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

NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

MARCH 28, 1984

B-211771



123756

The Honorable Caspar W. Weinberger
The Secretary of Defense

Subject: Test Transfer of Consumable Supply Items to the
Defense Logistics Agency from the Military
Services (GAO/NSIAD-84-82)

Dear Mr. Secretary:

At the request of the Chairmen, Subcommittees on Defense, Senate and House Committees on Appropriations, we reviewed the Department of Defense's (DOD's) test transfer of about 200,000 consumable items to the Defense Logistics Agency (DLA) from the military services. Before the test transfer, DLA managed about 2 million consumable items and the services managed about 1.4 million consumables, which had been coded for service retention under existing management criteria. Some consumables are considered essential for the operations of weapon systems. We also evaluated the cost and military readiness impact of returning items, including weapon system essential items, to the services. In addition, we evaluated the methodology of the transfer to determine if the test should be terminated and weapon system management sensitive items should be returned to the services.

Consumable items are those which are consumed in use or replaced after their use because they either cannot be repaired or it is uneconomical to do so. They include parts for aircraft, ships, tanks, etc.

In summary, we found that:

- The items transferred to DLA were not selected in a statistically valid manner. Therefore, items transferred are not statistically representative of the 1 million consumable items that were not transferred. Accordingly, test results cannot be projected to the remaining consumable items.

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--The cost and readiness impact of returning weapon system management sensitive items to the services cannot be determined until specific criteria to identify the items are implemented.

--DOD and the services are working together to implement criteria for identifying weapon system management sensitive items.

The Air Force and Army want their weapon system sensitive items to be returned. Their argument for returning the items centered around their fundamental relationship to the readiness of the weapon system, whose integrity they said can only be maintained by the service responsible for the parent weapon system. The Navy and Marine Corps do not want any of their items returned.

Standard criteria, which are acceptable to all the services and DLA have been approved by DOD (see enc. II). The services and DLA need to apply the criteria to identify the specific items which are essential to operate weapon systems as quickly as possible. And, DLA management of the 200,000 consumable items in the test transfer should continue until weapon system management sensitive items have been identified. Then, these items should be service managed and the others DLA managed.

Further details on the results of our review are contained in enclosure I.

We recommend that you:

--Not return any of the test items to the services until the standard criteria have been used to identify weapon system management sensitive items.

--As part of the implementation plan insure consistent application of the criteria within DOD and the services.

--Screen the test items against the criteria and return those items that meet the criteria to the services for their management.

--Screen all other consumable items against the criteria and transfer all items that are not weapon system management sensitive to DLA for its management.

DOD and service officials agreed with our recommendations. In providing written comments (see enc. III) on March 12, 1984, they informed us that the Department has developed a definition of a weapon systems management sensitive item and revised the item management coding criteria used to make management assignments. They have established a jointly staffed DOD Integrated Material Management Committee, which is developing a plan to implement the criteria. The plan is expected for review and approval in April 1984. One provision of the plan will be the establishment of an audit surveillance requirement to insure consistent application of the criteria throughout DOD. All test items will be screened against the criteria except items which the services indicate they do not want returned. All other consumable items will be screened based on time frames established by the Integrated Material Management Committee.

As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations 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 Secretaries of the Army, Navy, and Air Force; the Director of the Defense Logistics Agency; the Chairmen, Subcommittees on Defense, Senate and House Committees on Appropriations; and the Chairmen of the Senate and House Committees on Armed Services.

Sincerely yours,



Frank C. Conahan
Director

Enclosures - 3

TEST TRANSFER OF CONSUMABLE SUPPLY ITEMSTO THE DEFENSE LOGISTICS AGENCY FROM THE MILITARY SERVICESINTRODUCTION

In 1962, the Secretary of Defense established DLA to manage common supply items. Before the test transfer, DLA managed about 2 million consumable items and the services managed about 1.4 million consumables which were retained for management under existing management criteria. Some consumables are essential to weapon system operations and, therefore, are referred to as "weapon system sensitive." Consumable items are those which are consumed in use or replaced after their use because they either cannot be repaired or it is uneconomical to do so. They include parts for aircraft, ships, tanks, etc.

In 1977, the Office of the Secretary of Defense developed a proposal to transfer management of about 1.2 of the 1.4 million consumables from the services to DLA at an estimated annual savings of \$124 million and a probable overall increase in supply effectiveness. The remaining items were designated for management retention by the services. This proposal, based on DOD economic analyses, was presented to the services in December 1978 for review and comment.

