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

PROCUREMENT, LOGISTICS, AND READINESS DIVISION

OCTOBER 28, 1982

General Donald R. Keith
Commanding General, Army Materiel
Development and Readiness Command

Dear General Keith:

Subject: The Army Has Not Effectively Used Vertical Inventory Management Techniques (GAO/PLRD-83-11)

We have surveyed vertical inventory management techniques in the military services. We found that the Air Force and Navy have implemented vertical management controls over large segments of their inventories, but the Army has done little to implement vertical management.

The Army's principal attempt at vertical management is the Selected Item Management System-Expanded (SIMS-X). However, the Army has not achieved the goals of SIMS-X. This conclusion is based on our work at the Deputy Chief of Staff, Logistics (DCSLOG); the Materiel Development and Readiness Command (DARCOM); the Troop Support and Aviation Readiness Command (TSARCOM); and Fort Campbell.

BACKGROUND

Under vertical management, a single manager maintains worldwide control, ownership, and visibility over all inventories at both the wholesale and retail levels. Advantages include higher material readiness, improved supply responsiveness, decreased inventories, and lower administrative costs.

Army Regulation 710-1 states that SIMS-X:

--Implements Office of the Secretary of Defense directives concerning vertical and critical supply management of secondary items.

--Gives the wholesale item manager visibility of assets and requirements for selected items at the retail supply level.

--Applies to both stock fund and appropriated items.

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According to the regulation, the primary goal of SIMS-X is to improve the use of assets already in the supply system. This will be accomplished by removing retention levels on SIMS-X items and giving the wholesale item manager redistribution authority over assets above the requisitioning objective at retail locations. The regulation states that SIMS-X will result in the reduction of inventory in long supply and will facilitate the location of unserviceable reparables available for overhaul programs.

Material readiness commands consider items for inclusion in the program if they meet one of several criteria. Two of these are critical items of supply and secondary reparable and consumable items with an annual demand exceeding $50,000. SIMS-X items are selected semiannually, and their number varies. One memorandum stated that about 2,200 items were in the program.

SIMS-X OBJECTIVES ARE NOT BEING MET

SIMS-X objectives are not close to being met. Among other things, assets are not being redistributed, retail supply activities are not reporting needed data to the wholesale activities, required computer systems have not been completely installed, and management is not emphasizing the program.

The Army never did try to redistribute assets among retail activities. During a November 1980 meeting, DCSLOG and DARCOM officials decided to suppress automatic lateral distribution of SIMS-X excess assets for the time being. Since then nothing has been done to implement automatic redistribution.

According to TSARCOM inventory managers, manual attempts to redistribute excess SIMS-X assets also have been unsuccessful. These attempts have resulted in negative responses from the retail managers. Reasons range from the unavailability of assets to the need to retain the assets because of their criticality. TSARCOM and Fort Campbell officials stated that as long as retail commanders retained ownership and control over the assets, they would continue to deny referral requests.

Another problem relates to the selection of items, maintenance of a data base of retail level assets and requirements, and receipt of reports from retail activities. Although the Army regulation requires a semiannual review and selection of SIMS-X items, TSARCOM had not prepared a selection report in the year and a half before our review. Similarly, the data base was not maintained. TSARCOM's inventory managers have several sources for obtaining visibility over SIMS-X reparable and consumable assets at the retail level. However, this visibility has been limited by the number of retail activities reporting to TSARCOM. The December 31, 1981, TSARCOM quarterly report indicates that only 29 of the 135 retail activities are reporting.

The lack of automatic data processing equipment also has inhibited the full implementation of SIMS-X. In 1974 we reported that the SIMS program was not doing its job. We stated that its successor, SIMS-X, should provide better management control but that it would not operate until two computer systems were installed. One was scheduled for completion by January 1975 and the other by July 1975.

The limited capability of existing automatic data processing equipment is still given as a reason for the failure to fully implement SIMS-X. The Army considers two computer systems, albeit different ones, to be mandatory for the program's success. As of March 1982, the SAILS-ABX software program had been placed in 50 of the 54 installation supply support activities; completion was scheduled for June 1982. The DS4 software had been installed at only 9 of the 211 direct support supply activities; completion was scheduled for 1985. Therefore, 10 years will have expired since our earlier report, and SIMS-X still will not have been fully implemented because of computer difficulties.

TSARCOM inventory managers have been trained in the SIMS-X program but seldom use the program data in carrying out their management responsibilities. This factor, when combined with the other problems discussed above, is symptomatic of a lack of management emphasis on SIMS-X in particular and the vertical management concept in general.

Field commanders are extremely opposed to giving up ownership and control over their inventories. DCSLOG and DARCOM officials still consider SIMS-X to be in the early developmental stage, with full implementation a long time in the future. We found no indication that management was making any concerted efforts to speed up implementation or push the adoption of vertical management.

CONCLUSIONS

In prior reports we strongly advocated adoption of vertical management techniques to improve supply performance. We remain convinced that vertical management is the approach to use. In support of our position, the Navy and Air Force have implemented vertical management controls over large segments of their inventories.

The Army lags far behind the other services in adopting vertical management. It has not embraced the concept as a whole, and its primary attempt at vertical management, SIMS-X, has been replete with problems and delays. We believe that most Army items should be vertically managed, but first the problems in implementing SIMS-X must be overcome. As a minimum, the Army should use manual procedures to redistribute excess assets until the computer systems are installed.

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Because we did not examine the SIMS-X problems in depth, we are not making recommendations now. However, we would like you to comment on the matters discussed in this report. We are particularly interested in the actions underway or planned to correct the problems, including redistribution of assets, and to fully implement SIMS-X. We also would appreciate hearing your plans for adopting vertical management for other items in the Army supply system.

Copies of this report are being sent to the Secretaries of Defense and the Army.

Sincerely yours,

Dick Helmer /glo

Henry W. Connor
Senior Associate Director