

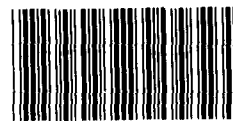
GAO

Report to the Chairman, Subcommittee on
Oversight of Government Management,
Committee on Governmental Affairs,
U.S. Senate

November 1992

DEFENSE LOGISTICS AGENCY

Why Retention of Unneeded Supplies Persists



147827





**National Security and
International Affairs Division**

B-249676

November 4, 1992

The Honorable Carl Levin
Chairman, Subcommittee on Oversight
of Government Management
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

In response to your request, we reviewed the Defense Logistics Agency's (DLA) inventory of inactive items. For this report, we analyzed data on DLA's inventory and visited three DLA supply centers and warehouses to ascertain the extent of inactive items and to determine why items with no demand continue to be retained.

Background

A primary responsibility of DLA is to provide effective and economical logistics support, including procuring, stocking, and issuing supply items to U.S. military services. As of March 31, 1991, DLA stocked about 1.8 million different consumable items (national stock numbers), excluding fuel and food.

The Department of Defense (DOD) requires DLA to purge unneeded items from its inventory and cataloging records. Two programs that DLA established to reduce unneeded items from its inventory are the Defense Inactive Item Program (DIIP) and the Six Year No Demand Disposal Program.

- DIIP provides for the systematic review and elimination of inactive national stock numbers¹ from the defense supply system. Potentially inactive national stock numbers are referred automatically to the users annually to ascertain if they want to be retained or deleted as a registered user of the item.
- The objective of the Six Year No Demand Disposal Program is to dispose of unneeded assets. Potential assets for disposal are required to have had no demand for the past 6 years and have been under DLA's management for at least 6 years. The program does not allow for removal of the national stock number from the supply system, only its assets. Items meeting the

¹An item of supply is not removed from the system until there are no further requirements for the item and all known stocks of the item have been disposed of.

program's criteria are selected and referred to item managers for review to determine if the assets are needed.

Results in Brief

According to DLA records, as of March 1991, DLA had 497,572 different items that had not been requisitioned for at least 3 years. The inventory of these items represented \$980 million of DLA's entire \$11.7 billion inventory.

Although DLA established DIIP and the Six Year No Demand Disposal Program to reduce the number of national stock numbers managed and remove the unneeded assets from the inventory, not all items are covered by these programs, and there are problems with the existing programs.

Many item managers were not familiar with inactive items for which they are responsible. According to DLA supply representatives, data files contain inaccurate data that may result in item managers making incorrect management decisions. Because of inaccurate data, the most informed service representative may not be making the decision to retain or delete a national stock number. In addition, DLA headquarters has not issued a directive or policy manual for implementing the Six Year No Demand Disposal Program and the services are not providing DLA with prompt technical support.

We found assets for locally purchased items that had been returned to warehouses with no established means to utilize them. Also, national stock numbers sponsored by non-DOD agencies are not covered by DIIP. We found assets for non-DOD users that were left sitting in warehouses.

After learning of the problems identified by our review, the Deputy Assistant Secretary of Defense for Logistics instructed DLA to take corrective actions on identified problem areas.

DLA Inventory Items With No Demand for at Least 3 Years

Although we only visited three DLA supply centers, we obtained inventory records for all items managed by DLA. As of March 31, 1991, DLA managed 497,572 different items with assets on hand valued at \$980 million that had no demand for at least 3 years. DLA's total inventory was 1.8 million items valued at \$11.7 billion. Table 1 shows the number of items and the value of the inventory by DLA center.

Table 1: DLA Inventory With No Demand for at Least 3 Years

Center	Number of national stock numbers	Dollar value
Defense Construction Supply Center	87,068	\$257,162,859
Defense General Supply Center	48,770	147,398,133
Defense Electronics Supply Center	242,635	401,423,393
Defense Industrial Supply Center	114,128	136,322,424
Defense Personnel Support Center	4,971	38,136,242
Total	497,572	\$980,443,051

Many Item Managers Not Familiar With Inactive Items

Many item managers manage active items and would not have knowledge of an inactive item unless an inquiry was made on that particular item. When discussing the management of 21 of the 56 items in our sample with item managers, we found that item managers had been responsible for the items less than 2 years. Fifteen of the 21 managers were not familiar with the particular items we inquired about, and they could not provide any additional information other than that we had obtained from the centers' supply and inventory records. Item managers told us that they manage by exception.

