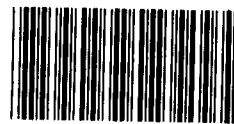


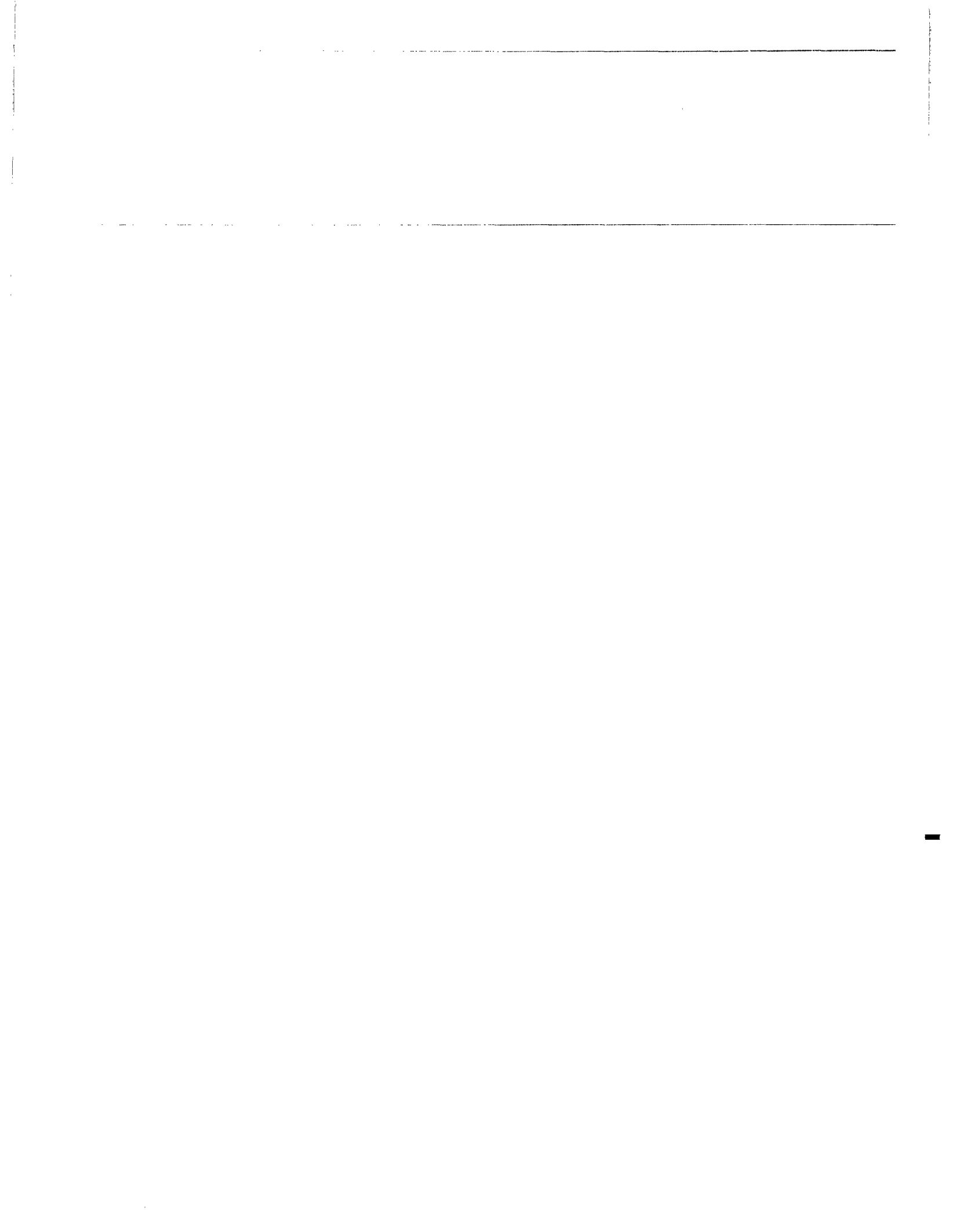
August 1992

AIR FORCE LOGISTICS

Need to Improve Management Transfers of On-Order Items That Can Be Terminated



147419



**National Security and
International Affairs Division**

B-249306

August 28, 1992

The Honorable Richard B. Cheney
The Secretary of Defense

Dear Mr. Secretary:

