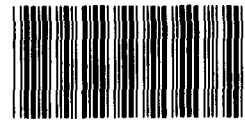
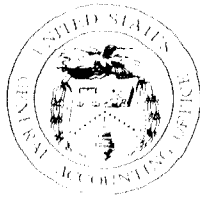


March 1990

DEFENSE INVENTORY

Defense Logistics Agency's Materiel Returns Program



141123

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National Security and
International Affairs Division

B-222859

March 14, 1990

The Honorable John Glenn
Chairman, Committee on
Governmental Affairs
United States Senate

The Honorable Earl Hutto
Chairman, Subcommittee on
Readiness
Committee on Armed Services
House of Representatives

In response to our March 15, 1988, testimony before the Subcommittee on Readiness, House Committee on Armed Services, on the Defense Logistics Agency's (DLA) inventory growth, the former Subcommittee Chairman asked us to examine in more detail DLA's materiel returns program and its impact on inventory growth. In addition, on April 1, 1988, the Chairman, Senate Committee on Governmental Affairs, asked us to evaluate DLA's management over customer returns of excess materiel. We reviewed how returns can contribute to inventory growth and describe what the services are doing to reduce excess and returns. Our objectives, scope, and methodology are discussed in appendix I.

Results in Brief

Customer returns to DLA, excluding fuel and subsistence items, totaled \$3.1 billion for fiscal years 1981 through 1988 and averaged about 8.5 percent of its sales. For the same period, DLA's total inventory increased \$5.7 billion, from \$3.1 billion to \$8.8 billion, or about 184 percent. Stocks excess to its current operations and war reserve needs more than tripled from \$1 billion to \$3.5 billion. However, there is no way to determine how much materiel returns contributed to DLA's inventory growth and excess materiel because of the high number of transactions involved and the inability of the accounting systems to provide such data.

DLA and the services have implemented and have underway numerous initiatives to avoid excess and reduce returns. The initiatives are designed to reduce not only the returns but also excess materiel. In addition, the services have programs to improve their internal redistribution procedures for excess materiel. DLA's accounting system produces data that could aid DLA managers in assessing the effectiveness of the actions.

We are not making any recommendations in this report, because (1) the services' corrective actions are too new to evaluate their impact on returns to DLA and (2) the September 1989 DOD Inspector General's report contains recommendations, which, if implemented, would require a Department of Defense returns program managed by the wholesale inventory managers, which includes DLA.

Background

DLA is responsible for providing logistics support, including procuring, stocking, and issuing consumable items, to the military services and other government agencies. Each year DLA's six supply centers buy and manage billions of dollars of materiel until they issue it to customers worldwide. As of September 30, 1988, DLA managed about 2.8 million items. About 2 million items were stocked, and 52 percent had a unit price of \$10 or less.

The services establish requirements by determining the quantity of an item they need for a specific period, usually 2 years, to fulfill a designated purpose (e.g., to operate their equipment during peacetime). When they have excess materiel, they can return it to DLA for either financial credit or no financial credit, depending on whether DLA needs it to meet requirements. Under the materiel returns program, customers—primarily the services—must report excess DLA-managed items to DLA for disposition instructions. If DLA needs the materiel, it will direct the customer to return it.

DLA gives customers financial credit for materiel it needs to meet peacetime requirements and war reserve requirements.¹ It does not give credit for returned materiel above these requirements even though DLA retains it for future use.

Returns Can Contribute to Inventory Growth

Credit returns allow customers to buy needed items with the credits, thereby conserving their operations and maintenance and industrial funds. About 43 percent of returns made between fiscal years 1981 and 1988 were credit returns, and 57 percent were "no-credit" returns. The no-credit items, however, were within retention limits established by the Department of Defense and DLA. Credit and no-credit returns for fiscal years 1981 through 1988 totaled about \$1.3 billion and \$1.8 billion, respectively.

¹War reserves are stocks that are stored in peacetime to satisfy increased wartime consumption; they are intended to sustain operations until resupply takes place.

Customers either retain materiel that cannot be returned for credit or transfer it to property disposal activities. If the Department of Defense declares this materiel to be surplus, the materiel can be given to another government entity, donated to a state, or sold as items or scrap.

