Audit Report

OFFICE OF THE INSPECTOR GENERAL

CONSUMABLE ITEM TRANSFER, PHASE II, MANAGEMENT

Report No. 97-226 September 30, 1997

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Acronyms

ALC	Air Logistics Command
CECOM	Communications and Electronics Command
CIT	Consumable Item Transfer
DLA	Defense Logistics Agency
DSCR	Defense Supply Center Richmond
ICP	Inventory Control Point
IMC	Item Management Code

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
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September 30, 1997

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND TECHNOLOGY
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on the Consumable Item Transfer, Phase II, Management (Report No. 97-226)

We are providing this report for your review and comment. This report is the second in a series of reports regarding Consumable Item Transfer, Phase II. The audit was requested by the Under Secretary of Defense (Comptroller) and the Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management), Office of the Deputy Under Secretary of Defense (Logistics). Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the Deputy Under Secretary of Defense (Logistics) provide a completion date for the planned action for Recommendation A. and that the Army provide comments on Recommendations B.1.a. and B.1.b. All comments are required by November 28, 1997.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to either Mr. Tilghman Schraden, Audit Program Director, at (703) 604-9186 (DSN 664-9186) (tschraden@dodig.osd.mil) or Mr. Pat Golden, Audit Project Manager, at (215) 737-3881 (DSN 444-3881) (jgolden@dodig.osd.mil). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 97-226 **September 30, 1997**
(Project No. 6LD-5036.01)

Consumable Item Transfer, Phase II, Management

Executive Summary

Introduction. The audit was requested by the Under Secretary of Defense (Comptroller) and the Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management), Office of the Deputy Under Secretary of Defense (Logistics). This report is the second in a series of reports regarding the consumable item transfer, phase II. Inspector General, DoD, Report No. 97-106, "Consumable Item Transfer, Phase II, Cash Imbalance Issue," March 5, 1997, discussed the cash imbalance issue related to transferring consumable items from the Military Departments to the Defense Logistics Agency (DLA). In July 1990, the Deputy Secretary of Defense approved the transfer of the management of about 1.2 million consumable items from the Military Departments to the DLA. In phase I, about 760,000 consumable items were transferred to DLA over a 4-year period that ended in November 1995. Phase II, which began in January 1996, included more complex and sophisticated consumable items than phase I. Except for specially designated items that were to be retained for the Military Departments to manage, phase II items were to be transferred to DLA. The Military Departments identified about 151,000 items to be transferred to DLA during phase II. As of March 1997, the Military Departments had transferred about 83,000 of those items.

Audit Objectives. The audit objectives were to identify the FYs 1996 and 1997 cash impacts the consumable item transfer, phase II, had on the Army, the Navy, the Air Force, and the DLA Supply Management business areas of the Defense Working Capital Fund (the then Defense Business Operations Fund). We also determined whether the Military Departments followed DoD procedures to ensure an orderly transfer of item management responsibility for phase II consumable items to DLA, and whether DLA complied with DoD guidance and applicable regulations. Additionally, we reviewed the adequacy of the management control program as it applied to the stated objectives.

Audit Results. Generally, the consumable item transfer, phase II was being effectively implemented, and items were transferred with appropriate logistics data. Also, based on a statistical sample of 250 phase II consumable items, the Military Departments were not transferring significant amounts of inactive items or excess inventory to DLA. However, we noted the following areas for improvement.

o The Military Departments improperly retained management of 41,300 consumable items that should have been transferred to DLA. As a result, duplicate management of consumable items was not reduced to the extent originally planned (Finding A).

o The Military Departments did not provide full pipelines of inventory assets to DLA when transferring phase II items. As a result, DLA identified a $125 million (Army-$8.6 million, Navy-$29.7 million, and Air Force-$86.8 million) pipeline asset

shortage for consumable item transfer, phase II items, which reduced supply availability for transferred items and could diminish the readiness of the Military Departments' weapon systems (Finding B).

The management controls could be improved because we identified a material weakness in the process of transferring consumable items from the Military Departments to DLA (see Appendix A).

Summary of Recommendations. We recommended that the Deputy Under Secretary of Defense (Logistics) direct the Military Departments to rescreen consumable items retained for management, transfer items appropriately, and justify the retention of items in accordance with DoD policy. We also recommended that the Military Departments establish controls to ensure that DLA is provided with full pipelines of assets for consumable item transfer, phase II, items; Military Department inventory control points validate open purchase requests for phase II items; expedite contractual orders; and advise the DLA inventory control points of delays and cancellations of purchase requests. Additionally, we recommended that the Director, DLA, direct the Defense Industrial Supply Center, Philadelphia, Pennsylvania, and the Defense Supply Center, Columbus, Ohio, to identify potential supply support problems for phase II items and coordinate remedial action with Military Departments' inventory control points.

Management Comments. The Acting Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management) concurred with the findings and recommendations, stating that the Military Departments will be requested to screen and justify the retention of all consumable items remaining with the Military Departments. The Army did not comment on a draft of this report. The Navy concurred with the findings and recommendations, stating that Naval Supply Systems Command directed the Navy Inventory Control Point to ensure data provided to DLA contained the most current demand history, procurement actions, and requirements and projections. The Navy also stated that the Naval Inventory Control Point is validating all open purchase requests; responding to DLA expedited requests for contractual orders; automatically notifying DLA for delivery date changes, purchase request cancellations, and contract cancellations; and advising DLA about purchase requests in a hold status. The Air Force concurred with the intent of the recommendations, stating that the Air Force had adequate management controls but canceled or suspended some phase II purchase requests because of funding shortfalls for all Air Force managed items. Based on funding for FYs 1998 and 1999, the Air Force projects an improvement in the situation for the remaining items to be transferred. The Air Force Materiel Command will be tasked to develop a plan to ensure inventory control points are properly assessing phase II consumable items for their potential impact on readiness and that purchase requests are verified, contracts are expedited, and DLA is officially notified of cancellations, especially for high demand items. DLA concurred with the findings and recommendations, stating that it will direct the Defense Industrial Support Center, Philadelphia, and the Defense Supply Center, Columbus, to verify the validity of the Military Departments purchase requests. See Part I for a complete discussion on the management comments and Part III for the complete text of the management comments.

Audit Response. Comments from the Acting Assistant Deputy Under Secretary, the Navy, the Air Force, and DLA were responsive. However, the Acting Assistant Deputy Under Secretary did not provide a completion date for the corrective action planned for requesting the Military Departments to screen and justify the retention of all remaining comsumable items. Accordingly, we request that the Acting Assistant Deputy Under Secretary provide a completion date in response to the final report. We also request that the Army provide comments on the final report. All comments are required by November 28, 1997.

