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Improvements Needed In
Management Of Items Transferred
From The Army To The
Defense Supply Agency

B-146828

Department of Defense

*UNITED STATES
GENERAL ACCOUNTING OFFICE*

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JAN. 3 1974



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS
DIVISION

B-146828

1 The Honorable
1 The Secretary of Defense 5

Dear Mr. Secretary:

2 This is our report on improvements needed in the
2 management of items transferred from the Army to the Defense 20
3 Supply Agency (DSA). The significant contents of the report 107
3 are summarized in the digest.

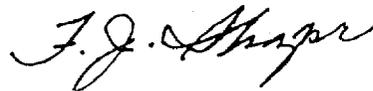
We are recommending that you:

- Review corrective actions taken or planned by DSA and the Army to insure desired improvements.
- Designate an element of your organization to monitor the proposed reconciliation of DSA and Army inventories to be sure it is timely and effective.
- Take action to insure that physical inventories are taken immediately before items are transferred.
- Direct that the criteria used to support decisions to move items transferred from the losing service to storage sites under control of the gaining inventory manager be based on appropriate economic analysis.
- Review actions planned by DSA to insure that total assets will not be placed in transit at the same time.

B-146828

Copies of this report are being sent to the Director, Office of Management and Budget; the Chairmen of the Senate and House Committees on Government Operations, on Appropriations, and on Armed Services; and the Secretaries of the Army, the Navy, and the Air Force.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "F. J. Shafer".

F. J. Shafer
Director

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Letter dated May 23, 1973, from the Acting
Assistant Secretary of Defense (Installations and Logistics) to the General
Accounting Office

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ABBREVIATIONS

DOD Department of Defense
DSA Defense Supply Agency
GAO General Accounting Office

UNITED STATES
GENERAL ACCOUNTING OFFICE
REPORT TO THE
SECRETARY OF DEFENSE

IMPROVEMENTS NEEDED IN
MANAGEMENT OF ITEMS TRANSFERRED
FROM THE ARMY TO THE
DEFENSE SUPPLY AGENCY
Department of Defense B-146828

D I G E S T

WHY THE REVIEW WAS MADE

In 1970 GAO reported (B-160682, April 21, 1970) that critical supply situations at Army activities in Vietnam were caused by frequent and uncontrolled transfer of management responsibility for stock items between Army and Defense Supply Agency (DSA) inventory managers.

GAO reviewed present controls over item-management transfers between the Army and DSA and identified improvements needed.

FINDINGS AND CONCLUSIONS

GAO's tests of 35,000 items transferred from Army to DSA inventory managers showed that in fiscal years 1971 and 1972 DSA managers made unnecessary buys of these items worth about \$3.9 million. (See p. 5.)

DSA managers experienced lengthy delays in filling several thousand high-priority requisitions for these items--some of which were needed by combat troops in Vietnam. (See p. 5.)

The unnecessary buys and delays after reassignment of management responsibility occurred because

--the Army unnecessarily retained stock or substantially delayed

furnishing inventory data to DSA managers (see pp. 6 and 7),

--the Army furnished DSA with inaccurate supply demand data on items transferred (see p. 10), and

--DSA managers either lost or did not record accountability data for inventories of transferred items stored at Army depots (see p. 13).

As a result of GAO's review, two Army inventory commands have provided DSA accountability information on about \$12.6 million worth of inventories transferred previously to DSA. One of the DSA managers located \$1.2 million worth in needed stocks in an Army depot. (See p. 5.)

Two DSA managers spent about \$476,000 in fiscal year 1971 to move stock from Army to DSA depots subsequent to item-management transfers. On the other hand, one Defense center left such stock at the Army depots and avoided the additional transportation cost of moving the stock to DSA storage depots and then to users. (See p. 20.)

The only internal audit of this area was made by the Army's Inventory Control Effectiveness Review Team. The team reported problems in item-management transfers similar to those discussed in this report. (See p. 23.)

The scope of GAO's review is included as chapter 5.

RECOMMENDATIONS

GAO recommends that the Secretary of Defense:

- Review corrective actions taken or planned by DSA and the Army to insure desired improvements. (See p. 18.)
- Designate an element of his organization to monitor the proposed reconciliation of DSA and Army inventories to be sure it is timely and effective. (See p. 18.)
- Take action to insure that physical inventories are taken not more than 30 days before the effective transfer date. (See p. 19.)
- Direct that the criteria used to support decisions to move items

transferred from the losing service to the storage sites under control of the gaining inventory manager be based on appropriate economic analysis. (See p. 22.)

- Review actions planned by DSA to insure that total system assets will not be placed in transit at the same time. (See p. 22.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

DOD concurred, with certain minor exceptions, with GAO's findings and suggestions for improvement. (See p. 16.)

DOD cited a number of actions taken or planned by DSA and the Army which should, if properly carried out, result in many improvements. Army and DSA comments and GAO's evaluation of them are included in chapters 2, 3, and 4.

CHAPTER 1

INTRODUCTION

DOD has long recognized the desirability of eliminating duplication in the supply systems of the military departments. In the early 1960s it established the Integrated Materiel Management Program to effect economies and to increase supply effectiveness by consolidating and concentrating under a single agency the management of items used by two or more military services.

DSA was designated the focal point of the program. Certain commodity stock classes, previously managed by the individual service supply activities, were assigned to DSA for integrated management. Subsequently, DOD instructed military service managers to screen the items they were managing in the commodity classes assigned to DSA and to transfer management to DSA for those items which the services did not need.

During fiscal years 1969 through 1971, the services transferred 319,000 items to DSA supply centers for management. The Army transferred about 36 percent of these items and the following table shows the number of items that the Army transferred each year.

<u>DSA centers</u>	<u>Number of items</u>		
	<u>1969</u>	<u>1970</u>	<u>1971</u>
Defense Construction Supply Center	24,826	13,528	14,402
Defense Electronics Supply Center	17,270	2,846	4,762
Defense Industrial Supply Center	9,543	6,897	4,195
Defense General Supply Center	6,299	6,891	2,725
Defense Personnel Support Center	86	195	15
Total	<u>58,024</u>	<u>30,357</u>	<u>26,099</u>

In June 1971 the Deputy Secretary of Defense announced a program to concentrate management of consumable items in DSA and weapon system items in the military services. This program assigned 31 additional Federal supply classes to DSA. Defense officials estimated that 125,000 items within these classes would be transferred to DSA by June 1973.