DOD requested the Defense Audit Service (DAS) to evaluate the services' responses and draw conclusions on the data's validity, accuracy, and comparability. DOD also requested the Defense Logistics Analysis Office to update DLA's resource requirements to make them comparable to the services' requirements.

The DAS report¹ stated that the annual savings should be between \$62.9 million and \$84.1 million instead of the \$124 million previously reported. DAS found the cost bases the services and DLA used were lower than estimated in the proposal. In addition, it identified additional cost savings not considered in the proposal. We were provided detailed briefings on the DAS study and were satisfied with the basic approach used to identify the potential savings from the transfer.

¹Report on the Review of the Responses to a Proposal to Realign Management of Consumable Items, No. 80-108, May 29, 1980.

In a January 1981 letter to the Secretary of Defense, we listed the proposed transfer as one of several potential cost savings measures that DOD could implement. Moreover, the House Committee on Appropriations Surveys and Investigations staff also supported the transfer.

In July 1981, the Deputy Secretary of Defense directed the services to transfer about 200,000 consumables to DLA as a test to determine whether additional items should also be transferred. The transfer of item management from the services to DLA was accomplished through seven incremental moves and one clean-up transfer. Transfers were started in April 1982 and were essentially completed in November 1982.

These transfers occurred even though the Air Force and Army objected. The House Committee on Armed Services, Subcommittee on Readiness, agreed with the Air Force and Army and directed the 200,000 items transferred be evaluated against existing criteria and that common-type items be assigned to DLA and more complex or unique weapon system related items to the respective services. However, the Senate and House Committees on Appropriations, Subcommittees on Defense, directed that no such actions be taken until the test was evaluated.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to evaluate the test transfer methodology, the transfer's cost effectiveness, and the supply effectiveness and readiness impact of DLA's management of the items transferred. Accordingly, we determined (1) how the test items were selected, (2) if the test should be terminated, and (3) if the management of weapon system sensitive items should be returned to the services. In addition, we met with a staff-member from the House Committee on Armed Services Subcommittee on Readiness, to insure that the Committee's concerns were considered in the scope of our audit.

We could not evaluate the cost effectiveness of the transfer or the supply effectiveness and readiness impact of DLA's management because:

- The original cost data was old and outdated and current cost data was not readily available.
- DLA had not managed the items for a sufficient length of time, by the end of our review, to accumulate supply data, and comparable service management data was not readily available for comparative purposes.
- The services did not have the criteria necessary to identify weapon system management sensitive items.

We conducted our work at the Washington headquarters offices of the military services and at the Defense Logistics Agency, Cameron Station, Virginia. We interviewed key DOD and service personnel who were involved in the transfer. We talked to Air Force personnel at the Air Force Logistics Command, Wright Patterson Air Force Base, Dayton, Ohio, and at the Oklahoma City, Air Logistics Center. We obtained data from the Air Force and DLA on items transferred by the Air Force and Army and performed statistical analyses to identify the number and nature of the items. We contacted numerous sources to develop the background on individual supply items. Our review was conducted from January to June 1983. We reviewed correspondence relating to the test transfer, the DAS evaluation, and the DOD time-phased plan for item transfers and statistical printouts from DLA and the Air Force.

Our review was performed in accordance with generally accepted government auditing standards.

SELECTION OF SUPPLY ITEMS FOR TEST TRANSFER

Each of the services used their own methodology for selecting the test items for transfer to DLA. This resulted in the transfer of items which are not statistically representative of the bulk of the consumable items remaining with the services. Office of the Secretary of Defense guidance permitted each service to select their items and to exclude certain classes of items such as nuclear ordnance, ammunition, and major end items. They were also instructed to include a mix of items coded to Commodity Integrated Material Managers (CIMM), and Weapons Integrated Material Managers (WIMM). Also, some items were to be selected on a weapon system basis. The following table shows the distribution of consumables and the number of items included in the proposed transfer:

	<u>Consumable items</u>			
	<u>Total</u>	<u>Included in test</u>		<u>Total</u>
		<u>Commodity</u>	<u>Weapon</u>	
Air Force	608,726	51,668	44,159	95,827
Army	230,439	22,168	13,743	35,911
Navy	509,821	27,812	44,720	72,532
Marine Corps	<u>33,111</u>	<u>1,360</u>	<u>1,356</u>	<u>2,716</u>
Total	<u>1,382,097</u>	<u>103,008</u>	<u>103,978</u>	<u>206,986^a</u>

^aAfter adjustments the total actually transferred to DLA was slightly less than 206,986.

