons systems support coding (see Appendix A).

DLA Regulation 4140.38, "DLA Weapons Systems Support Program," June 9, 1989, provides the policies and procedures for managing DLA's Weapons System Support Program (WSSP). The WSSP, instituted to enhance the readiness and sustainability of the Services' weapons systems, is designed to provide the maximum practical level of logistics support for DLA managed items that have weapons systems applications.

Under the WSSP, the Services identify items by essentiality code (EC) (see Appendix D), which are key data elements in determining the degree of management oversight and supply availability accorded to an item by a DLA inventory manager. Of the ECs, five fall into three general groups known as weapons systems group codes (WSGC). A WSGC shows whether an item is most critical, critical, or least critical. Based on the combination of the WSGC and the EC, DLA determines a weapons system indicator code (WSIC). A matrix of the weapons systems support codes is in Appendix E. For example, an item identified with an EC of " 1" (part failure will render the end item inoperable) and a WSGC of most critical ("A") would be assigned a WSIC of "F."

Depending on the assigned WSIC, DLA assigns supply performance goals that dictate the percentage of supply availability that must be maintained. Items with little or no demand may be stocked if the items are deemed mission essential, and safety level factors may be increased. During times of limited funding, funds and procurement requests may be prioritized for weapons systems essential items.

Our review of the logistics data for 267 items that were transferred from the Services to DLA from August 1991 through May 1992 showed that the Services assigned ECs for 264 items. However, our review of DLA logistics support data showed that WSICs were not assigned for 62 of the 264 items. Even when assigned, a review of the 202 items with WSICs showed 35 cases where the WSICs and WSGCs were not compatible with the prescribed coding matrix in Appendix E. For example, a motion transducer, national stock number (NSN) 6695-00-081-0459, transferred from the San Antonio Air Logistics Center to the Defense General Supply Center (DGSC) on March 2, 1992, had an EC of "1" on the logistics reassignment data, but no WSIC was assigned on DGSC's logistics records. We confirmed that the applicable weapons system shown in the San Antonio Air Logistics Center records was the C-5A aircraft, a weapons system designated as "most critical." A ball valve, NSN 4820-01-033-7238, transferred from SPCC to the Defense Construction Supply Center (DCSC) on November 1, 1991, had an EC of "1," which should have caused DCSC to assign a WSIC of "F", "L", or "T;" however, DCSC records showed an assignment of "R," a code reserved for an EC of "7."

Delays in processing the appropriate weapons systems code transactions contributed to DLA not having the weapons systems essentiality codes registered on the supply records. The LIMs transmit weapons systems codes to the GIMs

via a Weapons System Item Data Transaction, Document Identifier Code WS1 (WS1 transaction). Based on an agreement between the Services' and DLA's senior CIT Program representatives, the Services are to process WS1 transactions to the appropriate GIM, within 90 days after DLA assumes item management responsibilities. Our review of the 62 items, which should have been included in the weapons systems support program, showed that between 320 and 604 days had elapsed without the appropriate WS1 transaction being processed on DLA supply records.

The lack of appropriate weapons system codes recorded on DLA supply records could adversely lower the level of supply support for critical weapons systems. Without the appropriate weapons systems coding, items would not receive the added management attention required to ensure that stock would be on hand for critical weapons systems. The impact would be significant, based on projected coding errors for 52,139 of 136,297 items transferred.

**Technical Data.** LIMs were not sending timely and complete technical data for transferred consumable items and DLA's tracking of the required technical data was flawed. No provisions had been made to transfer the bulk of technical data, which will remain at LIMs after the CIT Program is completed. For routine logistics reassignments, technical data packages for all items are provided to the GIM. However, because of the large volume of items scheduled for transfer under the CIT Program, waivers were agreed upon to expedite the transfer process and minimize program costs. Technical data packages would be sent to the GIM only when items were coded as competitively procured, when items were due in from a contract, or when assets on hand amounted to less than 4 years of forecasted demands. Subsequently, the Army and DLA agreed that DLA would determine and request those technical data packages that DLA deemed were required, while the other Services would continue providing the technical data packages when the stated rules were met.

**Method of Transfer.** A manual process was used to transfer technical data from the LIMs to GIMs. Technical data, such as aperture cards with drawings and specifications, were boxed at the LIMs and sent to the GIMs where the data were reviewed and stored for future use. Because the manual process was labor-intensive, technical data were forwarded for only the items discussed above. However, technical data may have to be transferred for about 700,000 items after Phase I of the CIT Program is completed (scheduled completion is August 1994).

GAO Report No. GAO/NSIAD 92-23 (OSD Case No. 8891), "Defense Procurement Improvement Needed in Technical Data Management," February 1992, stated that DoD had recognized the importance of automating technical data since 1983, and that automation was congressionally mandated in 1984. Automation efforts had fallen behind schedule primarily because of funding and personnel shortages. The report went on to say that the decision to transfer procurement responsibility for about 1 million consumable items from the Services to DLA meant that associated technical data would go to DLA data repositories. Transfer of procurement responsibility would require transferring drawings, which would equal about 5 million aperture cards. The then

Principal Deputy Assistant Secretary of Defense (Production and Logistics) concurred with GAO's report and stated that the management of DoD technical data repositories was being improved and automation of the technical data transfer process was planned. However, the Principal Deputy cautioned that personnel and budget restrictions could delay the improvements.

**Tracking Technical Data Packages.** Technical data packages were required for 103 of the 267 items in our audit sample. A review of the technical data tracking reports that GIMs maintained, showed that incomplete data (missing drawings and aperture cards) were received for 21 (20 percent) of the items transferred. Incomplete data could adversely affect competitive procurements and if an item is disposed of, technical data could indicate that the item included recoverable or hazardous materiel. However, records at the LIMs showed that the required technical data packages were submitted to the GIMs. DLA's technical data tracking reports showed that as of December 1992, LIMs had not submitted about 12,600 (38 percent) of the technical data packages required. The packages were as much as 1 year late. However, the DLA CIT Program technical data representative stated that the technical data tracking system for the CIT Program was flawed (some technical data packages were erroneously recorded as missing or overdue) and DLA was in the process of correcting the problem. The error rate on outstanding technical data packages could have a variance as high as plus or minus 20 percent. After the tracking system problems are corrected, DLA plans to reconcile the number of technical data packages due from the LIMs.

**Program Requirements.** DLA did not use program requirements data in the day-to-day management for items transferred under the CIT Program. DLA's existing requirements determination process did not routinely accommodate program factors and nondemand based requirements that the Services used. DLA's wholesale stock levels were based primarily on past demand history registered by customers' requisitions. The Services, however, not only used past demand data from customers' requisitions, but also included other factors related to field unit operations and planned maintenance actions. For example, the Air Force supply records for consumable items included as part of the requirements computation a peacetime program ratio, which indicated increases, decreases, or "no change" in the flying hour projections for a particular weapons system. The Air Force used the ratio when computing inventory requirements. Because DLA's requirements computation process differs from the process used by the Air Force, DLA's automated requirements determination system does not use the peacetime program ratio when computing reorder points, safety levels, or excess inventory.

To illustrate, a window fairing, NSN 1680-01-066-8931, used on the F-15A aircraft, was transferred from the San Antonio Air Logistics Center to DGSC on November 1, 1991. A review of the San Antonio Air Logistics Center's supply control records (EOQ computation - DO62) dated June 15, 1991, 5 months before the date the item was transferred, showed a peacetime program ratio of 0.552. The ratio, which projected a decrease in the flying hour program for the F-15A aircraft, would normally be factored into the San Antonio Air Logistics Center's requirements levels and ultimately tie in to the projected demand quantity per month. However, after the item was transferred to DGSC, the

peacetime program ratio could not be used in DGSC's requirements computation. For the window fairing, the San Antonio Air Logistics Center, using the peacetime program ratio of 0.552, calculated a monthly demand of 16, while DGSC calculated a monthly demand of 24. Because the flying hours for the F-15A aircraft decreased, and the reduction ratio was not factored into DGSC's requirements computation, the possibility existed for the window fairing to go into a long supply status. Conversely, if the peacetime ratio was changed to reflect an increase in flying hours, the DGSC's requirements computation could be understated with the possibility of subsequent backorders when increased demands are not filled by quantities on hand.

Other types of requirements used in irregular or nonrecurring projects or programs are weapons systems modifications programs, certain depot level maintenance requirements, and conversion programs. Because some requirements cannot be predicted using demand history, and to ensure timely logistics support, a special requirements program was established between DLA and the Services. DoD Regulation 4140.1-R, "DoD Materiel Management Regulation," January 1993, states that the Services may submit special program requirements to DLA inventory managers for future nonrepetitive requirements. However, the special program requirements for our test items were not recorded on the supply records of the DLA GIMs in our audit. Supply records at five of the six LIMs, which represented 181 of the 267 items in our sample, showed that 29 of the 181 items had recorded special program requirements. (Program requirements data were not available at ASO, the remaining LIM included in our audit.) For the 29 items with recorded program requirements, 7 had the nondemand-based requirements recorded on the supply records of the GIMs. The remaining 22 items had program requirements totaling $647,000 that the Services identified, but they were not recorded at the GIMs.

**Validity of Requirements.** We confirmed with the LIMs, but did not independently verify, that $434,614 of the $647,140 in recorded program requirements were valid. (We did not confirm the remaining $212,534 in program requirements.) Unrecorded program requirements can adversely affect supply support. For example, a radio antenna, NSN 5985-01-302-8523, was transferred from the Army Communications and Electronics Command (CECOM) to the Defense Electronics Supply Center (DESC) on April 2, 1992. The Logistics Reassignment Data Inquiry, dated March 3, 1992, showed that CECOM had 895 antennas due in, 12 on hand, and no quarterly demands. The CECOM supply control study, dated October 10, 1991, 6 months before the effective transfer date, showed a special program requirement of 1,145. The DESC supply control study, dated September 14, 1992 (5 months after the item was transferred to DESC), showed 6 on hand, 55 backorders, none for special program requirements, and 635 projected as excess. CECOM personnel told us that the special program requirement of 1,145 was still valid. If the special program requirement of 1,145 had been included in DESC's requirements computation, there would be no excess quantity.