HOW THE ARMY TRANSFERS ITEM-MANAGEMENT
RESPONSIBILITY TO DSA

Army inventory commands screen items in commodity classes assigned to DSA and identify those items which they control and wish to offer to DSA for future management and control. The commands prepare a document card for each potential transfer item, showing whether it is stocked or non-stocked, the prior year's demand or the estimated future demand, inventory on hand or due in, and other pertinent information. This information is forwarded to the prospective DSA supply center for transfer consideration.

If DSA accepts management responsibility, an effective transfer date is established and the appropriate Army inventory command is notified at least 5 months before that date. The notification includes such data as item identification, losing and gaining inventory managers, effective transfer date, unit issue and price, and using customers.

At the same time, the supply center furnishes basically the same data to the Army Catalog Data Office and to the Defense Automatic Addressing System Office. The Catalog Data Office uses the data to update the Army's master item-data file and to notify the appropriate Army inventory command and the users of the change in management. The Automatic Addressing Office uses the data to update its system which is used to route users' requisitions to the proper supply source.

The transfer of responsibility for item management is completed by the following concurrent actions on the effective transfer date. The designated DSA supply center assumes management responsibility for the transferred item on the basis of the documentation it furnished to the Army when it agreed to accept the item. On the same date, on the basis of a change notification from the Catalog Data Office, the losing Army inventory command is supposed to take action to transfer stock accountability for onhand stocks, except for those needed to satisfy special one-time projects and pre-positioned mobilization reserve requirements, by (1) furnishing the gaining DSA supply center with information on the quantities and locations of available stocks, as well as stocks due in from procurement, and (2) notifying the Army storage depots of the change in ownership.

CHAPTER 2

IMPROVEMENTS NEEDED IN

REASSIGNMENT OF ITEM MANAGEMENT

DSA supply centers unnecessarily bought an estimated \$3.9 million worth of stocks in fiscal years 1971 and 1972 and experienced lengthy delays in filling high-priority requisitions because of breakdowns in the reassignment of item management.

The Army unnecessarily retained or delayed in transferring accountability for an estimated \$16.6 million worth of inventory to DSA supply centers after DSA had accepted management responsibility, and it furnished the DSA centers with inaccurate demand data on items transferred.

DSA, on the other hand, either lost or did not record accountability data for inventories of transferred items having an estimated value of \$2.5 million.

As a result of our review, two Army inventory commands provided DSA with accountability information on about \$12.6 million worth of inventories previously transferred to DSA. Also, one of the DSA supply centers located \$1.2 million worth of needed stocks in an Army depot.

UNNECESSARY BUYS AND DELAYS IN FILLING REQUISITIONS

Our statistical tests of 35,000 items transferred from selected Army to DSA inventory managers showed that, after management transfers, three DSA supply centers had made unnecessary buys of an estimated \$3.9 million worth of these items in fiscal years 1971 and 1972. Also, these DSA centers experienced delays up to 3 months in filling an estimated 2,400 high-priority requisitions for the transferred items--some of which were needed by combat troops in Vietnam. Inventories in Army depots could have been used to fill these requirements, but the DSA managers were unaware of the availability of these inventories.

The following examples illustrate the unnecessary buys and delays in filling high-priority requisitions because of breakdowns in item-management transfer procedures.

- In April 1970, the Defense Construction Supply Center assumed item-management responsibility for a cylinder assembly previously managed by the Army Mobility Equipment Command. It was not until November 1970 that the command furnished the DSA manager with inventory accountability data on the location and availability of 155 assemblies held in command depots. In October 1970, the center purchased 12 assemblies costing \$3,258. This procurement would not have been necessary if inventory data had been furnished DSA on the effective item-management transfer date.

- The Army Aviation Systems Command transferred management of a type of washer to the Defense Industrial Supply Center on August 1, 1970. Inventory accountability data concerning the 277 washers which the command had on hand at the time was not furnished to the DSA manager until March and April 1971. Between August 1970 and April 1971, the center backordered 4 high-priority requisitions for 35 washers and purchased 112 washers costing \$361 to satisfy requirements.

- The Army Mobility Equipment Command transferred management of a type of bolt to the Defense Construction Supply Center on July 1, 1970. However, the command unnecessarily retained 1,432 bolts for 16 months. Meanwhile, the center received 12 high-priority requisitions which it could not promptly fill so it had to purchase 1,221 bolts.

ARMY UNNECESSARILY RETAINS STOCKS AND
DELAYS FURNISHING INVENTORY DATA

The three Army inventory commands we reviewed had unnecessarily retained an estimated \$7.6 million worth of stocks on about 6,000 items which they had transferred to DSA for management in fiscal year 1971 and prior years. The value of stocks unnecessarily retained by each of these commands is shown below.

<u>Army command</u>	<u>Estimated number of items</u>	<u>Estimated value of stocks</u>
Mobility Equipment Command	1,500	\$5,300,000
Aviation Systems Com- mand	3,300	1,900,000
Electronics Command	<u>1,200</u>	<u>450,000</u>
Total	<u>6,000</u>	<u>\$7,650,000</u>

In addition to the unnecessary retention of stock, these commands also had delayed furnishing DSA managers with inventory accountability data for an estimated \$9 million worth of inventory on items transferred in fiscal year 1971.

The major reasons the Army inventory commands retained and delayed transferring inventory to DSA were (1) a breakdown in item-management transfer procedures, wherein the Army failed to take the necessary action to transfer inventory accountability data to DSA at the time DSA assumed item-management responsibility, and (2) stock retained by the Army was not submitted to DSA when it was no longer needed for mobilization and special projects.

Breakdown in item-management
transfer procedure

Under established procedures, the Army command relinquishing control is supposed to transfer, on the effective date of item-management reassignment, inventory accountability information to the DSA manager assuming management responsibility so that he may establish or adjust inventory records to reflect the location and amounts of available assets.