We found that the Army and Air Force selected about half their items by designating the specific weapon systems and then selecting components of those systems. The Navy and Marine Corps, however, did not select specific systems before making their selections. Instead, they first excluded certain categories of weapon related items which they stated DLA should not manage such as catapult and arresting gear, Polaris, Poseidon, Trident items and Sub-safe level I items. They then selected items from both weapons and commodity classes to get the desired mix, without considering their end item application.

The Navy and Marine Corps said they did not transfer weapon support items and, therefore, do not want any of the items returned.

The selection of test items in this manner was not statistically valid and, therefore, cannot be considered representative or serve as a basis for projecting the results of the test to the bulk of the consumables still being managed by the services.

The status of the weapon systems selected by the Army and Air Force also suggests that they are not representative of operational systems. The Air Force transferred over 47,000 items which support 9 weapon systems. The Army transferred over 16,000 items which support 26 weapon systems. We found that several of the systems were older systems being phased out, replaced by newer systems, or sent to the reserves and national guard.

The F-106, Delta Dart aircraft and the T-39 Sabreliner training aircraft are Air Force systems no longer used by the active forces and are being phased out. The Air Force transferred 11,448 weapon support items for the Delta Dart and 2,798 items for the T-39 trainer. The T-39 system may ultimately be replaced by a commercial aircraft. The Army's M110 Howitzer entered service in 1963 and is being replaced by the M110 EZ. About 1,044 items transferred support this weapon. Another 740 items transferred support several tanks which are being replaced by the M1 tank.

DLA supply statistics further indicate that the test items included in the transfer were made up largely of slow moving items. Although about 91 percent of the items transferred were

service coded as stocked items the data accompanying the items showed that 24 percent were not expected to receive any demands in the next 12 months and another 31 percent would only receive one demand in the same period. About 45 percent of the items transferred by the Air Force were not expected to receive demands. Percentages such as these would not appear to be representative of the demands received on active items in the services' operational front line systems.

EVALUATION OF COST AND READINESS IMPACT

The cost and readiness impact of returning weapon system sensitive items to the services cannot be evaluated because those items cannot be identified and no complete data base has been prepared on pretransfer supply support.

The original DOD time-phased plan proposed an evaluation of the test transfer by comparing the post-transfer material readiness support provided by DLA to the pretransfer material readiness support provided by the military services as specifically measured for the items involved in the transfer. However, DOD suspended this plan in October 1982 because of language in the FY 1983 Defense Authorization Act. The Act stated that the transfer was based on insufficient economic analyses, and lacked sufficient emphasis on potential readiness degradation. Preparations for obtaining pretransfer data bases were abandoned by most services at that time.

The Air Force continues to accumulate the pretransfer data and has compiled information for a complete year on its items. The Army stopped its efforts to retrieve data after the DOD notice. It did, however, define the software programs needed to extract the pretransfer data from its automated systems. It estimates it would take from 60 to 90 days to restart the program. The Navy and Marine Corps made no effort to retrieve the pretransfer management data because they do not want their items returned.

DOD instructed DLA to continue to accumulate supply support data on the transferred items from the time of their receipt into the DLA system. As of April 1983, DLA had not published a report showing its management statistics. However, the DOD Military Supply and Transportation Evaluation Procedures statistical reporting system did not show any appreciable fluctuation in stock availability after the test items were placed under DLA management.

NEED TO IDENTIFY WEAPON SYSTEM MANAGEMENT
SENSITIVE SUPPLY ITEMS

The services have not identified weapon system management sensitive supply items. The Air Force and Army requested that most of their items be returned because the items are weapon sensitive and, therefore, must be managed by them. They stress the fundamental importance of relationships to the readiness of the weapon system, whose integrity they said can only be maintained by the service responsible for the parent system. In our opinion, no items should be returned to the services until this fundamental issue of weapons system management sensitivity is resolved.