**Status of Program Requirements.** Responsible CIT Program management personnel recognized that GIMs were not using program requirements, and in July 1992, they formed a Joint Service and Agency Working Group to initiate a plan for automating the transfer of program requirements. An agreement was reached to expand the logistics reassignment data file and include fields for program requirements data. However, as of September 1993, the agreement had not been implemented. A solution to implementing the terms of the agreement was still pending even though the CIT Program had been in process for over 3 years. We believe that more emphasis should be placed on resolving this issue to preclude an adverse impact on future supply support.

**Administrative Lead Time.** GIMs recorded significantly lower administrative lead times on their supply records than were recorded on the LIMs' supply records at the time items were transferred. Administrative lead time is the elapsed time between the date a procurement request is initiated and the date the contract is awarded. It directly affects inventory levels. For example, the lower the administrative lead time, the lower the reorder point, therefore, the lower the stock level.

At the GIMs, administrative lead times recorded on the supply records for CIT items were an average of all procurement administrative lead times experienced for the particular Federal supply class of the national stock number. At the LIMs, administrative lead times recorded on the supply records were an average of the actual administrative lead times experienced for the particular national stock number. We compared the administrative lead times recorded on the GIMs supply records, with those recorded at the LIMs and found that of 138 items, 110 (80 percent) had a reduced administrative lead time recorded. The average reduction was 136 days. For example, an electron tube, NSN 5960-01-015-7331, transferred from the Warner Robins Air Logistics Center to DESC in February 1992, had the administrative lead time lowered to 54 days from 269 days. DESC awarded a contract for this item on September 17, 1992, for which the actual administrative lead time was 210 days.

To reduce stock levels and the overall value of DoD inventories, DoD has directed inventory managers to reduce administrative lead times. However, arbitrary reductions as significant as those applied to items under the CIT Program, without prior purchase experience at the GIMs, may adversely affect supply support. The items should be tracked to ascertain if specific items will require longer administrative lead times than the average for each Federal supply class.

## Recommendations, Management Comments, and Audit Response

**1. We recommend that the Director, Defense Logistics Agency:**

**a. Establish a tracking system for items identified by the Services as weapons systems essential to ensure that weapons systems data are recorded on the supply records and that timely follow-up actions are taken when the weapons systems essentiality data have not been submitted.**

**b. Reconcile the number of technical data packages that are overdue from the Services.**

**c. Track administrative lead times for items transferred to verify if adjustments made to the Services' administrative lead times were reasonable, and readjust the lead times when appropriate.**

**Management Comments.** DLA concurred with Recommendation B.1.a., and stated that DLA will continue to manually follow up on critical weapon system requirements on a case-by-case basis. DLA is reviewing the establishment of a tracking system. The decision is expected by June 30, 1994.

DLA concurred with Recommendation B.1.b., and stated that DLA will send each Service a listing of all overdue technical data packages for reconciliation. The planned completion date for the recommendation is April 30, 1994.

DLA concurred with Recommendation B.1.c., and will coordinate with the Services to ensure that administrative lead times for new CIT items are realistic. The estimated completion date is June 30, 1994. See Part IV of this report for a complete text of DLA's comments.

**2. We recommend that the Commanders, Army Materiel Command, Naval Supply Systems Command, and Air Force Materiel Command, and the Director, Defense Logistics Agency, resolve the issues preventing the transfer and support of program requirements for items transferred under the Consumable Items Transfer Program.**

**Army Comments.** The Army partially concurred and stated that the Army is participating in the Joint Services and DLA Working Group to initiate a plan to automate the transfer of program requirements. The Army did not concur totally for two reasons. It stated that the electronic generation of special program requirements is not acceptable in the literal sense for all programmed requirements. Those items experience fluctuating demands from year to year due to changes in depot repair schedules for the next higher assemblies. Therefore, the items are not suitable for demand based stockage and DLA must add an automated capability to consider programmed requirements based on overall consumption data. An alternative is DLA's acceptance of forecast via generation of special program requirements within 90 days after a transfer occurs. The Army further stated that it had transmitted depot support

requirements to DLA for years in the form of special programmed requirements, and because all the Services are supposed to have that capability in place, the Army does not understand why a new system must be developed.

**Navy Comments.** The Navy concurred and stated that the Navy participated in the Joint Services and DLA Working Group to develop a plan for automating the transfer of nondemand based programmed requirements. As a result, a nondemand based transaction record was developed in May 1993. The Navy stated that the data, now being transferred to the respective GIMs, has limited utility to DLA because the DLA supply system cannot mechanically assimilate the data.

**Air Force Comments.** The Air Force concurred and stated that the current DLA supply system cannot process programmed requirements data. Because changes to all DoD supply systems are on hold, pending the Joint Logistics System Center implementation of a standard DoD supply system, the Air Force cannot predict when programmed requirements data will be incorporated into the DLA supply system. The Commander, Air Force Materiel Command, was to meet with DLA by March 1, 1994, to determine DLA's specific program data requirements. Implementation is contingent upon DLA's systems change schedule.

**DLA Comments.** DLA concurred with the recommendation, stating that a system change request was in process that will enable DLA to capture programmed requirements and that by June 3, 1994, DLA will know if the system change request will work or if alternative agreements with the Services will be needed to accomplish the task off-line.

**Audit Response.** The Army, the Navy, the Air Force, and DLA's completed and planned actions are responsive. However, because final action on the recommendation is unknown at this time, DLA is requested to provide the latest status of this effort in response to the final report.

**3. We recommend that the Under Secretary of Defense for Acquisition and Technology implement and monitor the electronic automation of technical data in the Department of Defense.**

**Deputy Under Secretary of Defense for Logistics Comments.** The Deputy Under Secretary of Defense for Logistics concurred with the recommendation and stated that DoD is developing and deploying two programs, the Joint Engineering Data Management Information and Control System and the Joint Computer Aided Logistics Support program. The first program, which provides the capability to electronically receive and transfer technical data, is being installed in Navy and DLA sites and existing Army and Air Force depositories are in the conversion process. The second program provides the infrastructure for acquiring and managing technical data with the initial emphasis on technical manuals.

**Audit Response.** The Deputy Under Secretary of Defense for Logistics comments satisfy the intent of the recommendation. We request that the Deputy Under Secretary of Defense for Logistics provide us with the planned implementation date for the Joint Engineering Data Management Information and Control System in the DoD components, as well as planned milestones for implementation of the Joint Computer Aided Logistics Program.

# Finding C. Inventory Transferred

The Services transferred disposable excesses to DLA when transferring the management of consumable items, and conversely, did not decapitalize all applicable assets on other items. The conditions occurred because in the early stages of the transfer process, the DoD logistics reassignment policy did not address the transfer of excess assets, inactive items, that should have been deleted from the supply system, were transferred, and supply system programming problems prevented adherence to DoD policy on asset transfers. As a result, unnecessary storage costs will be incurred and eventual DLA disposal decisions will require additional coordination with the Services' inventory managers.

## Background

The transfer of assets under logistics reassignments is governed by DoD Manual 4140.26-M, DoD Manual 4000.25-2-M, "Military Standard Transaction Reporting and Accounting Procedures" and DoD Instruction 4140.60.

To maximize the use and minimize the inventory of wholesale assets, GIMs must have visibility and control over all applicable wholesale assets. When making logistics reassignments, it is in the Government's best interest for LIMs to transfer the management of all wholesale assets to GIMs, except for inventory categorized as excess. During logistics reassignments, assets are not physically moved, but records of the LIMs and GIMs are adjusted. The LIMs decrease the value of inventory transferred, and the GIMs increase the value of inventory received on the supply records. For the LIM, the process is referred to as decapitalization, and for the GIM, capitalization. The entire process takes place without shipping any assets; therefore, transportation costs are not incurred.

LIMs should not transfer assets that stratify into excess because unnecessary storage costs will be incurred. Transferring excess assets also causes GIMs to make decisions on disposal of excess materiel without having all the data necessary to make accurate and economical disposal decisions. We noted the following situations where asset transfers were not done in the most economical and effective manner.

## Excess Inventory

The GIMs transferred disposable excess inventory to the LIMs because in the early stages of the CIT Program, the DoD logistics reassignment policy did not address transferring excess assets, and the GIMs transferred inactive items that should have been deleted from the supply system.

**Transferring Excess Inventory.** The LIMs transferred over $259 million in excess inventory to the GIMs during the first 10 months of the CIT Program. From August 1991 through May 1992, the LIMs transferred 189,354 consumable items to GIMs with inventory valued at about $1.14 billion. For the 267 sample items in our audit, we identified 112 items (42 percent) with disposable excess assets. The total value of the assets decapitalized for the 267 sampled items was $21.3 million, of which $6.3 million (29.6 percent) were stratified into disposable excess stock. Because the GIMs capitalized about $1.14 billion in inventory with the first 189,354 items transferred, we estimated that about 35,314 items, with transferred inventory valued at $259.2 million, will stratify into disposable excess (see Appendix A for sample projections). However, the figure could be lowered if the nondemand-based requirements (discussed in Finding B) are considered in DLA's requirements computations.

Based on the CIT memorandum of agreement between DLA and the Services, DLA is restrained from disposing assets transferred under the CIT Program for 2 years after an item is transferred. During the 2-year waiting period, DLA will incur storage costs for excess items that could have been disposed of and not transferred to DLA.