However, Army inventory commands either were late or were not furnishing the inventory data to the acquiring DSA manager. Consequently, the DSA manager assumed management responsibility for transferred items but did not receive information concerning asset availability which was needed to control and manage the items. For example, throughout fiscal year 1971 DSA accepted management responsibility for items offered by the Army Mobility Equipment Command. However, the command had retained about \$3.7 million worth of

inventory of transferred items because it had not taken the necessary action to transfer inventory accountability to DSA on the effective item-management transfer date.

Also, Army commands sometimes delayed furnishing DSA with inventory accountability data concerning transferred items. The Mobility Equipment Command and two of its sister commands, the Aviation Systems Command and the Electronics Command, had delayed the transfer of an estimated \$9 million worth of inventory for 3,000 items assigned to DSA during fiscal year 1971. In some instances, delays in furnishing DSA with inventory information on transferred items exceeded a year and the average delay was about 5 months.

The delays and failure to take the necessary action to transfer inventory accountability to DSA were the result of not receiving management change notices from the Army Materiel Command Catalog Data Office. These notices served as the basis for the Army inventory commands to initiate the necessary action to transfer inventory accountability to DSA on the effective item-management transfer date.

For a number of items for which management was transferred to DSA in fiscal year 1971, we could find no evidence that the appropriate Army inventory command had received a management change notice from the Catalog Data Office. Also, we found many instances when the notices had been received as much as 11 months after the date DSA had assumed item-management responsibility.

The Army Materiel Command Catalog Data Office said that delays in processing management change notices occurred because item documentation which DSA furnished to the Catalog Data Office at the time DSA initially agreed to accept management responsibility often contained supply data (i.e., unit of issue) which did not agree with data in the Army's master data file. The documentation was purportedly returned for correction, but DSA often either failed to return the corrected documentation or returned it after the effective item-management transfer date. Thus, the Catalog Data Office was late in recording and notifying cognizant Army inventory commands of item-management changes.

Following our inquiries, the Mobility Equipment Command (1) established a project to identify all instances where

stocks of transferred items were being unnecessarily retained and (2) made available to DSA stocks valued at about \$9 million.

The command also agreed to a procedure we suggested to eliminate the delay in transferring inventory accountability to DSA. Instead of waiting for the Catalog Data Office to furnish a management change notice for an item, the command will take the necessary action to transfer inventory accountability on the effective item-management transfer date. The basis for the action will be the documentation furnished by DSA when it agrees to accept an item and establishes the effective transfer date. (See p. 4.) This documentation is submitted directly to the cognizant Army inventory commands well in advance of the agreed upon transfer date and contains the data necessary for processing item-management losses and for transferring inventory accountability.

Stock retained by Army when no
longer needed for special projects
or mobilization

Army commands are authorized to retain inventory levels of transferred items needed to meet mobilization and other special project requirements. When requirements change and the stocks are no longer needed, they are to be made available to the DSA item manager. We identified millions of dollars worth of inventory that had not been returned to DSA after the Army no longer needed it.

In July 1971 the Army Mobility Equipment Command re-evaluated its requirements for prepositioned mobilization stocks and determined that it no longer needed about \$1.6 million worth of stocks which it had retained when item management was transferred to DSA. The command did not update its records to reflect this reduction and did not notify DSA of the availability of these stocks. In August 1971 the command transferred accountability for all of its prepositioned mobilization stocks to the Army's General Materiel and Parts Center, but this activity was not advised of the reduction in mobilization stock requirements. When we brought this matter to their attention, officials at the center agreed to make the \$1.6 million worth of stocks available to DSA, provided the stocks were not needed for current mobilization requirements.

The Army Aviation Systems Command had followed a policy wherein it retained inventory accountability for all stocks of items previously used to support its equipment overhaul programs even though it had transferred management responsibility for the items to DSA. In May 1970 this command canceled its retention policy, but significant amounts of stock had not been returned to DSA because the command had not revised its computer program for transferring inventory accountability data to implement the policy change. This situation was corrected after we brought it to the command's attention, and, subsequently, inventory accountability data on \$3.6 million worth of stocks was transferred to DSA.

INACCURATE ITEM DEMAND DATA AFFECTED
DSA SUPPLY RESPONSIVENESS

DSA supply responsiveness suffered because Army inventory commands often provided DSA with inaccurate or estimated item demand data on transferred items. Without accurate demand data, the DSA manager could not establish realistic stockage objectives and sometimes established no objectives or buy requirements which would insure that stock levels were sufficient to meet customer needs.

At the time an item is offered to DSA for management transfer consideration, the Army command relinquishing control is to provide the DSA manager with accurate item demand data. The command may furnish either the actual demand for the item for the past 12 months or an estimate of demands for the next year based on past experience. The DSA manager needs such data to establish meaningful stockage objectives and buy requirements.

DSA received inaccurate or estimated supply demand data on 39 percent of the items included in our test sample and, on the basis of our test, we estimate that DSA received erroneous demand data for about 1,950 items transferred by selected Army commands during fiscal year 1971.

The following case illustrates the poor supply responsiveness resulting from submission of imprecise demand data and the DSA policy of not using the data submitted.

The Army Aviation Command transferred a type of switch to the Defense Electronic Supply Center on July 1, 1970.

At the time of transfer, the Aviation Command furnished an estimated demand rate of 1,500 for the next year. The command's history showed that 1,006 units had been requested during the prior 12 months. The command could not explain the basis for the estimated demand rate. Because DSA did not use the estimated demand data, the supply center took no action to adjust its stockage level for this item. Because of this, the number of units on backorder from July 1970 to January 1972 continued to increase. If the Army had submitted its true demand history or if the supply center had considered the estimated demand that was furnished, higher stockage levels could have been established and the necessary stock could have been procured to prevent the continuing increase of backorders for this item.

In most instances, we could not determine the reason inaccurate demand data was furnished DSA, and Army officials could not explain the basis for the data they had furnished. In those instances in which we could ascertain justification for the data provided, we found that:

- Army inventory commands had furnished a fictitious demand rate because they did not believe that they could furnish a zero-demand rate.