The August 16, 1982, Armed Services Conference report stated that management of weapons system sensitive items should be restored to the services. DOD's October 1982 letter to the services recognized that different definitions of weapon system sensitivity may exist because of service unique management and readiness reporting systems. It, therefore, requested that each service provide independently proposed criteria to be used to identify the weapon system sensitive items to be returned.

The Navy and Marine Corps stated they did not transfer weapon sensitive items; therefore, they did not want any items returned. The Army and Air Force generally stated that (1) all weapon related items should be returned and (2) the commodity items should be screened for possible retention by DLA. In the Air Force plan for the return of items, in addition to screening items against established criteria, the Air Force proposed to screen the commodity items against its essentiality coding. The Air Force uses an essentiality coding system to designate how important items are to the support of individual systems. Item essentiality coding links the essentiality of the individual item to the mission essentiality of the end-items.

On January 13, 1982,² we reported that the Air Force's use of essentiality coding as a management tool was limited because the vast majority of its reparable items, about 87 percent, were coded mission essential thereby limiting item essentiality as a management tool. Some of the consumables transferred by the Air Force were items supporting military aircraft. For example, the following items were assigned an essentiality code indicating that lack of the item prevents the supported subsystem from performing its designated function and that lack of the subsystem prevents the planes from performing any wartime/peacetime missions.

²Mission Item Essentiality: An Important Management Tool for Making More Informed Logistics Decisions (PLRD-82-25, Jan. 13, 1982).

National Stock

<u>Number</u>	<u>Nomenclature</u>
1680 00 822 8975	Ash tray
1680 00 802 3729	Ash tray
1680 00 800 7384	Window curtain

In our opinion, the lack of ash trays and window curtains should not have any significant impact on the planes performing either their peacetime or wartime missions.

The above items were not statistically selected and are not representative of the items transferred. They do show, however, the need to more clearly define weapon item essentiality. If the Air Force has its way the high percentage of its items coded weapon essential would likely mean the return of most of the transferred items.

In a January 1983 letter, DOD again asked the services for improvements in readiness anticipated by return of the items and for auditable costs of the transfer, including costs to return the items to the services. The services reported the following costs associated with the overall test transfer of consumable items:

	Transfer to <u>DLA</u>	Transfer from <u>DLA</u>	<u>Total</u>
	----- (millions) -----		
Air Force	\$ 2.20	\$ 1.90	\$ 4.10
Army	2.0	0.25	2.25
Navy	<u>0.85</u>	<u>a</u>	<u>0.85</u>
Total	\$ <u>5.05</u>	\$ <u>2.15</u>	\$ <u>7.20</u>

^aThe Navy does not plan to transfer items back; therefore, no additional costs would be incurred.

Also, DOD proposed that it and the services jointly review the current item management coding criteria to improve the process and to possibly convert more weapons related classes to commodity classes. The Air Force is the only service that has published a detailed "Plan For Return of Consumable Items from DLA."

DOD has long needed to develop standard criteria that will identify weapon system management sensitive items. Such criteria should prevent each service from making individual determinations and interpretations on weapon system sensitivity. In the past, using existing criteria, the services have been able to selectively code items they want to manage.

In accordance with House Armed Services Committee recommendations, the Joint Logistics Commanders formed a task force to examine the need to revise the item management coding criteria. In December 1983 the Assistant Secretary of Defense for Manpower, Reserve Affairs and Logistics approved the definition of weapon system management sensitive items in DOD and revised management coding criteria for use in classifying these items across organizations (Enclosure II). These criteria agreed to by the services and DLA should go far toward eliminating the difficulty previously inherent in assigning management responsibility for weapon system items.



MANPOWER,
RESERVE AFFAIRS
AND LOGISTICS

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

15 DEC 1983

MEMORANDUM FOR THE ASSISTANT SECRETARY OF THE ARMY (IL&FM)
ASSISTANT SECRETARY OF THE NAVY (S&L)
ASSISTANT SECRETARY OF THE AIR FORCE (RD&L)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Management of Consumables

Our memorandum of 4 October 1983, subject as above, forwarded for your review and approval a proposed definition for weapon system management sensitive items and a proposed revision to the item management coding criteria contained in DoDD 4140.26, "Integrated Materiel Management of Consumable Items."

Based on your responses we have made some minor changes to the explanation of the definition. I believe we have now reached a consensus in this matter. Accordingly, there is enclosed an approved weapon system management sensitive item definition and item management coding criteria which are effective immediately. Formal coordination of the necessary changes in DoDD 4140.26 will be processed by this Office in the near future.

