

119702

BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Secretary Of Defense

Improving The Air Force Modification Process Will Benefit Management Of Spare Parts In The Air Force And Defense Logistics Agency

Air Force and Defense Logistics Agency managers are spending millions of dollars buying and repairing unneeded items and are failing to control critical items in the inventory because of poor coordination of modification programs. The Air Force Logistics Command needs to give more Command emphasis to achieving a workable modification coordination process. Also, the Department of Defense needs to emphasize the need for the military services to better coordinate modification programs with the Defense Logistics Agency.



119702



GAO/PLRD-83-3
OCTOBER 15, 1982

023678

Request for copies of GAO reports should be sent to:

**U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20760**

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are \$3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are \$1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

B-208959

The Honorable Caspar W. Weinberger
The Secretary of Defense

Attention: Director, GAO Affairs

Dear Mr. Secretary:

This report discusses the need for and benefits of improving the Air Force's coordination of its modification programs.

The report contains recommendations to you on pages 21 and 27. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Chairmen, House Committee on Government Operations, Senate Committee on Governmental Affairs, and House and Senate Committees on Appropriations and on Armed Services; the Secretary of the Air Force; and the Director, Defense Logistics Agency.

Sincerely yours,

A handwritten signature in cursive script that reads "Donald J. Horan".

Donald J. Horan
Director

D I G E S T

Air Force Class IV and V modification programs are performed to correct deficiencies and improve capabilities of existing weapons systems and equipment. Often, these programs involve removing and replacing items managed by the Air Force and the Defense Logistics Agency (DLA). When Defense-managed items are being removed or replaced, it is important for managers to be alerted so that proper decisions can be made to purchase and repair only those items needed through the completion of the modification program. In a prior review of Air Force management of modification programs, GAO found indications that managers were purchasing unneeded items because they were unaware of modifications which were removing and replacing their items. GAO made this review to evaluate the Air Force's modification coordination process and to determine how effectively items affected by modification programs were managed.

Item managers are not routinely advised of modification programs that reduce or eliminate demand for their items. As a result, managers are spending millions of dollars purchasing and repairing unneeded items.

For example:

- Because current modification data was not provided, one item manager was not aware of the revised start date for an F-106 modification program. As a result, he continued a repair program until the modification was almost complete. During the period of the modification, over \$1 million was spent repairing unneeded items. These costs could have been reduced, if not avoided, had he been provided current modification data. (See p. 10.)
- Because the modification coordination document did not identify the consumable items embedded in investment items being removed during a modification program, item managers were not aware that their items were being affected. As a result, over \$278,000 was spent for unneeded items. These costs could have been avoided had the managers been notified. (See p. 11.)

--Because the coordination document was distributed only to supervisors, an item manager was not aware that his items were affected by a modification program. On two of the four items being removed by the modification, he had initiated purchases totaling \$50,000 for unneeded material. After GAO informed him of the modification, he was able to cancel part of the purchases valued at \$27,500. (See p. 11.)

Also Air Force managers are not effectively controlling critical items that could cause hazardous conditions if reinstalled on modified equipment. For example, item managers at two logistics centers had not been notified of modifications and special procedures were not implemented to control critical items. At one center, critical items were indiscriminately issued and two purchase actions valued at about \$55,000 for unneeded items had been initiated. Officials at both centers took action to better control the critical items and to cancel contracts for unneeded items after GAO provided data on the modification programs. (See pp. 12 to 14.)

One of the principal reasons for the Air Force's longstanding problem in coordinating modification programs is the fragmented method by which the Air Force Logistics Command manages them. A number of different Command groups have responsibility for issuing policy on modification coordination, but no one group is responsible for assuring the policies are consistent and complete or are even implemented. The Command has allowed each center to establish its own procedures for modification coordination. This practice has brought the Command substantial criticism from the Air Force Audit Agency and has prevented corrective actions needed Command-wide. For example:

--In 1979 and 1980, the Audit Agency issued a number of reports pointing out shortcomings in the modification coordination process. In response the Command (1) issued a new regulation, (2) revised an old one, and (3) established a different procedure. These actions have been ineffective. (See pp. 15 and 16.)

--In March 1978, the Warner Robins Logistics Center instituted a technique for tailoring consumable item requirements to certain modification programs and was able to reduce unnecessary purchase requirements by over \$228,000 per month. The Command did not promote the use of the technique

at the other centers. GAO did. As a result, two centers are now planning to use it. (See pp. 18 and 19.)

--In April 1981, the Command Inspector General found that San Antonio Center personnel were not familiar with the modification coordination process. The Center initiated a training program to introduce the process to managers. Although benefits have already resulted at the Center, their impact will be limited because they apply only to the one center. GAO found managers at other centers also needed such training. (See pp. 19 and 20.)

GAO also found that in addition to affecting Air Force-managed items, Air Force modification programs frequently involved removing and replacing items managed by DLA. However, Air Force policies do not require that DLA be notified and Air Force personnel are not doing it. A limited test at two DLA centers on items affected by Air Force modification programs disclosed that DLA item managers were not aware of the programs and, in some cases, were purchasing and storing unneeded items. (See pp. 23 and 24.)

DLA officials believe that being notified of modification programs which remove, replace, or involve any significant changes in demand pattern on their items is essential for effective management. The officials pointed out that neither the Army nor Navy provide modification data to DLA. (See pp. 24 and 25.)

GAO also found that certain improvements were needed in the DLA system to effectively use modification data. DLA recognizes the need for establishing data files and procedures necessary to use this data. (See pp. 26 and 27.)

GAO believes the key to achieving a workable modification coordination process in the Air Force is increased emphasis at a sufficiently high level to insure its success. Therefore, GAO recommends that the Secretary of Defense instruct the Secretary of the Air Force to direct the Air Force Logistics Command to give increased Command emphasis to achieving a workable modification coordination process. This should include:

- Eliminating the diversity in the processes used at the Air Logistics Centers to coordinate modification programs and the numerous regulations involved.
- Establishing a standard modification coordination procedure for all Air Logistics Centers to follow. The procedure should detail specific responsibilities of center personnel, including responsibility for identifying and controlling embedded items affected by modification programs.
- Establishing a quality control procedure that will provide regular feedback to the Command on how effectively the centers are implementing the Command's coordination process.
- Establishing a Command-wide training program on the modification coordination process and provide this course regularly to center item managers.
- Evaluating the special coding technique devised by the Warner Robins Air Logistics Center and, where appropriate, incorporating it into the Command's standard modification coordination process.

GAO also recommends that to resolve the modification coordination problems between the services and DLA and to improve DLA effectiveness, the Secretary of Defense:

- Emphasize the need for coordinating modification programs; the military services should be specifically required to routinely and systematically coordinate modification programs with DLA.
- Require the Director of DLA to (1) establish internal procedures for coordinating modification data with item managers and (2) revise the DLA requirements system to provide item managers with information concerning application of items they manage.

AGENCY COMMENTS

In commenting on a draft of this report, Defense and Air Force officials agreed with all of GAO's conclusions and recommendations and outlined plans for strengthening the coordination process. (See app. I.)