When GIMs review CIT Program items with excess inventory, the GIMs may not have all the required data for making accurate disposal decisions, because LIMs that transferred the items have more knowledge of customers' requirements than the GIMs. For example, program requirements could exist that DLA may not be aware of, and before DLA could take accurate disposal actions, coordination with the Services would be needed to determine total requirements (see Finding B). As a result, DLA and the Services will incur additional coordination costs to dispose of the excess assets.

On December 30, 1992, the Deputy Assistant Secretary of Defense (Logistics) issued a policy memorandum to prevent the transfer of excess assets in future transfers of consumable items. The memorandum stated, "The LIM will not decapitalize to the GIM any materiel that stratifies as DoD potential reutilization materiel." However, the Services may have problems implementing this policy. For example, the Army Deputy Chief of Staff (Logistics), Director, Army Supply and Maintenance, in a March 3, 1993, letter to DLA concurred with the intent of the Deputy Assistant Secretary of Defense (Logistics) policy but indicated that, because of the volume of items transferring, an automated process would be needed in order to comply. A request for a system change in the Army supply system was initiated, but because of a high volume of backlogged system changes, a date could not be provided when the new Deputy Assistant Secretary of Defense (Logistics) policy would be implemented.

**Transferring Inactive Items.** The LIMs transferred about 9,900 inactive items to the GIMs during the first 10 months of the CIT Program instead of deleting them from the DoD supply system. Our estimate is based on a sample of 267 items, with 30 items identified as inactive. We applied this percentage to the 136,297 items that were transferred by the six LIMs in our audit through May 1992 (See Appendix A). In accordance with the CIT Program transfer plan, LIMs are to review items to first determine if the items should be deleted

from the DoD supply system, before making logistics reassignments. After items are transferred, the GIMs must coordinate with the LIMs before items can be deleted from the supply system.

At SPCC, of the 99 sample items that were previously transferred to DLA, we identified 22 items that should have been deleted from the supply system. The inventory transferred with the 22 items totaled $262,277. For the 22 items, either no recorded weapons system application existed, or the weapons system application that was recorded was invalid. Weapons systems applications for individual national stock numbers are recorded in the SPCC Weapons Systems Configuration Files. After the configuration (new engines, updated radar/sonar, etc.) of a weapons system (a ship in this case) is changed, the new system configuration must be updated with the new, applicable parts; and the old, inapplicable parts must be purged from the configuration files. The 22 items were erroneously transferred because SPCC did not determine that the items no longer had current applications to active weapons systems. SPCC transferred 48,226 of the initial 189,354 items. We estimated that at least 6,172 of the 48,226 items should have been deleted from the DoD supply system and not transferred.

## Retention of Wholesale Assets

The LIMs retained wholesale assets that should have been decapitalized when applicable national stock numbers were transferred to GIMs. Assets were retained in the Army and Air Force because supply system programming problems prevented certain assets from being reported to the GIMs.

**Army War Reserve Inventory.** The Army LIMs transferred inventory valued at about $14.6 million to the Army Petroleum Center records because the applicable national stock numbers had prepositioned war reserve requirements. The Army Petroleum Center functions as the Army prepositioned war reserve manager for national stock numbers managed by DLA. However, the LIMs did not communicate the applicable prepositioned war reserve requirements data for input to the Army Petroleum Center's supply records.

As of February 1993, the Army Petroleum Center had $14.6 million of inventory recorded for national stock numbers that had been transferred to DLA under the CIT Program. Discussions with Army Petroleum Center personnel revealed that the inventory was transferred to the Army Petroleum Center's records because of projected prepositioned war reserve requirements for the items. However, when the LIMS did not transfer the prepositioned war reserve requirements, Army Petroleum Center personnel became concerned that the assets, if left unprotected without a requirement, could be erroneously declared excess. To prevent this from occurring, Army Petroleum Center personnel coded the assets as "freeze," which prevented the assets from being released.

At ATCOM, assets for items sent to the Army Petroleum Center could not be protected with a prepositioned war reserve requirement because ATCOM's existing automated system did not provide a means to transfer the requirements. Normally, assets at the Army Petroleum Center are protected when the war reserve automated process is done. This process, scheduled at 6-month intervals, computes the prepositioned war reserve requirement quantities for each item. However, at the time of our review, the war reserve automated process had not been done since 1989. Even when the war reserve automated process was done on schedule, a time lag existed between the item transfer date and the war reserve automated process date. ATCOM personnel stated that a systems change request was sent to the Army's central design agent that would provide for prepositioned war reserve requirements to be transferred when the items were transferred.

In February 1993, the war reserve automated process was done at the Army Petroleum Center to identify items with valid prepositioned war reserve requirements. Our review of 25 national stock numbers after the war reserve automated process was run showed that war reserve requirements did not exist for 24 of the items. We requested that the Army Petroleum Center screen the asset files to identify and quantify assets on hand that did not have valid prepositioned war reserve requirements. The screening showed that 574 items, with inventory valued at $2.7 million (of the $14.6 million total) did not have valid prepositioned war reserve requirements, and as a result, those items will be decapitalized to the appropriate GIMs to fill existing DoD requirements.

**Reporting of Excess Retail Assets to DLA.** All excess assets in the Air Force's retail supply system were not reported to the GIMs as required. This condition applied not only to items recently transferred to DLA as part of the CIT Program, but also to other DLA-managed items in the Air Force's retail supply system

The Air Force inventory managers, that use the Retail Stock and Distribution System (DO35) to track retail stock, use requisition exception codes known as "inhibit codes" on selected items to prevent the processing of automated replenishment requisitions. Tests of records at Warner Robins Air Logistics Center and our discussions with Air Force personnel showed that the use of "inhibit codes" prevented excess retail assets from being reported to the appropriate integrated materiel manager via the DoD Materiel Returns Program.

We requested Warner Robins Air Logistics Center personnel to determine the number of items with excess assets and a "requisition exception code" recorded against the national stock number. Excess materiel, valued at $40,269, was identified for 67 items. We determined that respective GIMs could use 24 items, valued at $17,029, to fill requirements.

Warner Robins Air Logistics Center personnel stated that an automated system problem caused the excess materiel to go unreported and action was under way to correct the supply system problem. All excess inventory will be reported to the appropriate GIMs.

## Recommendations, Management Comments, and Audit Response

**1. We recommend that the Commanders, Army Materiel Command, Naval Supply System Command, and the Air Force Materiel Command, require the inventory control points to screen inactive items for deletion from the supply system and initiate disposal action for materiel stratified as potential reutilization materiel, before transfer actions are initiated.**

**Army Comments.** The Army concurred with the recommendation and stated that the Army currently requires the LIMs to dispose of excess assets before logistics transfers are made, and that on November 2, 1993, the Army provided comments to DLA concurring with DoD Manual 4140.26M to mandate disposal of excess assets prior to logistics transfers. The Army further stated that excess inventory computations are based on the LIMs' policy and that some differences will occur when LIMs' policies differ from GIMs' policies.

**Navy Comments.** The Navy concurred with the recommendation and stated that conditions existed in the early stages of the CIT program that permitted the Navy ICPs to transfer excess assets and SPCC to transfer items that did not have an active weapons system application. Both conditions have been corrected. Additionally, the Navy has initiated an intense inventory reduction program at the two Navy LIMs to eliminate inventory that is excess to the retention level.

**Air Force Comments.** The Air Force concurred with the recommendation and stated that the Air Force procedure for transferring items to DLA requires that all inactive items be screened for elimination using the established criteria of the Defense Inactive Item Program. The Commander, Air Force Materiel Command, will review the Defense Inactive Item Program process by June 30, 1994, to ensure that the process is working and that it is being actively supported by Air Force item managers.

**2. We recommend that the Director, Defense Logistics Agency, formulate a plan of action and coordinate procedures with the Services for disposing of the excess inventory transferred with the Services' consumable items.**

**Management Comments.** DLA concurred with the recommendation and stated that DLA issued letters to the Services requesting that they dispose of excess inventory transferred with their consumable items. Further, DLA stated that its functional managers are determining the feasibility of tracking the Services' disposal of excess inventory. The expected completion date is June 30, 1994.

**Audit Response.** We request further comments from DLA on actions to dispose of excess material already received from the Services. Inventory that the Services transferred is now controlled by DLA, therefore, DLA must initiate actions to dispose of the significant excess inventory transferred. However, before DLA can take disposal actions it must coordinate with the Services to determine any unrecorded requirements (for example, programmed requirements).

**3. We recommend that the Commanding Officer, Naval Ships Parts Control Center, update the Weapons System Configuration Files and transfer only items with valid weapons systems applications to the Defense Logistics Agency.**

**Management Comments.** The Navy concurred with the recommendation and stated that SPCC has updated the Weapons Systems File to purge national stock numbers that no longer have an active application in the Weapons Systems File.

**4. We recommend that the Commander, Army Materiel Command, determine the war reserve requirements for inventory maintained by the Army Petroleum Center and to decapitalize materiel for which there are no requirements to the wholesale manager.**

**Management Comments.** The Army concurred with the recommendation and stated that the problem with stocks on hand not matching the requirement is being worked and will be corrected by the fourth quarter, FY 1994.

**5. We recommend that the Commander, Air Force Materiel Command:**

**a. Correct supply system programming problems so that "inhibit codes" do not preclude the reporting of assets to the Defense Logistics Agency and**

**b. Direct all air logistics centers to report all identified excess assets to the appropriate Defense Logistics Agency integrated materiel manager.**

**Management Comments.** The Air Force concurred with the recommendation and stated that the Commander, Air Force Materiel Command, will review the Retail Stock Control and Distribution System to ensure that asset reporting is not being restricted. The Air Force will also issue guidance to the retail activities reminding them that retail excess asset reporting to integrated wholesale managers should not be restricted. The expected completion date was February 25, 1994.