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Part I - Audit Results

Audit Background

This audit was requested by the Under Secretary of Defense (Comptroller) and the Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management), Office of the Deputy Under Secretary of Defense (Logistics). This report, the second in a series of reports, discusses the Military Departments compliance with the consumable item transfer (CIT), phase II item retention policy. Inspector General, DoD, Report No. 97-106, "Consumable Item Transfer, Phase II, Cash Imbalance Issue," March 5, 1997, discusses the cash imbalance issue related to transferring consumable items from the Military Departments to the Defense Logistics Agency (DLA).

Consumable Items. Consumable items are those supply items that are consumed in use or discarded when worn out or broken because they cannot be repaired economically. Consumable items include not only common usage, low-cost supplies and minor parts, such as fasteners and gasket materiels, but also high-priced, sophisticated spare parts, such as microswitches; miniature components; and precision valves, that are vital to operating major weapon systems. As of December 1989, DoD managed approximately 4.1 million consumable items. Of the 4.1 million items, 2.9 million were managed by inventory control points (ICPs) of the Defense Logistics Agency (DLA) and 1.2 million were managed by ICPs of the Army, the Navy, the Air Force, and the Marine Corps.

Transfer Approval. In 1990, the Deputy Secretary of Defense approved the transfer of the management of consumable items from the Military Departments to DLA. A management team comprised of representatives from the Office of the Secretary of Defense, the Military Departments, and DLA was formed to review all facets of the CIT. The management team used item management codes (IMCs) to develop a filter criteria to categorize consumable items that the Military Departments managed. In December 1990, the Deputy Assistant Secretary of Defense (Logistics) approved the filter criteria. Consumable items were to be transferred in two phases, phase I and phase II. Phase I was routine, less complex, consumable supplies and spare parts. Phase II items were more complex and sophisticated because of their design instability and unique end item and critical applications or because they required intensive management.

Transfer Plan. The Military Departments and DLA developed a plan for the transfer of management, technical, and supply data in monthly increments. In phase I about 760,000 items were transferred to DLA during a 4-year period that ended November 1995. In phase II, the Military Departments reviewed items to identify those that required continued Military Department management. Any items not requiring continued Military Department management were to be transferred to DLA during CIT, phase II.

Phase II Transfer. The first increment of phase II items was transferred to DLA in January 1996. As of March 1997, the Military Departments had transferred to DLA about 83,000 of the 151,000 consumable items planned for transfer. The phase II completion date, originally planned for September 1997, has been extended to June 1998.

Audit Objectives

The audit objectives were to identify the FYs 1996 and 1997 cash impacts the CIT, phase II, had on the Army, the Navy, the Air Force, and the DLA Supply Management business areas of the Defense Working Capital Fund (the then Defense Business Operations Fund). We also were to determine whether the Military Departments followed DoD procedures to ensure an orderly transfer of item management responsibility for phase II consumable items to DLA, and whether DLA complied with DoD guidance and applicable regulations. We also included a review of the management control program as it applied to the audit objectives. See Appendix A for a discussion of the scope and methodology, the sampling methodology and results, and the management control program. See Appendix B for a summary of prior audits and other reviews.

Finding A. Retained Management of Consumable Items

The Military Departments improperly retained management of 41,300 consumable items that should have been transferred to DLA. The items were retained because the Military Departments either excluded those items from the CIT screening process or did not follow the DoD CIT, phase II item retention policy. As a result, duplicate management of consumable items by DLA and the Military Departments was not reduced to the extent originally planned.

CIT, Phase II Transfer Policy

In July 1994, the Deputy Under Secretary of Defense (Logistics) designated DLA as the executive agent for CIT, phase II, and directed DLA to chair a joint implementation group to establish a schedule for completing the phase II transfer by the end of FY 1997. The Deputy Under Secretary made several additional pronouncements to improve the implementation of the CIT program. First, by December 1994, the Integrated Materiel Management Committee was to revise the IMC definitions (see Appendix C) in DoD Manual 4140.26-M, "Defense Integrated Materiel Management Manual for Consumable Items," January 1992, to correct IMC ambiguities. Second, by October 1995, the Military Departments were to review the cataloging data for all consumable items to ensure that items were assigned the appropriate IMC. Third, DLA was to ensure that items transferred continued to reflect the Military Department IMC assignments for continued management visibility. The Deputy Under Secretary also directed that the Military Departments transfer consumable items to DLA that were in the IMC classifications of nuclear hardened, engineering and design critical, single agency use, nationally vital program, and security classified. The Military Departments were to retain management of items with other IMC assignments because the Military Departments had experience in managing those items.

Consumable Items for Transfer

The Military Departments retained management of consumable items that should have been transferred to DLA. At the completion of the CIT, phase II, scheduled for June 1998, the Military Departments will retain management of about 202,000 consumable items. In testing those consumable items at the three Military Department ICPs we visited, the Army Communications and Electronics Command (CECOM) ICP at Fort Monmouth, New Jersey; the Navy ICP at Philadelphia, Pennsylvania; and the Air Force Air Logistics Center

(ALC) at Ogden, Utah, we determined that about 41,300 items were either excluded from the CIT screening process or were inappropriately retained for the Military Departments to manage.

CECOM. The CECOM inappropriately excluded about 15,800 consumable items from CIT, phase II. CECOM excluded about 4,100 consumable items during the mechanical screening process. The mechanical screening process was used for classifying items for retention or transfer to DLA. CECOM also did not reenter about 1,000 consumable items that were initially rejected in the screening process. For the remaining 10,700 items, CECOM applied an inappropriate criteria to retain management of the items.

Navy ICP. The Navy ICP inappropriately excluded over 3,500 consumable items from CIT, phase II. As of February 1997, the Navy ICP managed 9,794 consumable items as major end items of ground support equipment and, as such, excluded the items from the CIT program. Our review of the 9,794 items showed that 3,533 items were not being tracked as major end items of ground support equipment and should not have been excluded from the CIT process.

ALC Ogden. The Air Force excluded about 22,000 items at its five ALCs from the CIT review process that may have been candidates for transfer to DLA. From an initial judgmental sample of 100 items retained for management at ALC Ogden, 16 items were not included in the CIT, phase II candidacy list for transferrable items, because of an oversight. Subsequently, we queried the Air Force central data base, maintained at the Air Force ALC Oklahoma City, Oklahoma, for CIT items. We identified 76,000 consumable items that were managed Air Force-wide but were not included in the Air Force CIT candidacy list. Of the 76,000 candidate items, 22,000 (about 29 percent) met the IMC criteria for review and may be candidates for transfer to DLA.

Retention of Consumable Items

The Military Departments either excluded items from the CIT screening process or did not follow the DoD CIT, phase II item retention policy. Specifically, items were erroneously excluded from the mechanical screening process, items that were rejected from the CIT process were not resubmitted to the CIT process, and items were not considered for the Air Force CIT candidate list. The DoD CIT, phase II retention policy was not followed in that the Army retained consumable items classified as field level repairables and instituted an inappropriate local retention policy. The Navy retained consumable items that were misclassified as major end items of ground support equipment.