C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	The Air Force modification coordination process	2
	Air Force audit reports on the coordination effort	3
	Objectives, scope, and methodology	5
2	AIR FORCE MODIFICATION COORDINATION PROCESS IS NOT EFFECTIVE	8
	Breakdown in coordination process	8
	Effects of poor coordination process	9
	Why have ineffective procedures continued to exist?	14
	Conclusions	20
	Recommendations	21
	Agency comments	21
3	IMPACT ON THE DEFENSE LOGISTICS AGENCY	23
	Air Force coordination process excludes DLA	23
	DLA system needs improvement to effectively use modification data	26
	Conclusions	27
	Recommendations	27
	Agency comments	28
APPENDIX		
I	Letter dated September 14, 1982, from the Principal Deputy Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics)	29

ABBREVIATIONS

AFLC	Air Force Logistics Command
DCSC	Defense Construction Supply Center
DESC	Defense Electronics Supply Center
DLA	Defense Logistics Agency
DOD	Department of Defense
GAO	General Accounting Office
TCTO	Time Compliance Technical Order

CHAPTER 1

INTRODUCTION

Air Force modification programs are performed to correct deficiencies or to improve capabilities of existing weapons systems and equipment. These programs are categorized as Classes I through V. Classes I through III are special purpose programs that are either temporary or limited in scope. The Air Force's major modifications are those designated as Classes IV and V modifications. Class IV modifications correct deficiencies in operational weapons systems and equipment related to safety hazards, mission accomplishment, or operational efficiency. Class V modifications programs provide new or improved capability to weapons systems or, in some cases, remove capability that is no longer needed.

The Air Force Logistics Command, through its five Air Logistics Centers, is normally responsible for approving and processing Class IV modifications for weapons systems and equipment whose designs have stabilized and have become operational. Centers can approve Class IV modifications costing up to \$2 million for aircraft and missiles and up to \$500,000 for other equipment. The Command approves Class IV modifications up to \$10 million for aircraft and missiles and up to \$2 million for other equipment. Air Force Headquarters must approve all Class IV modifications on aircraft and missiles costing over \$10 million and ground equipment modifications costing over \$2 million and all Class V modifications.

In November 1981, the Command was managing 1,093 active Class IV modifications and 134 active Class V modifications. Total expenditures for fiscal year 1982 for the Class IV modification programs were estimated at \$2.2 billion.

Modifications are described in Time Compliance Technical Orders (TCTOs), which provide details, such as equipment to be modified, number of staff-hours required, special skills and tools needed, and a general estimate of the program's planned completion date. The TCTOs also identify (1) material needed to perform the modification and (2) parts removed and replaced by the modification, along with specific instructions for disposition of parts removed.

Some parts removed and replaced during modification are managed within the Air Force, and some are managed by the Defense Logistics Agency (DLA). Removed or replaced items can be a simple single item or can be as large and complex as a complete computer system which involves hundreds of other Defense-managed items embedded in it which will also be impacted by the modification.

When Defense-managed items are to be removed and replaced by modifications, it is important that item managers be notified so

that they can purchase and repair the items needed for support only until the modification has been completed. Accordingly, the Air Force has established policies intended to alert item managers when their items are affected by modifications.

THE AIR FORCE MODIFICATION
COORDINATION PROCESS

The Air Force has established a coordination process called the "874 program," which refers to the Time Compliance Technical Order Supply Data Requirements, AFLC Form 874--the primary document used in the coordination process.

AFLC Form 874 contains supply-related data relevant to Air Force modification programs and identifies

- parts needed to carry out the modification program and to correct deficiencies;
- spares affected by the program, along with information on where the spares are to be modified;
- actions required on spare inventory items;
- parts needed to modify spares;
- parts being permanently removed or replaced, along with specific disposition instructions;
- "critical" items which could cause hazardous conditions if reinstalled on equipment and actions required on these items; and
- consumable items affected by the modification program, along with disposition instructions.

Air Force policy requires that modification programs be coordinated when (1) complete kits are being procured which contain items managed by other managers, (2) disposition of items being permanently removed is the responsibility of another item manager, or (3) consumable items are affected.

The AFLC Form 874 is used as the notification document at and between Air Logistics Centers. Item managers at each center are alerted of modifications through use of another prescribed Command document--AFLC Form 417, Coordination of Proposed Technical Order. The Form 417 contains essentially the same data listed on Form 874, but each item manager responsible for affected items is to be provided a separate AFLC Form 417. Once the Form 874 has been coordinated, the supply data is transferred to the TCTO.

AIR FORCE AUDIT REPORTS ON THE COORDINATION EFFORT

Between 1978 and 1980, the Air Force Audit Agency performed various reviews of the Air Force modification coordination process. In evaluating Class IV and V modifications, the Agency found the process not effective in alerting item managers when modifications impacted their items. Some highlights of the Agency's reports follows.

Class V modification on F-4 aircraft

In October 1979, the Audit Agency issued a summary report of Class V modifications applicable to the F-4 aircraft. Several issues addressed management of assets removed as a result of the modifications and the need to tailor requirements computations on assets removed.

Management of removed assets

The Agency found that Class V modifications often required permanent removal of serviceable investment and expendable assets from aircraft being modified. The system managers are to obtain disposition instructions for these items by sending the ALFC Form 874 to the appropriate item managers. Item managers are to provide specific disposition instructions for the removed items and indicate which items are "critical" and require special procedures to insure that they are not issued for modified equipment. Critical items are items which could cause hazardous conditions if reinstalled on equipment; they are to be assigned a special management review code (Code "T") so that they will not be issued automatically.

The auditors found that item managers were not being given the opportunity to provide disposition instructions because either incomplete coordination documents were being provided or the documents were not being distributed to the appropriate item managers. As a result, unnecessary procurement actions were being initiated.

The auditors also found that item managers were not taking action to control issuance of critical items in the inventory. For 2 modifications, which identified 51 critical items, item managers had not used the special management review code specified in the TCTO to control issues from inventory.

Need to tailor requirements computations

The Audit Agency reported that under normal circumstances, flying-hour programs for weapons systems are included in the Recoverable Consumption Item Requirements System (DO-41), which is used to compute requirements for Air Force investment items. When weapons systems are modified, however, the portion of the total flying-hours applicable to a given investment item may vary

on the basis of the aircraft modification schedule. A particular investment item may be altered or it may be permanently removed from modified aircraft, leaving portions of that aircraft series in different configurations. To compensate for the modification program's impact upon predicted investment item usage data, flying-hour programs must be adjusted. This adjustment process is known as "tailoring" and is accomplished by altering the "percentage of application" factor in the requirements system over the life of the modification schedule. If tailoring is not done on a timely basis and accurately, computed purchases and repair/overhaul needs will be in error.

The auditors found that tailoring was not being done at two of the three Air Logistics Centers reviewed. They reported that because item managers and equipment specialists were not being apprised of modification programs or provided information on modification schedules, repair programs were overstated.

The Audit Agency recommended that the Air Force Logistics Command (1) assure timely and complete submission of the AFLC Form 874 to the item managers and (2) revise the definition of manager-review code "T" to include permanently removed parts from aircraft modification programs. It also recommended that the F-4 system manager assure all item managers affected by the modification program are provided current modification schedules and notified of significant schedule changes.

Modifications to the C-5A aircraft

In December 1979, the Audit Agency issued a summary report dealing with Class IV modifications to the C-5A aircraft. The report noted that items permanently removed or inactivated were not being identified on the coordination document and, as a result, millions of dollars of unnecessary purchases were being made.