As part of our ongoing review of the Air Force's procedures for terminating excessive quantities of items on order, we looked at items for which the Air Force transferred management responsibilities to the Defense Logistics Agency (DLA). This report addresses whether the Air Force (1) completed necessary analyses of recommended terminations before the transfer and (2) provided accurate requirements data to DLA. We are reporting our results to you now to allow prompt action to be taken while the transfer program is still in an early stage.

Background

Each week the Air Force's requirements system identifies items with shortages and items with quantities on-order that exceed current requirements, called potential terminations by the Air Force (previously referred to as excess on-order). Ordinarily, Air Force procedures require analyses of items with such potential termination or excess quantities to decide whether to cancel the orders. In response to a DOD initiative to consolidate inventory operations and reduce costs, the Air Force in October 1991 began a 3-year program to transfer its management of 436,000 consumable items¹ to DLA. As of June 30, 1991, 842 consumable items with \$35 million of potential terminations were scheduled to be transferred to DLA. Additional potential terminations are identified weekly.

Results in Brief

The Air Force is missing opportunities to terminate unneeded purchases because it is transferring management of items to DLA without ensuring that analyses of recommended terminations are complete. As a result, termination actions are not timely, potential dollar savings may be lost, and unneeded items may be added to inventories. Air Force procedures require review of potential terminations and updates of files, but do not ensure that (1) the analyses are completed and results are provided to DLA and (2)

¹Consumable items are items that are not economically repairable and are discarded when worn out or broken. They include not only low-cost and common parts such as gaskets and fasteners, but also high-priced and sophisticated parts such as electronic modules.

current, accurate on-order information needed to manage the items is provided to DLA.

We reviewed the 10 items with the largest potential termination values transferred from the San Antonio Air Logistics Center to DLA as of November 1, 1991. The Air Force had completed its analyses and provided current, accurate information to DLA for only two items. As for the remaining 8 items that accounted for \$2.8 million of the \$3.0 million for all 10 items, 2 had incomplete analyses, 5 had inaccurate data, and the file for 1 could not be located.

Since the Air Force expects to complete the transfer of items to DLA within 3 years, quick action is needed to improve the completeness and accuracy of the information it provides to DLA.

Controls Over Management Transfers of Items With Potential Terminations Were Limited

To ensure uninterrupted supply support during the transition, DOD instructions require supply organizations to provide management control of transferred items. This means the Air Force has to coordinate with DLA, including notifying DLA of items that are or may become in short supply so that corrective action can be taken. The Air Force has specific procedures for transferring items with scheduled purchases to ensure that the purchases are completed at the time of the transfer to DLA. However, the Air Force has no corresponding procedures for items with potential termination quantities.

Also, the Air Force's management transfer procedures do not ensure that current, accurate item management data are included in automated records furnished to DLA. As a result, DLA is not using the most current information as it begins to manage items.

The San Antonio Air Logistics Center accounted for about \$20 million of the \$35 million of potential termination quantities scheduled for transfer as of June 30, 1991. We examined 10 items with the largest on-order values transferred from the Center as of November 1, 1991. We found that the Air Force completed its analyses and provided correct information to DLA in only two cases. We identified the following problems with the remaining eight items.

- Two were transferred before an analysis was completed to determine if it was economical to cancel all or part of the orders.
- Five were transferred with erroneous data concerning on-order quantities.

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- One folder of item management information could not be located.