Item Managers Cannot Rely on Data Files Being Accurate

According to a DLA supply representative, items in the data files used by item managers to make management decisions have incorrect data. He told us that this resulted in managers making erroneous inventory management decisions. For example, in May 1992, a Defense Construction Supply Center supply systems analyst identified a number of items with incorrect data in the Weapon System Master File. This file is used by the item managers in purchasing, retaining, and disposing of assets. The center requested that DLA headquarters develop a program to ensure that the weapon system data is consistent with information provided by the services. Table 2 shows selected examples of the errors found in the files.

Table 2: Incorrect Data in the Weapon System Master File

Stock number	Nomenclature	Correct data	Master file
2510-01-060-9286	Engine hood	Critical, item needed for personnel safety	Critical, non-mission essential
2540-01-030-4443	Seat cushion	Critical, item needed for personnel safety	Least critical, non-mission essential
2920-01-223-8762	Engine housing	Critical, mission essential	Least critical, non-mission essential
4820-01-283-4923	Valve, ball	Least critical, mission essential	Least critical, non-mission essential

In May 1990, the Navy changed its method of classifying weapon system essentiality codes.² In the process, they assigned a high priority essentiality code to about 127,000 DLA-managed items, some of which had not previously been coded as essential for a weapon system. As a result of the high priority placed on these items, DLA's computer system automatically generated a recommended buy to the item managers.

About 1,800 of the items had no stock on hand and had never had a demand, and many had been in the system for over 10 years. DLA item managers questioned the Navy regarding the need to purchase stock for these items. However, according to DLA supply representatives, the Navy was slow to respond to resolve the problem. It was not until March 1991 that the Navy lowered the essentiality codes for some of the items so that stockage of the items would not be required. However, DLA managers still questioned the validity of purchasing about 850 of the inactive items. According to the supply system analyst, the Navy did not adequately respond; therefore, the managers have now taken the initiative not to purchase these items until there is a demand.

Services May Not Have Most Appropriate Activity Decide Whether to Retain Inactive Item

The services are not thoroughly reviewing items annually referred to them under DIIP. The services are required to notify DLA on whether to retain/delete them as a user. Only 18 of the 56 items in our sample went through the DIIP process. The services responded with a decision to retain them as a user for all 18 items. However, upon further follow-up, we determined that the services no longer had an interest in 7 (or 39 percent) of the 18 items. Additional information on the status of the 56 items in our sample is in appendix II.

²Regulations require the military services to provide DLA with the degree of criticality and essentiality of an item to a weapon system.

The office of primary responsibility for determining whether to retain/delete the service as a user may not have sufficient knowledge to make this determination. The service's Secondary Inventory Control Points receive the referrals from DLA. If a review is required, the services automatically send referrals to a general user. According to an Ogden Air Logistics Center representative, referrals should be sent to the weapon system/end item program managers who would have sufficient knowledge of the requirements for the item. When activities with insufficient knowledge make approval/disapproval decisions, items may be erroneously deleted. For example, this representative indicated that 25 items previously managed by DLA were deleted through DIIP because activities with insufficient knowledge of the items made approval/disapproval decisions. In April 1992, the DIIP committee directed the Air Force to review this problem and advise the committee by October 30, 1992, of proposed corrections and any changes required on the part of the other military services.

No Directive or Manual Issued for the Six Year No Demand Disposal Program and Program Records Inadequate

No directive or policy manual has been issued for the implementation of the Six Year No Demand Disposal Program. In a letter dated March 17, 1987, DLA headquarters instructed supply centers to begin disposal action for national stock numbers with no demand for the past 6 years and under DLA management for at least 6 years. The letter included a requirement for disposal checklists and authorization levels. DLA headquarters' program point of contact and systems analysts at the three centers we visited told us that no further program guidance was provided to the centers. Rather, centers were allowed to implement the disposal program at their discretion. We found that the three centers we visited had established different procedures for implementing the disposal program.