CIT Items Excluded at CECOM. The CECOM excluded items erroneously during the CIT mechanical screening process and did not resubmit corrected, valid items for transfer.

Mechanical Screening Process. The mechanical screening process that CECOM used to screen and identify candidate items for CIT was unreliable. When CECOM personnel initially scanned consumable items to identify CIT, phase II transfer candidates, they did not validate the accuracy of the data codes that the mechanical scanning device used to select the candidate items for CIT. Consequently, CECOM erroneously excluded 4,100 items from CIT, phase II. The recoverability codes and the item management processing codes for the 4,100 items either were blank or were incorrect. Because the codes were blank or incorrect, the items were erroneously excluded from the CIT process.

For example, national stock number 5821-00-011-8324, a modification kit priced at $104, was excluded from the CIT process because the item had a recoverability code indicating that the kit was a depot level repairable item. The recoverability code for the kit was incorrect because the kit was not a depot level repairable item, but a consumable item. The kit should have been included in the CIT review process for potential transfer.

Resubmitting Items Into the CIT. The CECOM did not resubmit to the review process about 1,000 items that the Defense Logistics Services Center at Battle Creek, Michigan, rejected as CIT, phase II candidate items. The Defense Logistics Services Center initially rejected about 1,000 items during a validation edit of cataloging data that was done before CECOM reviewed the items for possible transfer to DLA. After the items were rejected, Army cataloging personnel corrected cataloging data for the rejected items. However, CECOM CIT personnel were unaware of the corrections to the catalog data and continued to withhold the items from the review process. About 300 of the 1,000 items were rejected during the CIT, phase I and have remained in a reject status for several years. When we informed CECOM personnel that the cataloging data had been corrected, they stated that they planned to reenter the items into the review process.

Air Force CIT Candidacy Review List. The ALC Ogden did not include consumable items with invalid IMCs in the CIT, phase II candidacy review list; and the items were not reviewed for possible transfer to DLA. For example, national stock number 1730-00-652-5349, a directional slide, priced at $1,165, was assigned an IMC of Y, which was not a valid IMC. Personnel at ALC Ogden stated that the item was inadvertently omitted from the CIT process because of the invalid code assigned. As a result of the oversight, the Air Force omitted about 22,000 items from the candidacy list that should have been reviewed for transfer to DLA.

CIT, Phase II Retention Policy. The CECOM followed an Army procedure for retaining CIT items that was contrary to DoD policy; and CECOM issued an inappropriate local procedure for retaining management of CIT items without technical drawings. The Navy retained items that were misclassified as major end items of ground support equipment.

Army Procedure for Managing CIT. The CECOM retained about 6,700 items inappropriately because CECOM followed an Army procedure that was contrary to the DoD retention policy. The Army allowed ICPs to retain items that were classified as field level repairables. However, field level

repairables were not included in the DoD retention policy for CIT, phase II items. Consequently, CECOM retained management of items that should have been transferred to DLA.

Local Procedure on Managing CIT. The CECOM also retained management of items based on an inappropriate local procedure. CECOM followed an informal, undocumented procedure that permitted the retention of phase II items for which it could not locate technical drawings. Inventory managers need technical drawings when reordering items from contractors. CECOM retained about 4,000 items for which no technical drawings were available. The 4,000 items should have been transferred to DLA because the DoD CIT, phase II retention policy did not provide exceptions for the retention of items without technical drawings.

Navy ICP Classification of Major End Items. The Navy ICP inappropriately excluded over 3,500 items from the CIT, phase II that were misclassified as major end items of ground support equipment. Major end items of ground support equipment are items that are deemed important to the operational readiness of a field unit and that are generally high cost items with specific unit allowance limits. DoD Manual 4140.26-M permits items properly classified as major end items of ground support equipment to be excluded from the CIT program.

Although the Navy ICP classified the items as major end items of ground support equipment, the items were not major end items and tracked in accordance with DoD Manual 4140.26-M. For example, national stock number 1730-00-652-5349, aircraft ground pin, priced at $4.90, was classified as a major end item. However, the Navy ICP was not tracking the assets by quantity and location as required for authorized retention.

CIT Program Efficiency

The anticipated benefits of eliminating the duplicate management of consumable items in DoD by implementing the CIT program will not be fully achieved. In 1990, the Deputy Secretary of Defense approved the CIT program because he maintained that DLA could manage the line items with fewer resources than the Military Departments. In the approval, the Deputy Secretary stated that consolidating consumable items at DLA would eliminate the duplicate management of consumable items in DoD. After the transfer of an estimated 151,000 CIT, phase II items is completed, the Military Departments will continue to manage about 202,000 consumable items, including 41,300 (about 20 percent) that should be either transferred to DLA or reviewed for possible transfer to DLA.

Recommendations, Management Comments, and Audit Response

A. We recommend that the Deputy Under Secretary of Defense (Logistics) direct the Military Departments to:

1. Rescreen all the consumable items in accordance with the procedures established for the consumable item transfer, phase II.

2. Transfer all items that do not meet the DoD consumable item retention criteria.

3. Justify the retention for management of all consumable items remaining with the Military Departments.

Management Comments. The Acting Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management) concurred with the recommendations. The Acting Assistant Deputy Under Secretary stated that the Military Departments will be requested to screen and justify the retention of all consumable items remaining with the Military Departments in accordance with accepted business rules for the Consumable Item Transfer, Phase II.

Audit Response. The Acting Assistant Deputy Under Secretary's planned actions satisfy the intent of the recommendation. However, the Acting Assistant Deputy Under Secretary did not provide a completion date for the planned action. Therefore, we request that the Acting Assistant Deputy Under Secretary provide a completion date for planned actions in response to the final report.

Finding B. Transfer of Pipeline Assets

The Military Departments did not provide full pipelines of assets when they transferred CIT, phase II items to DLA. Full pipelines were not provided because the Military Departments did not follow DoD policy on funding pipeline assets for CIT, phase II items. As a result, DLA identified a $125 million pipeline asset shortage for CIT, phase II items, which reduced supply availability, and could diminish weapon system readiness.

Full Pipelines of Assets

The Military Departments did not provide full pipelines of assets when they transferred CIT, phase II items to DLA. As of March 1997, for the 83,472 CIT, phase II items that were transferred, DLA recorded about $125 million in pipeline shortages for 4,578 of the items transferred. The Military Departments and the DLA Joint Implementation Working Group for the CIT, phase II, defines a full pipeline of assets as, "sufficient assets on hand or on order to satisfy current backorders and meet forecasted demands through a period equal to the procurement leadtime plus the safety level quantity for stocked items." The pipeline definition was put into the CIT, phase II implementation plan, November 1994, to eliminate differences between the DLA and the Military Departments' definition of a full pipeline of assets. An integral part of the asset pipeline, especially for active items, is forecasted demand and backorders. The forecasted demand and backorder portion of the pipeline represents items already on hand and on order through a contract issued by the losing ICP or a proposed procurement request for which the losing ICP must first fund then issue a contract.