Because the amount of materiel returned to DLA by the services has remained relatively high, we believe that long-standing underlying factors sustain the return rate. The Department of Defense and the services have identified many of these factors (e.g., inaccurate requirements, failure to match items due in against excess stocks on hand, and failure to terminate contracts for excess materiel on order) and are taking corrective actions (see apps. II and III).

Since credit is only given for needed materiel, credit returns generally should not contribute to inventory growth. However, credit returns can delay or preclude additional purchases. No-credit returns are excess to DLA's inventory requirements, thus contributing to inventory growth. However, DLA is required to retain these items to meet future requirements.

The Navy accounted for about 45 percent of the total sales, excluding fuels, subsistence, and medical items, and for 49 percent of returns. It had a 1.3- and 2.1-percent higher rate of returns to sales than the Army and Air Force, respectively. The Navy's rate of returns increased for fiscal years 1985 through 1988, while the Army and Air Force rates remained about the same. Navy officials attribute the increased rate to the Navy's ship modernization program, where all on-board DLA-managed spares stock used for components or equipment being replaced is returned to DLA.

Actions to Reduce Excess and Returns

Recent service studies suggest that a variety of factors contribute to excess materiel and subsequent returns. The studies identify corrective actions that if properly implemented could reduce excess materiel and returns. These actions generally fall into two broad categories: (1) those to reduce excess materiel and (2) those to redistribute it within each of the services to meet requirements rather than returning it to DLA (see app. III). DLA has been working with the services to reduce the volume of items that are returned and then reordered within a 1-year period by the same activity. The services have taken specific steps to address this issue.

Another major factor contributing to the returns problem is when a service returned an item because it was excess to one unit but needed by another. To address this issue, the Army and Air Force will continue to report items as excess but will hold the items for internal redistribution, unless DLA needs the items to meet its requirements. In contrast, the Navy holds excess items for internal redistribution but does not report them. However, the Navy is working with DLA to report these items as excess so that DLA will be aware of the excess materiel. We support the internal redistribution practice as long as the services report the excess materiel to DLA so that it can direct redistribution of the materiel to meet requirements elsewhere.

The Army maintenance depots' current practice is to return items not needed in the current year to DLA rather than to hold them for future work. This practice appears to be a major contributor to DLA's return and reorder problem, and the Army is currently reconsidering it. We believe the items should be retained by the depots if an anticipated requirement for them exists. However, they also need to be reported to DLA, for possible return or redistribution elsewhere if a higher priority need exists. In another case, the Army's computer system cannot automatically match excess materiel with items that are on order, thus creating a situation where the excess materiel on order is not considered for termination. Although a new computer program with this capability has been implemented at some activities, a more sophisticated program is required for the remaining locations.

Agency Comments

The Department of Defense agreed with this report and said that it will continue to pursue the improvements noted, as well as monitor the services' progress on the actions reported (see app. IV).

Unless you announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to the Secretaries of Defense, the Army, Navy, and Air Force; the Director, Office of Management and Budget; the Director, Defense Logistics Agency; and other interested parties. We will make copies available to others upon request.

The major contributors to this report are listed in appendix V. If you have any questions, please call me on 275-8412.



Donna M. Heivilin
Director, Logistics Issues

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Abbreviations

DLA	Defense Logistics Agency
DOD	Department of Defense
GAO	General Accounting Office

Objectives, Scope, and Methodology

Our objectives were to determine (1) how materiel returns contribute to the Defense Logistics Agency's (DLA) inventory growth, and (2) what the Department of Defense (DOD), DLA, and the military services are doing to reduce returns of materiel and excess inventory.

We performed our work primarily at DLA and service headquarters. We also visited a U.S. site for each of the services and two Army sites in Europe. We analyzed recent DLA and service studies to identify the causes of excess and returns, particularly in reference to DLA and service actions taken since our March 1988 testimony.

Concurrent with our audit, the Inspector General was performing an audit of the DOD materiel returns program. The Inspector General's effort covered the entire program, including DLA and its compliance with DOD program policy. To avoid duplication of audit work, we coordinated our work with the Inspector General.