# Part III - Additional Information

# Appendix A. Selection of Audit Sample

As of May 1992, management of 189,354 of a projected 981,000 consumable items had been transferred from the Services to DLA. The items were managed as shown in Table A.1.

**Table A.1. Universe of Consumable Items**

| Service | Items to be Transferred | Items Transferred |
|---|---|---|
| Army | 210,000 | 26,168 |
| Navy | 335,000 | 82,116 |
| Air Force | 436,000 | 81,070 |
| Total | 981,000 | 189,354 |

From the 189,354 items, we selected a statistical sample of 275 items from six of the LIMs: two Army, two Navy, and two Air Force, as shown in Table A.2.

**Table A.2. Universe of Items by Audit Sites**

| LIM | Total Items Transferred | Items in Sample |
|---|---|---|
| ATCOM [1] | 5,575 | 26 |
| CECOM [2] | 4,015 | 22 |
| ASO [3] | 32,595 | 48 |
| SPCC [4] | 48,226 | 99 |
| SAALC [5] | 21,700 | 32 |
| WRALC [6] | 24,186 | 48 |
| Total | 136,297 | 275 |

[1] ATCOM - Aviation and Troop Command
[2] CECOM - Communications and Electronics Command
[3] ASO - Aviation Supply Office
[4] SPCC - Ships Parts Control Center
[5] SAALC - San Antonio Air Logistics Center
[6] WRALC - Warner Robins Air Logistics Center

Of the 189,354 items transferred as of May 1992, 136,297 (72 percent) were at our sample sites. We reviewed 267 of 275 sampled items. The remaining eight items had been returned to the respective LIMs for continued management.

The sample design used three stages in selecting the sample national stock numbers. In the first two stages, all national stock numbers were stratified by LIM. Two LIMs per Service were selected to collect data. The sample pooled

the national stock numbers for the two LIMs in each Service and stratified them by extended demand value. In the third stage, the individual national stock numbers within each dollar strata were selected at random (see Table A.3.).

**Table A.3. Audit Sample by Annual Demand Strata**
(Value in Millions)

| Strata | Items Transferred | Annual Demand Value | Sample Size |
|---|---|---|---|
| **Army** | | | |
| Over $500,000 | 0 | $0.0 | 0 |
| $50,000 - $499,999.99 | 3 | 0.4 | 3 |
| $1,000 - $49,999.99 | 461 | 1.9 | 30 |
| $0.01 - $999.99 | 4,551 | 0.6 | 10 |
| $0.00 | 4,575 | 0.0 | 5 |
| Subtotal | 9,590 | $2.9 | 48 |
| **Navy** | | | |
| Over $500,000 | 12 | $19.9 | 12 |
| $50,000 - $499,999.99 | 528 | 55.8 | 35 |
| $1,000 - $49,999.99 | 19,073 | 129.5 | 80 |
| $0.01 - $999.99 | 30,200 | 7.3 | 10 |
| $0.00 | 31,008 | 0.0 | 10 |
| Subtotal | 80,821 | $212.5 | 147 |
| **Air Force** | | | |
| Over $500,000 | 5 | $ 6.0 | 5 |
| $50,000 - $499,999.99 | 95 | 10.4 | 20 |
| $1,000 - $49,999.99 | 2,863 | 16.9 | 40 |
| $0.01 - $999.99 | 4,771 | 1.3 | 10 |
| $0.00 | 38,152 | 0.0 | 5 |
| Subtotal | 45,886 | $34.6 | 80 |
| Total | 136,297 | $250.0 | 275 |

Note: The sample design was based on a 50-percent rate of occurrence (worst-case) with 95 percent confidence and a precision of + 6 percent.

## Audit Sample Projections

We made three projections based on our review of 267 items (8 items were returned to the LIMs). The projections were for items with weapons systems support code problems, excess inventory transferred, and the number of inactive items that LIMs transferred.

**Finding B. Weapons Systems Support.** Of the 267 consumable items that the Services transferred to DLA, the Services had assigned essentiality codes to 264. However, our review of DLA supply records showed that codes were not registered for 62 items, and another 35 items had been assigned incorrect codes. We projected that 52,139 of the 136,297 items, transferred by the six LIMs in our audit, have weapons systems coding discrepancies. Our projection has a precision of plus or minus 8,123 items (an achieved precision of $\pm$ 6 percent with 95 percent confidence).

**Finding C. Excess Inventory.** The total value of the inventory transferred with the 267 items was $21.3 million. Of the 267 items in our audit sample, 112 items had disposable excess inventory. Our sample of 267 items was selected from a universe of 189,254 items transferred with inventory totaling $1.14 billion. The six LIMs in our audit accounted for 136,297 of the 189,254 items and $842.9 million of the $1.14 billion in inventory transferred. Based on our sample and using a 95-percent confidence level, we projected that excess inventory, valued at $259.2 million, plus or minus $9.7 million, was transferred to the GIMs. With 95-percent confidence, the number of transferred items with excess inventory is projected at 35,314, plus or minus 6,075 (an achieved precision of $\pm$ 4 percent with 95 percent confidence).

**Finding C. Inactive Items.** The LIMs transferred a significant number of inactive items to the GIMs instead of deleting them from the DoD supply system. Of the 267 items in our sample, 30 items should not have been transferred. Based on our stratified sample with 95 percent confidence, we project that at least 9,934 * of the 136,297 items in our audit should not have been transferred, but deleted from the DoD supply system.

* A one-sided lower confidence bound was used for this projection, since the precision was not adequate for midpoint projection.

# Appendix B. Item Management Code Filter Chart

| Code | Definition |
|---|---|
| A | Items that are specifically designed to be nuclear hardened against the effects of electromagnetic pulse, radiation thermal (heat), blaze shock, etc., so they continue to perform their function in an environment created by a nuclear explosion. |
| C | Engineer/design critical items for which requisite quality must be insured due to the catastrophic consequences of failure of these items on their next higher assembly, end item, or weapons system. Engineer/design critical repair parts are recognized by their limited applicability and critical application in safety and combat readiness application. |
| D | Items of such importance to the operational readiness of operating units that they are subject to continuing centralized, individual item management and asset control throughout all command and support echelons. |
| E | Items that are designated for repair at the depot level or that are designated for repair below the depot level. If repairs cannot be accomplished below the depot level, the unserviceable carcasses either will be forwarded to the depot for repair or condemnation, or reported to the inventory control point for disposition. |
| F | Items that are controlled by a single agency for all Federal applications will be retained by the designated item manager for integrated management. This includes items controlled by the Department of Energy or the National Security Agency, or items assigned to the U.S. Army Tank Automotive Command for integrated management. |
| H | Items that require extraordinary management control techniques and close surveillance within the supply system to ensure the successful execution of a nationally vital program. |
| J | Items determined by technical decision during the provisioning cycle, during introduction into logistics systems, or during item management coding, to be highly subject to design change or replacement of the item through modification of the applicable next higher assembly. Items that require engineering source approval by the engineering cognizant/design control activity. |
| L | Materiel that is not usually replenished through wholesale supply system channels. It is limited to items fabricated at a military industrial activity for local use or direct issue, items fabricated at military service industrial activities and not subject to procurement from civilian industrial sources, or items obtained only by reclamation. |

| Code | Definition |
|---|---|
| N | Materiel that is not usually replenished through wholesale supply system channels. It is limited to items categorized as modification, alteration, and conversion sets or kits intended for one-time use, or items obtained only by reclamation. |
| P | Items that are used in nuclear power plants or associated systems, which require stringent technical or quality control and intensified management. |
| S | Items requiring special management because of security classification. |
| W | Items that are used only by security assistance program customers (foreign countries and international organizations). These items are often called nonstandard or foreign military sales unique. |

Note: If a national stock number did not meet the criteria for one of the above item management codes, the item was to be placed in item management code "Z" and transferred to the Defense Logistics Agency.

# Appendix C. Category II Items Retained

Items Categorized by Item Management Codes

| LIM * | Authorized Retentions | Unauthorized Retentions | Directed Transfers | Activity Totals |
|---|---|---|---|---|
| ATCOM | 603 | 15,824 | 204 | 16,631 |
| CECOM | 3,751 | 0 | 24 | 3,775 |
| ASO | 12,947 | 27,058 | 3,859 | 43,864 |
| SPCC | 86,375 | 0 | 4,688 | 91,063 |
| SAALC | 16,906 | 0 | 51,814 | 68,720 |
| WRALC | 10,045 | 0 | 25,500 | 35,545 |
| Total | 130,627 | 42,882 | 86,089 | 259,598 |

* LIM - Losing Inventory Manager
ATCOM - Aviation and Troop Command
CECOM - Communications and Electronics Command
ASO - Aviation Supply Office
SPCC - Ships Parts Control Center
SAALC - San Antonio Air Logistics Center
WRALC - Warner Robins Air Logistics Center

# Appendix D. Weapons Systems Essentiality Codes

| Code | Definition |
|---|---|
| 1 | Part failure will render the end item inoperable. |
| 3 | Part failure will not render the end item inoperable. |
| 5 | Item does not qualify for a Code 1 assignment, but is needed for personnel safety. |
| 6 | Item does not qualify for a Code 1 assignment, but is needed for legal, climatic, or other requirements peculiar to the planned operational environment of the end item. |
| 7 | Item does not qualify for a Code 1 assignment, but is needed to prevent impairment of or the temporary reduction of operational effectiveness of the end item. |
| Blank | Same as Code 3, or the appropriate Service has not assigned an essentiality code. |

# Appendix E. Weapons Systems Codes

| Weapons System Group Codes | Weapons Systems Essentiality Codes | | | | |
|---|---|---|---|---|---|
| | 1 | 5 | 6 | 7 | 3 |
| A. Most critical | F | G | H | J | K |
| B. Critical | L | M | P | R | S |
| C. Least Critical | T | W | X | Y | Z |

**Note:** Letters F to Z are the 15 DLA weapons systems indicator codes that may be assigned. The weapons systems indicator codes are a letter expression of the comparison to and the combination of the weapons systems group codes and the weapons systems essentiality codes.

