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BY THE U.S. GENERAL ACCOUNTING OFFICE

# Report To The Secretary Of Transportation

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## Management Improvements Needed In Coast Guard Supply System

GAO reported to the Secretary of Transportation in November 1975 that the Coast Guard was progressing in establishing a more viable supply system, but that further improvements were possible. Department of Transportation and Coast Guard officials indicated basic agreement with this report and added that corrective actions were underway to achieve anticipated goals.

GAO found that the Coast Guard has made some progress in resolving some previously disclosed supply problems, but that opportunities for significant dollar savings still exist.



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

PROCUREMENT, LOGISTICS,  
AND READINESS DIVISION

B-202633

The Honorable Drew Lewis  
The Secretary of Transportation

Dear Mr. Secretary:

This report shows that the Coast Guard has made some progress in resolving previously disclosed supply management problems, but that opportunities for savings of millions of dollars still exist.

The report contains recommendations to you in chapters 2, 3, and 4. As you know, section 236 of the Legislative Reorganization Act of 1970 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 this 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 Chairmen, Senate Committee on Governmental Affairs, House Committee on Government Operations, and Senate and House Committees on Appropriations and on Armed Services; the Director, Office of Management and Budget; and the Secretaries of Defense, the Air Force, and the Navy.

Sincerely yours,

A handwritten signature in cursive script that reads "Donald J. Horan".

Donald J. Horan  
Director



D I G E S T

GAO reported to the Secretary of Transportation in November 1975 that the Coast Guard was progressing in establishing a more viable supply system, but that further improvements were possible by (1) eliminating wholesale inventories of items which are also stocked and managed by other Federal agencies and (2) reducing the number of inventory control points (ICPs). Department of Transportation and Coast Guard officials said that corrective actions were underway to achieve improvements in these areas.

GAO found that some progress has been made by the Coast Guard in resolving the previously disclosed supply management problems, however, opportunities for savings of millions of dollars still exist. For example, GAO found that:

- The Coast Guard could save millions of dollars annually for storage and transportation costs by obtaining supplies and spare parts from other Government agencies when needed, instead of maintaining inventories. (See chs. 2 and 3.)
- Coast Guard inventory control points stock thousands of inactive line items at levels above the Coast Guard needs, although many of these same items are needed and are being procured by other Government agencies. (See ch. 3.)
- Inventory records at the Ships ICP point were inaccurate, and item managers did not know what repair parts and components were available to them.
- Duplicate filings of aeronautical requisitions resulted in air stations receiving supplies in excess to the amount authorized. Inventory discrepancies at the Electronics and General Supplies ICP are not adequately corrected, and records do not accurately reflect available stock levels.

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--Improvements are needed in controls over project material by ICP and headquarters' offices.  
(See ch. 4.)

The Coast Guard ICPs need to purge their system of other Government agency-managed items. Stockage of parts managed by these agencies contributes to unnecessary storage, handling, and transportation costs. (See ch. 2.) In GAO's opinion, the Coast Guard has a large amount of inactive inventory that could be redistributed to other Government agencies. This would reduce commercial procurement costs for other agencies. (See ch. 3.)

Periodic physical inventories at Coast Guard control points have not been taken as required, and when taken, discrepancies between onhand stocks and stock records have not been properly reconciled nor adequately researched so as to prevent similar occurrences. This general lack of inventory control may contribute to requisitioning abuses which have allowed units to maintain stock in excess of authorized levels. (See ch. 4.)

#### RECOMMENDATIONS

GAO recommends that the Secretary of Transportation direct the Commandant of the Coast Guard to:

- Eliminate wholesale levels of stock available from other Government supply sources and adopt requisitioning procedures that would permit shipments directly to using units.  
(See ch. 2.)
- Implement a Coast Guard-wide inactive items program similar to the Aviation ICP program. This program would ensure that unneeded items are purged regularly from the supply system and made available to other Government agencies.  
(See ch. 3.)
- Monitor the supply management practices at ICPs to ensure that (1) periodic physical inventories are taken systematically to identify items in excess of needs, (2) stock discrepancies are researched and reconciled and stock records are adjusted properly, and (3) units assign the appropriate priority designators to their requisitions.  
(See ch. 4.)

AGENCY COMMENTS

The Department of Transportation generally agreed with GAO's recommendations. It stated that the Coast Guard has and does rely heavily on other Government agencies for a wide range of logistics support and recognizes that continuous examination of support relationships is required in order to avoid duplication of effort within the Government. It fully supports the need for additional improvements and strongly endorses the current Coast Guard efforts to comply with GAO recommendations where practicable without impairing mission capabilities.

The Department's response is enclosed as appendix III.



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ABBREVIATIONS

GAO            General Accounting Office

ICP            inventory control point

## CHAPTER 1

### INTRODUCTION

The Coast Guard is one of the oldest Federal Government organizations. Although it is considered to be a part of the Armed Forces, it operates under the Department of Transportation during peacetime and under the Department of Defense in wartime or during a national emergency.

During peacetime, the Coast Guard (1) executes programs designed to protect life and property at sea, (2) maintains regulatory control over much of the marine transportation industry, and (3) enforces all Federal laws on waters subject to U.S. jurisdiction. An extensive organization of operating units, such as ships, aircraft, marine inspection offices, and various stations and shore support facilities, perform these functions.