We performed our work from July 1988 through June 1989 in accordance with generally accepted government auditing standards. However, we did not verify DLA's sales, inventory, and returns statistics.

How Returns Can Contribute to Inventory Growth

Inventory Growth

For fiscal years 1981 through 1988, DLA's sales increased from \$3.4 billion to \$6.4 billion. In addition, the value of its inventory almost tripled, from \$3.1 billion to \$8.8 billion. About 52 percent of the items had a unit price of \$10 or less. Materiel excess to DLA's budget year requirements more than tripled, from \$1 billion to \$3.5 billion. During the same period, the number of days it took DLA to sell its working inventory¹ increased from 200 to 328 days. Thus, DLA had a 64-percent growth in its working inventory compared to its sales.

There is no practicable way to determine how much materiel returns contributed to DLA's inventory growth because of the high number of transactions involved and the inability of the accounting systems to provide such data. For example, an item returned in fiscal year 1983 could (1) still be in the inventory, (2) have been sold, or (3) have been disposed of. The accounting systems cannot identify which factor applies to a specific returned item.

Customer Returns

Customers, mainly the services, order and receive billions of dollars of materiel each year. For fiscal years 1981 through 1988, customers returned materiel valued at \$3.1 billion that equaled 8.3 percent of DLA's sales. Over half of the returns, or \$1.8 billion, was excess to DLA's current operations needs or war reserve stocks.

DOD's materiel returns program provides procedures for reporting and redistributing excess materiel. It requires customers—primarily the services—to report their excess DLA-managed items for disposition instructions. The program also requires DLA to accept (1) for full or partial financial credit—depending upon the items' condition—items that are needed to meet its current operating stocks and war reserve requirement and (2) for no financial credit those items that are within its 10- and DOD's 20-year inventory retention limits.

Customers receive financial credit for returned materiel when DLA needs it to meet current operations needs or war reserve stocks. Otherwise, DLA accepts the materiel only on a no-credit basis. No-credit returns become part of DLA's inventory that is excess to current operations or war reserve needs. If demand should grow beyond an item's procurement cycle, the item could be used to fill orders.

¹Working inventory is defined as DLA's current operating stocks requirement.

Appendix II
How Returns Can Contribute to
Inventory Growth

DLA accepts no-credit returns according to DOD's inventory retention policy, i.e., 20-years for weapon-related items and economic retention² for other items. DLA's overall economic retention period is 10 years. Beginning July 1988, DLA would only accept items valued at \$13 and above. The \$13 minimum represents the estimated cost to process a return.

The potential for credit returns to have contributed to inventory growth appears minimal because DLA accepts them to meet its approved current operations or war reserve needs. In effect, credit returns generally should not contribute to growth because they meet known requirements.

The return process does not always encourage the services to return materiel since, at a minimum, they must pay the costs of shipping the item to DLA. They have also lost the benefit of large amounts of operations and maintenance funds for items they bought and did not need and returned for "no credit." Accordingly, when DLA notified the services about the high rate at which the same activities were returning and then reordering the same item, the services initiated corrective actions. For example, DLA and the services have programs aimed at reducing returns by identifying and eliminating the causes of credit and no-credit returns. These causes include the lack of visibility within the services over requirements and excess stocks between and among their units. Consequently, some military units returned their excess materiel to DLA even though the materiel was needed by another unit.