The report noted that problems occurred because the regulations governing the coordination process did not clearly assign responsibility for identifying expendable components affected by modifications. The agency recommended that the Logistics Command

--require all items affected by modification programs to be identified on the Form 874 and

--insure that AFM 67-1 and AFLCM 66-14 guidelines for preparing and processing Form 874 clearly establish responsibility for identifying items affected by modification programs.

The Audit Agency later followed up on these reports and found that corrective actions had not been taken. Procedures and instructions for coordinating modifications still did not specify who was responsible for identifying items affected by modifications, and critical items were still

not being controlled to preclude their being routinely issued. As a result of the followup reviews, the audit agency repeated its earlier recommendations to the Command.

OBJECTIVES, SCOPE, AND METHODOLOGY

During prior GAO reviews, we found indications that Air Force item managers were purchasing unneeded items because they were not being informed of modifications that removed or replaced items they managed.

This review was made to (1) obtain information on the process used to coordinate modification data with item managers and (2) assess its effectiveness.

To obtain information on how the process is supposed to work, we

- interviewed Command and Air Logistics Center officials;
- reviewed Air Force policies, regulations, and procedures which govern modification management and coordination; and
- reviewed local coordination policies and practices at all five Air Logistics Centers.

We also met with various DLA officials to discuss how modification programs are coordinated between the Air Force and DLA.

To assess how effectively the coordination process works, we

- tracked modification programs through each Air Logistics Center's coordination process and
- contacted specific Air Force and DLA item managers who had items being removed and replaced by modifications to determine (1) if they were aware of the modifications and (2) actions taken in response to the modification programs.

The Air Force does not maintain a list of modification programs which involve permanent removal of assets. Because of this, we judgmentally selected modification programs to track through the Air Logistics Centers coordination process. We tracked 44 modifications through the centers' systems. To determine how well each center's coordination process works, we selected a Class V modification program which involved permanent removal of assets managed by all five Air Logistics Centers and several DLA Supply Centers. We selected two F-106 modification programs because the Air Force was in the process of transferring management responsibility of unique consumable F-106 spare parts to DLA and we could use this modification to assess the coordination process involved in that transfer.

To assess the impact of Air Force modification programs on DLA-managed items, we selected 65 items, managed at 2 DLA supply centers, that were being permanently removed by Air Force modification programs.

We also evaluated the merits of a special coding technique being used at the Warner Robins Air Logistics Center to inform its item managers when consumable items were being permanently removed on certain systems. We then obtained views of other Air Logistics Center officials on the applicability of the technique at their Centers.

In addition, we

- discussed with DLA officials the capabilities of DLA's requirements system and the procedures needed to coordinate modification data with DLA managers and
- reviewed Inspector General and Air Force Audit Agency reports on the modification coordination process.

The review was performed at the following locations:

Air Force

- Headquarters, Air Force Logistics Command, Wright-Patterson Air Force Base, Ohio
- San Antonio Air Logistics Center, Kelly Air Force Base, Texas
- Warner Robins Air Logistics Center, Robins Air Force Base, Georgia
- Sacramento Air Logistics Center, McClellan Air Force Base, California
- Oklahoma City Air Logistics Center, Tinker Air Force Base, Oklahoma
- Ogden Air Logistics Center, Hill Air Force Base, Utah

Defense Logistics Agency

- Headquarters, Defense Logistics Agency, Washington, D.C.
- Defense Electronics Supply Center, Dayton, Ohio
- Defense Construction Supply Center, Columbus, Ohio

We also visited the Navy's Aviation Supply Office, Philadelphia, Pennsylvania, and the Army's Troop Support and Aviation Material Readiness Command, St. Louis, Missouri, to obtain data on how they coordinate modifications with DLA.

Our review was performed in accordance with GAO's current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

CHAPTER 2

AIR FORCE MODIFICATION COORDINATION

PROCESS IS NOT EFFECTIVE

The Air Force has recognized that modifications to weapons systems and equipment often impact future demand for spare parts and has established policies intended to assure that its managers are notified of changes resulting from these programs. As noted earlier, the Air Force Audit Agency has issued a number of reports pointing out that the coordination process does not effectively alert item managers when modifications affect their items. Although the Air Force has issued various regulations in response to this criticism, actions taken have not corrected the problem.

Each Air Logistics Center has established its own modification coordination process, but item managers are still not always advised of modifications that adversely affect their items. A detailed evaluation of the process at three centers and a limited analysis of the process used at the other two centers disclosed that item managers are not being routinely advised of modifications affecting their items. As a result, the Air Force is spending millions of dollars to purchase and repair unneeded items and is failing to control critical items in its spare parts inventory. The breakdown in the process, its adverse impact, and principal causes are discussed below.

BREAKDOWN IN COORDINATION PROCESS

Effective coordination of a modification requires (1) recognizing that parts affected may be either investment items managed within the DO-41 system or consumable items managed within the DO-62 system and (2) notifying managers responsible for these items so they can determine the impact on future requirements. However, neither of these requirements is routinely met.

Investment items may be made up of several, or even hundreds, of consumable items or even other investment items managed by other item managers. These other managers may be located at one of the other Air Logistics Centers or at a DLA supply center. Thus, a coordination document which identifies investment items as being affected by a modification would require further research to determine the items making up the investment items and to identify and advise the item managers.

However, at all five Air Logistics Centers, item managers were not being notified, even when their items were specifically listed on the coordination document. Further, when investment items were affected, none of the centers were identifying the items embedded in the investment items.

Different reasons for the process breakdown surfaced at the various centers.

At the Ogden Center, for example, the consumable item branch was not even included on the distribution list for the coordination documents. Thus, as a matter of routine, those managers were not advised of modifications affecting their items. At the Sacramento Air Logistics Center, personnel in one management division were confused about which branch within the division was responsible for notifying other centers when a modification managed in their division removed or replaced items managed at the other centers. Each branch thought the other was responsible for such notification, and neither was routinely doing it.

At the Warner Robins and San Antonio Centers we found that often when supervisors received coordination documents, they merely signed them and returned them to the originating activities without advising the item managers. In such cases, research to identify affected items was apparently only perfunctory at best and was totally ineffective. For example, in February 1981, the Oklahoma City Air Logistics Center forwarded to the San Antonio Center a coordination document identifying items which would be affected by a modification to the B-52 aircraft. The day he received the document, the investment items branch chief noted on the transmittal letter that no San Antonio investment items were affected and he returned the document for further coordination. We found, however, that at least three San Antonio-managed investment items were listed on that document. Although one item manager had been notified by a June 1980 letter that some of her items would be affected, she had not taken actions to determine its possible impact on future requirements. The other two item managers were not notified and, of course, did not adjust their future requirements.

EFFECTS OF POOR COORDINATION PROCESS

Detailed analysis of the process at three Air Logistics Centers and a limited analysis at the other two disclosed that (1) unneeded items were being purchased and repaired and (2) critical inventory items were not effectively controlled because item managers were not up to date on decreasing or restrictive requirements brought about by the modification program.

At four of the five centers, we identified over \$1.5 million of expenditures for purchasing and repairing items that could have been substantially reduced, if not avoided, had item managers been provided data necessary to determine the impact on future requirements.

We found no evidence of unneeded purchases or repairs at the Ogden Logistics Center. However, our limited review there disclosed that the procedures being followed would not preclude it and did not provide for proper control of critical items.