To more effectively provide supply and spare parts support for its operating units, the Coast Guard reorganized its supply system in 1973 and established the following inventory control points (ICPs):

- Ships ICP--Curtis Bay, Maryland. This activity was to provide a disciplined, centralized management of repair parts inventories for ship support, central procurement of hull and mechanical parts, and management of parts inventories and vessel repair parts.
- Aviation ICP--Elizabeth City, North Carolina. This activity was to provide procurement, storage, stock inventory control, and accounting and issues aircraft supplies, parts, and equipment in support of Coast Guard aircraft.
- Electronics and General Supplies ICP--Brooklyn, New York. This activity was to provide supply support to all Coast Guard units for electronics and general store items, such as small arms, forms, and technical publications.

Some Coast Guard resources, that is certain types of ships, are used only by the Coast Guard, and supplies and spare parts to support them are considered Coast Guard-unique. Since the Coast Guard is the only user of such supplies and parts, it has been designated the manager for them.

In other cases, however, the Coast Guard may not be the only user of certain spare parts and supplies. For example, both the Coast Guard and the Air Force fly the C-130 aircraft and both have need for supplies and spare parts to support it. In such cases, under the Federal supply system, only one of the users would be designated as the item manager. Requisitions for such parts and supplies, from all users, should be channeled to the item manager.

In November 1975 we reported 1/ that, although the Coast Guard was progressing in establishing a more viable supply system, further improvements were needed in (1) eliminating wholesale stock levels of items which are also stocked and managed by other Federal agencies and (2) reducing the number of ICPs.

The Department of Transportation and the Coast Guard agreed with us and, in January 1976, told us that corrective actions were underway.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to determine the effectiveness of Coast Guard actions to correct previously identified problems; to ascertain whether additional opportunities for improvement existed, and if so, identify them; and to determine whether the problems identified by Department of Transportation auditors at Curtis Bay existed at other Coast Guard ICPs.

In March 1980 we discussed with Department of Transportation auditors their recently completed audit of the activities at the Ships ICP. They told us that little progress had been made in making Curtis Bay an effective ICP.

We reviewed and discussed the results of the Curtis Bay audit with Transportation auditors and Coast Guard personnel and limited our work at Curtis Bay accordingly. We examined Coast Guard inventory management policies and procedures. Specifically, we examined (1) the return of excess stock, (2) the accuracy of inventory records, taking of physical inventories and reconciliation thereof, and (3) controls over project material.

We also analyzed supply activity reports at the three ICPs and determined the number of items in their inventories that are managed by other Government agencies and stocked by the Coast Guard. For those items which ICPs showed that no other Government agency managed items were stocked at their locale, we sampled the national stock numbers in their inventories to determine whether the items were, in fact, Coast Guard-unique. For selected shipments from the Aviation ICP to air stations, we also obtained actual transportation costs to compare with transportation costs if the Coast Guard would permit shipment of aircraft parts directly from Air Force storage points to the requisitioning air station.

We made our review from May through September 1980 at the following locations:

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1/Letter report to the Secretary of Transportation (LCD-76-204, Nov. 25, 1975).

- Coast Guard Headquarters, Washington, D.C.
- Coast Guard Yard and Ships ICP,  
Curtis Bay, Baltimore, Maryland.
- Aviation ICP, Elizabeth City, North Carolina.
- Electronics and General Supply ICP,  
Brooklyn, New York.
- Electronic Repair Facility Coast Guard Station,  
Alexandria, Virginia.
- Coast Guard Air Station, Brooklyn, New York.
- The third (Governor's Island, New York) and  
Fifth (Portsmouth, Virginia) District Offices  
and their support centers.

## CHAPTER 2

### COAST GUARD DUPLICATES INVENTORY

#### FUNCTIONS OF OTHER GOVERNMENT AGENCIES

By obtaining supplies and spare parts from other Government agencies when needed, the Coast Guard can save millions of dollars annually in storage and transportation costs.

The Coast Guard obtains many of its spare parts and supplies from other Government agencies, primarily the Air Force, Navy, and the Defense Logistics Agency, under interservice logistics support agreements. Instead of obtaining these supplies and spare parts on an as needed basis, the Coast Guard has established its own supply system. Our review disclosed that the Coast Guard is maintaining inventories containing thousands of items for which management responsibility has been assigned to the Air Force, Navy, or the Defense Logistics Agency.

In addition to the unnecessary warehousing and handling costs, this dual stockage also results in added costs of transporting stocks from the services' storage locations to the Coast Guard ICP and then to the user, rather than shipping directly from storage to the user.

#### MAINTAINING INVENTORIES OF ITEMS MANAGED BY OTHER GOVERNMENT AGENCIES

Coast Guard inventory practices contribute to recordkeeping errors; needless investment in pipeline inventory; and increased procurement, processing, and storage costs. At one ICP, for example, we estimate the cost to maintain duplicate-managed inventory to be over \$8.4 million a year.

The Coast Guard's policy is to use other Government sources of supply to the maximum extent practicable and to deliver items directly to users whenever economically feasible. We noted in our 1975 report that the Coast Guard supply system contained many line items which were identical or similar to items stocked and managed in Defense's and other Government agencies' supply systems.