All future item management assignments, including transfers, will be made in accordance with the new criteria. Any resource impact resulting from future assignments and transfers should be accommodated through the normal budget process.

The Integrated Materiel Management Committee is requested to prepare an implementation plan to effect the system changes which will occur as a result of the aforementioned revisions and submit it to this Office within 60 days of the date of this memorandum. Proposed revisions to DoD Manual 4140.26-M should be submitted within the same time frame.

Your cooperation in this joint effort is appreciated.

Lawrence J. Korb
Assistant Secretary of Defense
(Manpower, Reserve Affairs & Logistics)

Enclosure
As stated

CRITERION 10 - WEAPON SYSTEM MANAGEMENT SENSITIVEDEFINITION

CONSUMABLE ITEMS SELECTIVELY IDENTIFIED AND MANAGED BECAUSE OF THEIR CRITICALITY TO THE READINESS OF THE WEAPON/END ITEM OR TO THE MISSION PERFORMANCE AND ARE SUBJECT TO SPECIALIZED MANAGEMENT OR CONTROLS, SUCH AS ITEMS IN UNIQUE SERVICE LOGISTICS NETWORKS; RESTRICTED IN ISSUE TO SELECTED APPROVED ACTIVITIES; REQUIRING EXTENSIVE QUALITY ASSURANCE CONTROLS WITH TESTING BY AUTHORIZED SERVICE ACTIVITIES; REQUIRING A CLOSE RELATIONSHIP BETWEEN INVENTORY MANAGEMENT AND ENGINEERING CONTROL; OR COMPONENTS REQUIRING MANAGEMENT AS AN ENTITY WITH THE END ITEM.

EXPLANATION

The intent of the criterion is to allow retention of military service management for those consumable items that because of their criticality may require the use of management principles and controls that are not within the normal purview of a DLA/GSA integrated manager. Such items must meet two basic considerations. The item must be critical and must be subject to specialized management or controls.

To be considered critical, the failure of the item must directly impact the readiness of the weapon system of which it is a part and thus directly impact the mission performance. Also, an item which is a part of an assembly, subassembly, component or subcomponent to the weapon system/end item and which by failure directly renders the weapon system/end item inoperable may be considered critical for the purposes of this criterion. Items whose failure will not cause parent weapon system/end item mission failure, or could not directly cause personal injury, will not be considered critical.

Items under this criterion require one or more specialized management or control techniques which are not normally provided by DLA/GSA. Specialized management controls included in the criterion are described below.

UNIQUE SERVICE LOGISTICS NETWORKS;

Certain weapon systems/end items, because of their importance or uniqueness, require special military service logistics networks or management techniques. For example, the operating environment of such systems as the TRIDENT submarine, the army helicopters and the air force AWACS dictate a specialized logistical network or management technique and intensified materiel management and configuration control system. Such networks or techniques should include an inventory management and technical group qualified to procure and manage the items; stockage at depots uniquely dedicated for the weapon system/end item; and intensive management resources; e.g., people and/or inventory levels.

RESTRICTED IN ISSUE TO SELECTED APPROVED ACTIVITIES;

Certain critical items are limited to issue to selected customers because of their importance to national security or their exclusive applications. Most if not all issues must be approved by a project manager or regional military commander. These items are specifically designed and tested for the parent

equipment, and for security reasons (e.g., nuclear) the customer's identification is classified by the specific military service employing the weapon system/end item.

REQUIRING EXTENSIVE QUALITY ASSURANCE CONTROLS WITH TESTING BY AUTHORIZED SERVICE ACTIVITIES;

Certain critical items are bought to explicit specifications, requiring unusual tolerances, special coating, or are procured from weapons contractors in conjunction with the end item. Some of these items may be controlled by lot or serial number to ensure that only the highest quality material is used in critical applications. These items may require specific testing at specially qualified military service or military service designated facilities prior to installation in the weapon system/end item. Items which only have a first article test to insure conformance with normal commercial or military specifications alone do not qualify for inclusion under this criteria.

REQUIRING A CLOSE RELATIONSHIP BETWEEN INVENTORY MANAGEMENT AND ENGINEERING CONTROL;

Other critical items such as safety of flight or life support, require continuing review by military service engineering personnel. These items may require co-location of inventory management, procurement and engineering support, and approval by engineering personnel of inventory decisions such as alternate sources, substitutes or procurement packages. This management must be provided at the direction of a designated project/system/program manager.