- Army inventory commands furnished the demand rate for interchangeable items which they continued to manage.

DSA does not have an agencywide policy regarding use of item demand information supplied by a military service inventory manager for a transferred item. Each DSA supply center has established its own practice on the basis of its past experience with such data. Officials at one DSA center told us that they did not use demand data furnished on transferred items because they believed it was generally inaccurate, regardless of whether it was estimated or actual.

At two other DSA supply centers, we were told that they would use furnished demand data if it were based on actual experience but would not use estimated demand data. DSA officials at each of the centers we contacted generally agreed that they would use the item demand data supplied by the losing service if they could be assured of its accuracy.

When item demand data supplied by the transferring service manager is not used, the DSA manager must wait until sufficient new demands are received from users before establishing stockage objectives and initiating buy actions. It could take as long as a year for the DSA manager to accumulate demand equivalent to that which should have been transferred to DSA. In the meantime, the DSA manager may not have sufficient stocks available to meet customer requirements. We believe the practices followed by the Defense supply centers were unnecessarily shortsighted because of their obvious potential impact on the readiness of Army combat units in Vietnam. (See p. 5.) At the very least, DSA inventory managers should have seized the initiative and sought out background data on Army customer identification and usage to insure maintenance of reasonable stockage levels, particularly for items being used by the Armed Forces under fire in the field.

Army officials informed us that Army inventory commands accumulate actual demand history on items and that there would be no problem in furnishing DSA with computer print-outs of actual demand history for transferred items. DSA officials told us that they would prefer receiving the actual demand history instead of estimates.

LACK OF ACCOUNTABILITY FOR
DSA STOCKS AT ARMY DEPOTS

DSA supply centers either lost or failed to record accountability data for substantial inventories of transferred items stored at Army depots. Also, custodial records at Army depots did not always accurately portray DSA as owning transferred stocks. These factors contributed to the unnecessary buys associated with the item-management transfer program and could have been minimized if DSA managers had periodically reconciled their inventory records with stocks available at Army depots.

When management of an item is transferred from the Army to DSA, the related stocks may either be moved to DSA depots or left at Army depots. The DSA supply centers are supposed to record the quantity and location of transferred stocks in their inventory records and, in cases when stocks remain at Army depots, the depot is to record DSA's ownership in custodial records. Stocks at Army depots which are shown on depot records as belonging to DSA can be issued only when directed by the appropriate DSA manager.

We visited three Army depots and requested listings of stocks which the depots held for items transferred to the three DSA activities covered in our study. We then employed statistical sampling techniques to select items which we compared with inventory records at DSA to determine if the DSA managers had recorded and established accountable records for these stocks. We found that DSA managers had failed to record or had lost the data for inventory valued at about \$2.5 million. The results of our tests follow.

<u>Army depot</u>	<u>Number of items stored for selected DSA managers</u>	<u>Estimated number of items for which stocks were not on DSA records</u>	<u>Estimated value of unrecorded stocks</u>
Atlanta, Ga.	6,794	1,714	\$ 231,000
New Cumberland, Pa.	3,666	1,312	360,000
Tobyhanna, Pa.	<u>8,986</u>	<u>926</u>	<u>1,946,000</u>
Total	<u>19,446</u>	<u>3,952</u>	<u>\$2,555,000</u>

Because of the time lapse since the transfer of item management, we could not determine whether DSA managers had failed to record the data for their stocks at the time of the transfer or whether they subsequently lost it through poor inventory control practices. In either case, however, they could have minimized the problem by periodically reconciling their records with stocks on hand at Army depots. While such reconciliations were not common, the results of the following reconciliations made by one DSA supply center demonstrate their value.

In early 1971 DSA and the Army established a pilot program to reconcile the records of the Defense Electronics Supply Center with stocks in Army depots. As a result, the center located and established accountability for \$8.6 million worth of needed stocks. When we advised officials of this center of our subsequent findings at the Tobyhanna depot, they contacted the depot and requested another reconciliation. An additional \$1.2 million worth of needed stocks were located and recorded on the center's records. To our knowledge, none of the other DSA supply centers have made such a reconciliation.

A periodic reconciliation of DSA records with stocks held at Army depots would have made DSA aware of the other side of the accountability coin, namely discrepancies in depot records of ownership of DSA stocks.

At three Army depots, we selected a statistical sample of items which had been managed by the Aviation Systems Command before being transferred to DSA. For 80 percent of our sample items, depot records erroneously showed the Aviation Command as owner of some of the stocks on hand. However, the Aviation Command did not show these stocks on its records. We were not able to pinpoint the causes of this condition; but, perhaps at the time of item-management transfer, the Aviation Command's stock records understated its onhand inventories at Army depots. If this were the case, at the time the item was transferred to DSA, the command would have notified the depot to transfer ownership of a quantity of stock which was less than that held at the depot and the depot would continue to show the Aviation Command as owning some of the stock. This condition could be minimized if Army commodity managers would take a

physical inventory and update related stock records immediately before transferring item management to DSA.

The contribution these problems made to the poor supply responsiveness and unnecessary buys DSA experienced is difficult to determine, but the following example illustrates how buys could have been avoided had DSA managers established and maintained accurate records for stocks at Army depots.

The records at an Army depot showed that ownership of 274 shackles on hand had been transferred to the Defense Industrial Supply Center in May 1970. At the time of our review in December 1971, records at the DSA activity did not show this stock. During 1971, this activity purchased 3,160 shackles costing \$4,414. Had DSA been aware of the Army depot's stock of this item, it could have avoided buying 274 units.

AGENCY COMMENTS AND OUR EVALUATION

On March 27, 1973, we reported our findings to DOD and proposed that Army and DSA officials be directed to develop procedures to insure that:

- Army inventory managers take the necessary actions to transfer stock accountability to DSA at the same time DSA assumes management responsibility for transferred items.
- Stocks of DSA-managed items retained by Army inventory commands for special projects or mobilization be promptly made available to DSA when the Army's need is reduced or eliminated.
- Army commands provide DSA with computer listings of actual demand histories on transferred items and DSA promptly establish stock levels on the basis of such data.
- Army and DSA periodically reconcile recorded and on-hand inventories of DSA-managed items located in Army depots and, when applicable, verify the need for the Army to retain accountability for such inventories.