Analyses Not Completed Prior to Transfer

Air Force procedures and practices for the transferred items do not ensure complete analyses and contract terminations where appropriate. Failure to complete the analyses precluded the Air Force and DLA from determining whether or not it was economical to terminate orders for such items.

The Air Force follows its normal termination procedures until the time of item management transfer. These procedures involve obtaining contractor termination charges, comparing the cost of terminating the appropriate quantity to the cost of accepting and holding the inventory, and, if economical, terminating the quantity. However, if this normal on-order termination process has not been completed for affected items at the time of management transfer, there is no provision for follow-through by the Air Force or DLA to ensure that final appropriate action is taken.

For example, on June 26, 1991, the Air Force ordered 97 parts kits used to repair F-111 aircraft. On June 30, 1991, the Air Force determined that 43 of these kits valued at \$47,064 exceeded its needs. However, an analysis was not completed prior to the November 1, 1991, transfer of the item to DLA, thus precluding potential termination.

Also, on July 7, 1991, the Air Force determined that five on-order actuators used on C-5A aircraft valued at \$16,809 exceeded its needs. This item was transferred to DLA on November 1, 1991, before requested termination charges were received from the contractor. These charges were needed in order to complete the analysis. After receipt of termination charges on January 8, 1992, the Air Force took no action to complete the analysis or forward the information to the DLA.

Inaccurate and Incomplete Information Transferred

At the time the Air Force transfers an item, it provides the DLA with computer tapes of basic item management data, which are entered in DLA centers' requirements computation systems. The Air Force also provides DLA centers with folders of documents with detailed information on the items' procurement history and known problems. DLA item managers do not review the folders until the automated requirements system indicates that management action is required.

For 5 of the 10 items we reviewed, we found that the data tapes provided to DLA were not as complete or accurate as the folders that held more current and complete data. DLA could not locate a sixth folder.

For example, on July 23, 1991, the Air Force determined that 9,792 (out of 10,752 on two contracts) on-order parachute canopies valued at \$2,344,792 exceeded its needs. At that time, the contractors were having problems delivering any parachute canopies on the two contracts. The Air Force was terminating one of the contracts and considering terminating the other. However, the Air Force had not completed these actions when responsibility for the item was transferred to DLA on November 1, 1991. As of March 3, 1992, the DLA center's automated requirement system still showed all the items to be due-in even though they are not likely to be received. Failure to separately notify DLA of such changes adversely affects its ability to take needed actions.

Also, on July 23, 1991, the Air Force determined that 1,055 on-order F-4 parachute deployment bags valued at \$52,349 exceeded its needs. The termination analysis disclosed that the on-order quantity of 1,055 had been received over a year earlier but had been erroneously included in both the on-hand and on-order quantities. This on-order quantity had not been deleted from the due-in records due to a problem with the Acquisition and Due-In System (J041) that is currently being resolved by Headquarters Air Force Logistics Command managers. On November 1, 1991, the item was transferred to DLA and the due-in quantities had not been corrected. As of March 4, 1992, DLA's records still showed 249 of these items as due-in.

Procedures have not been established to ensure that DLA receives all management documentation sent by the Air Force. The document folder containing item management information for one of the items we reviewed could not be located at the DLA facility. On June 30, 1991, the Air Force determined that 983 on-order parachute canopies valued at \$220,674 exceeded its needs. In December 1991, the Air Force item manager did not know if an analysis had been performed for this item because the records had been transferred to DLA on November 1, 1991. As of March 18, 1992, no action had been taken and DLA officials were not aware that the record was missing until we brought it to their attention.

Views of Air Force and DOD Officials

We discussed the transfers of items to DLA with Air Force officials at the Oklahoma City and San Antonio air logistics centers. They stated that they have certain obligations to DLA for items transferred and would act immediately to correct the problems we found. They said they would transfer automated data to DLA, but would retain enough documentation to finish analyses when final information is available. For orders to be terminated, they said they will work with DLA inventory managers and Air Force contracting staff to complete the actions.