OR COMPONENTS REQUIRING MANAGEMENT AS AN ENTITY WITH THE END ITEM;

Certain critical items that are unique to a particular end item may be subject to special management with the weapon system/end item, to ensure that a military service approved component only, and not a like item, is used with the weapon system/end item in operational or maintenance conditions. Furthermore, requirements are normally program driven; e.g., based on flying hours, end item density, used solely in support of scheduled overhaul requirements, etc.

ITEM MANAGEMENT CODING CRITERIA FILTER

<u>CRITERION</u>	<u>DESCRIPTION</u>	<u>CODE</u>
1	End Item	D
2	Depot Rep	E
3	Field Level Rep	G
4	Single Agency	F
5	Security Classified	S
6	Nuclear Propulsion	P
7	Nationally Vital	H
8	Design Unstable	J
9	Special Categories o Fabricate/reclaimed o MOD/ALT/CON KITS	L N
10	Weapon System Management Sensitive	*
11	Selected Mission Essential	Q
12	Nuclear Hardened	*

*Codes to be assigned



SS

MANPOWER,
INSTALLATIONS
AND LOGISTICS

THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

12 MAR 1984

Mr. Frank C. Conahan
Director, National Security and
International Affairs Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan

Enclosed is the Department of Defense (DoD) response to the GAO Draft Report "Test Transfer of Consumable Items to the Defense Logistics Agency from the Military Services," dated January 16, 1984 (GAO Code 943547) (OSD Case No. 6436).

The DoD generally concurs with the GAO recommendations, with some qualifications which it is believed clarify the issues and describe the implementing actions that have been or are being taken. Detailed comments are enclosed.

The opportunity to comment on the Draft Report is appreciated and it is requested that those comments be appended to the Final Report.

Sincerely,

A handwritten signature in black ink, appearing to read "Jerry L. Calhoun".

Jerry L. Calhoun
Principal Deputy Assistant Secretary of Defense
(Manpower, Installations & Logistics)

Enclosure
As stated

GAO note: Page references in this appendix have been changed to correspond to those in the final report.

GAO DRAFT REPORT DATED JANUARY 16, 1984
(GAO CODE NO. 943547) (OSD CASE NO. 6436)

"TEST TRANSFER OF CONSUMABLE SUPPLY ITEMS
TO THE DEFENSE LOGISTICS AGENCY FROM THE MILITARY SERVICES"

DOD POSITION

* * * * *

FINDINGS

0 FINDING A: Test Transfer Of 200,000 Items Directed By DoD.

GAO found that in 1977, the Secretary of Defense had developed a proposal to transfer management of about 1.2 of 1.4 million consumable items from the Services to the Defense Logistics Agency (DLA) at an estimated annual savings of \$124 million and a probable increase in supply effectiveness. This proposal, GAO further found, was presented to the Services in December 1978 for review and comment, and subsequently the Defense Audit Service (DAS) was requested to evaluate the Service responses and draw conclusions on the accuracy, comparability and validity of the data. Additionally, GAO noted the Defense Logistics Analysis Office (DLAO) was requested to update DLA resource requirements and to make them comparable to Service requirements. GAO expressed satisfaction with the DAS approach, and cited the annual savings of \$62.9 million to \$84.1 million expressed in the DAS report. GAO also cited its support of the transfer as well as that of the House Committee on Appropriations Surveys and Investigations staff. In spite of Service objections (primarily Army and Air Force), the Deputy Secretary of Defense in July 1981 directed the transfer of 200,000 consumables to DLA as a test to determine whether additional items should also be transferred. The transfer occurred. Subsequently, the House Committee on Armed Services, Subcommittee on Readiness, agreeing with the Service objections, directed DLA to return complex or weapon systems sensitive items. The Senate and House Committees on Appropriations, Subcommittees on Defense, directed that no such actions be taken until the test was evaluated. (pp. 4-5, GAO Draft Report)

DoD Position: DoD Concur. This finding describes the events relevant to the test transfer of consumable items with one exception. The Subcommittee did not actually direct DLA to return complex or weapon system sensitive items. The language of the Subcommittee report directed that the 200,000 items transferred be evaluated against existing criteria and that commodity type items be assigned to DLA and weapon system related items be assigned to the respective Service.