We recommended that the Coast Guard eliminate wholesale levels of stocks available from other Government supply sources. The Department of Transportation fully supported the need for additional improvements and strongly endorsed Coast Guard programs to comply with our recommendation. These programs included (1) using Defense services, capabilities, and facilities to the fullest extent possible and (2) pursuing aggressive programs at ICPs to reduce or eliminate duplicate items in stock. While some improvements have been made more effort is needed.

#### Aviation ICP

Our 1975 report noted that this ICP stocked 39,517 line items, of which many were being centrally managed by other

Government agencies. Although the total number of these items managed by other Government agencies was not available in 1975, an Aircraft Repair and Supply Center official stated that only about 5,000 of the line items, or 13 percent, were Coast Guard-unique and, as such, were obtained directly from commercial firms. According to that official, the remainder were being centrally managed by other Government agencies. Our current review disclosed that this ICP still stocks 26,700 line items. However, over 70 percent of these items (19,000) are also centrally managed by other Government agencies.

We computed the ICP's costs of maintaining stock levels which are also managed by other Government agencies at 16 percent <sup>1/</sup> of the acquisition value. By applying this percentage to the value of issues to other air stations (\$52.8 million in fiscal year 1979), we estimate the cost to hold these inventories to be over \$8.4 million a year.

#### Electronics and General ICP

This ICP has approximately 18,000 line items, about the same amount as in 1975. Then, we estimated that Government agencies centrally managed one-third of the ICP's inventory.

The ICP has made progress in reducing wholesale stock levels available from other sources, but it needs to do more. We screened 200 active electronic parts through the Defense Logistics Supply Center and identified 35 items (17 percent) that were centrally managed by other Government agencies. Coast Guard personnel believe that they were justified in maintaining stocks on 16 of the 35 line items because other agencies did not stock the item or the Coast Guard could not rely on their support. We did not verify these justifications.

#### Ships ICP

The ICP has approximately 11,000 line items. At the time of our 1975 review, data was not available on the number of line items managed.

We selected 394 of 2,000 items identified by Coast Guard personnel as Coast Guard-unique items for screening through the Defense Logistics Supply Center. We found that 95 of the items (24 percent) were not Coast Guard-unique, but were centrally managed

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<sup>1/</sup>A handling cost factor of 16 percent was used because personnel at the ICP stated that they believed it was realistic for their activities. The \$52.8 million represents active items in the Aviation ICP inventory and are subject to the various elements which make up the "cost to hold" inventories (i.e., investment and storage costs, obsolescence, and deterioration). These elements were identified in a Defense Audit Service Report dated May 4, 1979.

by other Government agencies. Projecting over the 2,000 line-item universe termed Coast Guard-unique, we estimate that 480 line items are managed by other Government agencies.

PROCEDURES RESULT IN DOUBLE  
HANDLING OF MATERIAL

Coast Guard supply procedures and practices are inefficient and uneconomical and result in increased time required to get spare parts to the users. We believe that the Coast Guard could save in transportation, storage, and handling costs if it permitted its units to receive parts directly from the military services' storage locations.

As noted previously, some aircraft used by the Coast Guard are the same type used by the Air Force, which is the central manager for many spare parts. Before January 7, 1980, an Air Force manual directed that only requisitions from Coast Guard Headquarters and ICPs at Brooklyn and Elizabeth City be filled. Thus, a Coast Guard air station, even if located near an Air Force storage point, had to submit requisitions for aeronautical items to the Aviation ICP at Elizabeth City, where they were either filled or passed on to the Air Force item manager.

In January 1980 the Air Force manual was revised to permit Coast Guard field units to requisition aircraft spare parts directly from the logistics center responsible for the needed parts. The Coast Guard has not carried out this change, however, and air stations are still required to submit requisitions to Elizabeth City for Air Force-managed parts.

A Coast Guard official told us that the change, effective January 7, 1980, has not been implemented primarily because it would require an extensive reallocation of funds to air stations. Inefficiencies and diseconomies of the Coast Guard's procedures are illustrated by the following discussion.

We found that Coast Guard air stations in Alaska and Hawaii and on the west coast must obtain their aircraft parts from Elizabeth City, although the Air Force may have the parts at one of its air logistics centers in California, Utah, Texas, or Georgia. For example, the Sacramento Coast Guard Air Station, located at McClellan Air Force Base, California, requisitions and receives parts for its C-130 aircraft from the ICP in Elizabeth City. The same parts, however, are available at the air logistics center, also located at McClellan. In our view, it is totally illogical to have an Air Force item manager at McClellan ship parts to the ICP at Elizabeth City which then ships the same parts back to the air station at McClellan. Should the parts being shipped in this fashion be reparable, the traffic pattern would be reversed; that is, the air station ships the reparable parts to Elizabeth City personnel who then ship them to the air logistics center.

A similar situation occurs when other Coast Guard air stations requisition parts which are centrally managed at each

of the five air logistics centers. To illustrate, we selected five items--one being managed by each of the logistics centers--for actual shipment data. We obtained routings and shipping costs to get the items to the using Coast Guard air stations and to get reparable items back to the logistics centers. We obtained this data for an 18-month period ended in July 1980.