Funding Pipeline Assets. Because the Military Departments did not fully fund pipeline assets, DLA identified a shortage of about $125 million in inventory that it needed for continuous supply support of the CIT, phase II items that were transferred. See the following table for each Military Department total.

CIT, Phase II Pipeline Shortage

Military Department	Items	Shortage Amount
Army	428	$ 8,642,941
Navy	1,116	29,727,227
Air Force	3,034	86,847,991
Total	**4,578**	**$125,218,159**

Of the $125 million pipeline shortage, $67.2 million is attributable to 2,070 items the Defense Supply Center Richmond, Virginia (DSCR) received.

DoD Policy on Full Asset Pipelines

The Military Departments did not follow DoD policy to send full pipelines of assets for CIT, phase II items. The CIT, phase II implementation plan was established to enable DLA to properly leverage available investment of funds to achieve the best possible support for materiel readiness and sustainability of combat forces. A critical aspect for fulfilling the implementation plan was for DLA to receive full pipelines of assets for the items that were transferred.

Military Department Purchase Requests. The Military Departments were not transferring full pipelines of assets. According to DSCR personnel, the Military Department purchase requests, which should ultimately result in orders received from vendors, either were delinquent or were canceled without DSCR knowledge or consent. DSCR personnel attributed the delinquencies and cancellations to the Military Departments' lack of funds. By not funding the purchase requests or not executing the contracts for the full pipelines, as established in the CIT, phase II implementation plan, the Military Departments were not complying with the DoD policy for transferring CIT assets.

DSCR Action. Action was taken by DSCR personnel to develop a program that would identify the most critical Military Departments' purchase requests for CIT, phase II item transfers. Of the 34,243 items transferred to DSCR, DSCR analysis showed that over 2,000 phase II items would be on backorder for some part of their procurement lead times. Those 2,000 items have the potential of generating about 20,000 backorders that would be open for an average of 8 months. DSCR also identified about 200 open purchase requests for its most critical items that would generate 70 percent of future backorders. To aid in mitigating the potential supply support problem, in March 1997, DSCR requested the Military Departments to validate the open purchase requests.

Of the DLA supply centers involved in the CIT, phase II, (Defense Industrial Support Center, Philadelphia; Defense Supply Center, Columbus; and DSCR), only DSCR had initiated action to verify the validity of the Military Departments' purchase requests to mitigate the adverse effects of pipeline shortages.

Readiness and Supply Availability

The CIT, phase II items have low supply availability, which may adversely affect weapon system readiness. The low supply availability was attributed to backorders that occurred from pipeline shortages for phase II items. The pipeline shortages were due to the Military Departments' delinquent or canceled purchase requests.

Effects of Purchase Requests on Backorders. Purchase requests that were not executed timely could cause high volumes of backorders for transferred items which, in turn, could adversely affect weapon systems readiness. For example,

national stock number 5310-00-382-7667, self locking washer, priced at $10.50, was transferred from the Air Force to the Defense Industrial Supply Center, Philadelphia, on November 2, 1996. The item is used on the jet engines for the F-15 and F-16 aircraft, two front-line Air Force weapon systems. At the time of transfer, the item had 5,718 backorders for the item and a procurement lead time of about 8 months. The Air Force had an open purchase request for 115,200 units, which represented 100 percent of the pipeline. As of April 17, 1997, the Air Force had not funded the purchase request and, consequently, a contract for the item had not been issued. Since DLA receipt of the item in November 1996, the backorders have increased to 28,570, of which about 26,000 (91 percent) were for the Military Departments' highest priority requisitions, issue priority group one (priorities 01, 02, or 03). The Defense Industrial Supply Center issued a purchase request for about 48,000 units in April 1997 to satisfy those high priority needs. However, the order will not be filled for several months and the Air Force purchase request remained unfunded.

Supply Availability for Consumable Items. At DSCR, supply availability for CIT, phase II items was 25 percent below the average supply availability for non-CIT, phase II items. Supply availability is a measurement DLA uses to determine how well the DLA ICPs are supporting the Military Departments. It is a measurement of how often items ordered from DLA were readily available for issue. High supply availability translates into good customer support while low availability translates into poor customer support, increased backorders, and diminished weapon system readiness.

A DSCR study on supply availability for the 34,243 CIT, phase II items that were received during 1996 showed that the average supply availability was only 63 percent. Meanwhile, the average supply availability for non-CIT, phase II items was 88 percent. The supply availability for the Army, the Navy, and the Air Force for their transferred items was 74 percent, 60 percent, and 58 percent, respectively. The low supply availability rates were attributed primarily to the Military Departments not sending full pipelines of assets when making CIT, phase II item transfers.

Recommendations, Management Comments, and Audit Response

B.1. We recommend that the Commanders, Army Materiel Command; Naval Supply System Command; and the Air Force Materiel Command:

a. Establish management controls necessary to ensure compliance with DoD policy on providing full pipelines of assets for phase II consumable item transfers.

b. Direct the Military Department inventory control points to:

(1) Verify the validity of open purchase requests for phase II consumable items that were transferred to the Defense Logistics Agency,

(2) Expedite contractual orders for transferred consumable items, and

(3) Advise the respective Defense Logistics Agency inventory control points of all delays in and cancellations of consumable item transfer, phase II item purchase requests.

Navy Comments. The Navy concurred with the recommendations, stating that on June 9, 1997, Naval Supply Systems Command directed the Navy ICP to ensure that the most current demand history, procurement actions, and requirements and projections are provided to DLA, and that inventory managers review and update logistics reassignment data before the 30-day and 120-day data submissions. The Navy ICP is validating all open purchase requests and providing the information to the appropriate DLA ICP. In addition, the Navy is responding to DLA expedited contractual requests on an as needed basis, and its ICP advises DLA ICPs about purchase requests that are on hold due to funding constraints.

Air Force Comments. The Air Force concurred with the intent of the recommendation to establish management controls over DoD policy on providing for CIT. It stated that the Air Force has adequate management controls in place for CIT, phase II, but was forced to cancel or suspend some purchase requests because of funding shortfalls. Based on funding for FYs 1998 and 1999, the Air Force foresees some improvement in the cited condition for the remaining items to be transferred. The Air Force stated that the Air Force Materiel Command (AFMC) would be tasked to ensure that the Air Force ICPs properly assess CIT, phase II items in terms of their potential impact on Air Force readiness. The AFMC is to provide its plan of action by September 30, 1997. The Air Force concurred with the recommendation that purchase requests be verified and that contracts be expedited whenever possible. The Air Force also concurred that DLA should be told of purchase request delays and cancellations. Actions needed to meet those requirements will be included in the AFMC action plan.