- Army inventory commands take a physical inventory and update the related stock record balances of items scheduled for transfer to DSA immediately before the effective transfer date.

In a letter dated May 23, 1973, DOD concurred, with minor exceptions, with our findings and proposals. (See appendix.) DOD cited corrective actions taken or planned by the Army and DSA and stated that such actions would provide satisfactory improvement. These actions include:

- The transfer of stock accountability by Army inventory managers at the time DSA assumes responsibility. The detailed procedures required to clarify and modify interagency procedures will be accomplished through discussion and coordination with the military services and, as necessary, with DSA and the General Services Administration.
- A letter to all of its inventory managers wherein the Army will reemphasize the requirement to transfer stocks to DSA when mobilization and/or special project requirements are reduced or eliminated.
- The furnishing of demand history by the Army to DSA in a format and manner mutually acceptable to DSA and the Army.

With respect to our proposal that the Army and DSA periodically reconcile recorded and onhand inventories of DSA-managed items located in Army depots, the Army, in commenting to DOD on our report, concurred and stated that interservice location record audits will be conducted on a regular basis in the future. This will insure that discrepancies will be detected and that action will be taken to make the stock available to DSA.

DSA, like the Army, stated in its response to DOD that current procedures provide for the type of reconciliation we had suggested. However, DSA also stated that difficulties have been encountered in conducting these reconciliations with non-DSA depots because of the incompatibilities in automatic data processing systems. Furthermore, DSA indicated that a new standard automated interservice reconciliation procedure had been developed which should increase significantly

the effectiveness of the reconciliation between it and the military services. However, this new procedure is not scheduled for implementation until around March 1974.

This seems to be a long time to wait for the reconciliation that we proposed. As pointed out in this report (see p. 14), a pilot program was established in 1971 in which the records of the Defense Electronics Supply Center were reconciled with the stock at Army depots. This resulted in the identification of and establishment of accountability for \$8.6 million worth of needed stocks. A similar reconciliation should, in our opinion, be established promptly by the other Defense Supply Centers and Army depots rather than waiting until March 1974. In view of the results obtained in 1971, it would seemingly be worth the effort and could result in cancellation of procurements.

In addition, the Army advised DOD that it concurred, with reservations, with our proposal that inventory commands take a physical inventory and update the related stock record balances of items scheduled for transfer to DSA immediately before the effective transfer date. The Army took the position that no special inventory of items scheduled for transfer to DSA should be taken if there had been a physical inventory within 12 months before transfer. The rationale for this was based on the Army's stated inventory accuracy rate of 97.6 percent and a gross adjustment rate of 3.8 percent. The Army stated that these rates provide acceptable assurance that balances used at the time of transfer are reasonably accurate. Furthermore, the Army stated that the variances that may exist will be of such low dollar value as to make a physical count of all items immediately before transfer uneconomical.

However, the statistics used by the Army to develop the inventory accuracy and gross adjustment rates included the results of physical inventories of ammunition. These inventories are highly controlled and are characterized by high inventory accuracy and low gross adjustment rates. The classes of items discussed in this report do not include ammunition nor has there been any transfer of management of ammunition from the Army to DSA. When ammunition inventories were excluded from the computations, we found the inventory accuracy rate for fiscal years 1972 and 1973 to be 87.5 percent and 96 percent and the gross adjustment rate to be 6.6 percent and 18.4 percent, respectively.

Also, we found that, as a general rule, the longer an item remains in stock without being physically inventoried, the greater the difference between the recorded quantity and the actual quantity. This has also been shown in inventory studies conducted for DOD by independent consulting firms. One of the studies showed that this deterioration amounted to 6 percent in 3 months.

Our computations showed that the Army's inventory accuracy and gross adjustment rates for the kinds of items discussed in this report are not as favorable as the Army's reply indicates. Based on this and on the generally accepted inventory behavior pattern of increased inaccuracy over time, we believe it is essential to the establishment of accurate inventory records that physical inventories be taken and the necessary adjustments made immediately before the effective transfer date.

CONCLUSIONS

Because of breakdowns in item-management transfer procedures by the Army and DSA, DSA has experienced added costs and delays in filling requisitions.

The actions taken or planned by the Army and DSA should significantly improve the reassignment of management of transferred items.

RECOMMENDATIONS

We recommend that the Secretary of Defense:

- Review the actions taken or planned by DSA and the Army to insure that the desired improvements are being achieved.
- Designate an element of his organization to monitor the proposed inventory reconciliations of the Army and DSA to be sure that such reconciliations are both timely and effective. If the reconciliations are frustrated for any reasons, he should consider a program similar to the one conducted in 1971 between the Defense Electronics Center and the Army depots.

--Take the action necessary to insure that physical inventories are taken not more than 30 days before the effective transfer date on items for which management responsibility is being reassigned.

CHAPTER 3

MOVING STOCK TO DSA DEPOTS

RESULTED IN ADDED COSTS

Defense supply centers' misinterpretation of DSA policy on redistribution of inventories after transfer of management responsibility resulted in unnecessary transportation costs and delays in filling high-priority requisitions.

Two of the three DSA supply centers we reviewed incurred costs of about \$476,000 in fiscal year 1971 to move stock from Army to DSA storage depots after management responsibility for the items was transferred from the Army to DSA. These activities--the Defense Electronics Supply Center and the Defense Industrial Supply Center--automatically directed redistribution or disposal of inventories received in item-management transfers despite DSA policy which provides for this only when economical. On the other hand, the Defense Construction Supply Center left such stock at the Army depots and issued them to users when needed, thus avoiding the additional transportation cost of moving the stock from Army to DSA storage depots and then to users.