# Appendix F. Value of Inventory Transferred

The following table shows the inventory values in our audit that were decapitalized by the two Army, two Navy, and two Air Force LIMs and the corresponding inventory values that were capitalized by the GIMs (see Table F).

**Table F. Value of Inventory Transferred**
(Value in Millions)

| | Value Capitalized by DLA | Value Decapitalized by Services' LIMs [1] | | |
|---|---|---|---|---|
| GIM | | Army | Navy | Air Force |
| DCSC [2] | $195 | $25 | $170 | $ 0 |
| DESC [3] | 213 | 13 | 117 | 83 |
| DGSC [4] | 392 | 49 | 258 | 85 |
| DISC [5] | 43 | 12 | 31 | 0 |
| Total | $843 | $99 | $576 | $168 |

[1] Six Test LIMs:
Communications and Electronics Command
Aviation and Troop Command
Aviation Supply Office
Ships Parts Control Center
San Antonio Air Logistics Center
Warner Robins Air Logistics Center

[2] DCSC - Defense Construction Supply Center
[3] DESC - Defense Electronics Supply Center
[4] DGSC - Defense General Supply Center
[5] DISC - Defense Industrial Supply Center

# Appendix G. Summary of Potential Benefits Resulting From Audit

| Recommendation Reference | Description of Benefit | Type of Benefit |
|---|---|---|
| A.1. | Internal Controls. Screen consumable items. | Nonmonetary* |
| A.2. | Economy and Efficiency. Review staffing levels at DoD inventory control points | Nonmonetary* |
| B.1.a. | Internal Controls. Ensure that weapons systems codes are recorded. | Nonmonetary* |
| B.1.b. | Internal Controls. Reconcile the number of technical data packages not received. | Nonmonetary* |
| B.1.c. | Economy and Efficiency. Track procurement administrative lead times. | Nonmonetary* |
| B.2. | Economy and Efficiency. Resolve issues preventing the transfer and support of program requirements data. | Nonmonetary* |
| B.3. | Economy and Efficiency. Implement and monitor the electronic automation of technical data. | Nonmonetary* |
| C.1. | Economy and Efficiency. Comply with asset transfer policy. | Nonmonetary* |
| C.2. | Economy and Efficiency. Dispose of excess inventory. | Nonmonetary* |

## Appendix G. Summary of Potential Benefits Resulting From Audit

| Recommendation Reference | Description of Benefit | Type of Benefit |
|---|---|---|
| C.3. | Internal Controls. Update weapons systems configuration files. | Nonmonetary* |
| C.4. | Economy and Efficiency. Establish war reserve requirements. | Nonmonetary* |
| C.5. | Economy and Efficiency. Correct supply system programming problems and report all excess retail inventory. | Nonmonetary* |

* Benefits could not be quantified because the data needed to accurately measure the benefits were not available.

# Appendix H. Organizations Visited or Contacted

## Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology, Washington, DC

## Department of the Army

Headquarters, Deputy Chief of Staff (Logistics), Supply and Maintenance Policy, Washington, DC
Headquarters, Army Materiel Command, Alexandria, VA
- U.S. Army Aviation and Troop Command, St. Louis, MO
- U.S. Army Communications and Electronics Command, Fort Monmouth, NJ
- Army Petroleum Center, New Cumberland, PA

## Department of the Navy

Headquarters, Naval Supply Systems Command, Washington, DC
- Navy Aviation Supply Office, Philadelphia, PA
- Naval Ships Parts Control Center, Mechanicsburg, PA
- Fleet Materiel Support Office, Mechanicsburg, PA

Headquarters, U.S. Marine Corps (Logistics), Washington, DC

## Department of the Air Force

Headquarters, Deputy Chief of Staff (Logistics and Engineering), Supply Policy, Washington, DC
Headquarters, Air Force Materiel Command, Dayton, OH
- Oklahoma City Air Logistics Center, Tinker Air Force Base, OK
- San Antonio Air Logistics Center, Kelly Air Force Base, TX
- Warner Robins Air Logistics Center, Robins Air Force Base, GA

## Defense Logistics Agency

Headquarters, Defense Logistics Agency, Cameron Station, VA
- Defense Construction Supply Center, Columbus, OH
- Defense Electronics Supply Center, Dayton, OH
- Defense General Supply Center, Richmond, VA
- Defense Industrial Supply Center, Philadelphia, PA

# Appendix I. Report Distribution

## Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Assistant to the Secretary of Defense for Public Affairs
Comptroller of the Department of Defense

## Department of the Army

Secretary of the Army
Auditor General of the Army
Commander, Army Materiel Command
  Commander, Communications and Electronics Command
  Commander, Aviation and Troop Command
  Commanding Officer, Army Petroleum Center

## Department the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Naval Audit Service
Commander, Naval Supply Systems Command
  Commanding Officer, Navy Aviation Supply Office
  Commanding Officer, Naval Ships Parts Control Center

## Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Air Force Audit Agency
Commander, Air Force Materiel Command
  Commanding Officer, Oklahoma City Air Logistics Center
  Commanding Officer, San Antonio Air Logistics Center
  Commanding Officer, Warner Robins Air Logistics Center

## Defense Agencies

Director, Defense Contract Audit Agency
Director, Defense Intelligence Agency
Director, Defense Logistics Agency
  Commander, Defense Construction Supply Center
  Commander, Defense Electronics Supply Center
  Commander, Defense General Supply Center
  Commander, Defense Industrial Supply Center
Director, Defense Logistics Studies Information Exchange
Inspector General, National Security Agency

## Non-Defense 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

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 Defense, Committee on Appropriations
  House Committee on Armed Services
  House Committee on Government Operations
  House Subcommittee on Legislation and National Security, Committee on Government Operations

# Part IV - Management Comments

# Office of the Under Secretary of Defense for Acquisition and Technology Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

ACQUISITION AND TECHNOLOGY

L/MRM

06 January 1994

MEMORANDUM FOR DEFENSE INSPECTOR GENERAL

SUBJECT: Draft Audit Report on the Transfer of the Management of Consumable Items to the Defense Logistics Agency (Project No. 2LD-5006)

This responds to your memorandum of October 12, 1993, on the subject draft audit report. Two recommendations were referred to this office for comment:

- "Finding A, Recommendation 2: We recommend that the Deputy Under Secretary of Defense (Logistics) review projected staffing levels at Department of Defense inventory control points to ensure that they reflect current item assignment criteria and associated work load for items managed."

  Response: Concur. We are in the process of conducting a baseline review of those consumable items previously transferred and those yet to be transferred. Since Phase 1 of the transfer is only two thirds complete, and we have not yet made the decision on an estimated two hundred thousand line items that could be transferred under Phase 2, we will begin reviewing staffing levels during second quarter 1995.

- "Finding B, Recommendation 3: We recommend that the Under Secretary of Defense for Acquisition implement and monitor the electronic automation of technical data in the Department of Defense."

  Response: Concur. Under the Continuous Acquisition and Life-Cycle Support initiative, the Department has a number of programs already underway to implement the electronic automation of technical data. Two programs currently in development and deployment are the Joint Engineering Data Management Information and Control System (JEDMICS) and the Joint Computer Aided Logistics Support (JCALS) program. JEDMICS provides the capability to electronically receive, manage, store, and transfer engineering data such as the drawings used in technical data packages. JEDMICS systems are currently being installed in Navy and DLA sites. Existing Army and Air Force data repository systems are in process of converting to JEDMICS systems. The JCALS program provides the infrastructure for acquiring and managing technical data with the initial emphasis on technical manuals. As this program matures JCALS will evolve to

support the automated receipt, management and exchange of other types of technical data required by DoD Services and Agencies. In addition, the Department is working closely with the Department of Commerce, Industry, and the International community to develop international standards for the capture, management, and exchange of technical data in electronic formats.

FOR James R. Klugh
Deputy Under Secretary of Defense
(Logistics)

# Department of the Army Comments

DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS
WASHINGTON DC 20310-0500

DALO-SMP

21 DEC 1993

MEMORANDUM THRU

DEPUTY CHIEF OF STAFF FOR LOGISTICS

~~DIRECTOR OF THE ARMY STAFF~~

ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS, LOGISTICS AND ENVIRONMENT)

FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (AUDITING)

SUBJECT: Draft Audit Report on the Transfer of the Management of Consumable Items to the Defense Logistics Agency (Project No. 2LD-5006)--INFORMATION MEMORANDUM

1. U.S. Army Audit Agency memorandum of 26 Oct 93 (Tab A) asked ODCSLOG to respond to your memorandum of 12 Oct 93 (Encl to Tab A). Your memorandum requested a report on the status of actions being taken in response to each finding and recommendation.

2. The ODCSLOG's response to your request follows:

a. **FINDING A**: Concur. Additional comments. The Army reviews all candidate NSNs very thoroughly to ensure only active items transfer to DLA. The DMRD 926 figures of 210,000 and 75,000 items for Phases I and II of the CIT, respectively, were initial estimates and have not been interpreted correctly. The 75,000 items assumed for phase II are a subset of the 210,000 item estimates. Those estimates also included items that were identified during the screening process as obsolete or retained under authorized IMCs. As of 20 Jul 93, the Army had purged 39,100 items and identified 17,600 items for retention. Also, 20,400 of the 210,000 items were transferred to DLA under the Revitalized Service Item Transfer Program prior to the beginning of the CIT program. There is an unexplained overstatement of 2,700 items in the original estimates. The Army has appropriately adjusted the estimate of potential transfers from 210,000 to 130,200 items for phase I. Phase II is still under review by OSD and the approximate number of items cannot be determined at this time. The Army adjusted their savings estimates accordingly.