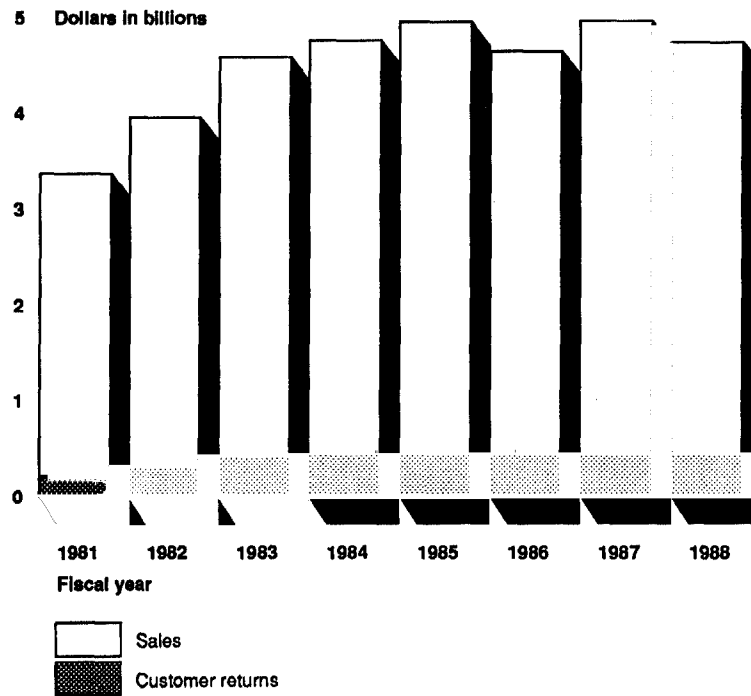
Corrective actions also include increasing the effectiveness of data processing systems to match requisitions with on-hand excess materiel and improving initial and subsequent requirements determinations. We believe that as these actions are implemented the returns as a percentage of sales—by service and inventory center—should decline. Thus, tracking this percentage could help DLA evaluate the effectiveness of these actions.

Figure II.1 shows the sales and return amounts for fiscal years 1981 through 1988. The return amounts are based upon summary DLA comptroller records that include all returns, i.e., customer sales, loaned materiel, and defective items. We did not include the Subsistence Supply Center because its returns were less than 0.5 percent of sales.

²Economic retention is retaining items excess to the current operations or war reserve needs because it is more economical to retain the items for future peacetime use than repurchase them.

Appendix II
How Returns Can Contribute to
Inventory Growth

Figure II.1: Customer Sales and Returns



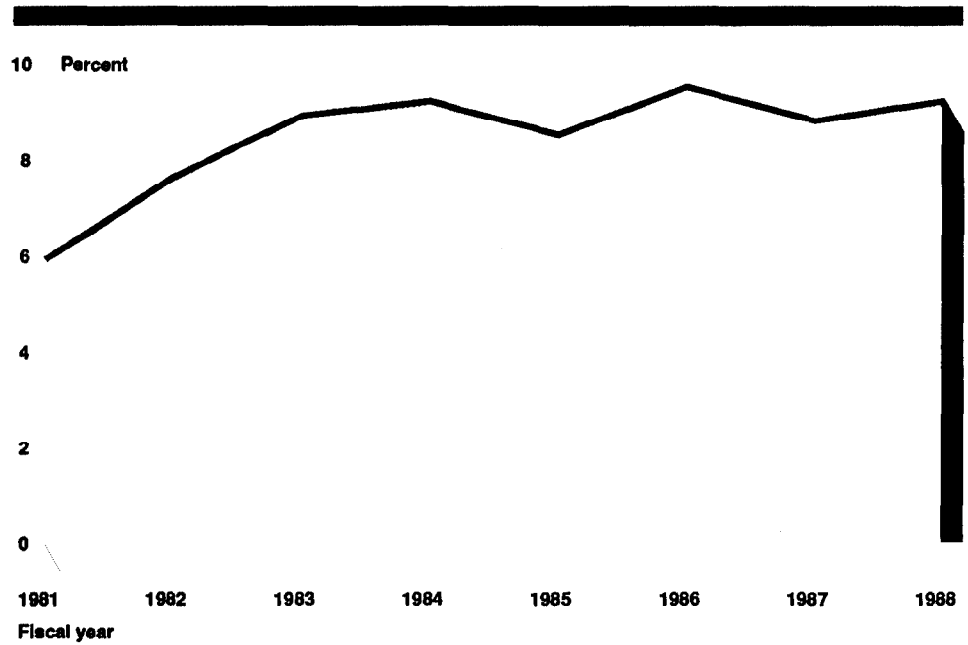
Note: Excludes fuel and subsistence items.

Figure II.2 shows the percentage of customer returns to sales. After an increase of about 3 percent during fiscal years 1981 and 1982, the percentage has remained relatively stable ever since. The percentage of customer returns to sales averaged 8.5 percent for the period.