In addition to increased transportation costs, we found instances when moving stock from Army to DSA depots resulted in DSA being unable to fill high-priority requisitions because the stock was in transit between depots. For example:

The Army transferred 4,009 screws to the Defense Industrial Supply Center in December 1970. The center immediately directed that this stock be moved to a DSA depot. The center received an urgent request for three screws which could not be promptly filled because the stock was in transit between depots. The center bought 100 screws to fill this requisition and to have stock available for any similar requests.

AGENCY COMMENTS AND OUR EVALUATION

We discussed our findings with officials at the Defense Electronics and the Industrial Supply Centers and questioned

the need for moving transferred items. Defense Electronics Supply Center officials told us that they planned to leave such stocks at the service depots in the future. Officials at the Defense Industrial Supply Center said that a clarification of DSA policy was needed and that they had no objections to leaving stocks at the service depots and allowing them to be drawn down by issues.

In response to our report, DSA stated that its current policy is very explicit and is considered valid with a slight modification. It permits a supply center to bulk move any residual nonexcess stocks of less than 75 tons from an attrition site when the move will evacuate all stocks of that commodity from the site. The 75-ton quantity was based on a representative sampling of all DSA commodities, recognizing that isolated situations would occasionally result in bulk moves that could be viewed as uneconomical. However, overall, it was considered more economical to pay the costs of a bulk move for the residual stock than to maintain the attrition site.

In addition to DSA policy in this area, DOD instructions state that care and custody of items transferred for management will remain with the losing service or agency until it is more economical or essential to physically consolidate and/or ship the materiel to storage locations under control of the gaining inventory manager.

DSA said that no economic analyses have been made to determine when it is more economical to bulk move the stock rather than to leave it with the losing service as an attrition site.

In addition to the above, DSA stated that our observations did indicate that additional policy is required and that revised policy would specifically prohibit any relocation action which would place the total system assets of an item in transit at the same time.

CONCLUSIONS

The redistribution of inventories from Army to DSA depots has resulted in added costs and has reduced supply responsiveness. DSA should amend its policy to provide for its supply centers to leave their stocks of transferred

items at service depots and to issue stocks from the depots to fill user requisitions when such action is practicable and saves in transfer costs.

RECOMMENDATIONS

We recommend that the Secretary of Defense:

- Direct that the criteria used to support decisions to move items transferred for management from the losing service to the storage sites under control of the gaining manager be based on appropriate economic analysis.
- Review the actions planned by DSA to insure that total system assets will not be placed in transit at the same time.

CHAPTER 4

EVALUATION OF INTERNAL REVIEWS OF

ITEM-MANAGEMENT TRANSFERS

The only internal review of item transfers was made by the Army's Inventory Control Effectiveness Review Team in fiscal year 1971. This team visited each of the Army activities included in our review. Although their review was primarily concerned with controls over Army inventories, problems caused by item-management transfer were also included in their review and reports.

The review team reported various weaknesses in the Army's item transfer program similar to those discussed in this report. The chief of the team said that the reviews did not include determining the causes of the weaknesses.

The magnitude of item-management transfers and the problems identified in this report indicate a need for a periodic internal audit of this area. The internal audits should have sufficient scope and depth to detect the cause of and to provide the solutions for serious item transfer problems.

AGENCY COMMENTS AND OUR EVALUATION

In a position paper on our report, DSA concurred with our suggestion that DSA and the military services periodically audit the adequacy of procedures and controls for item-management transfer. Also, DSA stated that, in response to a recommendation by its Auditor General, the Office of the Deputy Assistant Secretary of Defense (Audit) is currently auditing logistic reassignment. The Acting Assistant Secretary of Defense (Installations and Logistics) stated that he contemplates even further improvements as a result of this audit.

CONCLUSIONS

These actions should provide adequate internal audit of management reassignment. We plan to review the results of these audits and to evaluate the actions taken in response to our report.

CHAPTER 5

SCOPE OF REVIEW

At Army inventory commands, we reviewed the procedures for compiling and transferring appropriate management data on items transferred and the timeliness of actual stock transfers. At DSA supply centers, we reviewed (1) the use of data provided by the Army, (2) the disposition of stock received in the transfers, (3) the need for the Army to retain ownership of stock in its depots for transferred items, (4) and the accuracy of DSA inventory records for items in Army depots.

Our fieldwork included a review of statistically selected samples of transferred items at the following Army and DSA locations.

ARMY:

Army Materiel Command Headquarters, Washington, D.C.
Aviation Systems Command, St. Louis, Missouri
Mobility Equipment Command, St. Louis, Missouri
Electronics Command, Philadelphia, Pennsylvania
General Material and Parts Center, New Cumberland,
Pennsylvania
Army Catalog Data Office, New Cumberland, Pennsylvania
Atlanta Army Depot, Atlanta, Georgia
Tobyhanna Army Depot, Tobyhanna, Pennsylvania
New Cumberland Army Depot, New Cumberland, Pennsylvania

DSA:

Defense Supply Agency Headquarters, Cameron Station,
Virginia
Defense Construction Supply Center, Columbus, Ohio
Defense Electronics Supply Center, Dayton, Ohio
Defense Industrial Supply Center, Philadelphia,
Pennsylvania

Our review was limited to Army transfers, because our earlier review indicated that DSA had critical supply situations because of the way the Army carried out its transfer program.



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

SP
INSTALLATIONS AND LOGISTICS

23 May 1973

Mr. Henry W. Connor
Associate Director
Logistics and Communications Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Connor:

On behalf of the Acting Secretary of Defense, I am replying to your Draft Report (Code 82218), "Need for Improvements in Transferring the Management of Items from the Army to the Defense Supply Agency," dated March 1973 (OSD Case #3599).

I am most appreciative of the comments and the effort expended by your staff in highlighting deficiencies in management transfers from Army to the Defense Supply Agency (DSA) and concur in the findings and recommendations with certain minor exceptions.

Enclosed are copies of Army and DSA comments and position papers based upon the report. Having reviewed these papers I feel that the corrective actions indicated provide satisfactory improvement.

As a matter of information, an internal audit of logistic reassignments by the Office of the Assistant Secretary of Defense (Comptroller) (Audit) is now in progress (Case #D73-121). In addition to improvements made as the result of your recommendations I would contemplate even further improvements resulting from this audit.