DALO-SMP
SUBJECT: Draft Audit Report on the Transfer of the Management of Consumable Items to the Defense Logistics Agency (Project No. 2LD-5006)--INFORMATION MEMORANDUM

RECOMMENDATION A-1. Concur. The Army selected initial candidates based on OSD prescribed Item Management Code (IMC) filtering criteria. The Army retained some assets to support depot repair programs because raw demand data is insufficient for determining stockage requirements for such items. Historically, these items experience fluctuating demands due to changes in depot repair schedules for next higher assemblies from year to year. Our intent is to transfer all consumable items to DLA that meet the OSD prescribed IMC filtering criteria.

RECOMMENDATION A-2. This is not directed to the Army.

b. FINDING B. Partially concur. Additional comments. For the Army, programmed requirements include initial and follow-on provisioning requirements, war reserve requirements, Cooperative Logistics Supply Support Arrangement (CLSSA) requirements and depot support requirements. One concern is on-time arrival of technical data packages (TDPs) to DLA. The Army depends on DLA to identify the requirement 120 days prior to the established transfer date as reflected in DoD 4140.26M, Appendix G. This is an Army/DLA problem that is being worked. Internal controls are being established to prevent this from happening in the future.

RECOMMENDATION B-1. This is not directed to the Army.

RECOMMENDATION B-2. Partially concur. The Army is participating in the Joint Service and DLA Work Group to initiate a plan to automate the transfer of program requirements. The latest meeting was held at the Defense Industrial Supply Center, 29 Nov - 3 Dec 93. We do not concur totally for two reasons. First of all, electronic generation of special program requirements (SPRs) is not acceptable in the literal sense for all programmed requirements. Historically, these items experience fluctuating demands due to changes in depot repair schedules for next higher assemblies from year to year. This fact makes these items unsuitable for demand based stockage. DLA must add an automated capability to consider programmed requirements based on the overhaul consumption data to adequately manage these items. The alternative is DLA acceptance of forecast via generation of special program requirements within 90 days after transfer occurs. Supply Support Requests (SSRs) are used to pass initial and follow-on provisioning requirements to DLA. Only depot support requirements are appropriate for

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DALO-SMP
SUBJECT: Draft Audit Report on the Transfer of the Management of Consumable Items to the Defense Logistics Agency (Project No. 2LD-5006)--INFORMATION MEMORANDUM

transmission via SPRs. The second concern is that the Army has transmitted depot support requirements to DLA via SPR for years. We do not understand why a new system must be developed since all Services are supposed to have this capability in place.

c. **FINDING C**: Concur. Additional comments. The Army Materiel Command ICPs are routinely required to screen obsolete items for deletion from the system prior to logistics transfer action. The procedure has been in practice through various programs prior to DMRD 926 and the consumable item transfer program. The Total Army Inventory Management (TAIM) Program has increased the identification and disposal of inactive items independent of the CIT process. Also, the Army has an Economic Retention Model (holding costs and ordering costs) and an economic cutback rule (evaluate contracted procurement due-in) formula embedded in its requirements determination and execution system. There are legitimate reasons for assets to be on hand for short periods of time after item transfer. These items must be retained on our records until all due-ins from procurement are received. Upon receipt, assets are decapitalized to DLA if received within a year after the item transfer. Otherwise, assets must be offered as excess to DLA via FT_ transactions. Until a response is received from DLA, no action can be taken to dispose of assets. Lastly, the need to provide a war reserve requirement to the Army Petroleum Center (APC) (which is now ATCOM General Materiel Branch (GMB)) within 30 days after transfer to DLA is a requirement created by the CIT. Previously, we waited for the next computation of war reserve requirements to update requirements at ATCOM GMB. The war reserve automated process is also in place at ATCOM GMB for computation of Army war reserve requirements for DLA managed items.

**RECOMMENDATION C-1**. Concur. The Army currently requires ICPs to screen obsolete items for deletion from the supply system and initiate disposal action in conjunction with CIT. We are requiring ICPs to screen for inactive items (i.e., items with assets on hand with no requirements) on a quarterly basis, in conjunction with budget stratification, and initiate disposal action for materiel stratified as potential reutilization. We will continue to keep that requirement in place. Verbiage was provided to DLA, 2 Nov 93, with Army concurrence, to DoD 4140.26M to mandate disposal of excess prior to logistics transfer. We

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DALO-SMP
SUBJECT: Draft Audit Report on the Transfer of the Management of Consumable Items to the Defense Logistics Agency (Project No. 2LD-5006)--INFORMATION MEMORANDUM

must emphasize that stratification of excess is based on the losing item manger's (LIM's) policy for stratification/ requirements determination. Disconnects will occur when the LIM policy does not agree with the gaining item manager's (GIM's) policy.

RECOMMENDATIONS C-2, C-3, AND C-5. These are not directed to the Army.

RECOMMENDATION C-4. Concur. The Army war reserve requirements are consistently changing as newer items are inducted into the system and the war reserve mission is changed. The Army management for these items no longer resides with APC but with the General Materiel Branch under ATCOM. The problem discovered during your inspection, stocks on hand that did not match the requirement, is being worked and will be corrected by 4th Qtr FY 94.

3. The ODCSLOG point of contact for this action is Ms. Linda Tutor, commercial (703)697-7061.

Encl

JOHN J. CUSICK
Brigadier General, GS
Director of Supply
and Maintenance

CF:
VCSA
OUSD(L)MRM
OASA(I,L&E)
AMCLG-SI

ODUSD(L)MRM - Reviewed, Mr. Fitzpatrick/79196
OASA(I,L&E) - Concur, Mr. Croom/75727
AMCLG-SI - Concur, Mr. Blackwell/274-9775

LINDA TUTOR/77061

# Department of the Navy Comments

THE ASSISTANT SECRETARY OF THE NAVY
(Research, Development and Acquisition)
WASHINGTON, D C 20350-1000

1 DEC 1993

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DODIG DRAFT AUDIT REPORT ON THE TRANSFER OF THE MANAGEMENT OF CONSUMABLE ITEMS TO THE DEFENSE LOGISTICS AGENCY (PROJECT NO. 2LD-5006)

Ref: (a) DODIG memo of 12 Oct 93

Encl: (1) Department of the Navy Comments

In reply to reference (a), we have reviewed the findings and recommendations in the subject report. Enclosure (1) provides our detailed response.

While we concur with finding A that anticipated savings and benefits may not be fully achieved, we do not concur that the items initially identified for transfer to the Defense Logistics Agency (DLA) will remain under Navy management and that staffing imbalances may occur at Navy Inventory Control Points (ICPs). Items initially identified either were transferred or were deleted because they were inactive. The Navy budget reflects appropriate resource adjustments in fiscal years (FY) 1992 to 1995 related to the original planned item transfer.

We also do not concur with the DODIG specific comments in finding A that 27,058 items managed by the Navy Aviation Supply Office (ASO) should have been transferred to DLA. Although the items were miscoded, a review indicates most of the items are critical and should be retained. ASO has been directed to correct the code of these items. In addition, these items will be further reviewed for transfer or retention after the Deputy Under Secretary of Defense (Logistics) decision on the disposition of the remaining Category II items.

We concur that the Navy Ships Parts Control Center transferred some items to DLA that should have been deleted from the supply system. That issue has been corrected.

We concur with the recommendations directed to the Navy and we have taken corrective action.

Nora Slatkin

Copy to:
NAVINSGEN
NAVCOMPT (NCB-5)

DEPARTMENT OF THE NAVY RESPONSE
TO
DODIG DRAFT REPORT OF 12 OCTOBER 1993
ON
TRANSFER OF THE MANAGEMENT OF CONSUMABLE ITEMS TO THE
DEFENSE LOGISTICS AGENCY
(PROJECT NO. 2LD-5006)

I. Finding A. Consumable Item Transfer Program

Although the Consumable Item Transfer (CIT) program has resulted in a significant transfer of consumable items, anticipated savings and benefits will not be fully achieved. The condition occurred because of an inadequate initial baseline of items to be transferred, changes in the Item Management Code (IMC) filter criteria, and failure to follow all prescribed procedures. As a result, items initially identified for transfer to the Defense Logistics Agency (DLA) will remain under the Service's management and staffing imbalances may occur at the inventory control points (ICPs).

DON Comment

Concur that anticipated savings and benefits may not be fully achieved but do not concur with the reasons cited, nor does the Navy agree that items initially identified for transfer to DLA will remain under Navy management and staffing imbalances may occur at ICPs. The original base line of 981,000 items for Category I items (routine, less complex, consumable supplies and spare parts) developed by the Services in 1989, was the best available estimate from knowledge and assumptions at that time. The Navy's portion of this estimate was 335,000. Over a time span of four years, based on actual transfers to date and projected transfers for the duration of Phase I, the Navy estimate is now 270,000. While DLA will not gain management of the original estimate of Navy items, Navy will lose management of items close to the originally forecasted numbers. The 65,000 item difference falls into two general categories. The first category is transferred/assigned to DLA before CIT commenced in August 1991. The Navy ICPs participated with DLA in 1990 with a consumable item transfer project referred to as Revitalized Service Item Transfer (RSIT). Approximately 12,000 items were transferred under RSIT. The original estimate included approximately 17,000 items that had been assigned Navy Item Control Numbers (NICNs) that were in the queue to transfer to DLA via the Supply Support Request (SSR) process. Likewise, all of these items are now managed by the DLA ICPs. The second category includes 36,000 terminal/inactive items. The downsizing of the Navy has resulted in decommissioning of a large number of ships which in turn causes items to be inapplicable and thus deleted through the Defense Inactive Item Program (DIIP) and, therefore, never transferred.