B.2. We recommend that the Director, Defense Logistics Agency, direct the Defense Industrial Support Center, Philadelphia, and the Defense Supply Center, Columbus, to identify phase II items with potential supply support problems and coordinate remedial action with the inventory control points of the Military Departments.

DLA Comments. The DLA concurred with the recommendation, stating that the Defense Industrial Support Center, Philadelphia (DISC), and the Defense Supply Center, Columbus (DSCC), already have standing business practices in place to identify support problems and to coordinate remedial action. Actions that require intervention are passed to Headquarters, DLA and the Military Departments. Headquarters, DLA will direct DSCC and DISC to use the

methodology developed at the Defense Supply Center, Richmond, to identify the Military Departments' most critical purchase requests. Identifying critical purchase requests should minimize conditions having a detrimental impact on readiness. The DLA guidance will also include the requirement to verify the validity of the Military Departments' purchase requests. The estimated completion date for DLA planned actions is the first quarter of FY 1998.

Management Comments Required

The Army did not comment on a draft of this report. We request that the Army provide comments on the final report by November 28, 1997.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

Scope. We reviewed 47,413 phase II consumable items that were transferred to the DLA ICPs from the ICPs of the Military Departments as of September 1996. We reviewed inventory balances transferred to determine whether inactive items and excess inventory were transferred with phase II items and whether full pipelines of assets were sent with transferred items. To resolve any deficiencies or differences in the data transferred, we interviewed the applicable inventory managers or equipment specialists at the ICPs.

Methodology. At the ICPs, we compared logistics and procurement data, that was transferred between January 1996 and March 1997, from the Military Department ICPs to the logistics information systems of the DLA ICPs. We took a forward statistical sample of 250 items, from the universe of 47,413 items that included 13 Military Department ICPs and 3 DLA ICPs, to determine whether inactive items and excess inventory were being transferred to DLA and whether DLA properly incorporated the logistical information into its database. Our review also included a reverse judgmental sample of 300 consumable items from a universe of 202,047, that the Military Departments had retained for management, to determine whether the Military Departments complied with the DoD policy on the retention of consumable items. The selection of audit sites and the statistical sample are discussed in Sampling Methodology and Results.

Use of Computer-Processed Data. We verified information sampled from the CIT program data base maintained by DLA for items transferred from the ICPs of the Military Departments and from the Total Item Record Cataloging data base maintained by the Defense Logistics Service Center for all items in the DoD supply system. Data tests showed that records at DLA and at the Defense Logistics Services Center were reliable. Except to resolve item-identified differences, we made no independent assessments of the reliability of computer-based data used in the audit.

Audit Period and Standards. We performed this economy and efficiency audit from September 1996 through March 1997 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available on request.

Sampling Methodology and Results

Forward Sample. As of September 1996, management of 47,413 of a projected 150,866 phase II consumable items had been transferred from the Military Departments to DLA. The items were managed as shown in Table 1.

Table 1. Universe of Consumable Items

Military Department	Items to be Transferred	Items Transferred
Army	9,593	8,043
Navy	35,628	10,601
Air Force	95,645	28,769
Total	**150,866**	**47,413**

Table 2 shows the 13 ICPs included in our sample of 250 items.

Table 2. Universe of Items by Audit Sites

ICP	Total Items Transferred	Items in Sample
AMCCOM [1]	1,627	10
ATCOM [2]	1,193	12
CECOM [3]	882	10
MICOM [4]	151	1
TACOM [5]	4,190	50
NAVICP (P) [6]	8,317	65
NAVICP (M) [7]	1,381	9
MCLB [8]	903	9
OCALC [9]	7,313	17
OOALC [10]	4,019	11
SAALC [11]	3,650	12
SMALC [12]	5,805	18
WRALC [13]	7,982	26
Total	**47,413**	**250**

[1] AMCCOM -Armament, Munitions and Chemical Command
[2] ATCOM - Aviation and Troop Command
[3] CECOM - Communications and Electronics Command
[4] MICOM - Missile Command
[5] TACOM - Tank Automotive Command
[6] NAVICP (P) - Navy Inventory Control Point Philadelphia
[7] NAVICP (M) - Navy Inventory Control Point Mechanicsburg
[8] MCLB - Marine Corps Logistics Base
[9] OCALC - Oklahoma City Air Logistics Center
[10] OOALC - Ogden Air Logistics Center
[11] SAALC - San Antonio Air Logistics Center
[12] SMALC - Sacramento Air Logistics Center
[13] WRALC - Warner Robins Air Logistics Center

Forward Results. The sample results showed that 44 inactive items were transferred to DLA. However, the amount of excess inventory transferred with the inactive items was immaterial, about $115,000, or less than 1 percent of the inventory universe of $23.5 million sampled. We considered the results of our test as a significant improvement over the conditions cited in our previous report on the CIT, phase I, Inspector General, DoD, Report No. 94-071, "Transfer of the Management of Consumable Items to the Defense Logistics Agency," March 31, 1994 (see Appendix B for details). We also concluded that DLA appropriately incorporated the transferred logistical data into its database.

Reverse Sample. To determine whether the Military Departments retained only those consumable items authorized by the DoD CIT retention policy, we judgmentally sampled 300 consumable items from the universe of 202,047 consumable items on the Total Item Record of the Defense Logistics

Services Center that the Military Departments retained for logistics management. However, during our sampling process we determined that the three primary ICPs within the Military Departments, CECOM; Navy ICP Philadelphia; and ALC Ogden, inappropriately retained or excluded about 41,300 items from the CIT review. Therefore, we disregarded the 300 consumable items in our initial sample from further analysis.

Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of Management Control Program. We reviewed the adequacy of management controls over the CIT process used to identify and transfer phase II items from the ICPs of the Military Departments to the ICPs of DLA.

Adequacy of Management Controls. We identified material management control weaknesses as defined by DoD Directive 5010.38. Management controls over the process to insure that the DoD CIT, phase II retention policy and the requirements of the CIT, phase II implementation plan were followed were not adequate to ensure that the Military Departments transferred all required phase II consumable items and that full pipelines of assets were transferred with phase II items. All recommendations, if implemented, will improve the cited conditions. A copy of the report will be provided to the senior official responsible for management controls in the Military Departments.

Adequacy of Managements' Self Evaluation. Officials at the three Military Department ICPs we visited did not identify the CIT, phase II as an assessable unit, and therefore, did not identify the material management control weakness identified by the audit.