In addition, DLA initially required centers to submit monthly status reports to headquarters. According to officials at DLA headquarters and at the three supply centers we visited, no formal reporting requirement currently exists, and centers report to headquarters upon request. The DLA headquarters' program point of contact told us that DLA plans to incorporate the Six Year No Demand Disposal Program into its Materiel Management Manual when it is republished.

One supply center we visited, the Defense Electronics Supply Center, could not provide accurate statistics on items selected and reviewed or retention/deletion decisions. Also, this center could not determine if the items in our sample eligible under this program were included in the last

review. Furthermore, we found that this center had no internal controls in place to ensure that item managers are reviewing the referred items.

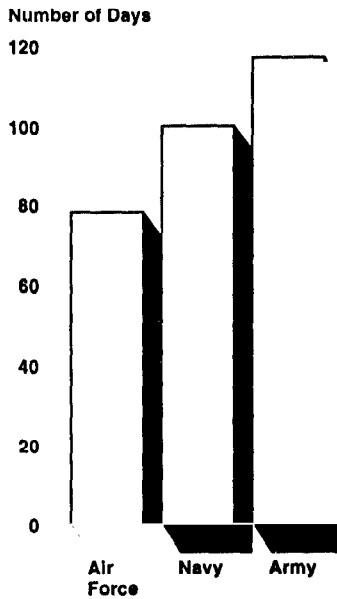
The other two supply centers we visited were able to tell us if our sample items were included in the last review and had some internal controls in place to determine whether item managers were reviewing the items referred to them under the program. For example, in February 1992, the Defense Construction Supply Center reviewed 200 items referred to managers under this program. The results showed that 13 (or 7 percent) of the item managers could not provide required documentation to show that they had reviewed the items.

Services Not Providing DLA With Prompt Technical Support

According to regulations, the military services are responsible for providing DLA with technical/engineering support within specified time frames to effectively and economically procure items. DLA is dependent upon the military services for this support. However, according to the supply centers' technical support representatives, the services do not provide timely responses to their inquiries. Technical operations officials at the three centers we visited told us that the services do not provide timely responses to their inquiries for technical/engineering support. For example, according to the representatives, about 80 percent of the requests sent to the services exceeded the 30/60 day response requirement.³ This means that frequently DLA does not have the necessary information available on which to base its inventory management decisions. Figure 1 shows the response time for the services.

³Military services are required to respond to requests for technical/engineering support within 30 to 60 days.

Figure 1: Average Response Time by Services



No Method for DLA to Issue Local Purchase Items

Our review showed that DLA had no method to issue assets on hand that are classified as nonstocked local purchase items. DLA manages 106,000 national stock numbers classified as nonstocked local purchase, which are items purchased locally by the military services. About 8,200 national stock numbers classified as nonstocked local purchase have on-hand assets valued at about \$18 million stored in DLA depots. Nine of the 56 items in our sample were classified as nonstocked local purchase items. For example, thrust rings valued at \$59,674 were returned to DLA in June 1985. Figure 2 shows the thrust rings stored at Defense Depot Richmond, Virginia.