Appendix II
How Returns Can Contribute to
Inventory Growth

11.1
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Figure II.2: Customer Returns as a
Percentage of DLA Sales

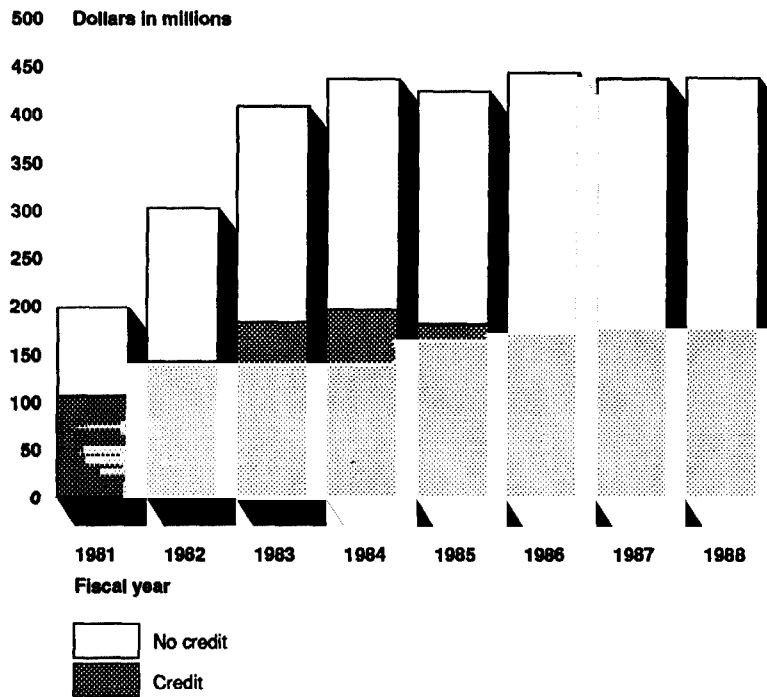


Note: Excludes fuel and subsistence items.

Figure II.3 shows that no-credit returns have increased at a greater rate than credit returns.

**Appendix II
How Returns Can Contribute to
Inventory Growth**

**Figure II.3: Credit and No-Credit
Customer Returns**



Note: Excludes fuel and subsistence items.

DLA's returns data by service were only available for fiscal years 1985 through 1988. The average rate of returns to sales for the 4-year period was 7.6 percent. However, there are significant differences in the percentage of returns by service and supply center. For example, hardware supply centers had a return rate five times the Medical Supply Center's rate. Tables II.1 and II.2 show the differences by supply center and service, respectively.

**Table II.1: DLA's Sales to Services and
Their Returns for Fiscal Years 1985
Through 1988**

	Sales		Returns		Percent of sales
	Amount	Percent	Amount	Percent	
Hardware ^a	\$11,290	65	\$1,159	87	10.3
Clothing and textiles	3,464	20	116	9	3.3
Medical	2,591	15	51	4	2.0
Total	\$17,345	100	\$1,326	100	7.6

^aHardware includes Electronics, Industrial, Construction, and General Supply Centers.

**Appendix II
How Returns Can Contribute to
Inventory Growth**

Table II.2: DLA Hardware Supply Centers' Sales and Returns for Fiscal Years 1985 Through 1988

	Dollars in millions				
	Sales		Returns		Percent of sales
	Amount	Percent	Amount	Percent	
Army	\$2,731	24	\$269	23	9.8
Navy	5,127	45	570	49	11.1
Air Force	3,116	28	280	24	9.0
Marine Corps	316	3	41	4	13.0
Total	\$11,290	100	\$1,159	100	10.3

The Navy accounted for about 45 percent of the hardware supply centers' total sales and for 49 percent of returns. Its ratio of returns to sales was 1.3- and 2.1-percent higher than the Army and Air Force, respectively. Moreover, the Navy's rate of returns increased the most during fiscal years 1986 through 1988, while the Army and Air Force's rates remained relatively the same. Navy officials attribute the higher rate to the Navy's ship modernization program. All on-board DLA-managed spares stock used for components or equipment being replaced is returned to DLA. Despite this problem, the Navy has implemented a new capability to redistribute excess among its activities and has also initiated a 73-point program to avoid excess and reduce returns.