Using transportation cost data provided by Coast Guard personnel, we computed the costs that would have been incurred had the parts been shipped directly between the Air Force logistics centers and the Coast Guard air stations. We estimate that current procedures cost the Coast Guard almost three times more than direct shipment would. We did not attempt to compute a total cost figure because of the number of air stations involved and the quantity of requisitions submitted by each. However, we believe that the examples in appendix I demonstrate that savings can be obtained.

Coast Guard officials stated that some duplicate stockage is necessary to support air stations. They stated that the Coast Guard cannot depend on the Defense supply system to meet all Coast Guard support needs. They noted for example, that the Defense priority system allows a delivery delay time of 7 days in the continental United States and 10 days for overseas delivery for priority 02 requisitions. According to those officials, the Coast Guard requires a 2- or 3-day response time to keep the two or three helicopters at the Coast Guard units fully operational. However, it should also be noted that the 2- or 3-day response time applies only to priority requisitions. According to other Coast Guard personnel, only about 3 percent of their requisitions have a high priority. For routine replenishment requisitions, supply personnel at the Aviation ICP stated that their response time is 30 days, the same as Defense.

Coast Guard officials also stated that their current method of operation is necessary to meet mission requirements because (1) the 24 air stations have only a minimum number of aircraft, and they must be kept operational and (2) the number of storekeepers and qualified logistics officers assigned to air stations is based on the assumption that no major aircraft spare parts procurements or document control functions will be performed at the air stations. They stated therefore, that the Coast Guard supply support system must provide the aviation community with procedures that can be handled by the number of the people and their experience level that operate the system. According to those officials, personnel at the air stations are not qualified to requisition items from other agencies, but are qualified to requisition items from the Aviation ICP.

We recognize that each air station is assigned a specified number of aircraft. To support these aircraft, the Coast Guard has developed an allowance list of spare parts to be stocked at the air stations for each aircraft type. The stations do stock these parts and, as discussed on page 14, have been stocking parts at a level in excess of the authorized quantity.



As noted above, according to Coast Guard officials, permitting air stations to submit requisitions directly to Air Force item managers would require an extensive allocation of funds to the air stations and a revised staffing pattern at those stations. We believe that savings in transportation and storage costs could be achieved without bothering either of these. The Coast Guard could continue to have requisitions flow through a focal point at the Aviation ICP. The ICP could then direct the requisitions to the appropriate agency responsible for managing the items with instructions for shipment directly to the user. Thus, the Coast Guard could monitor and control requisitions and funds at the focal point, eliminate double handling of items, and lessen the need to store so many items at the Aviation ICP.

#### CONCLUSIONS

The Coast Guard has adopted a policy of using Government agencies as a source of supply to the maximum extent possible. Effective implementation of this policy at the Coast Guard ICPs would, in our opinion, reduce the wholesale level of stocks maintained. While the ICPs have made some progress in reducing their stock levels, they need to do more. The ICPs continue to maintain wholesale levels on thousands of line items which are centrally managed by other Government agencies. This stock-age policy, coupled with the Coast Guard requisitioning procedures, result in unnecessary warehousing and handling costs and additional transportation costs.

#### RECOMMENDATIONS

We recommend that the Secretary of Transportation require the Commandant of the Coast Guard to direct the ICPs to (1) eliminate wholesale levels of stocks available from other Government supply sources and (2) report to the Commandant on the progress made.

We also recommend that the Secretary of Transportation require the Commandant of the Coast Guard to direct the ICPs to adopt requisitioning procedures that would permit shipments directly to the users.

## CHAPTER 3

### COAST GUARD MAINTAINS INVENTORIES

#### OF INACTIVE ITEMS

All three of the Coast Guard's ICPs maintain inventories of numerous items for which they have had no demands for at least 2 years, in many cases much longer. Our review disclosed that many of these items were needed and were being purchased by other Government agencies. Thus, in addition to resulting in unnecessary storage costs, Coast Guard practices have resulted in purchases by other agencies that could have been avoided and lost revenues to the Coast Guard that could have been used for needed items.

Some Coast Guard assets--certain types of ships and aircraft--are old and, in some cases, spare parts are not readily available from either the Federal supply system or commercial sources. We recognize that, for such parts, unusual retention and stockage practices may be necessary. However, a preponderance of inactive items was not these types. In our analysis, we excluded those items identified by the Coast Guard as insurance items. <sup>1/</sup> We estimated the annual storage and handling costs for other inactive items at \$255,000. Also, procurements estimated at \$2.4 million could have been avoided had these items been made available to other Government agencies.

#### UNNECESSARY STORAGE COSTS

Coast Guard Headquarters personnel said that, Coast Guard-wide, a factor to estimate annual storage and handling costs had not been determined. They stated that they have accepted the same factor accepted by Defense. A Defense Audit Service report dated May 4, 1979, showed that the cost-to-hold inventories included some factors other than storage costs (see p. 5). That report concluded that the true out-of-pocket costs of continuing-to-hold items no longer needed was about 1 percent. We did not evaluate Defense's basis for arriving at this percentage and cannot comment on its accuracy. However, we believe it to be a conservative estimate and, in that light, have used it to estimate costs for the Coast Guard to continue to hold inactive items.

