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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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LOGISTICS AND COMMUNICATIONS DIVISION

B-168700

AUGUST 8, 1979

H,

The Honorable John Glenn
United States Senate

Dear Senator Glenn:

AGC 01073

CNO 00
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In your May 16, 1979, letter, you expressed concern over the Department of Defense's proposed realignment of its material distribution system and asked that we investigate the study on which it was based. This study, referred to as the material distribution system study (MDSS), was done by the American Management Systems, Inc., working as a subcontractor to the Logistics Management Institute. You asked that we analyze the methodology employed in the study and the factual support for the conclusions reached.

Our analysis showed that the techniques used in developing savings, costs, and depot capacity data were generally acceptable. However, the study was limited in scope and did not address long-term optimization of the Defense material distribution system. Instead, the study group directed the bulk of the study effort and the recommendations toward developing an alternative structure for the Defense Logistics Agency depot system. The principal scope limitations were that (1) no action be taken involving storage depots geographically colocated with major maintenance activities and (2) one service's material not be stored in another service's depots.

DISTRIBUTION SYSTEM STUDIES

The need to integrate and consolidate the Defense material distribution system has long been recognized. In 1975 the Joint Logistics Commanders initiated a Department of Defense material distribution system (DODMDS) study. This study was to examine and recommend alternatives to optimally integrate, consolidate, and standardize military service or agency distribution system functions and facilities where it was clearly beneficial in terms of service and cost.

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The study employed computer models capable of showing where depots should be located, what commodities each depot should carry, and which customers each depot should support. In early 1978 the study group issued a draft report recommending elimination of the distribution function from nine depots (three Army and six Defense Logistics Agency).

As a result of criticism of the study methodology by the Army and the Defense Logistics Agency, and the potential impact of the recommendations on the Defense distribution system's efficiency and effectiveness, Defense officials asked the ^{DLA} Defense Logistics Analysis Office and a team of independent operations research analysts to evaluate the study report.) Both groups criticized certain aspects of the methodology used in the study.

Because of the problems encountered with the study and a desire to begin some realignment action quickly, the Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) established a steering group chaired by his principal deputy. The steering group was (to identify and evaluate alternatives to the existing material distribution system in terms of budgetary cost implications, workloads and capacities, employment levels, and military construction requirements. The steering group ultimately assigned this task to the American Management Systems, Inc., This study effort was referred to as the material distribution system study, or MDSS.)

Although the titles of the two studies were similar, they differed significantly in scope. The DODMDS study group was charged with the long-range task of designing an optimum integrated material distribution system, whereas MDSS was directed toward identifying alternatives which would reduce excess capacity in the material distribution system and which could be acted on immediately. The desire for immediate implementation limited the scope of the study severely.

LIMITED SCOPE OF MDSS

Concl. MDSS, as stated in the contract task order, was to develop alternatives to the present Department of Defense material distribution system. However, (in the interest of timely action, the ^{MDSS} study group directed most of its study effort and its principal recommendations toward developing an alternative depot structure for the Defense Logistics Agency.

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The scope of the study was limited) in two principal respects. First, (the study group concluded that the present management, control, and communications systems did not enable an inventory manager of one service to operate effectively from the depot of another service. Rather than seeking a long-term solution to this problem in the relatively short time allotted for the study, ^{however,} the study group generally avoided realignment actions which required crossing service lines.)

Second, the study group excluded from realignment consideration those depots collocated with major maintenance activities.. They pointed out that realignment of maintenance functions and facilities ^{must be involved if the group included} was being studied and concluded that until this question was resolved to either eliminate or increase the workloads at the storage depots could be uneconomical and untimely.

As a result of these scope limitations, all of the Air Force and Marine Corps depots and most of the Army and Navy depots were not considered for realignment action.

CONCLUSIONS

While the need for a comprehensive realignment of the Defense material distribution system has long been recognized, MDSS was not of sufficient scope to accomplish such a realignment. We do believe that MDSS identified excess capacity in the Defense Logistics Agency depot system, and its recommendations to realine this system appear reasonable. *As stated previously,* the techniques used in developing savings, costs, and depot capacity data included in the MDSS report were generally acceptable, *it was concluded that*

However, the optimum Defense material distribution system still needs to be designed. To do this, Defense will first have to address and resolve issues relating to standardization of military services' supply management policies and procedures and consolidation of maintenance functions.)

B-168700

As arranged with your office, this report will be released for distribution to interested parties in 30 days unless you publicly announce its contents earlier.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "R. W. Gutmann". The signature is written in black ink and is positioned above the typed name and title.

R. W. Gutmann
Director