The Navy identified 576 civilian billets and $20.4M (in FY 89 dollars) directly or indirectly related to the management of the

335,000 Category I consumable items. These "savings" are real and the Navy budget reflects appropriate resource adjustments in FYs 1992 to 1995 related to the original planned item transfer. There are no staffing imbalances at the Navy ICPs.

Regarding the DODIG statement on page 11 that 27,058 items at the Navy Aviation Supply Office (ASO) in IMCs no longer authorized for use should have been transferred, these items are currently coded in the ASO Master Data File (MDF) as "Y". This is an old code that previously authorized Service retention as Weapon System Sensitive. While it is true that "Y" is not, of itself, justification for Service retention, ASO reviewed these 27,058 items against other MDF characteristics such as the Acquisition Method Suffix Code (AMSC) and determined that most of the items are critical and will be retained as Category II items (consumable items that, because of their design instability, unique end item and critical applications, or requirements for intensive management were originally considered appropriate for continued Service management until further evaluation could be made). ASO has been directed to update the 27,058 "Y" codes to "C" (Design Critical) which is consistent with the MDF characteristics. In addition, these items will be further reviewed for retention and transfer after the Deputy Under Secretary of Defense (Logistics) decision on the disposition of the remaining Category II items (i.e., IMCs "C," "A," "S," and "F").

Recommendations

1. We recommend that the Commanders, Army Materiel Command (AMC), Naval Supply Systems Command (NAVSUP), and Air Force Materiel Command (AFMC), direct the ICPs to screen all remaining consumable items in accordance with the procedures established by the Deputy Assistant Secretary of Defense (Logistics) and to transfer all items not meeting the prescribed filter criteria.

DON Comment

Concur that consumables should be screened in accordance with DOD procedures. The Navy ICPs are continuously reviewing their consumable items to ensure that they are in compliance with the IMC filter. For example, a transitory IMC Code of "J" (Design Unstable) requires this constant vigilance. Once an IMC "J" item becomes stable in design, it is a candidate for DLA management unless it falls into another category for retention such as IMC "C" (Design Critical), IMC "P" (Nuclear Propulsion), etc. However, the audit infers that Navy ICPs are retaining items that do not meet the IMC filter criteria and, therefore, these items should be transferred to DLA. This simply is not the case with respect to the Navy ICPs. The 27,058 ASO items cited by the auditor under finding A are just coded incorrectly under a previous code authorized for retention. The items, in fact, are authorized for retention as "C" (Design Critical) and ASO has been directed to update their Master Data File (MDF) appropriately.

2. We recommend that the Deputy Under Secretary of Defense (Logistics) review projected staffing levels at DOD ICPs to ensure that they reflect current item assignment criteria and associated workload for the items managed.

DON Comment

Concur. Although this recommendation is addressed to the Deputy Under Secretary of Defense (Logistics), it is, in part, based on the premise that the Services are retaining items initially identified for transfer. As explained in our comments to the finding, the Navy is not retaining any items identified for transfer; therefore, there are no staffing imbalances at Navy ICPs.

II. Finding B. Transfer of Supply Management Data

Summary of Finding

The Services' inventory managers (IMs) did not transfer essential logistics management data timely, or when transferred, the receiving DLA IMs did not always use the data. The conditions occurred because controls were not established to ensure that transferred data were timely, complete, and accurate, no methodology was developed to incorporate program requirements data into the transfer process, and procurement administrative lead times were substantially reduced. As a result, to the extent that the conditions occur and DLA IMs do not correct them, weapons systems availability could be adversely affected.

DON Comment

Concur that, in the past, there were instances where transferred data was not timely or complete. However, Navy ICPs now are transferring, on a timely basis, all essential item management and procurement history data that is prescribed in DOD Manual 4140.26-M, "Defense Integrated Material Management Manual for Consumable Items." However, as the auditor points out, DLA does not have the ability to accommodate in their existing requirements determination process, program factors such as flying hours and non-demand based requirements typically used by the Navy ICPs. The Navy participated in the Joint Services and Agency Working Group formed in July 1992 to develop a plan for automating the transfer of non-demand based program requirements. As a result of this effort, a non-demand based transaction record (expansion of Appendix G, DOD Manual 4140.26-M, which contains existing management data passed to the Gaining Inventory Manager [GIM]) was developed and provided to the Navy in May 1993. This record, containing significant requirements information such as Planned Program Requirements (PPRs), has been programmed by the Navy and is now being routinely passed to the GIM with other management data. However, its utility to DLA is limited since their Standard Automated Material Management System (SAMMS) cannot mechanically assimilate the data.

Recommendations

1. We recommend that the Director DLA:

a. Establish a tracking system for items identified by the Services as weapons systems essential to ensure that weapons systems data are recorded on the supply records and that timely follow-up actions are taken when the weapons systems essentiality data have not been submitted.

b. Reconcile the number of technical data packages that are overdue from the Services.

c. Track procurement administrative lead times for items transferred to verify if adjustments made to the Services' procurement administrative lead times were reasonable, and readjust the lead times when appropriate.

DON Comment

Concur and defer to DLA.

2. We recommend that the Commanders, AMC, NAVSUP, AFMC and the Director, DLA, resolve the issues preventing the transfer and support of program requirements for items transferred under the CIT program.

DON Comment

Concur. As discussed in our comments to the finding, the Navy has automated the passing of non-demand based requirements data to the GIM.

3. We recommend that the Under Secretary of Defense for Acquisition implement and monitor the electronic automation of technical data in the DOD.

DON Comment

Defer comment to the Under Secretary of Defense for Acquisition.

III. Finding C. Inventory Transferred.

Summary of Finding

The Services transferred disposable excesses to DLA when transferring the management of consumable items, and conversely, did not decapitalize all applicable assets on other items. The conditions occurred because in the early stages of the transfer process, the DOD logistics reassignment policy did not address the transfer of excess assets; inactive items, that should have been deleted from the supply system, were transferred; and, supply system programming problems prevented adherence to DOD policy on asset transfers. As a result, unnecessary storage

costs will be incurred and eventually DLA disposal decisions will require additional coordination with the Services' IMs.

DON Comment

Concur. In the early stages of CIT, the Navy Ships Parts Control Center (SPCC) transferred items that did not have an active weapon system application and both Navy ICPs transferred material that was considered excess to the wholesale retention level. Both conditions have long since been corrected. SPCC has an aggressive program to purge NSNs that no longer have an active application in the Weapon Systems File (WSF). This program ties in directly with the large number of ships that have been decommissioned since FY 92. All unique NSNs that apply to a weapon system/ship being removed from the inventory are purged and applicable material sent to disposal. In addition, an intense inventory reduction program has been implemented at both ICPs to eliminate material excess to the retention level. The item manager, in the course of normal business, runs an asset stratification semiannually and disposes of excesses accordingly.

Recommendations

1. We recommend that the Commanders' AMC, NAVSUP, and the AFMC, require the ICPs to screen inactive items for deletion from the supply system and initiate disposal action for materiel stratified as potential reutilization materiel before transfer actions are initiated.

DON Comment

Concur. As outlined in our comments to the finding, the Navy ICPs are now in compliance.

2. We recommend that the Director, DLA, formulate a plan of action and coordinate procedures with the Services for disposing of the excess inventory transferred with the Services' consumable items.

DON Comment

Defer to DLA.

3. We recommend that the Commanding Officer, SPCC, update the WSF and transfer only items with valid weapons systems applications to the DLA.

DON Comment

Concur. As outlined in our comments to the finding, the SPCC WSF has been updated. It is a continuous process due to ship/phase out of older weapon systems, and only valid weapon system application items are being transferred to DLA.

4. We recommend that the Commander, AMC, determine the war reserve requirements for inventory maintained by the Army Petroleum Center and to decapitalize material for which there are no requirements to the wholesale manager.

DON Comment

Defer to the Army.

5. We recommend that the Commander, Air Force Material Command:

a. Correct supply system programming problems so that "inhibit codes" do not preclude the reporting of assets to the DLA; and

b. Direct all air logistics centers to report all identified assets to the appropriate DLA integrated material manager.

DON Comment

Defer to the Air Force.

# Department of the Air Force Comments

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE

8 DEC 1993

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

FROM: AF/LGS

SUBJECT: DoD(IG) Draft Audit Report on the Transfer of the Management of Consumable Items to the Defense Logistics Agency, October 12, 1993 (Project No. 2LD-5006) - INFORMATION MEMORANDUM

This is in reply to your request for Air Force comments on the subject report.

We concur with all four recommendations directed to the Commander, Air Force Materiel Command. The following actions will be taken:

a. Recommendation A.1. The Commander, Air Force Materiel Command, will ensure all consumable items not transferring under Phase I will be reviewed during Phase II for possible transfer to DLA. The most current integrated management coding (IMC) filter chart will be used during Phase II.

b. Recommendation B.2. Currently DLA systems cannot process program data. Since changes to all DoD systems are on hold pending JLSC implementation of standard systems, we cannot predict when program data will be incorporated into DLA systems. However, the Commander, Air Force Materiel Command, will schedule a meeting with DLA to be held not later than 1 Mar 94 to determine DLA's specific program data requirements. Implementation is contingent upon DLA's systems change schedule.

c. Recommendation C.1. The AF procedure for selecting and transferring items to DLA requires all inactive items be screened for elimination using the criteria established under the Defense Inactive Item Program (DIIP). The Commander, Air Force Materiel Command, will review the DIIP process to ensure it is working and is being actively supported by all AF item managers. This action will be initiated by 30 Jan 94 and completed by 30 Jun 94.

d. Recommendation C.5. AF CIT procedures require the reporting of all assets to DLA. Air Force policy does not authorize "inhibit codes" to prevent retail assets from reporting as excess to the integrated wholesale manager. The Commander, Air

Force Materiel Command, will review the Retail Stock Control and Distribution System (D035) to ensure asset reporting is not being restricted. In addition, AFMC will issue guidance to its retail activities reminding them that retail excess asset reporting to integrated wholesale managers shall not be restricted. Expected completion date is 25 Feb 94.