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<sup>1/</sup>Items which experience only intermittent demands and are not sufficiently repetitive to warrant stockage on the basis of those demands, but for which prudence dictates that a nominal quantity be available to meet urgent demands.

## Aviation ICP

Supply management instructions at the ICP require an annual review of stock to identify items which have not been issued for the preceding 12 months. However, the review is made only every 2 years and identifies those items having no issues during the past 2 years or longer. Following this procedure, the ICP purged 3,326 items from its inventory in 1978.

We obtained a listing of items which, as of August 1980, had no issues in the preceding 24 months. The listing excluded items identified by the ICP as insurance items. It contained 6,939 inactive items--29 percent of the ICP's entire inventory--valued at over \$8 million. Applying the 1-percent factor, we estimate the cost to maintain this inactive inventory at \$80,000 annually.

## Electronics and General ICP

This ICP defines an inactive item as one for which there has been no demand for the last 3 years.

ICP data disclosed that as of June 1980, 5,161 items--32 percent of the total line item inventory--were inactive. These items were valued at \$6.5 million. By applying the 1-percent factor, we estimate the cost to maintain this inactive inventory at \$65,000 annually.

## Ships ICP

As previously noted, the Department of Transportation Office of Inspector General recently completed an audit at this ICP, and we have considered the audit in our review. That audit identified inventory items, valued at \$11 million, with no demands since January 1973. By applying the 1-percent factor, we estimate the cost to maintain this inactive inventory at \$110,000 annually.

## PROCUREMENT BY OTHER AGENCIES COULD BE AVOIDED

Inactive items are being maintained in the Coast Guard inventory which are needed and are being purchased by other Government agencies. We found all three ICPs were maintaining inventories of inactive items. However, instances of inactive items at the Ships and Electronics ICPs were, in our opinion, not significant. The Aviation ICP maintained the most predominant inventory of inactive items.

From a list of Aviation ICP inactive items (no issue for at least 2 years), we identified the 10 largest activities with item manager responsibility and from which the ICP would have obtained the items. Items pertaining to those activities accounted for over 90 percent of the total listing and amounted to 5,244. From this we selected 300 items and asked the item managers to determine whether they had procured any of the items during the last

2 years. Of these items, Government agencies were buying 122 from commercial sources. In every case the quantity purchased exceeded that being held by the Coast Guard. Thus, all items being held could have been used to offset procurement.

Data on agencies and items selected are shown in the following table.

<u>Agency</u>	<u>No. of line items sampled</u>	<u>No. of line items purchased</u>	<u>Value of purchased items being held by Coast Guard</u>
Army Troop Support and Aviation Material Readiness Command, St. Louis, Mo.	26	12	\$7,158
Air Force Logistics Center, Ogden, Utah	26	10	5,526
Air Force Logistics Center, Oklahoma City, Okla.	31	12	30,612
Air Force Logistics Center, Warner Robbins, Ga.	31	7	61,109
Air Force Logistics Center, San Antonio, Tex.	30	11	4,211
Aviation Supply Office, Philadelphia, Pa.	29	11	8,798
Defense Construction Supply Center, Columbus, Ohio	32	12	4,389
Defense Electronics Supply Center, Dayton, Ohio	31	16	3,607
Defense General Supply Center, Richmond, Va.	32	17	6,266
Defense Industrial Supply Center, Philadelphia, Pa.	<u>32</u>	<u>14</u>	<u>5,191</u>
Total	<u>300</u>	<u>122</u>	<u>\$136,867</u>

The 122 items being purchased represented 41 percent of our sample. Projecting this sample, we estimate that \$2.4 million in procurements could have been avoided by using the Coast Guard's inactive stocks.

An illustration of the type of parts being purchased, as shown below, are those for the C-130 aircraft. These purchases are included in the summary data shown above for the Air Force Logistics Center in Warner Robbins.

<u>Stock No.</u>	<u>Item</u>	<u>Unit price</u>	<u>Quantity purchased</u>	<u>Quantity held by Coast Guard</u>
1560-00-				
0725935	Bracket assembly	\$1069.08	7	4
6129246	Truss assembly	1618.87	45	2
6236486	Cover	610.00	49	3
6709242	Box assembly	284.05	12	2
7749294	Weight assembly	1045.03	91	2

Procedures for the Coast Guard's returning items to Defense provide that, if Defense needs the item, the Coast Guard is given credit by means of a transfer of funds between appropriations.

## CONCLUSION

The Coast Guard incurs significant costs to maintain inactive inventories. Although some of these items should be retained to support old ships and aircraft used by the Coast Guard, most of them do not fall into this category and can be used by other Government agencies. In our opinion, redistribution of these stocks would (1) reduce storage costs within the Coast Guard, (2) reduce procurement costs of other agencies, and (3) generate additional resources for the Coast Guard.

## RECOMMENDATION

We recommend that the Secretary of Transportation direct the Commandant of the Coast Guard to implement a Coast Guard-wide inactive item program similar to the Aviation ICP program. This program would ensure that unneeded items are purged regularly from the supply system and made available to other Government agencies.