Our review at two DLA supply centers confirmed that the Air Force did not advise DLA of modifications which would impact

future demands for DLA-managed items. As a result, DLA is purchasing and storing unneeded items. The effect on DLA activities is discussed in more detail in chapter 3. Specific examples of adverse effects within the Air Force are discussed below.

Repairing and purchasing unneeded items

We identified instances of repairs and/or purchases of unneeded items at four of the five Air Logistics Centers. Over \$1.1 million was spent to repair unneeded items, and over \$400,000 was spent to purchase unneeded items. We discussed the modifications involving purchases with the item managers and, where possible, they canceled them. Cancellations totaled about \$100,000. Specific examples of repair and purchases are discussed below.

F-106 infrared cell modification

The San Antonio Air Logistics Center initiated a program to replace an infrared cell cooled by a compressor with an infrared cell cooled thermoelectrically. The modification required removal of several DO-41 investment items, including the compressor unit (NSN 4130-00-891-3565) and an adsorber (NSN 413-000-854-0280), both of which were managed at San Antonio.

In March 1978, the item manager for the compressor and adsorber was verbally notified by technical personnel that the modification was scheduled to begin in October 1979. Acting on this information, the item manager began reducing the repair requirement for both items. However, the modification did not begin as scheduled and the item manager had to reinstitute a repair program for both the compressor and the adsorber.

Application of the modification finally began in April 1980 and was completed in September 1981. The item manager was not advised of the new start date, however, and continued the ongoing repair program for the compressor until August 1981. During the modification period, 854 compressors and 893 adsorbers were repaired at a cost of about \$1.1 million. Had the item manager been apprised of the modification schedule, repair requirements could have been significantly reduced.

The following chart shows the average monthly requirements for the compressor and adsorber before and after application of the modification and the inventory status of each item at the end of the modification.

<u>Item</u>	<u>Average monthly requirements</u>		<u>Inventory status after modification</u>	
	<u>Before modification</u>	<u>After modification</u>	<u>Serviceable</u>	<u>Unserviceable</u>
Compressor	38	1	594	92
Adsorber	93	6	936	180

After the F-106 aircraft was modified, the remaining requirements shown above were for the F-101 aircraft. On the basis of these requirements, the Air Force's serviceable asset inventory of compressors and adsorbers represents a 49- and 13-year supply, respectively, to support the only remaining application --the F-101 aircraft. Unfortunately, that aircraft is scheduled to be phased out in fiscal year 1982.

Further, the compressor and adsorber contain embedded consumable items that will also be affected by the modification. However, the coordination document did not identify these components and the item managers for them were not aware that their items were being affected. The compressor contained 16 embedded consumable items for which purchases totaling \$275,598 had been initiated during the modification period. The adsorber contained one embedded consumable item for which a purchase of about \$3,000 was made during the modification period. These purchases could have been avoided had the managers been notified that the items would be affected.

C-141 latrine modification

The Warner Robins Air Logistics Center initiated a modification to install new fiberglass latrines on the C-141 aircraft and involved permanent removal of four items. The modification began in August 1981 and was scheduled for completion in August 1982.

The coordination document for this modification was distributed only to supervisors, so the item manager was not aware that his items were being affected. For two of the four items being removed, the item manager had initiated purchases totaling \$50,000 for unneeded material. After we informed him of the modification, he canceled part of the purchase for a savings of \$27,500.

CH-3 strobe light modification

The Warner Robins Air Logistics Center initiated a modification to replace navigational lights on the CH-3 helicopter with strobe lights. One light being removed (NSN 6220-00-981-1295) was managed at the San Antonio Air Logistics Center. The modification began in February 1981 and was completed in September 1981.

The San Antonio item manager was not aware that one of his items was being made obsolete. Although the navigation light was listed on the coordination document and on the TCTO as being removed, neither of these documents was on file at the San Antonio Center. In March 1981, 1 month after the modification began, the item manager initiated a purchase request for 21 navigation lights valued at about \$11,700. After we informed San Antonio officials of the modification, they took prompt action to terminate the contract for the unneeded lights.

Critical inventory items are
not effectively controlled

As previously noted, modification to the entire fleet of a certain type of aircraft (e.g., F-106) may take place over a long period. Some of the same type of items removed from a modified aircraft may still be needed to support the remainder of the fleet until the modification is completed. In some cases, modifications provide for removal of parts which, if reinstalled, could cause a hazardous condition. In such cases, items remaining in inventory are to be assigned a special manager review code (code "T") so that they will not be issued automatically.

These items are not being effectively controlled because item managers are often not aware of the modifications. In some cases, they know about the modifications but do not take action to assure that the items will not be issued automatically. Specific examples follow.

Modification of air inlet
controller test package

This package is used in testing the F-15 aircraft. A modification was initiated by the manufacturer because certain connections on the aircraft were being damaged when attached to the test package. The modification is managed by the Oklahoma City Air Logistics Center and was to be installed on all test packages currently in use. An equivalent modification was to be incorporated by the manufacturer during production of new test packages.

In January 1981, the manufacturer provided the San Antonio Air Logistics Center with the key coordination document (AFLC Form 874) which listed 13 items being removed or replaced. The document specifically warned that the items were critical and could demodify the equipment or cause a hazardous condition if reinstalled. It also instructed item managers to initiate immediate disposal action on removed items. In April 1981, the manufacturer provided the TCTO for the modification, which further instructed item managers to assign a special manager review code "T" to all critical items in inventory so they would not be automatically issued to Air Force activities. Six of the 13 items removed were being managed at 2 of the logistics centers where we analyzed the coordination process in detail--3 at San Antonio and 3 at Sacramento.

As noted above, the manufacturer had given the San Antonio Center the documents identifying items to be removed. In September 1981, we contacted the modification manager at San Antonio, who informed us that during a 2-day period the coordination document had been "walked through" and that each item manager and technician involved in the modification had been contacted and notified about the modification. His files, however, contained no evidence of this "walk through." He stated that the coordination document had been returned to the manufacturer.

We contacted San Antonio item managers to discuss actions taken in response to the document and found that no actions had been taken on any items in inventory. The item managers and their supervisor informed us they had not seen the document and were not aware that their items were being affected. At the time of our visit, there were 87 critical items in inventory which could have been automatically issued to Air Force activities.

As noted earlier, the TCTO instructed the item managers to assign a manager review code "T" to each critical item to prevent automatic issuance. However, because the item managers had not seen the order, critical items in the San Antonio inventory had not been assigned such a code. After we provided details of the modification and furnished copies of the modification documents, a San Antonio Center supervisor instructed the item managers to comply with the TCTO.

In March 1982, we tried to assess the effectiveness of actions taken by San Antonio item managers on the three critical items and found that problems still existed. Rather than assigning manager review code "T" to two of the critical items which would prevent automatic issues, one item manager assigned a "use-until-exhausted" code, which would not prevent automatic issues. The item manager for the third critical item had tried in September 1981 to dispose of all critical assets in the inventory but was not successful because of a disposal freeze on all F-15 components. Sometime between September 1981 and March 1982, management responsibility for the third critical item was transferred from the San Antonio Center to DLA.

After we informed San Antonio officials of these facts, action was taken to properly control the critical assets. On April 16, 1982, San Antonio officials notified DLA of the modification and advised them to challenge all requisitions for the item.