0 FINDING B: Supply Items Selected For Test Transfer Not Representative Of Service Consumable Items. GAO found that the Office of the Secretary of Defense guidance (1) permitted each Service to select their items and to exclude certain classes of items (nuclear ordnance, ammunition, major end items); (2) instructed the Services to include a mix of items coded for

both Commodity Integrated Material Managers (CIMM) and Weapons Integrated Material Managers (WIMM); (3) asked that some items be selected on a weapon system basis. Contrary to that guidance, the Navy and Marine Corps did not transfer weapons support items. GAO further found that the Army and Air Force selected about one half of the transferred items by designating specific weapon systems and selecting components of those systems. Several of the weapon systems selected by the Army and Air Force, GAO found, were older systems being phased out, replaced or sent to the Reserves and National Guard. GAO also found that 91% of the transferred items were Service coded as stocked items. Accompanying data, however, showed 24 percent were expected to receive no demands in the next 12 months and 45 percent of Air Force transferred items (about 21 percent of total items transferred) were not expected to receive demands. GAO concluded that each of the Services used its own methodology for selecting the test items, and the items transferred cannot be considered representative of, nor serve as a basis for projecting the results of the test to the bulk of the consumable items remaining with the Services. (pp. 6-8, GAO Draft Report)

DoD Position: DoD Concur. While overall the items were not as representative as planned, they did cover the range, scope and types of consumable items in the DoD inventory. It is believed the items transferred by the Army most nearly approximated a representative sample and, as noted by GAO, the Air Force selected about one half of their items from specific weapon systems. On the other hand, while Navy did not select an entire weapon system it did transfer items from weapon system classes such as the J-52 and T-64 engines. The Marine Corps also transferred items from their weapon system classes.

With regard to item activity, the majority of items managed by the DoD are slow movers made up in part from mobilization reserve items and contingency items. Therefore it is understandable that slow movers would represent the larger portion of items.

0 FINDING C: GAO Is Unable To Evaluate The Cost And Readiness Impact Of Returning Items To The Services. GAO found that the DoD transfer plan included an evaluation of the effectiveness of the transfer by comparing material readiness support on the specific items before and after the transfer. This plan was suspended by DoD in October 1982 because, GAO noted, of language in the 1893 Authorization Act which stated that the transfer was based on insufficient economic analyses and lacked sufficient emphasis on potential readiness degradation. GAO reported that the Air Force continues to collect pretransfer data. The Army stopped collection, but could restart in 60 to 90 days. The Navy and Marine Corps made no effort to obtain the pretransfer data. GAO also reported that while DLA has not published a report, DoD had instructed the continued accumulation of past transfer supply support data. GAO found that the Military Supply and Transportation Evaluation Procedures statistical reporting system did not show any appreciable fluctuation in stock availability after the test items were placed under DLA management. GAO concluded that the cost and readiness impact of returning weapon system sensitive items to the Services cannot be evaluated because those items

cannot be identified and no complete data base has been prepared on pretransfer supply support. (p. 8, GAO Draft Report)

DoD Comment: DoD Concur. The Department concurs that the cost and readiness impact of returning items to the Services' cannot be evaluated. However, since the DoD has now developed and will soon implement revised item management coding criteria, the need for such an evaluation no longer exists. As previously stated the application of the revised criteria, will determine the appropriate management assignment for all consumable items, including those in the test transfer.

0 FINDING D: DoD Needs To Identify Weapons System Management Sensitive Supply Items. GAO found that the Army and Air Force, in stressing the fundamental importance of relationships to the readiness of the weapon system, requested that most of their items be returned because the items were weapon sensitive and therefore must be managed by them. GAO also found the Navy and Marine Corps stated that they did not transfer weapon sensitive items and therefore did not want any items returned. Further, GAO noted that the August 16, 1982, Armed Services Conference Report stated that management of weapons sensitive items should be restored to the Services. GAO concluded that no items should be returned to the Services until this fundamental issue of weapon system management sensitivity is resolved. GAO found that DoD, recognizing that different definitions of weapon system sensitivity may exist among the Services, in October 1982 requested that each Service provide proposed criteria to be used to identify the weapon system sensitive items to be returned. GAO noted the December 1983, Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) memorandum approving the definition of weapon system management sensitive items and revised item management coding criteria for use across DoD organizations. Noting that in the past, using existing criteria, the Services have been able to selectively code items they want to manage, GAO further concluded that these criteria, agreed to by the Services and DLA, should go far toward eliminating the difficulty previously inherent in assigning management responsibility for weapon system items. (pp. 9-11, GAO Draft Report)

DoD Position: DoD Concur. As noted by the GAO, the Department has defined a weapon system management sensitive item and has developed revised item management coding criteria. The new definition will be used to identify weapon system management sensitive items and an audit/surveillance capability will be established to assure proper application of the definition in making item management assignments.