The opportunity to comment on the draft report is appreciated.

Enclosures
As stated

Sincerely,

APPENDIX

DEPARTMENT OF THE ARMY POSITION

ON

GAO DRAFT REPORT NO. CODE 82218, DATED 27 MARCH 1973

NEED FOR IMPROVEMENTS IN TRANSFERRING THE
MANAGEMENT OF ITEMS FROM THE ARMY
TO THE DEFENSE SUPPLY AGENCY
(OSD Case #3599)

I. Summary of General Accounting Office (GAO) Findings and Conclusions;
Recommendations and Army Position Thereon

A. Need for Improvement in Item-Management Transfer Practices

Finding. The Army unnecessarily retained or delayed transferring an estimated \$16.6 million of inventory to Defense Supply Agency (DSA) supply centers after DSA had accepted management responsibility and furnished the DSA centers with inaccurate demand data on items transferred. DSA supply centers made unnecessary buys of an estimated \$3.9 million worth of stocks in Fiscal Years (FY) 1971 and 1972 and experienced lengthy delays in filling high-priority requisitions because of faulty item-management practices and DSA managers either did not record or lost accountability for inventories of items stored at Army depots.

Conclusions. Faulty item-management transfer practices on the part of the Army and DSA have resulted in added costs and frustrated DSA logistic support programs.

Recommendation. Army inventory managers take the necessary actions to transfer stock accountability to DSA at the same time DSA assumes management responsibility for transferred items.

Army Position. Concur in recommendation. Action is being taken to assure that the Army inventory manager transfers stock accountability at the time DSA assumes management responsibility. In this regard, however, there is some evidence that the Effective Transfer Date (ETD) established in the Catalog Management Data Notification (CMDN) card, Storage Item Data Change card(s) and/or other applicable file may not be the same as the date established in the Item Management Coding Results card and may require further definition by DOD and/or service directives. A meeting of the Military Services is planned for early May to discuss this aspect of the problem. Based upon the results of this meeting, further discussions with DSA and General Services Administration (GSA) may be required to clarify or modify interagency procedures relating to effective date processing.

B. Failure to Return DSA-managed Items No Longer Needed for Special Projects or Mobilization Purposes

Finding. Army commands are authorized to retain inventory levels of transferred items needed to meet mobilization and other special project requirements. When requirements change and the stocks are no longer needed, they are to be made available to the DSA item manager. GAO identified millions of dollars worth of inventory that had not been returned to DSA after it was no longer needed by the Army.

Conclusions. Failure by Army to return DSA-managed stocks no longer needed for mobilization requirements and special projects.

Recommendation. Stocks of DSA-managed items retained by Army inventory commands for special projects or mobilization purposes be promptly made available to DSA when the need is reduced or eliminated.

Army Position. Concur in the recommendation. A letter, reemphasizing to all Army inventory managers the requirement to transfer stocks to DSA when mobilization and/or special project requirements are reduced or eliminated, is being prepared by the Army Materiel Command (AMC) and will be dispatched by 1 May 1973.

C. Inaccurate Item Demand Data

Finding. The Army inventory commands are providing DSA with inaccurate supply demand data on transferred items.

Conclusions. The auditors could not determine the reason inaccurate demand data was furnished DSA from records available and Army officials could not explain the basis for the data they furnished.

Recommendation. Army commands provide DSA with computer listings of actual demand histories on transferred items and DSA promptly establish stock levels on the basis of such data.

Army Position. Concur in the recommendation. The Army will provide demand history to DSA in a format and/or manner determined to be mutually acceptable to the Army and DSA.

D. Lack of Accountability for DSA Stocks at Army Depots

Finding. DSA managers had failed to record or lost accountability for substantial inventories of transferred items stored at Army depots. Also, custodial records at Army depots did not always accurately portray DSA as owning transferred stocks.

APPENDIX

Conclusions. None.

Recommendation (1). Army and DSA periodically reconcile recorded and on-hand inventories of DSA-managed items located in Army depots and, where applicable, verify the need for the Army to retain accountability for such inventories.

Army Position. Concur in the recommendation. An interservice location record audit is being implemented in accordance with Chapter 7, DOD 4140.22M, which will provide for Army depots to audit records of DSA-owned and managed items with the Defense Supply Centers (DSC). The audit will reveal (1) items with a balance on DSC records, but no balance on the depot records; (2) items on the depot record with a balance and no balance on the DSC records; and (3) selected item management data. Physical inventories are normally requested for items which reflect a balance on one record, but with no balance on the other record.

The Army inventory managers will conduct a location record audit similar to the interservice audit semiannually with each Army depot. In addition, each item stored in Army depots is subjected to a physical inventory at least annually. Therefore, all items on depot records under the ownership of an Army inventory manager and all items on the Army inventory manager's records, as stored at each Army depot, are reconciled.

The above procedures will assure that discrepancies will be detected. Action will then be initiated by the Army inventory manager to make the stock available to DSA.

Recommendation (2). Army inventory commands take a physical inventory and update the related stock record balances of items scheduled for transfer to DSA immediately prior to the effective transfer date.

Army Position. Concur with reservations. There should be a physical inventory no more than 12 months prior to transfer. No special inventory in addition to regular annual inventories, should be required.

Current Army procedures require that all items in stock including items that are candidates for logistical transfer, be subjected to physical inventory at least annually. Therefore, all items that are subject to logistical transfer will have undergone a physical inventory within a twelve month period prior to transfer.

Records from physical inventories for FY 72 show the AMC NICPs achieved an inventory accuracy rate of 97.6 percent and a gross adjustment rate of 3.8 percent. These rates provide a reasonable assurance that balances used at time of logistical transfer are reasonably accurate and the variances that may exist will be of such low dollar value as to make a physical count of all items immediately prior to logistical transfer uneconomical.