Appendix B. Summary of Prior Audits and Other Reviews

General Accounting Office

General Accounting Office Report No. GAO/HR-97-5, "High Risk Series, Defense Inventory Management," February 1997. This is one in a series of reports that the General Accounting Office issued on high risk management areas in DoD that were vulnerable to abuse, fraud, waste, and mismanagement. The report focused on the need for DoD to be more aggressive in changing its management culture by taking advantage of new management practices, technologies, and logistics systems so that inefficiencies could be eliminated. As a result of the lack of progress with some key initiatives, it has become increasingly difficult for inventory managers' to manage the DoD multi-billion dollar inventory supply system efficiently and effectively. Large amounts of unneeded inventory, inadequate inventory oversight, overstated inventory requirements, and slowness to implement modern commercial practices are evidence of the lack of progress. The report made no recommendations, but concluded that unless DoD takes more aggressive actions, its inventory management problems will continue into the next century. In the short term, DoD needs to emphasize the efficient operation of its existing inventory systems, which includes ensuring the accuracy of inventory requirements to preclude the acquisition of unneeded inventory. In the long term, DoD must establish goals, objectives, and milestones for changing its culture and adopting new management tools and practices.

Inspector General, DoD

Inspector General, DoD, Report No. 97-106, "Consumable Item Transfer, Phase II, Cash Imbalance Issue," March 5, 1997. The report stated that each Military Department computed cash reimbursement estimates differently. The amounts were based on projected lost sales revenue, anticipated disbursements on vendor deliveries for outstanding orders for phase II items, or a combination of lost sales revenue and disbursements. DLA devised a method that used actual sales of phase II items and the related obligations to replenish inventory. The DLA methodology was the most accurate and consistent way to determine the cash reimbursements due the Military Departments. The reimbursement amount that DLA calculated for FY 1996 CIT, phase II transfers was $66.5 million, about $80 million less than the Military Departments estimated. The report concluded that the method and data that DLA used to estimate the reimbursement amounts for CIT, phase II items were the most objective. The report stated further that the method DLA used in determining cash

reimbursement amounts should continue to be used for the remainder of CIT, phase II. The report made no recommendations. The Military Department comments on the report generally nonconcurred with the audit results.

Inspector General, DoD, Report No. 94-071, "Transfer of the Management of Consumable Items to the Defense Logistics Agency," March 31, 1994. The report stated that the CIT, phase I program was generally effective. However, there was an inadequate baseline of consumable items to be transferred; filter criteria used to identify items for transfer were revised and not consistently applied at the losing ICPs; DoD procedures for making logistics reassignments were not fully complied with, some essential logistics data were not transferred from the Military Departments to DLA; and no methodology to incorporate program requirements data into the transfer process was established, impacting on weapons systems support programs. The report also stated that the Military Departments transferred substantial amounts of excess inventory with inactive phase I items. About $259 million in excess inventory had been transferred with about 10,000 inactive items. The report recommended that the Military Departments follow the prescribed DoD criteria in reviewing consumable items for transfer. The report also recommended that staffing levels at DoD ICPs be reviewed, communication and recording of essential logistics data for transferred items be improved, and controls be implemented to ensure that DLA inventory managers use the data. Finally, the report recommended that the Military Departments delete inactive items from their supply systems and dispose of excess inventory before transfer actions were initiated. DLA and the Military Departments generally concurred with our recommendations and planned to take or took actions to satisfy the intent of our recommendations.

Appendix C. Item Management Code Filter Chart

Code	Definition
A	Items that are specifically designed to be nuclear hardened against the effects of electromagnetic pulse, radiation thermal (heat), blaze shock, etc., so they continue to perform their function in an environment created by a nuclear explosion.
C	Engineer/design critical items for which requisite quality must be insured due to the catastrophic consequences of failure of these items on their next higher assembly, end item, or weapons system. Engineer/design critical repair parts are recognized by their limited applicability and critical application in safety and combat readiness application.
D*	Items of such importance to the operational readiness of operating units that they are subject to continuing centralized, individual item management and asset control throughout all command and support echelons.
E*	Items that are designated for repair at the depot level or that are designated for repair below the depot level. If repairs cannot be accomplished below the depot level, the unserviceable carcasses either will be forwarded to the depot for repair or condemnation, or reported to the inventory control point for disposition.
F	Items that are controlled by a single agency for all Federal applications will be retained by the designated item manager for integrated management. This includes items controlled by the Department of Energy or the National Security Agency, or items assigned to the U.S. Army Tank Automotive Command for integrated management.
H	Items that require extraordinary management control techniques and close surveillance within the supply system to ensure the successful execution of a nationally vital program.

Note: See the footnote at the end of the appendix.

Code	Definition
J*	Items determined by technical decision during the provisioning cycle, during introduction into logistics systems, or during item management coding, to be highly subject to design change or replacement of the item through modification of the applicable next higher assembly. Items that require engineering source approval by the engineering cognizant/design control activity.
L*	Materiel that is not usually replenished through wholesale supply system channels. It is limited to items fabricated at a military industrial activity for local use or direct issue, items fabricated at military service industrial activities and not subject to procurement from civilian industrial sources, or items obtained only by reclamation.
N*	Materiel that is not usually replenished through wholesale supply system channels. It is limited to items categorized as modification, alteration, and conversion sets or kits intended for one-time use, or items obtained only by reclamation.
P*	Items that are used in nuclear power plants or associated systems, which require stringent technical or quality control and intensified management.
S	Items requiring special management because of security classification.
W*	Items that are used only by security assistance program customers (foreign countries and international organizations). These items are often called nonstandard or foreign military sales unique.

Note: If a national stock number did not meet the criteria for one of the above item management codes, the item was to be placed in item management code "Z" and transferred to DLA.

*Indicates IMCs authorized for retention per the Deputy Under Secretary of Defense (Logistics) letter of July 12, 1994.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Deputy Under Secretary of Defense (Logistics)
    Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management)
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program and Budget)
Assistant Secretary of Defense (Public Affairs)

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Deputy Chief of Staff (Logistics)
Commander, Army Materiel Command
  Commander, Communications and Electronics Command
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Commander, Naval Supply Systems Command
  Commanding Officer, Navy Inventory Control Point, Philadelphia Branch
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Deputy Chief of Staff (Logistics)
Commander, Air Force Materiel Command
  Commanding Officer, Ogden Air Logistics Center
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
  Commander, Defense Supply Center Columbus
  Commander, Defense Supply Center Richmond
  Commander, Defense Industrial Supply Center
Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
General Accounting Office
  National Security and International Affairs Division
    Technical Information Center

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

  Senate Committee on Appropriations
  Senate Subcommittee on Defense, Committee on Appropriations
  Senate Committee on Armed Services
  Senate Committee on Governmental Affairs
  House Committee on Appropriations
  House Subcommittee on National Security, Committee on Appropriations
  House Committee on Government Reform and Oversight
  House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform and Oversight
  House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
  House Committee on National Security

Part III - Management Comments

Office of the Deputy Under Secretary of Defense (Logistics) Comments

Final Report Reference

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

ACQUISITION AND TECHNOLOGY

11 AUG 1997

(L/MDM)

MEMORANDUM FOR OFFICE OF THE DOD INSPECTOR GENERAL, LOGISTICS SUPPORT DIRECTORATE
THROUGH: DIRECTOR, CAIR 8/11/97

SUBJECT: Draft Audit Report on the Consumable Item Transfer, Phase II, Management (Project No. 6LD-5036.01)

The DoD concurs with the findings and recommendations in subject DODIG Draft Report, dated June 23, 1997. We will ask the Military Departments to screen and justify the retention of all consumable items remaining with the Military Departments. This follow on effort will be conducted under the accepted CIT Phase II business rules. In addition, we have attached comments on the content of the audit that we received from the Defense Logistics Agency.