0 FINDING E: Air Force Use of Essentiality As A Management Tool Is Limited. GAO found that the Air Force proposed, in addition to screening items against established criteria, to screen commodity items against its essentiality coding. GAO noted that item essentiality coding links the essentiality of the individual item to the mission essentiality of the end item. GAO cited its January 13, 1982 report where the Air Force's use of essentiality coding was determined to cover 87 percent of its items, thereby limiting item essentiality as a management tool. The following items, contained in the transfer, were noted by GAO as being coded to

indicate that lack of the item prevents the supported subsystem from performing its designated function and that lack of the subsystem prevents the aircraft from performing any wartime/peacetime missions.

<u>NATIONAL STOCK NUMBER</u>	<u>NOMENCLATURE</u>
1680 00 822 8975	Ashtray
1680 00 802 3729	Ashtray
1680 00 800 7384	Window Curtain

GAO concluded that the lack of ashtrays and window curtains should not have any significant impact on aircraft mission performance. Noting that the above items were not statistically selected and are not representative of the items transferred, GAO pointed out that these items do show the need to more clearly define weapons items essentiality. (pp. 9-10, GAO Draft Report)

DoD Position: DoD Concur. It should be understood that the Air Force proposal to screen items against an essentiality code was contained in the Air Force plan for the return of items from DLA. That plan is no longer applicable since the new inventory management coding criteria preclude the need for such a plan. Air Force, however, realizes that essentiality codes require on-going review and they are now reviewing essentiality codes to assure they are appropriately assigned.

The GAO statement that Air Force uses essentiality codes to cover 87% of its items is in error. The earlier GAO Report cited states that the 87% applies to reparable items only, not to consumables.

RECOMMENDATIONS

0 RECOMMENDATION 1: GAO recommended that the Secretary of Defense not return any of the test items to the Services until the standard criteria have been used to identify weapon system management sensitive items. (p. 2, GAO Draft Report)

DoD Position: DoD Concur. As noted in the Draft Report, the Department has developed a definition of a weapon systems management sensitive item and a revised set of criteria upon which to make item management assignments. The DoD Integrated Materiel Management Committee, a joint Service/Agency working group, is now developing a plan to implement that definition and criteria. Any return of weapon system management items to the Services will be accomplished after they have been identified using the new definition and criteria.

The implementation plan is expected to be forwarded to the Office of the Assistant Secretary of Defense for Manpower, Installation and Logistics for review and approval in April 1984. When the plan has been approved and promulgated, a copy

will be provided to the GAO. Dates and milestones for implementing the plan will be available at that time.

- 0 RECOMMENDATION 2: GAO recommended that the Secretary of Defense as part of the criteria implementation plan insure consistent application of the criteria within DoD and the Services. (p. 2, GAO Draft Report)

DoD Position: DoD Concur. The implementation plan will establish an audit/surveillance requirement to insure consistent application of the criteria throughout the DoD.

- 0 RECOMMENDATION 3: GAO recommended that the Secretary of Defense screen the test items against the criteria and return those items that meet the criteria to the Services for their management. (p. 2, GAO Draft Report)

DoD Position: DoD Concur. The test items will be screened against the criteria, with one exception. Those items which a Service indicates it does not want returned will not be screened. Item screening is an expensive, labor intensive effort; therefore the Services should not be required to screen items they do not want returned.

- 0 RECOMMENDATION 4: GAO recommended that the Secretary of Defense screen all other consumable items against the criteria and transfer all items that are not weapon system management sensitive to DLA for its management. (p. 2, GAO Draft Report)

DoD Position: DoD Concur. The DoD will screen consumable items based on time frames which the Integrated Materiel Management Committee will establish in the implementation plan. Items will be retained by the Services or transferred to DLA based on the application of all the item management criteria, not just that for weapon system management sensitive items.