The action officer for this report is Ms Ruth Hill, (703) 695-4514.

MICHAEL ZETTLER, COL, USAF
Acting Director of Supply
DCS/Logistics

# Defense Logistics Agency Comments

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100

IN REPLY REFER TO DDAI

10 DEC 1993

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the Transfer of the Management of Consumable Items to the Defense Logistics Agency (Project No. 2LD-5006)

This is in response to your 12 October 1993 request.

7 Encl

JACQUELINE G. BRYANT
Chief, Internal Review Office

cc:
MM

TYPE OF REPORT: AUDIT DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO: Draft Report on the Transfer of the Management of Consumable Items to the Defense Logistics Agency (Project No. 2LD-5006)

FINDING B: The Services' inventory managers did not transfer essential logistics management data timely, or when transferred, the receiving DLA inventory managers did not always use the data. The conditions occurred because controls were not established to ensure that transferred data were timely, complete, and accurate, no methodology was developed to incorporate program requirements data into the transfer process, and procurement administrative lead times were substantially reduced. As a result, to the extent that the conditions occur and DLA inventory managers do not correct them, weapons systems availability could be adversely affected.

DLA COMMENTS: Concur.

(1) Finding B contains four sub-findings/recommendations, each of which is addressed separately in the following pages.

(2) Delete the word "procurement" from sentence 2 of the finding. The correct term is administrative lead time, not procurement administrative lead time.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

( ) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
(x) Concur; however, weaknesses are not considered material. (Rationale must be documented and maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: See attached recommendations for a list of respective action officers.
REVIEW/APPROVAL: James J. Grady, Deputy Executive Director, Supply Management, MMSD, x70510, 12/3/93
COORDINATION: A. Broadnax, DDAI, x49607, 12/8/93
DDAI, 8 Dec 93

DLA APPROVAL:

15 DEC 1993

LAWRENCE P. FARRELL, JR.
Major General USAF
Principal Deputy Director

TYPE OF REPORT: AUDIT DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO: Draft Report on the Transfer of the Management of Consumable Items to the Defense Logistics Agency (Project No. 2LD-5006)

RECOMMENDATION B.1.a: We recommend that the Director, Defense Logistics Agency establish a tracking system for items identified by the Services as weapons systems essential to ensure that weapons systems data are recorded on the supply records and that timely follow-up actions are taken when the weapons systems essentiality data have not been submitted.

DLA COMMENTS: Concur. Although proper coding of weapon system essentiality is a Service responsibility, DLA will continue to manually follow-up on critical weapon system requirements on a case-by-case basis. [redacted], A decision to institute a tracking system is undergoing DLA functional review.

DISPOSITION:
(x) Action is ongoing. Estimated Completion Date: 30 Jun 94
( ) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:
( ) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
(x) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

MONETARY BENEFITS:
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: COL Alan Stein, USA, MMARS, x46381/Ms. Lora Conrad, MMSP-CIMO, x77333, 11/30/93
REVIEW/APPROVAL: James J. Grady, Jr., Deputy Executive Director, Supply Management, MMSD, x70510, 12/3/93
COORDINATION: Anthony Broadnax, DDAI, x49607, 12/8/93
Bryant, DDAI, 8 Dec 93
DLA APPROVAL:

15 DEC 1993

Lawrence P. Farrell Jr.

LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director

TYPE OF REPORT: AUDIT DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO: Draft Report on the Transfer of the Management of Consumable Items to the Defense Logistics Agency (Project No. 2LD-5006)

RECOMMENDATION B.1.b: We recommend that the Director, Defense Logistics Agency reconcile the number of technical data packages (TDPs) that are overdue from the Services.

DLA COMMENTS: Concur. DLA will send each Service a listing of all overdue TDPs for reconciliation. DLA will continue to monitor all future outstanding TDPs through the use of the CIT technical data tracking program and take corrective action when appropriate.

DISPOSITION:
(x) Action is ongoing. Estimated Completion Date: 30 Apr 94
( ) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:
( ) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
(x) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

MONETARY BENEFITS:
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Major Don Limoncelli, USAF, MMSP-CIMO, x77333, 11/30/93
REVIEW/APPROVAL: James J. Grady, Jr., Deputy Executive Director, Supply Management, MMSD, x70510, 12/3/93
COORDINATION: Anthony broadnax, DDAI, x49607, 12/8/93
[illegible], DDAI, 8 Dec 93
DLA APPROVAL:

15 DEC 1993

LAWRENCE P. FARRELL, JR.
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Principal Deputy Director

TYPE OF REPORT: AUDIT DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO: Draft Report on the Transfer of the Management of Consumable Items to the Defense Logistics Agency (Project No. 2LD-5006)

RECOMMENDATION B.1.c: We recommend that the Director, Defense Logistics Agency track procurement administrative lead times for items transferred to verify if adjustments made to the Services' procurement administrative lead times were reasonable, and readjust the lead times when appropriate.

DLA COMMENTS:
Concur.

(1) The term procurement administrative lead time was used instead of administrative lead time. Administrative lead time (ALT) is the correct terminology. Recommendation B.1.c should be reworded to read "We recommend that the Director, Defense Logistics Agency track administrative lead times for items transferred to verify if adjustments made to the Services' administrative lead times were reasonable, and readjust the lead times when appropriate.

(2) If the IG compared the Services' ALT with the Centers' PALT, it is understandable that the finding cautions DLA against understating the requirement. PALT is a subset of ALT, thus it is by definition a smaller figure.

(3) DLA will coordinate with the Services to ensure that ALT computations for new CIT logistic reassignments are realistic.

DISPOSITION:
(x) Action is ongoing. Estimated Completion Date: 30 Jun 94
( ) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:
( ) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
(x) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

MONETARY BENEFITS:
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Mrs. Yolanda Gallegos/Ms. Lora Conrad, MMSP-CIMO,

x77333, 11/30/93
REVIEW/APPROVAL: James J. Grady, Deputy Executive Director, Supply Management, MMSD, x70510, 12/3/93
COORDINATION: A. Broadnax, DDAI, x49607, 12/8/93
DLA APPROVAL:

LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director

TYPE OF REPORT: AUDIT DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO: Draft Report on the Transfer of the Management of Consumable Items to the Defense Logistics Agency (Project No. 2LD-5006)

RECOMMENDATION B.2: We recommend that the Director, Defense Logistics Agency resolve the issues preventing the transfer and support of program requirements for items transferred under the Consumable Items Transfer Program.

DLA COMMENTS: A system change request is in process to capture program data requirements. In the interim, DLA will determine what manual work-arounds, if any, need to be instituted to effectively support readiness concerns. By June 1994, DLA will know if a system change can be made or work out an agreement with the Services to accomplish the work offline.

DISPOSITION:
(x) Action is ongoing. Estimated Completion Date: 30 Jun 94
( ) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:
( ) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
(x) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

MONETARY BENEFITS:
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Ms. Debra Smyre, MMSP-CIMO, x77333/Mr. Bob Theiss, MMSLR, x44012, 11/30/93
REVIEW/APPROVAL: James J. Grady, Deputy Executive Director, Supply Management, MMSD, x70510, 12/3/93
COORDINATION: A. Broadnax, DDAI, x49607, 12/8/93
DDAI, 13 Dec 93
DLA APPROVAL:

15 DEC 1993

LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director

TYPE OF REPORT: AUDIT DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO: Draft Report on the Transfer of the Management of Consumable Items to the Defense Logistics Agency (Project No. 2LD-5006)

FINDING C: The Services transferred disposable excesses to DLA when transferring the management of consumable items, and conversely, did not decapitalize all applicable assets on other items. The conditions occurred because in the early stages of the transfer process, the DoD logistics reassignment policy did not address the transfer of excess assets, inactive items, that should have been deleted from the supply system, were transferred, and supply system programming problems prevented adherence to DoD policy on asset transfers. As a result, unnecessary storage costs will be incurred and eventual DLA disposal decisions will require additional coordination with the Services' inventory managers.

DLA COMMENTS: Concur. Reference recommendation C.2 for detailed comments.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

( ) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)

(x) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)

( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lora Conrad, MMS/CIMO, x77333, 11/30/93
REVIEW/APPROVAL: James J. Grady, Deputy Executive Director, Supply Management, MMSD, x70510, 12/3/93
COORDINATION: A. Broadnax, DDAI, x49607, 12/8/93 [illegible], DDAI, [illegible]
DLA APPROVAL:

15 DEC 1993

[illegible] P. FARRELL, JR.
[illegible] General, USAF
Principal Deputy Director

TYPE OF REPORT: AUDIT DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO: Draft Report on the Transfer of the Management of Consumable Items to the Defense Logistics Agency (Project No. 2LD-5006)

RECOMMENDATION C.2: We recommend that the Director, Defense Logistics Agency formulate a plan of action and coordinate procedures with the Services for disposing of the excess inventory transferred with the Services' consumable items.

DLA COMMENTS: Concur. DLA has issued letters to the Services requesting that they dispose of excess inventory transferred with their consumable items. DLA functional managers are reviewing procedures to determine the feasibility of tracking the disposal of the Services' excess inventory.

DISPOSITION:
(x) Action is ongoing. Estimated Completion Date: 30 Jun 94
( ) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:
( ) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
(x) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

MONETARY BENEFITS:
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Ms. Lora Conrad, MMSP-CIMO, x77333/Ms. Nancy Rohr, MMSB, x47975, 11/30/93
REVIEW/APPROVAL: James J. Grady, Jr., Deputy Executive Director, Supply Management, MMSD, x70510, 12/3/93
COORDINATION: A. Broadnax, DDAI, x49607, 12/8/93
DLA APPROVAL:

15 DEC 1993

LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director

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