The need for timely action on the problems we found led us to not seek written comments on our report from DOD. Instead, we discussed our findings and recommendations with DOD and Air Force officials at the headquarters level. They expressed general agreement with our findings and recommendations and stated they would act immediately to bring about needed improvements.

Recommendations

We believe that the ongoing transfer of the management of consumable items to DLA requires immediate action by the Air Force and DLA to improve control over items with potential terminations. We recommend that you direct the Secretary of the Air Force to revise procedures to ensure that:

- controls over management of consumable items with potential terminations are maintained during transfers from the Air Force to DLA and
- complete and accurate automated requirements information, including separate notification of subsequent changes, is provided by the Air Force to DLA.

Scope and Methodology

We reviewed the procedures and guidelines for processing items that are being transferred from the Air Force to DLA and discussed these procedures with Air Force officials. We determined the number of items that were scheduled for transfer to DLA and had potential terminations as of June 30, 1991, by comparing a list of items scheduled for transfer to DLA from the Defense Management Review Decision 926 data base maintained by the Oklahoma City Air Logistics Center with the consumable item requirements system data. Table 1 shows the number and values of potential terminations scheduled for transfer by air logistics centers.

Table 1: Items with Potential Terminations That Were Scheduled for Transfer to DLA as of June 30, 1991

Air logistics center	Number of Items	Dollar value
Oklahoma City, Oklahoma	21	\$1,616,189
Ogden, Utah	141	5,910,456
Sacramento, California	119	2,365,434
San Antonio, Texas	418	20,427,950
Warner Robins, Georgia	143	5,033,490
Total	842	\$35,353,519

We reviewed 10 items managed by the San Antonio Air Logistics Center that had been transferred to the DLA supply center in Richmond, Virginia, with potential terminations. These items, with total potential terminations of \$3.0 million, were the largest values transferred to DLA as of November 1991. We restricted our review of actual item management transfer practices to the San Antonio ALC because it accounted for the bulk of potential terminations transferred at the time of our review. At the Oklahoma City ALC, which centrally managed the Air Force's item management transfer data base, our work was limited to identifying items with potential terminations that were scheduled for transfer.

To assess the reliability of potential termination and management transfer data output by the Air Force's automated systems, we compared computer system information with item manager records for the individual items we reviewed. We reviewed the status of termination actions taken before the transfer, and current status of the items at DLA. Our main objective was to determine if the Air Force's procedures and practices provided for completion of termination analysis for items with potential terminations being transferred to DLA.

The Air Force Audit Agency reviewed the transfer of consumable spares to DLA at the Ogden and San Antonio Air Logistics Centers between August and December 1991. The Air Force auditors found that timely item management transfers were hampered by automated system problems that were subsequently corrected by the Air Force. We considered this work and resulting actions in this report.

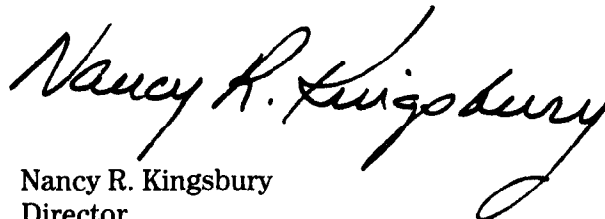
We performed our work at the Oklahoma City and San Antonio Air Logistics Centers and the DLA supply center in Richmond, Virginia. We conducted our review from November 1991 to May 1992 in accordance with generally accepted government auditing standards.

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 House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report. A written statement must also be submitted 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 Chairmen, House Committees on Government Operations, Armed Services and Appropriations, and Senate Committees on Governmental Affairs, Armed Services and Appropriations; the Secretary of the Air Force; and the Directors of the Office of Management and Budget and the Defense Logistics Agency. We will also make copies available to others upon request.

Please contact me at (202) 275-4268 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix I.

Sincerely yours,



Nancy R. Kingsbury
Director
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