Figure 2: Thrust Rings Purchased Locally and Returned to DLA



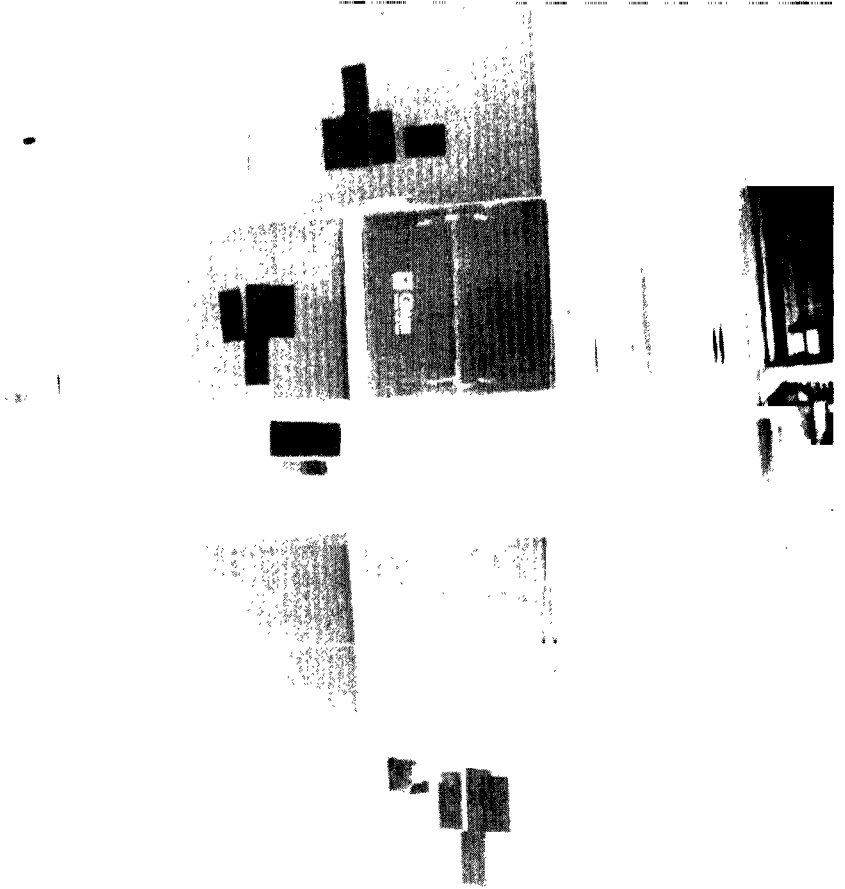
DLA item managers had disposed of assets valued at about \$66,883 for five of the nine items. We could not determine whether the services were purchasing these items locally while DLA (1) had disposed of assets on hand or (2) had stock on hand. The services do not maintain a specific transaction history on items managed by DLA but authorized for local purchase.

In discussing our findings, the Deputy Assistant Secretary of Defense for Logistics stated that the services do not query DLA prior to purchasing these items, nor are they required to do so. However, on August 7, 1992, DLA directed a change to the coding of nonstocked local purchase items to allow for centralized requisition processing.

No Method to Refer Potentially Inactive Items to Other Agencies

In our visits to DLA supply centers and warehouses, we found old items that were being retained because DOD does not have a method to refer potentially inactive items to civil agencies. For example, the records for one item in our sample showed glass bulbs valued at about \$53,936 with no demand since 1975, and the Coast Guard (a civilian agency during peacetime) listed as the only user. Figure 3 shows some of the glass bulbs stored at Defense Depot Richmond, Virginia.

Figure 3: Glass Bulbs Stored at Defense Depot Richmond, Virginia



The item was not reviewed under DIIP because the Coast Guard does not receive the computerized listing of potential inactive items for review from DLA. After we brought the item to the attention of the item manager, a determination was made that no requirement existed for this bulb. Consequently, the Coast Guard was deleted as a user and the assets were disposed of on June 25, 1992. In our discussions, DOD agreed that this is a problem and is looking into the feasibility of developing a DIIP-type program for civil agencies.

Views of DOD Officials

We did not obtain agency comments that had been fully coordinated within DOD. However, we discussed the material in this report with DOD and DLA program officials and incorporated their views where appropriate. The Deputy Assistant Secretary of Defense for Logistics informed us that actions were being initiated to correct the problems we identified (see

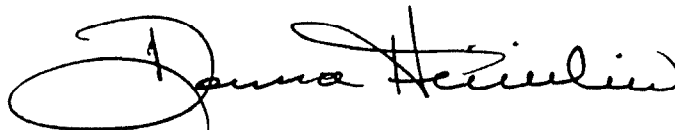
app. III). More specifically, she instructed DLA to take corrective action, including developing (1) a method to issue wholesale assets coded for local purchase, (2) procedures to reconcile user information between the Defense Supply Centers and the Defense Logistics Services Center, and (3) procedures to ensure that all national stock numbers are reviewed periodically to preclude indefinite retention of items (see app. IV).

Details on our scope and methodology are in appendix I.

We are sending copies of this report to the Chairmen, House and Senate Committees on Appropriations; Chairmen, House and Senate Committees on Armed Services; the Secretaries of Defense and the Army, Navy, and Air Force; and the Directors of DLA and the Office of Management and Budget. We will make copies available to others upon request.