In November 1981, we contacted the Sacramento Air Logistics Center item managers to discuss actions taken on the three items affected by the air inlet controller test package modification. They were not aware of the modification and had not taken action to control critical items. At the time of our initial visit, one item manager had recently initiated a procurement request for one of the three items and a \$23,000 contract had been recently awarded for another. Further, critical items had been issued to Air Force users on two of the three items. We gave Sacramento Center officials information necessary to control the critical items in inventory and to stop the procurement request.

In March 1982, we again visited the Sacramento item managers to assess the actions taken. They still had taken no action either to control the critical assets, to stop the unnecessary procurement request, or to cancel the contract for the unneeded item. For example, two of the three items continued to be indiscriminately issued to Air Force activities after we informed

Sacramento officials in November 1981. In total, Sacramento issued 63 critical assets after the TCTO was issued in April 1981. We did not trace these items down to the user level to determine the impact of their continued use.

Also the purchase request which had been initiated just prior to our first visit had not been canceled as intended. Instead, it had been processed and a \$32,000 contract awarded to purchase the unneeded items.

As a result of our March 1982 visit, Sacramento officials finally assigned the appropriate manager review code to the items in inventory. They also placed a stop order on both the \$32,000 and \$23,000 contracts for unneeded items. However, they believe a termination charge may be incurred for canceling the contracts.

WHY HAVE INEFFECTIVE PROCEDURES CONTINUED TO EXIST?

The problems in the coordination process addressed above parallel those in several past reports by the Air Force Audit Agency. Why, after 3 years, have the problems been allowed to continue at such great cost in time and dollars? One of the principal reasons, in our opinion, is the fragmented method by which the Air Force Logistics Command manages the modification programs. Although several Command groups issue policy for coordinating modification programs, no one group is responsible to assure that the policies are consistent and complete or are even implemented. Although the Command issues many regulations addressing modification management, the regulations are often vague and offer little guidance to the centers on how to implement them. Instead of assuring that consistent policies and procedures are published and implemented, the Command has allowed each center to establish its own procedures and practices for coordinating modifications.

Officials at the centers have recognized they have problems in this complex area and have taken some actions to solve them. However, the actions have not been effective because modifications generated at one center often affect other centers which may be following different procedures or different implementing instructions. If the coordination process is to achieve its intent of notifying managers whose items are affected by modifications, the Command must, in our opinion, get more actively involved in the program implementation to assure that standard and consistent policies are followed and that proper corrective actions are taken on problems and weaknesses identified. Weaknesses in the Command's current approach to the process are discussed below.

Command policy officials lack an understanding of the coordination process

At the Air Force Logistics Command, several different groups have responsibility for issuing policy guidance on coordinating modification programs. We contacted all these groups, but they could not provide details on how the coordination process should work. Thus, we could not obtain a model of the process. We did obtain a list of the regulations dealing with modification coordination. This list identified five different regulations providing coordination policy guidance and three different Command directorates primarily responsible for the regulations.

The variety and number of regulations and groups responsible for them create confusion at the Air Logistics Centers. As noted earlier, most centers have established their own coordination processes. Since no one Command group is responsible for assuring consistent and workable procedures, the centers obtain bits and pieces of the processes from various Command sources. As shown below, the centers do not always use the same references for their local instructions and often obtain different guidance on how the process is supposed to work.

<u>Air Logistics Centers</u>	<u>Instructions used at centers</u>	<u>Higher headquarters regulation cited</u>
San Antonio	MMOI 66-29	AFLCRs 57-21, 8-4; AFLC Sup DAR 1-2100; AFM 67-1
Warner Robins	MMOI 57-5	AFLCRs 57-21, 23-43, 66-14
Sacramento	MMOI 65-11	No justification quoted
Oklahoma City	AFLC 8-4	AFLC 8-4
Ogden	00-AFLCR-57-2	AFR 65-3, 57-4, AFLCR 57-21

Command's actions to resolve Air Force Audit Agency findings add to confusion

As previously noted, the Audit Agency identified problems in the modification coordination process. In many instances, however, Command actions in response to the Agency reports have increased the confusion.

In response to three Air Force audit reports issued between July 1979 and January 1980 which criticized the centers' methods for adjusting requirements affected by modifications, the Command

- issued a new regulation in May 1980,
- distributed a draft revision to an existing regulation in December 1980, and
- identified a new procedure in September 1981 for providing modification schedule status information to equipment specialists.

At the completion of our review, the new regulation still had not solved the problem. The revised regulation and the new procedure were encountering significant implementation difficulties and were being held in suspense.

New Air Force Logistics
Command Regulation 8-4

This new regulation was issued in May 1980 to correct deficiencies identified in a December 1979 Air Force Audit Agency report. It requires that all items affected by a modification program be identified on the key document used in the coordination process--the AFLC Form 874. The Warner Robins Air Logistics Center criticized the new regulation, noting that it did not address the issue of notifying managers of consumable items embedded in investment items when a modification had reduced demand for the investment items.

In a followup report, the Audit Agency also criticized the new regulation, noting that it did not clearly require Air Logistics Center personnel to fully identify and control all items affected by modifications. The Agency recommended that the regulation be amended to specifically address consumable items embedded in investment items. In March 1982, the Command was in the process of revising AFLCR 8-4 to comply with the wording suggested in the Audit Agency's recommendation.

We agree that AFLCR 8-4 needs to be clarified to address consumable items embedded in investment items. This action alone, however, will not resolve the problem because as shown on page 15, three Air Logistics Centers--Ogden, Warner Robins, and Sacramento--do not use AFLCR 8-4 as a basis for their local coordination processes.

Draft revision to existing
Air Force Logistics Command
Regulation 27-1

In July 1979, the Air Force Audit Agency criticized the Command for failing to tailor its requirements to recognize the impact of modification programs. The Agency pointed out the need for all item managers to be notified on a timely basis of the pending phaseout of logistics support. The Command stated that the latter point was an area of responsibility and a level of

management not directly addressed in existing regulations and said that revising AFLCR 27-1 was the potential solution to the problem.

In December 1980, the Command distributed a draft of the revised regulation to the five Air Logistics Centers for comments. The draft described a new coordination process and introduced a new set of forms to effect it. The centers' responses were generally negative and contained many complaints, questions, and suggestions. For example, San Antonio Center officials commented that there were already seven different regulations which required special forms to carry out the process and added that "having so many prescribing regulations complicated the ability to maintain cognizance of the requirement." The Center recommended that the Command combine AFLCRs 8-4, 27-1, 57-21, and 66-21 and AFM 67-1 into one regulation containing all modification procedures.

After receiving the centers' comments, the Command decided it could not revise the regulation at the headquarters level, noting that

"Our most recent attempt to revise the regulation was unsuccessful, because to write it, an intimate knowledge of day-to-day operations within and among the ALCs [Air Logistics Centers] is required. Further, many logistics functions are involved, which are not standardized from one ALC to another * * *."

Consequently, in July 1981, the Command delegated the responsibility for revising AFLCR 27-1 to the Warner Robins Air Logistics Center.

By October 1981, Warner Robins had completed its revision and distributed it to the Command and the other four centers for comment. By mid-January 1982, the Command and the other centers had responded and their comments varied widely. For example, the Command, citing AFLCRs 67-7 and 8-4, noted that the revised AFLCR 27-1 should define more clearly where it leaves off and AFLCRs 67-7 and 8-4 take over. Responses from the other four centers were mixed. In at least two cases, their views conflicted with the need for a revised regulation but echoed the Command's concern about regulation overlap. The Ogden Center stated, for example, that although the revision introduced too many forms, it was a step in the right direction. The Oklahoma City Center did not agree that another regulation was needed and said that existing regulations would be adequate if revised to provide modification schedule information to item managers.