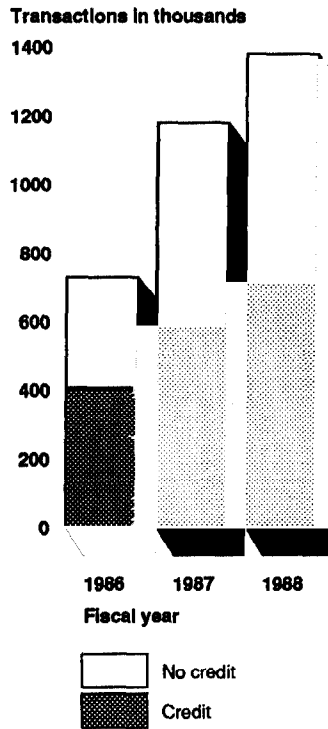
In September 1989, the Inspector General concluded that DLA inventory managers had properly implemented DOD policy and procedures and that the program's internal controls were adequate.

Materiel Retention Policy

According to an October 11, 1985, memorandum from the Deputy Secretary of Defense, serviceable and economically repairable materiel that have application to a weapon system should be retained. It also eliminated the minimum dollar value of more than \$20 for reporting and returning excess materiel in DOD Directive 4100.37, "Retention and Transfer of Materiel Assets." As a result, customers were allowed to return excess materiel to DLA regardless of its value. As shown in figures II.4 and II.5, the volume of DLA's return transactions almost doubled, but the value only increased by \$25.5 million, or about 3 percent after the threshold was eliminated.

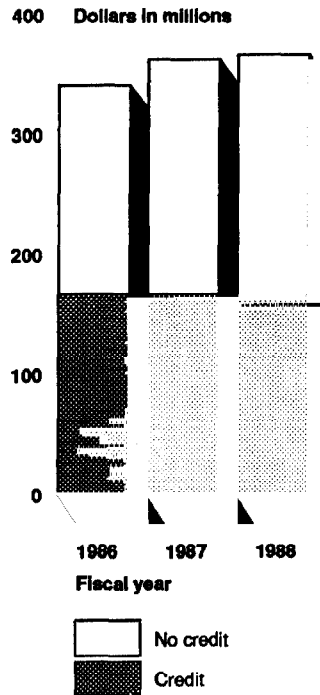
Appendix II
How Returns Can Contribute to
Inventory Growth

Figure II.4: Volume of DLA Credit and No-Credit Returns for Fiscal Years 1986-88



Appendix II
How Returns Can Contribute to
Inventory Growth

Figure II.5: Dollar Value of DLA Returns
for Fiscal Years 1986-88



According to DLA officials, their depots were able to process the increased volume of returns without hiring additional personnel. Further, even though Directive 4100.37 was revised in May 1988 to incorporate the new policy and eliminate specific dollar thresholds, it did provide DLA with some discretion.

Beginning in July 1988, DLA established a \$13-minimum value threshold for all no-credit returns, which helped reduce the volume of returns about 20 percent. The \$13 represents DLA's estimated cost to process a return.

Actions to Reduce Excess and Returns

Ongoing Efforts to Reduce Excess/Returns

Recent Army, Navy, and DLA studies addressed the problem of excess materiel, and identified numerous causes of excess materiel. The Air Force did not have a comparable study, and DLA's returns analysis was done before the March 1988 hearing.

Army

A March 1988 Army contract study identified numerous causes of excess, including stockage policies, systems' defects, operator errors, and violations of operational requirements. The study identified 75 contributing factors, concluded that the problems required aggressive action, and recommended actions on 31 of the factors that would achieve maximum benefits. The Army approved changes to policy and automated system procedures covering 17 of the recommendations, including 12 of 15 recommendations identified as having the greatest payoff. The 12 recommendations deal with reducing the turbulence in units of repair parts and at stabilizing maintenance repair programs. The 19 remaining recommendations dealt with, for example, more accurately determining what repair parts are stocked for providing initial provisions and for programmed maintenance.