This office appreciates the work of the auditors in performing this review. We welcome the continued assistance of your office in our effort to accomplish these improvements.

Walter D. Atchley
Acting Assistant Deputy Under Secretary (Materiel and Distribution Management)

Attachments Deleted

Attachments

Department of the Navy Comments

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH, DEVELOPMENT AND ACQUISITION
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

AUG 28 1997

MEMORANDUM FOR DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DODIG DRAFT REPORT ON CONSUMABLE ITEM TRANSFER, PHASE II, MANAGEMENT (PROJECT NO. 6LD-5036.01)

Ref: (a) DODIG Memo of 23 Jun 97

Encl: (1) Department of the Navy Comments

We have reviewed the findings and recommendations provided by reference (a). We concur with the findings and recommendations B1(a) and B1(b) directed to the Navy. Action has been taken to implement the recommendations.

Our detailed comments are in enclosure (1).

M. P. SULLIVAN
RADM, SC, U.S. Navy
Principal Deputy

Copy to:
ASN(FM) (FMO-31)
NAVINSGEN

DEPARTMENT OF THE NAVY COMMENTS
ON
DODIG DRAFT REPORT OF 23 JUNE 1997
ON CONSUMABLE ITEM TRANSFER, PHASE II, MANAGEMENT
(PROJECT NO. 6LD-5036.01)

Finding A. Retained Management of Consumable Items

The military departments improperly retained management of consumable items that should have been transferred to the Defense Logistics Agency (DLA). The items were retained because the military departments either excluded those items from the Consumable Item Transfer (CIT) screening process or did not follow the DOD CIT, Phase II item retention policy. As a result, duplicate management of consumable items by DLA and the military departments was not reduced to the extent originally planned.

DON Comment

Concur. Due to file maintenance problems, items were inappropriately retained. These items have been reviewed in accordance with Phase II CIT screening processes and retention criteria, and action has been taken to transfer appropriate items to DLA. Estimated completion date of action is 30 September 1997.

Recommendations

A. We recommend the Deputy Under Secretary of Defense (Logistics)(DUSD(L)) direct the military departments to:

1. Rescreen all the consumable items in accordance with the procedures established for the consumable item transfer, Phase II.

2. Transfer all items that do not meet the DOD consumable item retention criteria.

3. Justify the retention for management of all consumable items remaining with the military departments.

DON Comment

Defer to DUSD(L); however, as noted above, any other items inappropriately retained will be reviewed during the CIT, Phase II cleanup process and the appropriate transfer/retain actions will be taken.

Finding B. Transfer of Pipeline Assets

The military departments did not provide full pipelines of assets when they transferred CIT, Phase II items to DLA. Full pipelines were not provided because the military departments did not follow DOD policy on funding pipeline assets for CIT, Phase II items. As a result, DLA identified a $125 million pipeline asset shortage

for CIT, Phase II items, which reduced supply availability, and could diminish weapon system readiness.

DON Comment

Concur in principal based on preliminary data NAVICP submitted to DLA 30 and 120 days before the estimated transfer date. However, a review of Navy pipeline deficiencies revealed actual Navy demand less than forecasted. Actual deficiencies resulted in a significantly lower pipeline shortage. As a result, Naval Inventory Control Point (NAVICP) Inventory Managers are scrubbing the data to ensure it reflects the latest and most accurate information prior to the 30 and 120-day submissions.

Recommendations

B.1 We recommend the Commanders, Army Material Command; Naval Supply Systems Command (NAVSUP); and the Air Force Material Command:

a. Establish management controls necessary to ensure compliance with DOD policy of providing full pipelines of assets for Phase II consumable item transfers.

DON Comment

Concur. NAVSUP letter dated 9 June 1997, directed the NAVICP to ensure data provided to DLA Inventory Control Points (ICPs) contain the most current demand history, procurement actions, and requirements/projections. Inventory Managers will review and update, as necessary, logistics reassignment management data prior to the 30 and 120-day submissions.

b. Direct the military department ICPs to:

(1) Verify the validity of open Purchase Requests (PRs) for Phase II consumable items that were transferred to DLA.

DON Comment

Concur. As a result of a DLA request, the NAVICP is validating all open PRs and providing this information to the appropriate DLA ICP.

(2) Expedite contractual orders for transferred consumable items.

DON Comment

Concur. Navy is responding to DLA expedited requests on an as required basis.

(3) Advise the respective DLA ICPs of all delays in and cancellations of consumable item transfer, Phase II item PRs.

2

DON Comment

Concur. Current NAVICP ADP procurement systems automatically provide notification to DLA ICPs for delivery date changes and PR/contract cancellations. In addition, NAVICP does advise the current DLA ICP about PRs that are in hold status due to end of year funding constraints.

Department of the Air Force Comments

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE

3 SEP 1997

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

FROM: HQ USAF/IL
1030 Air Force Pentagon
Washington, DC 20330-1030

SUBJECT: DoD(IG) Draft Audit Report on the Consumable Item Transfer, Phase II, Management (Project No. 6LD-5036.01)

Attached is an interim reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) provide Air Force comments on the subject report. The specific recommendations covered by this response are B.1.a. and b. This reply represents our initial input to the subject audit. Further action by the Air Force Materiel Command (AFMC) is required to fully respond to Finding B. We will provide you a follow-up response by 30 Sep 97.

Questions can be referred to Mr. John Calhoun, HQ USAF/ILSP, (703) 695-4895 or DSN 225-4895.

WILLIAM P. HALLIN
Lieutenant General, USAF
DCS/Installations & Logistics

Attachment:
Air Force Response to Project No. 6LD-5036.01

cc:
AF/ILSY
SAF/FMPF
ADUSD(L)/MDM
HQ AFMC/LG/LGI

Air Force Response to DoD(IG) Draft Report 6LD-5036.01

Recommendation for Corrective Action:

B.1. We recommend that the Commanders, Army Materiel Command; Naval Supply System Command; and the Air Force Materiel Command:

a. Establish management controls necessary to ensure compliance with DoD policy on providing full pipelines of assets for Phase II consumable item transfers.