After receiving these comments, the Warner Robins official responsible for revising the regulation suspended further work on it. Issuance of the new regulation is now uncertain.

New procedure for providing modification schedule status

The Audit Agency had reported that purchase requirements were sometimes misstated because existing procedures did not provide updated modification schedules to equipment management specialists. As a result, requirement computations were not tailored to modification programs. The Audit Agency recommended that the Command establish procedures for providing equipment specialists with current modification schedules. In response, the Command initially proposed to include a new form (AFLC Form 465) in the revised AFLCR 27-1. The new form would provide current modification schedules to each equipment specialist.

In September 1981, however, the Command substituted computer-based microfiche products as the solution for providing current modification schedules to equipment specialists. The reason given was to reduce personnel workload. However, it was not until December 1981 that the Command informed the Warner Robins official responsible for drafting AFLCR 27-1 that the new form was being abolished.

On March 5, 1982, Warner Robins officials informed the Command that the microfiche product did not include adequate item identification to solve the problem and noted that if implemented, the form prescribed by the revised AFLCR 27-1 would be adequate. Neither solution had been implemented at the conclusion of the review, and the publication date of the revised AFLCR 27-1 was still uncertain.

Additional Command emphasis needed

Some centers are aware of problems in their modification coordination process and have tried to solve them. In two cases, the actions have had some success. For example, Warner Robins instituted a technique for tailoring consumable item requirements to certain modification programs. As a result, the Center has reduced unnecessary buy requirements by over \$228,000 per month. Also, the San Antonio Center initiated a training course to introduce the modification coordination process to its managers. The course has already resulted in refining the San Antonio process.

We believe that successful actions taken at one center could be used effectively by other centers. However, the Command has not promoted their use. In fact, the Command had not even informed the centers of successful actions at other centers.

Warner Robins system management code technique

In March 1978, Warner Robins requested permission from the Command to implement a special technique that would tailor requirements for consumable items affected by specific modification

programs to installation schedules. The technique involved assigning special four-digit system management codes to systems being modified. Program ratio factors were adjusted to reflect the expected decrease in demands.

The Command approved the request in April 1978 and assigned unique system management codes to 12 modifications. The Command authorized Warner Robins to use program ratios to automatically adjust buy requirements for consumable items unique to the systems being modified. By January 1982, Warner Robins had applied this technique to 39 modifications which encompassed thousands of consumable items.

Although this technique can be used only on certain modification programs, Warner Robins has found it extremely successful when it can be used. Center personnel estimated that during August 1981, they saved over \$228,000 because item managers were able to relate the potential impact of various modification programs to individual expendable items. The technique automatically facilitates the task of notifying item managers on consumable item purchase decisions by estimating the impact on future demand for each item and identifying this data on a computer-generated computation sheet. With this information, item managers may avoid purchasing unneeded items by considering related modification information, such as comparing an item's production leadtime to the modification computation data. For example, if the modification will be completed in 9 months and an item which will be obsolete after the modification program has a production leadtime of 10 months, with this information, the item manager will not buy it.

Although the potential of using the technique is great, the Command did not promote its use at other Centers. According to Command officials, the Command only provides general policy and each center determines its own operating procedure. Command officials also told us that they had not promoted the technique or required feasibility studies on its use because they thought

--the technique was more applicable to Warner Robins and the type of equipment it managed and

--the other centers were aware of the technique and would have implemented it if it were useful to them.

The Command was wrong. Sacramento and Ogden Air Logistics Center officials were not aware of the technique. After we explained it to them, they stated that they could use it. At the completion of the review, both centers were planning to implement it.

San Antonio training course
is needed at other Centers

In April 1981, the Command Inspector General's office found that San Antonio personnel were not familiar with the modification

coordination process or the coordination documents used in this process. The Inspector General recommended that a local training program be implemented to explain the policies and procedures involved in coordinating modification programs.

In September 1981, the San Antonio Center initiated a 2-hour training course designed to introduce the Center's modification coordination process to its managers. The program has already had some benefits. During the course, Center officials recognized that no one had responsibility for identifying and controlling consumable items embedded in investment items affected by modification. Division officials drafted an interim procedure that specifically fixed this responsibility. This interim procedure was not implemented until January 1982. Therefore, we could not evaluate its effectiveness.

While the training program has already had and will have benefits at the San Antonio Center, it will not affect managers at other centers. At other centers we found item managers who were also not familiar with the modification coordination process or the coordination documents. For example, Warner Robins Center item managers and Ogden Center section supervisors were not familiar with either of the coordination documents (AFLC Forms 874 and 417). Some managers at the Sacramento Center were not familiar with the local modification coordination process. If the Command was more actively involved in the program implementation, such weaknesses could be recognized and the need for corrective action emphasized to all Centers.

CONCLUSIONS

Air Force Logistics Command actions to improve the process used to coordinate its modification programs have not been successful. Although the Air Force Audit Agency has pointed out numerous shortcomings in the process, the Air Force has responded by issuing new regulations or revising old ones which do not correct the shortcomings. These actions have not resulted in substantial improvements in the process because they do not prescribe procedures for informing item managers of modification programs that reduce or eliminate future need for their items. As a result, Air Force item managers are repairing and purchasing unneeded items and are failing to control critical items in the inventory.

One of the principal reasons for these longstanding problems is the fragmented method by which the Command manages modification programs. Although several Command groups issue policies governing various aspects of the process, Command officials do not have a thorough knowledge of Air Logistics Center operations. Consequently, the policies and regulations provided by the groups are often incomplete and vague and offer little real guidance on how the process should work.

The centers have been allowed to interpret the Command policies and regulations and implement their own coordination processes. The centers are not routinely notifying item managers about modification programs, but the centers are aware of the problems and some have tried to solve them. However, successful corrective actions taken by some centers have not been disseminated to other centers by the Command.

RECOMMENDATIONS

We believe the key to achieving a workable modification coordination process is increased emphasis at a sufficiently high level to insure its success. Therefore, we recommend that the Secretary of Defense instruct the Secretary of the Air Force to direct the Air Force Logistics Command to give increased Command emphasis to achieving a workable modification coordination process. This should include:

- Establishing a standard modification coordination procedure for all Air Logistics Centers to follow. The procedure should detail specific responsibilities of center personnel, including responsibility for identifying and controlling consumable embedded items affected by modification programs.
- Establishing a quality control procedure that will provide regular feedback to the Command focal point on how effectively the centers are implementing the Command's coordination process.
- Establishing a Command-wide training program on the process and provide this course regularly to center item management personnel.

We also recommend that the Command be directed to evaluate the special coding technique devised by the Warner Robins Air Logistics Center and, where appropriate, incorporate it into the Command's standard modification coordination process.

AGENCY COMMENTS

DOD and Air Force officials agreed with our conclusions and recommendations. In commenting on a draft of this report (see app. I), they noted that the Logistics Command was revising directives in an effort to improve the coordination process, including standardization to the extent practical. They noted that the logistics centers would be required to notify the Command when requirements of the process were not met and, as a control mechanism, the Command Inspector General's office would periodically inspect the centers to insure the process was implemented. They also noted that the Command was evaluating the special coding technique devised by the Warner Robins Center and, where appropriate, would incorporate it in the revised directives.