Navy

In January 1989, over 60 Navy top supply representatives of the Naval Supply Systems Command prepared a 73-point plan of action to reduce inventory growth. The 73 points fall into 8 broad inventory initiatives to avoid excess and redistribute excess more efficiently. For example, one major initiative was to identify excess materiel on order to see if contracts could be terminated to prevent additional excess materiel in the supply system.

Other Navy actions include initiatives to increase the accuracy of forecasting inventory requirements and to examine the requirements models used to determine economic order quantities, including initial orders and reorders. Another initiative is to review readiness-based spare stock items to determine if reasonable reductions can be made.

DLA

Over the past 2 years DLA has addressed the high rate (about 19 percent of returns) at which service activities returned and reordered the same item within a year. DLA provided the services with a subjective sample of 10 to 20 items each for selected activities and asked each to help identify and minimize the conditions that contributed to their return and

reorder. The services identified several causes and initiated corrective actions.

Efforts to Redistribute Returns

DOD and the services have ongoing actions to improve inter- and intra-service redistribution of excess to reduce returns to DLA.

The Army identified three contributing causes for the return and reorder problem. The causes were (1) the practice of requiring its maintenance depots to return to DLA all materiel not needed within the current year for credit, (2) the failure of Army supply managers to match items on order and due in to those on their computer-generated excess list, and (3) inaccurate requirements. The maintenance depots later reordered some of the items they had returned to DLA because they needed them for their maintenance programs. Failure to cancel orders for excess materiel and inaccurate requirements also contributed to the problem because activities continued to order and return materiel they thought they needed but did not need.

The Army is attempting to eliminate these causes by (1) allowing its maintenance activities to retain current excess materiel to meet known future requirements, (2) modifying its computer program to match excess due-in items automatically and to cancel those that are excess, and (3) instituting a tracking and reporting system to identify repeated requisition data on a quarterly basis for the same item. The Army also plans to establish limitation goals for the amount of materiel returned and reordered.

According to a DLA analysis, maintenance depots account for the most items returned, and Army depots accounted for 6 of the top 10 activities returning and reordering the same items. To conserve its industrial funds, the Army has adopted the practice of returning all items for credit that are not needed within the current year. Formerly, it retained items for up to 3 years if there was a projected need. Such items were not classified as excess because they were within established retention limits. Both Army Depot Command and Corpus Christi Army Depot officials said that the Army had apparently exacerbated one problem by trying to solve another.

Because of the difficulty in forecasting needs for maintenance programs, Corpus Christi officials believed it would be better to discontinue the revised practice and hold items a year or two if there was a projected need. A headquarters official agreed that the current practice does not

appear reasonable and requested the Army Depot Command to consider having its maintenance depots retain needed items with a demand forecast in the next 6 to 12 months. However, the Army Depot Command had not made a decision at the time of our review.

Excess on Order and Inaccurate Requirements

Army

The Army has modified its computer program to identify and cancel excess due-in materiel. Although this modification has been implemented at some activities, other activities still need a more sophisticated program.

The Army has also opened facilities in Europe to improve the redistribution of excess materiel. The first two facilities are fully operational and a third is scheduled to open in November 1989. The facilities enter items returned by Army units into a computer that determines where an item is needed and issues disposition instructions. The items are also entered into the Army Materiel Command's Standard Depot System, which connects the facilities, and the Army's General Materiel and Petroleum Activity's system, which manages all of the Army-owned DLA materiel in the facilities.

The Army's U.S. facilities report all no credit DLA returns to the General Materiel and Petroleum Activity, where the returns are matched with other Army requirements for redistribution. According to Army officials, the procedure differs from the other services because the facilities ship their excess materiel to the nearest Army depot, rather than holding it at the unit level.

Navy

The Navy identified several contributing causes to excess returns, including (1) computations that considered quantities less than DLA's unit of issue—the number of items in a package—when calculating inventory levels and (2) decreased item demands, which caused returns.

To reduce the amount of materiel returned to DLA, the Navy holds information on partial excess¹ in a central computer file for 75 days to match all outstanding or new requisitions against the file. This system tries to

¹These are items are excess of immediate requirements but with an anticipated future demand.

match selected excess items to other activities' requisitions to avoid returns and reorders.