## CHAPTER 4

### MORE MANAGEMENT ATTENTION NEEDED

#### OVER INVENTORY CONTROLS AND REQUISITIONING PRACTICES

The Department of Transportation audit disclosed that Ships ICP management had not established a system to provide timely, complete, and accurate information to manage and control the inventory. The factor primarily responsible for this was the limited progress in developing appropriate policies and procedures to operate an efficient and effective inventory control system. We found similar deficiencies at other Coast Guard activities. In our opinion, more attention is needed by higher level management to improve supply management practices in inventory controls, requisitioning practices, and inventory discrepancies and adjustments.

#### INVENTORY CONTROLS

Inventory control is important in an organization responsible for effective supply and logistics operations. A recent American Management Associations article, although primarily focusing on the private sector, cites some of the problems that can result from inventory discrepancies.

"It is essential that records show the amount of inventory on hand and ready for shipment when orders are entered. If this is not done, orders will not match product availability, resulting in wasted travel time in the warehouse, crew interference, back orders, scratching of others, and other wasteful practices."

One accepted practice to assure that the quantity of stocks on hand agrees with stock records is to take physical inventories. Coast Guard regulations require that physical inventories be taken at least every 3 years at the ICPs, but inventories have not been taken.

#### Periodic physical inventories not taken

In 1980 the Department of Transportation Office of Inspector General reported that periodic and complete physical inventories of stock, valued at about \$24 million, had not been taken at the Ships ICP since it was established. Coast Guard officials concurred with this finding, and they acknowledged that the Coast Guard requires ICPs to take physical inventories at least every 3 years. According to a Coast Guard official, the primary reason for not taking an inventory has been the absence of adequate staff supervision and necessary technical guidance.

Physical controls over the Ships ICP inventory have been inadequate in providing a basis for controlling Government property. We found that inventory records at the Ships ICP were inaccurate

and that the item managers did not know what repair parts and components were on hand at the Curtis Bay Coast Guard Yard or other stock locations.

Coast Guard officials stated that a complete physical inventory would be taken. This inventory was started but not completed before the end of our review. Those officials stated that they would advise us of the results.

Our review at the Aviation ICP also disclosed that physical inventories had not been taken at various air stations. In an April 16, 1980, letter, the Aircraft Repair and Supply Center commanding officer requested that all Coast Guard air stations take a complete inventory of allowance material; that is, the recommended quantity of the items required for operations and/or the repair parts required for the maintenance of the system. The commanding officer instructed the units to consider onhand quantities and due-ins and to return all material in excess of those allowed.

Material returned or identified as over allowance amounted to \$1,946,683. One air station returned 394 different items for a total value of \$349,939. Another air station reported 267 types of items with a value of \$318,751, but it did not consider due-ins against its allowance level nor did it cancel back orders for items over the allowance level. Thus, more items than already noted should be returned. Also, at one air station visited, aircraft parts that had been removed from its inventory in 1976 were only recently returned. The reason these parts were not returned sooner was that an inventory had not been taken since 1976.

#### Controls over project material need improvement

In an October 1978 report, Department of Transportation evaluators noted how infrequently project material 1/ items were used. They recommended that these items be reviewed to determine if any quantities should be exceeded. After that report was issued, many items were exceeded but many others--received 5 to 7 years ago--remained in storage. A district engineering officer agreed that some of these older items were no longer needed and should be scrapped or returned to the Navy.

District engineers were not aware of material being stored in a warehouse for projects that had been classified "inactive." For example, 19 items, valued at about \$1,200, had been stored in the warehouse since 1972 for one project. The cognizant district engineer said the items resembled material used for automating a lighthouse, but he was not aware of the material

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1/Material which has been set aside to be used for specific projects.

or the project until our review. In another case, seven items had been stored in the warehouse since 1974 for a project. None of the district engineers had any knowledge about these items or the project.

#### REQUISITIONING PRACTICES

We found that a number of air stations ordered material on a low priority stock replenishment requisition (priority 12) and then submitted an urgent requisition (priority 2 or 5) if the material was not received within a certain time frame. But the low priority requisitions were not canceled. For example, the Kodiak Air Station ordered a coupling assembly on February 1, 1980, on a priority 12 requisition. The air station did not receive the part by February 20, 1980, and submitted a priority 2 requisition for the assembly. As a result of the turn-in memorandum noted earlier, the air station returned one assembly on May 27, 1980. Since no additional requisitions were submitted during this period and no assemblies were on backorder, this indicates that the air station received both assemblies, one of which was excess to its needs.

We noted that air stations were submitting high priority requisitions (priority 2 or 5) for items that apparently were not needed. For example, the Los Angeles Air Station requested two units on high priority requisitions on March 31 and April 1, 1980. Responding to the turn-in memorandum, the air station returned these two units on June 27, 1980, as excess to its needs. This abuse of the supply priority system might prevent some activity that needs the part from obtaining it. Also, a higher priority requisition results in unneeded expedited handling and premium transportation charges.

We also found that one air station submitted four stock replenishment requisitions (priority 12) from October 22, 1979, through February 26, 1980, for a total quantity of six units. Responding to the turn-in memorandum, the air station returned three units in May 1980. In our opinion, this action indicates the station did not need three of the units.

Examples of these practices at various air stations are shown in appendix II.