On training, they noted that the Command was reviewing the San Antonio Center's package to see if it could be revised and incorporated in the Logistics System Training Program. The course will then be made available to all logistics centers.

CHAPTER 3

IMPACT ON THE DEFENSE LOGISTICS AGENCY

In addition to removing and replacing items managed in the Air Force supply system, Air Force modifications frequently involve removing and replacing items managed by DLA. To effectively manage their items, DLA managers must be kept apprised of modification programs which change future demand patterns for their items. DLA officials at the headquarters level and at two supply centers stated that it was essential that their managers be notified of modifications which either removed, replaced, or involved any significant change in future demand patterns of DLA-managed items. They noted that without such data, DLA managers could inadvertently purchase and maintain unneeded items.

Air Force policies, however, do not require that DLA be notified of modification programs, and Air Force personnel are not providing such notification. A limited test at two DLA supply centers on items affected by Air Force modifications disclosed that DLA managers were not aware of the modifications and, in some cases, were buying and storing unneeded items. This needs to be changed. Also, to make the coordination process complete, DLA needs to improve its requirements system to incorporate an application data file so that its item managers can effectively determine how modifications will affect their items.

AIR FORCE COORDINATION PROCESS EXCLUDES DLA

The Air Force coordination process does not include guidance or instructions on how to alert DLA managers when their item demands are changed by Air Force modification programs. We questioned Air Logistics Center officials on the rationale for this. One center official stated that he thought the Command and DLA had an agreement that coordination would not take place. An official from another center said that the center's coordination procedures were developed from a number of Air Force Logistics Command procedures and that the basic Air Force regulations used in drafting the center's procedures did not address coordinating modification programs with DLA.

Also Command officials gave two reasons why DLA was omitted from the coordination process. First, they said such notification would not benefit DLA because its requirements system did not contain an application file identifying the extent to which an item was used on the next higher assembly. They said that without such a file, DLA did not have sufficient data to accurately determine the impact of modifications on specific DLA-managed items. Second, they said that Air Force regulations did not require the coordination with DLA and they were simply following the regulations.

DLA is purchasing and storing items that may not be needed

Modifications we reviewed listed many items being removed or replaced as managed by DLA. We selected some of these to discuss with officials at two DLA Supply Centers--the Defense Electronics Supply Center (DESC) and Defense Construction Supply Center (DCSC). In these discussions we confirmed that DLA was not being advised of the modifications, and our tests indicated that some purchases could have been reduced or eliminated had DLA managers been aware of the impact of the modifications.

For example, of the 65 items tested, DLA managers have recently initiated procurement actions on 28 (43 percent) for a total expenditure of \$206,000. Because DLA does not have an application file which shows each item's use, DLA managers could not precisely quantify how the modifications would reduce future demand for their items. But in all cases they recognized that the reduced demand would result in fewer procurements. They also noted that modification data was an excellent example of the information needed to improve their managers' effectiveness and efficiency. Details of our tests at the two Supply Centers follow.

DESC

Here we tested 30 items affected by 6 Air Force modifications. DLA item managers were not aware of the modifications. Of the 30 items tested, procurement actions had been initiated on 16 items after the dates of the modifications for a total expenditure of \$172,000. Item managers expressed the belief that the quantity of purchases could have been reduced had they known about the modifications. However, they could not quantify the reductions because they were unsure of all the applications of the items. Despite the absence of application data, the reduced demand brought about by the modifications was apparent.

For example, an electromagnetic relay managed by DLA was deleted from use on the C-135 aircraft by an Air Force modification program dated March 5, 1979. The modification was completed on June 5, 1981. Three purchases have been made since March 5, 1979; the latest was made in March 1981 for 1,197 units costing \$53,002.16. The relay is used on several weapons systems, but since DLA's requirements system does not show individual uses of each item, we could not determine how much the purchase quantity could have been reduced. Although demand for the relays has not completely stopped, demand has clearly decreased since the modification began.

Another modification begun in January 1981 replaced a circuit breaker on the B-52 aircraft. The Air Force was the only user of this circuit breaker. The item manager was not advised of the modification and had purchased 193 of these circuit

breakers in February 1981. DLA has not had any demands for the item since the modification started.

DCSC

Here we tested 35 items affected by 5 Air Force modifications. The DLA item managers were not aware of the modifications. Of the 35 items tested, DLA initiated procurement actions on 12 after modification began. Center officials stated that the amount of purchases would have been reduced somewhat had they known about the modifications. Like DESC, they could not state precisely how much of a reduction would have occurred. But they said, as DESC did, that the reduced demands brought about by the modifications were apparent.

For example, a modification to the C-5A aircraft, which began in April 1981, deleted a nut assembly managed by DCSC, and the Center has not had any demands for the assembly since the modification began. The DLA item manager was not aware of the modification, however, and in May 1981 initiated action to purchase \$3,100 worth of the assemblies. Although the dollar value of this purchase action is not too significant, we believe it illustrates how inappropriate management actions can occur routinely under the current procedures. In our opinion, the significance of such actions will take on larger dimensions when management responsibility for additional items is transferred to DLA.

The Air Force is not the only military service not providing DLA with required information. DLA officials pointed out that the Army and Navy did not provide modification data to DLA. We verified this at the Navy Aviation Supply Office and at the Army's Troop Support and Aviation Material Readiness Command. DLA officials stated that DLA must be notified of any modification programs which reduced or eliminated demand for DLA items or it was almost certain that DLA item managers would ultimately purchase and stock unneeded items. They noted, however, that the Department of Defense (DOD) had not established a clear policy requiring coordination of modification programs between the services and DLA.

DLA problems will be aggravated when it assumes management responsibilities for additional items

DOD is currently transferring, to DLA, management responsibilities for 200,000 stock fund items currently managed by the services. Transfer of these items is a test, and if DLA is successful in providing support to the services on these items, it may be given full management responsibility for about 1.3 million additional items. Transfer of the 200,000 items began in April 1982 and is expected to be completed in October 1982.

The Air Force share of the 200,000 items is about 93,000 items. Many of these items are unique to special weapons systems which may be affected by modification programs. For example,

as shown below, there were 122 active modification programs on just 4 weapons systems subject to the transfer.

<u>Weapons systems</u>	<u>Number of active modifications as of November 1981</u>
F-106 Aircraft	16
H-1 Helicopter	13
T-39 Aircraft	8
A-10 Aircraft	<u>85</u>
	<u>122</u>

In October 1981, the services began the preliminary transfer of data packages on the 200,000 items. The packages contained relevant procurement, supply management, and technical data, including detailed application data.

DLA SYSTEM NEEDS IMPROVEMENT TO EFFECTIVELY USE MODIFICATION DATA

DLA needs to improve its requirements system to incorporate an application file so that its managers can determine the specific impact modifications will have on their items. An application file contains information on each national stock numbered item managed in the Defense inventory, such as all next higher assemblies on which the item is used and the quantity required for each next higher assembly.

An item managed by the services or DLA may have only one application (one next higher assembly) or it may have many. If the item has only one application and the system is modified to remove the item, the impact of the modification can be easily determined. However, the impact becomes significantly more difficult when an item is removed from only one of many applications. To effectively determine the impact, managers must know how many other applications the item has and the quantity required for each application. The Army, Navy, and Air Force maintain extensive application files on items that they manage. The Air Force, for example, can readily determine the impact a modification program will have on items being removed or replaced.