DSA COMMENTS

GAO Draft Report, "Need for Improvements in Transferring the Management of Items from the Army to the DSA" OSD # 599

[1]

1. Under "Why the Review was Made," page 1, GAO states that the Military Services plan to transfer an additional 225,000 items to DSA through Fiscal Year 1973. The 225,000 figure, which is also cited on page 6 of [3] the report, is considered to be in error. Most all item transfers currently being processed are in the Time-Phased Integration of Consumables - Thirty-one Classes (TIC TOC) and associated with the Approved Item Name Reclassification Program. DSA plans to receive transfers of approximately 125,000 items from the Military Services through Fiscal Year 1973. Some delay in the actual logistical transfers of these items beyond 30 June 1973 may be experienced.

2. Recommendations

a. Army inventory commands provide DSA with computer listings of actual demand histories on transferred items and DSA promptly establish stock levels on the basis of such data (pages 1 and 23). [2 and 18]

COMMENT: DSA concurs with the following qualifications:

(1) The format of the computer listing should be explicitly defined. A voluminous listing is neither desirable nor necessary. The information for a single item can easily be included on one line of the listing. This information should include (a) item nomenclature, (b) unit of issue, (c) total demand for the item during each of the last four quarters, (d) total demand for the item during the last 12 months, and (e) a remarks section. An entry should appear in the remarks section only when the Service has reason to believe that the last 12-month demand is, for some reason, not indicative of the anticipated demand during the next 12 months. For example, if the item is being phased out of the system, remarks section may state "Item being phased out. Anticipated 12-month demand equals 2,000."

(2) In addition to the listing referred to above, a magnetic tape should also be furnished by the Service to DSA so that mechanized processing will be facilitated. The tape should identify items qualified with remarks so that these items may be output to item managers for exception processing.

NOTE: Current Standard Automated Materiel Management System (SAMMS) procedures establish an initial quarterly forecast demand (QFD) quantity for an item based on the actual (or estimated) 12-month requirement indicated on the Item Management Coding (IMC) card furnished by the losing Military Service. These procedures are now in use by the Defense Construction Supply Center (DCSC) and Defense General Supply Center (DGSC) and are planned for adoption by the other Defense Supply Centers (DSCs) by March 1974.

APPENDIX

b. Army and DSA periodically reconcile recorded and on-hand inventories of DSA-managed items located in Army depots and, where applicable, verify the need for the Army to retain accountability for such inventories (pages 4 and 23). [2 and 18]

COMMENT: DSAM 4140.2, Volume I, Chapter 7, Physical Inventory Procedures, prescribes a complete wall-to-wall location survey by non-DSA operated depots (attrition sites) at least annually. Upon completion of the location survey, depots in question conduct a record reconciliation with the appropriate DSC. Additionally, DSA has conducted several record reconciliations with the Army on a project basis in the past four years. Errors detected through the aforementioned annual record reconciliation are corrected by special inventory or update of depot locator records. In this connection, special inventories are expedited for items on backorder or for which procurement action has been initiated. Difficulties have been encountered in conducting reconciliations with non-DSA depots due to incompatibilities in automatic data processing systems. However, a standard automated interservice location audit/reconciliation procedure has been developed for inclusion in DoD Manual 4140.22-M, Military Standard Transaction Reporting and Accounting Procedures. The effectiveness of the reconciliation program should increase significantly when the standard procedure is implemented by the Military Services and DSA. The standard procedure will be implemented subsequent to implementation of SAMMS at all DSCs, approximately March 1974. In addition to the above, DSCs visit non-DSA operated depots at least once annually to reconcile records, locate critical items, and make decisions regarding disposition of items located during the visit and report on a quarterly basis the results of attriting DSA stocks from these depots.

DSA concurs in the need for the Military Services to retain accountability for Service retained stocks of DSA managed items in Service-operated depots.

c. DSA clarify its policy to provide for its supply centers to leave their stocks of transferred items at service depots and issue from the depots to fill user requisitions when such action is practicable and will result in savings in transfer costs.

COMMENT: Current DSA policy on this area as contained in DSAR 4145.5, DSA Materiel Distribution System, is very explicit and is considered valid with a slight modification. Current policy permits a DSC to bulk move any residual non-excess stocks of less than 75 tons from an attrition site when such move will completely evacuate all stocks of that commodity from the site. This authority is contingent on the knowledge that there are no further planned capitalization actions at the same site of sufficient volume to reestablish the activity as an attrition site for the commodity. The 75 ton quantity was based on a representative sampling of all DSA commodities, recognizing that isolated situations would occasionally result in bulk movements that could be charged as uneconomical. However, overall, it was considered more economical to pay the costs of bulk move

for the residual 75 ton stockage than to maintain the attrition site active in the National Inventory Record (NIR). However, GAO observations indicate additional policy is required to preclude improper actions on the part of DSA Item Managers in assuring availability of stocks. To preclude future actions as taken by the Defense Industrial Supply Center (DISC) and cited in subject report, DSAR 4145.5 will be amended to prohibit relocation of attrition site stocks when those stocks are the only available system assets. Revised policy will specifically prohibit any relocation action which would place the total system assets of an item in transit at any given time.

d. Internal audit activities of the Military Services and DSA test, on a periodic basis, the adequacy of procedures and controls for item-management transfers (pages 4 and 26). [2 and 18]

COMMENT: Concur. The Auditor General, DSA, addressed the problems related to incoming logistical transfers, specifically the comprehensive audit of the Defense Electronics Supply Center (DESC), in 1971 and as a result recommended to DASD (Audit) that logistical transfers be made a subject of interservice audit. This audit, Audit of Logistic Reassignments (D 73-121) is currently in process. DCSC and DESC are among the field activities included in the audit. The Auditor General, DSA is participating in the interservice audit.

e. Involved activities provide higher headquarters with evidence of actions taken to correct problems reported by the internal review groups.

COMMENT: Concur in principle. Final audit reports issued by the Auditor General, DSA, include the field activity Commander's comments and as appropriate, a statement of corrective action taken with respect to each finding and recommendation. When additional corrective measures are indicated, follow-on status reporting to Headquarters, DSA is currently required in accordance with established procedures (outlined in DSAR 7720.1, Standard Procedures for Follow-up Action to be Taken on General Accounting Office, Inspector General, and Auditor General Reports).

GAO note: Page numbers in brackets correspond to this report.

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