#### INVENTORY RECORDS NOT PROPERLY ADJUSTED AND DISCREPANCIES NOT ADEQUATELY RESEARCHED

As noted above, many Coast Guard units were not taking periodic physical inventories; but the Electronics and General ICP takes physical inventories of the various commodities on a staggered basis throughout the year. However, its inventory records do not accurately reflect available stock levels on hand. Our limited test and the ICP's own physical inventories disclosed that substantial discrepancies existed. In our



opinion, ICP management, above the item manager level, has not taken action to assure proper reconciliation and adjustments to records or determine the underlying causes of record and stock control problems.

We made a limited inventory test by randomly selecting and counting 25 items in various warehouses. We were unable to reconcile discrepancies for 10 items, or 40 percent. ICP personnel assisting us also could not reconcile the discrepancies for these items. Discrepancies ranged from maximum gains of 5 units to maximum losses of 42, and the total discrepancy value was over \$27,000.

All of the recent physical inventories conducted by the Electronics ICP reflected various discrepancies. For example, inventory records for two classes of commodities ("T" and "L") 1/ showed discrepancies which amounted to over \$1.5 million, as shown by the following table.

Commodity	Total No. of line items	Total dollar value	Discrepancies	
			No. of line items	Dollar value
T	1,791	\$5,116,119	Gain 130	\$ 272,443
			Loss <u>160</u>	<u>730,654</u>
Total			<u>290</u>	<u>\$1,003,097</u>
L	1,254	\$9,626,687	Gain 44	\$ 249,600
			Loss <u>74</u>	<u>252,752</u>
Total			<u>118</u>	\$ <u>502,352</u>

The ICP's inventory schedule requires that, within 2 weeks after an inventory of a commodity has been taken, a report on the results be submitted to the commanding officer. The report is to include discrepancies, reasons for variances, and corrective actions.

Despite the magnitude of the discrepancies shown above, they were not known above the item manager level until our review, which was several months after the inventories had been taken. In addition, inventory records for commodity L items were adjusted without management's knowledge or approval and without any investigation of cause or validity.

Problems with commodity T have been recognized since 1977, but permanent corrective action has not been taken. For example, a June 1977 memorandum from the inventory officer to the commanding officer detailed the results of an investigation into the cause of discrepancies for commodity T items. That memorandum made

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1/Commodity T--appropriated purchase account reparable.  
Commodity L--appropriated purchase account, electronic engineering equipment.

note of warehouse refusals, inventory shortages, and erroneous posting of stock losses. Apparently little has changed because warehouse refusals still occur, and the inventory discrepancy gap continues to grow. ICP officials were surprised at the result of our test and were concerned about the magnitude of the T and L discrepancies.

After our discussions, ICP officials advised us of actions being taken or planned to remedy the stock control problems. In the short run, they stated that ICP employees are reviewing the specific gains and losses in an attempt to reconcile discrepancies for commodity T items. They stated also that, for the long run, the commanding officer has created a group to study and recommend solutions to system and organizational problems. Results of these actions were not available at the end of our review.

### CONCLUSIONS

Periodic physical inventories have not been taken as required, and when taken, discrepancies between on-hand balances and stock records have not been (1) properly reconciled so that stock records can be adjusted and (2) adequately researched to determine the underlying causes for the discrepancies. The general lack of inventory control, in our opinion, also extends to the requisitioning process under which Coast Guard units (1) abuse the requisitioning priority system and (2) requisition quantities of items in excess of levels authorized.

As evidenced by earlier audit reports and internal memorandums, these weaknesses have existed for a number of years. In our opinion, they continue to exist because Coast Guard management, at a level higher than the item manager, has not given them sufficient attention.

### RECOMMENDATIONS

We recommend that the Secretary of Transportation direct the Commandant of the Coast Guard to monitor the ICP supply management practices to ensure that

- periodic physical inventories are systematically taken to identify items in excess of needs and those not needed for other projects,
- stock discrepancies are reconciled properly and stock records are adjusted properly to reflect onhand stocks,
- discrepancies are researched adequately to determine and correct the causes, and
- units assign the appropriate designators to their requisitions.

ESTIMATED TRANSPORTATION COSTS FOR  
EXAMPLES OF DUPLICATE MANAGED AIRCRAFT PARTS

Current practice routing	Item managers at air logistics centers					Total
	Warner Robins (note a)	Ogden (note b)	Sac- ramento (note c)	Oklahoma City (note d)	San Antonio (note e)	
Shipment of ready- for-issue items from:						
Item manager to Elizabeth City	\$ 667.48	\$2,793.00	\$205.12	\$ 865.41	\$ 65.50	
Elizabeth City to air stations	944.31	2,931.00	115.17	736.80	213.84	
Shipment of reparable items from:						
Air stations to Elizabeth City	1,051.42	1,826.00	28.81	759.30	221.88	
Elizabeth City to item manager	<u>577.28</u>	<u>1,029.00</u>	<u>83.33</u>	<u>1,103.16</u>	<u>68.12</u>	
Total	<u>3,240.49</u>	<u>8,579.00</u>	<u>432.43</u>	<u>3,464.67</u>	<u>569.34</u>	f/ <u>\$16,285.93</u>
<u>Proposed routing</u>						
Shipment of ready- for-issue items from item manager to air stations	915.68	1,499.00	121.79	690.51	226.66	
Shipment of reparable items from air sta- tions to item manager	<u>1,016.22</u>	<u>776.00</u>	<u>25.64</u>	<u>727.42</u>	<u>244.10</u>	
Total	<u>1,931.90</u>	<u>2,275.00</u>	<u>147.43</u>	<u>1,417.93</u>	<u>470.76</u>	
Difference	<u>\$1,308.59</u>	<u>\$6,304.00</u>	<u>\$285.00</u>	<u>\$2,046.74</u>	<u>\$ 98.58</u>	f/ <u>\$ 6,243.02</u>

a/This item is a blade assembly (stock number 1615-00-9601539) and weighs 35 pounds. The unit price is \$2,126.