The major contributors to this report are listed in appendix V. Please contact me on (202) 275-8412 if you or your staff have any questions concerning this report.

Sincerely yours,



Donna M. Heivilin
Director, Logistics Issues

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Abbreviations

DIIP Defense Inactive Item Program
DLA Defense Logistics Agency
DOD Department of Defense

Scope and Methodology

We performed our work at DLA headquarters and three of its six supply centers—Defense Electronics Supply Center, Dayton, Ohio; Defense Construction Supply Center, Columbus, Ohio; and the Defense Industrial Supply Center, Philadelphia, Pennsylvania. These three centers had 89 percent of the items with no demand in the last 3 years, as of March 31, 1991. We reviewed policies and procedures for removal of potentially inactive items as specified by DOD and DLA manuals and standard operating procedures. We also visited warehouses where DLA items are stored.

We used the supply and inventory records and reports that DLA uses to determine if items should be retained or deleted from the inventory. We analyzed a computerized file containing inventory information for all DLA-managed items, except fuel and subsistence items, as of March 31, 1991. After reviewing the summarized information, we decided to select items from the Construction, Electronics, and Industrial supply centers for further review because these centers managed the most items with no demand in more than 3 years. For each center, we selected a sample of items with high dollar value inventories and different supply status classifications since supply status is considered during inactive item reviews.

For those items in our sample that had no demand, we reviewed the supply and inventory records to determine if the items were candidates for DIIP and the Six Year No Demand Disposal Program. If items met the criteria, we determined the current status. Concerning the programs to eliminate unneeded items from inventory, we held discussions with DLA headquarters and supply center representatives. We also discussed these programs with Air Force, Army, and Navy representatives.

We conducted our review from October 1991 to August 1992 in accordance with generally accepted government auditing standards.

Status of Sample Items

National stock number	Item name	Status of Item
5960-00-552-1760	Electron tube	Service interest.
5895-01-054-5569	Maintenance kit	No service interest.
5985-01-095-4708	Adapter, waveguide	Service interest; WSIC. ^a
5935-01-011-1194	Connector, body, plug	Service interest; WSIC.
5935-00-156-3256	Connector, receptacle	Service interest.
5905-00-378-1001	Resistor, variable	Service interest.
5960-01-004-3026	Bulb, glass	No service interest.
5960-01-005-4897	Bulb, glass	No service interest.
5985-00-265-9011	Waveguide assembly	Service interest.
5950-01-016-8375	Transformer, radio	No service interest.
5999-00-022-2857	Contact, electrical	No user.
5962-01-097-4036	Microcircuit, digital	No user.
3020-01-095-3141	Gear, bevel	No service interest; WSIC.
4410-00-346-8839	Element, economizer	Service interest; WSIC.
4810-00-019-0713	Actuator	Service interest; WSIC.
4410-00-019-1263	Tube, section	Service interest; WSIC.
3040-00-137-9874	Gearshaft, spur	Service interest; WSIC.
2815-00-406-5498	Cover	No service interest.
2010-01-025-3355	Ring, thrust	Service interest.
2825-00-943-7932	Blading set, turbine	Service interest.
1015-00-798-3772	Cover gun breech	No service interest.
1650-00-464-9313	Cylinder, actuating	Service interest.
4320-00-304-3927	Impeller, pump	Service interest.
2520-00-614-1606	Shaft, axle	No service interest.
4310-00-168-0224	Piston, compressor	Service interest; WSIC.
2825-00-009-8889	Casing, rotor	Service interest.
2805-00-313-1687	Insert, engine valve	No user.
4710-00-823-0072	Tube, metallic	No user.
3835-00-641-7493	Valve, section	No user.
5305-01-191-0385	Screw, machine	Service interest.
5305-01-182-9049	Screw, close, tolerance	No service interest; WSIC.
5365-01-165-2420	Spacer, plate	No service interest; WSIC.
3120-00-175-7941	Bearing assembly	No service interest.
3110-00-058-9062	Bearing roller	No service interest.
5310-01-196-5582	Nut, self-locking	No service interest.
5330-00-880-4496	Gasket	Service interest; WSIC.
3120-01-017-7430	Bearing set, air	No service interest.
5320-01-023-1760	Rivet	Service interest.
5310-01-195-5850	Nut, self-locking	No service interest.
5305-01-194-4998	Screw, close tolerance	No service interest; WSIC.
5305-01-185-7108	Screw, cap, socket	Service interest; WSIC.