In July 1988, the Navy revised its procedures for materiel returns for DLA-managed inventory items. According to Navy officials, partial excess items with anticipated future demand are not reported to DLA but are held for internal redistribution. Further, the items are reported to the Navy's defense program for redistribution of assets where they are matched against Navy requisitions.

DLA-managed items that are in total excess (i.e., there is no known need) are returned to DLA for both credit and no credit. According to Navy officials, the Navy had shared data in its redistribution computer file with DLA's Defense Supply Electronics Supply Center on a test basis, and was beginning to do the same with DLA's Defense Construction Supply Center. They intend to share file data with all DLA supply centers. According to a DLA supply official, full coordination is pending completion of the defense automated addressing system modernization effort.

Air Force

The Air Force identified three factors contributing to the return of items to DLA. The factors were (1) unanticipated reduction in demand, (2) base inventory adjustment gains, which resulted in excess materiel, and (3) anticipated returns of DLA-managed items to the Air Force supply system from its customers.

The Air Force did not identify any substantial actions that could minimize or reduce returns but it did institute procedures to minimize post-return shipments (i.e., Air Force bases will hold items for a longer period of time, allowing redistribution to other bases) in April 1989. It also has recommended changes in how it accounts for, reports, and redistributes excess materiel, which along with its other planned actions, may reduce the amount of excess returns. The Air Force did not have any specific actions to address the second and third factors.

The Air Force also reviewed its materiel returns policy for DLA items and changed its criteria for returning materiel. Partial excess materiel will continue to be reported to DLA but will only be returned for credit (i.e., when DLA needs the materiel). Otherwise, it will retain the partial excess items for internal redistribution. The Air Force will report the excess materiel quarterly to DLA to provide the agency with visibility over its managed items. Air Force officials believe the revised procedure will decrease the amount of materiel being returned. DLA-managed stocks

that are in total excess to Air Force requirements will continue to be returned to DLA on a credit and no-credit basis.

DOD

In its September 1989 report, the DOD Inspector General concluded that a uniform DOD program managed by the wholesale inventory managers should be established for the lateral redistribution of retail activities' (e.g., Army and Air Force bases and Navy ships) excess materiel. According to the report, in recent years the services have established their own programs to internally redistribute excess materiel for DLA-managed items. The programs have been successful and helped satisfy other retail activities' requirements. However, current service redistribution procedures can restrict using retail excess assets to fulfill requirements of the same service and exclude the wholesale inventory manager in the decision process.

Establishing a cross-service redistribution program managed by the wholesale inventory managers would not require a change in identifying and reporting excess materiel at retail activities. Retail activities would still screen materiel at least quarterly and report it under existing excess materiel reporting procedures. However, wholesale inventory managers would not routinely provide return authorizations for shipping materiel to wholesale storage depots. Instead, the inventory managers would redistribute the excess materiel to activities with existing requirements (backorders) from any service, and would use the remaining excess materiel to fill subsequent requirements. We agree with the report's conclusions in this matter and that wholesale inventory managers should be responsible for redistributing service excess materiel throughout the DOD supply system.

The Inspector General's office found that DOD needs to redistribute excess materiel on an interservice basis as well as on an intraservice basis. The Assistant Secretary of Defense (Production and Logistics) generally concurred that such redistribution is needed. In addition, the Air Force and Navy are generally supportive, although the Army has some reservations. A major obstacle to interservice redistribution—interservice reimbursement—has been informally resolved among the services.

Comments From the Department of Defense



PRODUCTION AND
LOGISTICS

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301-8000

FEB 5 1990

(L/SD)

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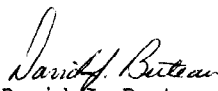
Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "INVENTORY MANAGEMENT: DLA's Materiel Returns Program," dated December 21, 1989 (GAO Code 391617/OSD Case 8212).

The DoD has reviewed the report and concurs with the report's findings. We will continue to pursue the improvements noted in the report and will monitor progress on those actions.

The Department appreciates the opportunity to review the report in draft form.

Sincerely,


David J. Berteau
Principal Deputy

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