Although DLA managers do not know whether an item has one or many applications and cannot determine the specific impact a modification program may have on their items, the DLA system does provide some information useful in determining potential impact of modifications. For example, DLA managers can identify predominant users and the percent of use for each. However, they cannot determine the applications for their items.

DLA officials recognize the need for an application file and advised us that they had started to create one. They stated, for example, that for the 200,000 items being initially transferred, application data on each item was being programmed into their requirements system and would be provided to each DLA item manager.

They also stated that DLA has begun action to create an application file on items already being managed by the agency. According to those officials, DLA has asked each military service to provide application data for DLA-managed items used on specific weapons systems. This data will also be programmed into the requirements system and provided to DLA item managers. While DLA officials recognized that creating an application file was time consuming, they noted that some success had already been achieved. For example, DLA now has application data for each DLA item used on all F-15 and C-135 aircraft and on one model of the B-52 aircraft.

Another problem is that DLA does not currently have a procedure to coordinate modification data with its item managers. DLA officials agreed that such a procedure was needed and stated that action would be taken to draft specific procedures that would assure all item managers were apprised whenever modification programs affected future demands for their items.

CONCLUSIONS

Air Force modification programs frequently involve removing and replacing items managed by DLA. Although having this information is essential to effectively manage DLA items, the modification information is not communicated because the military services' procedures do not require coordinating modification programs with DLA. As a result, DLA item managers are purchasing and stocking items that may not be needed.

Currently, the DLA requirements system does not provide its managers with necessary data to determine specific impact of modification programs on the demand for their items. Also, DLA has no procedure to coordinate modification data within its organization. However, according to DLA officials, they have started actions which will remedy both of these shortcomings.

While we did not evaluate the Army and Navy modification processes, DLA officials were concerned that neither service provides modification information to DLA.

RECOMMENDATIONS

We recommend that the Secretary of Defense:

--Emphasize the need for coordinating modification programs; the military services should be specifically

required to routinely and systematically coordinate modification programs with DLA.

- Require the Director of DLA to (1) establish internal procedures for coordinating modification data with DLA item managers and (2) insure that those procedures provide item managers with information concerning application of items they manage.

AGENCY COMMENTS

DOD officials agreed with our conclusions and recommendations. In commenting on a draft of this report (see app. I), they noted the military services and DLA would form a study group to develop the methodology for the services to coordinate modifications with DLA. They also noted that upon completion of the methodology study, DLA would develop procedures for coordinating modifications within its organization.



ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

SR
MANPOWER
RESERVE AFFAIRS
AND LOGISTICS

14 SEP 1982

Mr. Donald J. Horan
Director, Procurement Logistics
and Readiness Division
General Accounting Office
Washington, D.C. 20548

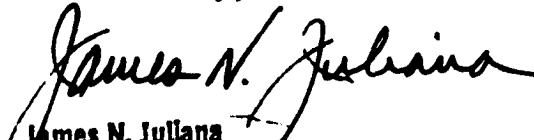
Dear Mr. Horan:

This is in response to your letter of August 2, 1982 which transmitted your Draft Report SMD-82-30, Code 943111, titled, "Improving the Air Force Modification Process will Benefit Management of Spare Parts in the Air Force and Defense Logistics Agency" (OSD Case #6030).

Comments received from the Air Force have been considered in preparation of the enclosed response which addresses each of the recommendations contained in the Draft Report.

We appreciate the opportunity to comment on this report in draft form.

Sincerely,


James N. Jullana
Principal Deputy Assistant
Secretary of Defense
(Manpower, Reserve Affairs, and Logistics)

Enclosure
As stated

DEPARTMENT OF DEFENSE
RESPONSE TO GAO DRAFT REPORT
"Improving the Air Force Modification
Process Will Benefit Management
of Spare Parts in the Air Force
and Defense Logistics Agency"
(SMD-82-30/943111) (OSD Case #6030)

RECOMMENDATION: That the Secretary of the Air Force direct the Air Force Logistics Command (AFLC) to give appropriate Command emphasis to achieving a workable modification coordination process to include establishing a standard modification coordination procedure for all Air Logistics Center (ALCs) to follow. The procedure should detail specific responsibilities of Center personnel, including responsibility for identifying and controlling consumable bedded down items affected by modification programs.

RESPONSE: The Air Force concurs in the recommendation intent. AFLC is currently revising directives in an effort to improve the coordination. Standardization should be implemented to the degree that it does not impair the functions within the ALCs. The recommendations will require an indepth evaluation by AFLC to identify applicable corrective actions for areas which may need improvement. Target completion date is July 1983.

RECOMMENDATION: That the Secretary of the Air Force direct AFLC to give appropriate Command emphasis to achieving a workable modification coordination process to include establishing a quality control procedure that will provide regular feedback to the Command focal point on how effectively the Centers are implementing the Command's coordination process.

RESPONSE: The Air Force concurs. The directives being revised by AFLC will contain a requirement for the ALCs to notify HQ AFLC when requirements for the coordination process are not met. Additionally, the AFLC Inspector General's office will inspect the ALCs periodically to ensure that the modification coordination process is being implemented as specified in the revised AFLC directives. Target completion date is July 1983.

RECOMMENDATION: That the Secretary of the Air Force direct AFLC to give appropriate Command emphasis to achieving a workable modification coordination process to include establishing a Command-wide training program on the modification coordination process and provide this course on a regular basis to Center item management personnel.

RESPONSE: The Air Force concurs. AFLC is reviewing the San Antonio ALC training package to determine if it can be revised and incorporated into the Logistics System Training Program (LSTP). Once developed and approved, the course will be made available to all ALCs. Completion date is December 1982.

RECOMMENDATION: That AFLC evaluate the special coding technique devised by the Warner Robins Air Logistics Center (WRALC) and, where appropriate, incorporate the concept into the Command's standard modification coordination process.

RESPONSE: The Air Force concurs. AFLC is presently evaluating the special coding technique devised by the WRALC and, where appropriate, will incorporate it into the AFLC directives being revised for the modification coordination process. Target completion date is July 1983.

RECOMMENDATION: That the Secretary of Defense emphasize the need for coordinating modification programs, with specific requirements for the military services to routinely and systematically coordinate modification programs with the Defense Logistics Agency (DLA).

RESPONSE: Concur. OASD (MRA&L) will request the military services and DLA to form a study group chaired by DLA to examine this recommendation and develop implementing methodology. A milestone date of November 1982 will be established for the study to be completed and presented to the ASD(MRA&L).

RECOMMENDATION: That the Secretary of Defense require the Director of the DLA to (1) establish internal procedures for coordinating modification data with DLA item managers, and (2) revise DLA requirements system to provide item managers with information concerning application of items managed by them.

RESPONSE: Concur. The DoD will request the Director, DLA to develop procedures and implement this recommendation. Milestone dates for the implementation of this recommendation will be established once the military services and DLA have completed and the ASD (MRA&L) has approved the study on coordinating modification programs. Implementation prior to that time may be premature and could result in unnecessary disruption to the materiel management processes.

(943111)

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
85
86
87
88
89
90
91
92
93
94
95
96
97
98
99
100



23336

AN EQUAL OPPORTUNITY EMPLOYER

**UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548**

**OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300**

**POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE**



THIRD CLASS