(continued)

**Appendix II
Status of Sample Items**

National stock number	Item name	Status of Item
5330-00-605-9778	Seal, elevator	No service interest.
5306-01-197-3562	Bolt, shear	No service interest.
3110-00-789-4141	Bearing, ball, duplex	No service interest.
3120-00-716-8704	Bearing set, sleeve	No service interest.
5310-00-033-4921	Nut, plain, round	No service interest.
5315-00-015-7664	Pin	No service interest; WSIC.
3120-00-583-3705	Bushing, sleeve	Service interest; WSIC.
2835-01-101-6556	Sump, oil, turbine	Service interest; WSIC.
5306-01-125-6050	Bolt, machine	Service interest; WSIC.
5305-00-506-2365	Screw, assembly, ball	Service interest.
3120-00-741-1697	Parts kit, bearing	No service interest.
3120-01-162-5776	Bushing sleeve	No user.
5365-01-126-8993	Shim	No user.
5340-01-134-5514	Plate	No user.
9535-01-012-2386	Plate, metal	No user.

^aWeapon System Indicator Code (WSIC) is a letter of expression of the combination of the Weapon System Group (Criticality) Code and the Weapon System Essentiality Code.

Letter From the Department of Defense to GAO



PRODUCTION AND LOGISTICS

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, DC 20301-8000

July 2, 1992

(L/SD)

Ms. Donna M. Heivilin
Director, Logistics Issues
National Security and International Affairs
U.S. General Accounting Office
Washington, DC 20548

Dear Ms. Heivilin:

Enclosed is the completed questionnaire regarding the Defense Inactive Item Program which you provided for completion during our meeting of June 3, 1992. The information provided relates to your review of materiel used and not used during Operation Desert Storm/Shield, GAO Code 398087.

We have initiated a number of actions to correct systemic problems identified during the review, including developing: (1) a method to issue wholesale assets coded for local purchase; (2) procedures to reconcile user information between the Defense Supply Centers and the Defense Logistics Services Center; and (3) procedures to ensure that all National Stock Numbers are reviewed periodically, thus precluding indefinite retention of items.

If we can be of further assistance, please contact Mr. Robert H. Moore, Acting Director, Supply Management Policy, at (703) 697-9238.

Sincerely,

Diane K. Morales
Deputy Assistant Secretary
(Logistics)

Enclosure

Letter From the Department of Defense to the Defense Logistics Agency



OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, DC 20301-6000

July 2, 1992

MEMORANDUM FOR EXECUTIVE DIRECTOR OF SUPPLY OPERATIONS, DEFENSE LOGISTICS AGENCY

SUBJECT: Inactive Inventory Issues

We have discussed with the DoD Components, including representatives of your staff, a number of actions needed to correct systemic problems identified during a review of GAO Code 398087, "DLA Inventory Used/Not Used in Operation Desert Shield/Storm." It is important that we take the following actions.

First, items currently coded for local purchase with assets in wholesale inventory should be recoded to an Acquisition Advice Code indicating to the users that stock is available. This will ensure user visibility of wholesale assets held by DIA amounting to about \$18 million on approximately 8200 items.

Second, the data files at the DIA Supply Centers should be reconciled with the master file at the Defense Logistics Services Center. This will ensure that inconsistencies in the files as to which Service is or is not registered as a user of an item do not prevent proper consideration of items for deletion under the Defense Inactive Item Program (DIIP).

Finally, the current exclusion of certain categories of items from deletion through the DIIP should be reviewed to ensure that such exclusion is not resulting in the indefinite retention of items with no user interest. For example, consideration should be given to including items coded for local purchase in the DIIP, as well as deleting items with a Weapon System Designator Code if no user interest is registered and no positive confirmation of weapon system applicability is received.

Please provide your plan for implementing these actions by August 1, 1992.

Diane K. Morales
Deputy Assistant Secretary
(Logistics)

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