b/This item is a break, multiple disk (stock number 1630-00-824794) and weighs 182 pounds. The unit price is \$2,858.

c/This item is a panel protection (stock number 6110-00-9443046) and weighs 13 pounds. The unit price is \$1,689.

d/This item is an amplifier (stock number 6615-00-6058496) and weighs 49 pounds. The unit price is \$12,360.

e/This item is an indicator, tachometer (stock number 6680-00-7247616) and weighs 6 pounds. The unit price is \$1,396.

f/It is costing the Coast Guard almost three time more than it would cost by direct shipment.

## EXAMPLES OF RECENTLY ORDERED STOCK ITEMS

SUBSEQUENTLY RETURNED AS EXCESS

<u>Stock number</u>	<u>Unit price</u>	<u>Ordered</u>			<u>Reported/turned in</u>	
		<u>Date</u>	<u>Priority</u>	<u>Qty.</u>	<u>Date</u>	<u>Qty.</u>
Kodiak Air Station:						
Coupling assembly 1615 00 4101066	\$3,857.00	2-01-80	12	1	5-27-80	1
		2-20-80	2	1		
Receiver/ transmitter 5841 01 0599159	4,998.00	4-07-80	2	1	5-27-80	2
		6-25-80	2	1		
		7-16-80	2	1		
		7-16-80	5	1		
St. Petersburg Air Station:						
Receiver/ transmitter 5826 01 0121938	8,027.00	10-22-79	12	3	5-19-80	2
		12-15-79	12	1	5-21-80	1
		12-17-79	12	1		
		2-26-80	12	1		
San Diego Air Station:						
Motor 6105 00 9509625	266.00	3-26-80	12	1	6-03-80	1
				5	1	6-04-80
Coupling assembly 1615 00 4101066	5,121.55	5-14-80	12	1	6-10-80	1
		5-14-80	2	1		
Brooklyn Air Station:						
Fan assembly oil cooler 4140 00 9667047	1,446.00	1-10-80	12	1	4-29-80	
		1-25-80	2	1		
		1-28-80	5	1		
		3-27-80	12	1		
Servo cylinder assembly 6615 01 0042268	16,000.00	2-07-80	2	1	6-10-80	1
		3-26-80	12	1		
Sacramento Air Station:						
Actuator mechanical 1680 00 402 6201	600.00	1-16-80	2	1	7-01-80	1
		1-17-80	12	1		
Los Angeles Air Station:						
Navigation unit 5826 00 8871942	3,900.00	3-31-80	2	1	6-27-80	2
		4-01-80	5	1		
Control transponder 5895.00 1652958	207.50	4-01-80	5	1	5-9-80	1
		4-02-80	2	1		
Drive assembly 2840 00 2289021	1,895.00	11-01-79	12	1	6-27-80	1
		2-19-80	5	1		
		3-06-80		1		

**U.S. Department of  
Transportation**Office of the Secretary  
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for Administration400 Seventh Street S.W.  
Washington, D.C. 20590

March 25, 1981

Mr. Henry Eschwege  
Director, Community and Economic  
Development Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Eschwege:

We have enclosed two copies of the Department of Transportation's (DOT) reply to the General Accounting Office (GAO) draft report, "Management Improvements Needed In Coast Guard Supply System," dated January 30, 1981.

The General Accounting Office (GAO) reported to the Secretary of Transportation in November 1975 that the Coast Guard was progressing in establishing a more viable supply system, but that further improvements were possible. GAO concludes in this current report that some progress has been made by the Coast Guard in resolving the previously disclosed supply management problems, however, opportunities for savings of millions of dollars still exist.

GAO recommends that the Secretary of Transportation direct the Coast Guard to:

- eliminate wholesale levels of stock available from other government supply sources and permit shipments directly to using units;
- establish and supplement a Coast Guard-wide inactive item program similar to that established at the Aviation Inventory Control Point; and
- monitor the supply management practices at its inventory control points to ensure that (1) periodic physical inventories are taken on a systematic basis, (2) stock discrepancies are researched, reconciled, and stock records are properly adjusted, and (3) units assign the appropriate priority designators to their requisitions.

We have reviewed the report and generally agree with the GAO recommendations. The Department notes the GAO acknowledgement that the Coast Guard has made some progress in resolving previously disclosed supply management problems. The Coast Guard has and does rely heavily on other Government agencies for a wide range of logistics support, both

materiel and services. We recognize that to avoid duplication of effort within the Government requires continuous examination of our support relationships. We fully support the need for additional improvements and strongly endorse the current Coast Guard efforts to comply with GAO recommendations where practicable without impairing mission capabilities.

If we can further assist you, please let us know.

Sincerely,



Robert L. Fairman  
Acting

(943078)