Response: Concur with intent. The Air Force has adequate management controls in place for Phase II, however, we were forced to cancel or suspend some Phase II Purchase Requests (PRs) because of funding shortfalls across all AF managed items. As a consequence, AF ICPs were forced to make priority tradeoffs in order to balance overall AF readiness. Given our FY98/99 funding we foresee some improvement in this situation for the remaining items to be transferred. AFMC will be tasked to make sure that the AF ICPs are properly assessing CIT Phase II items in terms of their potential impact on AF readiness and to ensure that we are providing balanced support to AF units. AFMC is to provide us their plan in time to meet the 30 Sep 97 follow-up response promised in the cover letter.

b. Direct the Military Department inventory control points to:

(1) Verify the validity of open purchase requests for Phase II consumables items that were transferred to the Defense Logistics Agency,

(2) Expedite contractual orders for transferred consumable items, and

(3) Advise the respective Defense Logistics Agency inventory control points of all delays in and cancellations of consumable item transfer, Phase II; item purchase requests.

Response: Concur. The Air Force had gone out to the five ICPs early in CY 1997 and verified contracts with total dollar values greater than $100K. This is a yearly process. We agree the PRs need to be verified and contracts should be expedited whenever possible and funding allows it. We also concur that DLA needs to be told officially of delays and cancellations so that appropriate action can be taken by Air Force and DLA, especially for high demand items. The actions to meet the requirements for recommendation B.1.b (1) to (3) will be in the tasking memorandum to HQ AFMC discussed in the response to B.1.a. above.

Defense Logistisc Agency Comments

Final Report Reference

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221

IN REPLY REFER TO DDAI

AUG 12 1997

MEMORANDUM FOR THE DIRECTOR, LOGISTICS SUPPORT DIRECTORATE, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on Consumable Item Transfer, Phase II, Management, 6LD-5036.01

Enclosed is our response to your request of 23 June 1997. Enclosure 1 are our comments to the appropriate Findings and Recommendations. Enclosures 2 and 3 are comments on the content of the audit itself. Should you have any questions, our Points of Contact are Elaine Parker, 767-6264 or Sharon Entsminger, 767-6267.

Encls

JEFFREY GOLDSTEIN
Chief (Acting), Internal Review

Enclosures 2 and 3 Deleted

cc:
MMBCA
MMLD
DISC-DI
DSCC-RR
DLSC-DI

SUBJECT: Draft Report on Consumable Item Transfer, Phase II, Management, 6LD-5036.01

FINDING A: Retained Management of Consumable Items. (Page 4 of Draft Report)

DLA COMMENTS: **Concur**; however, this finding is not a materiel weakness with regard to DLA business practices; agree that it is a material weakness for the Military Departments. The Consumable Item Transfer Team, DLA HQ, worked with DLSC to arrive at a baseline of existing consumable items, that were potential transfer candidates. DLA then worked with the Services to scrub these items and establish the population that would comprise Phase 2. Throughout Phase 2, DLA has used DLSC reports to prepare metric reporting on the Services' compliance with transferring the predetermined population. The metric has shown that the Services are not transferring the quantities that were originally targeted. These reporting results have been communicated to the Services, and has resulted in their attention to accounting for the Phase 2 potential population.

INTERNAL MANAGEMENT CONTROL WEAKNESS: Nonconcur

RECOMMENDATION A.1: Concur that the Military Services should rescreen consumable items to assure the CIT Phase 2 business rules are adhered to.

RECOMMENDATION A.2: Concur that the Military Services should transfer those remaining consumable items that do not meet the retention criteria. Included in this population should be any items that rejected during processing for transfer, and were not subsequently reworked. DLA would like to be included in any planning and scheduling discussions that take place regarding this follow on group of items. In light of internal DLA item realignments, and workload experienced as a result of CIT Phase 1 and 2, it is important that a mutually agreeable schedule be in place, to facilitate the transfer of management being invisible to the users.

RECOMMENDATION A.3: Concur that the Military Services should justify the retention of any consumable items they keep for management.

DISPOSITION: Considered Complete

ACTION OFFICER: Linda Hanna, MMLD, 767-1521
REVIEW/APPROVAL: D.P. Keller, RADM, SC, USN, Exec. Dir., Logistics Management
COORDINATION: Sharon Entsminger, DDAI, 767-6267

DLA APPROVAL:

RAY E. McCOY
Major General, USA
Principal Deputy Director

SUBJECT: Draft Report on Consumable Item Transfer, Phase II, Management, 6LD-5036.01

FINDING B: Transfer of Pipeline Assets.

DLA COMMENTS: **Concur**; however, this finding is not a material weakness with regard to DLA business practices; agree that it is a material weakness for the Military Departments. For the Phase 2 items, this Agency has used data from the CIT Statistical Data Base for metric reporting on the Services' compliance with providing a full pipeline. The metric, which has been shared and discussed with the Services, shows that they are not compliant with the Phase 2 business rule. Additionally, we are finding a follow on problem exists. In providing the pipeline at Effective Transfer Date (ETD), the business rules allow the Services to consider Purchase Requests (PRs) as "assets". Subsequent to transfer of management to DLA, the Services are suspending or canceling action on these PRs, often without notifying DLA. The issue of suspended or canceled PRS can have a significant readiness impact due to the fact that the problem is initially "hidden" from the DLA Inventory Control Points (ICPs). Whereas pipeline shortages are immediately apparent at the time of transfer, the DLA ICPs' requirements determination system considers PRs to be valid assets when computing DLA buy recommendations. Consequently, if the PR is suspended the support problem is initially "hidden" from the DLA ICP and may not be identified until backorders begin to accrue. This can result in an immediate readiness impact since DLA could be a full procurement leadtime away from obtaining assets.

IINTERNAL MANAGEMENT CONTROL WEAKNESS: Nonconcur.

RECOMMENDATION B.2: Concur. The Defense Supply Center, Columbus (DSCC) and the Defense Industrial Supply Center, Philadelphia (DISC) already have standing business practices in place to identify support problems and coordinate remedial action. DSCC is identifying phase II items with potential supply support problems and is coordinating remedial action with the inventory control points of the Military Services. As a part of routine business, item managers verify the validity of Service PRs to assure an accurate requirements picture of their items. DISC has designated CIT Monitors for each of their Commodity Business Units (CBUs). These people work with their CBU item managers and the Mil Service item managers to identify and quickly resolve support problems. When policy issues occur, the monitors work with the DISC CIT Focal Point and the DISC Logistics Reassignment (LR) Monitor to reach resolution. As the basic responsibility to support a new item remains with the item manager, the network of DLA item managers and their Service counterparts has been in effect since Phase 1 of CIT.
For example, the DISC LR monitor works with the Air Force Air Logistics Centers (ALCs) to receive and process, on a monthly basis, reports from the AF JO41 system that identify suspended or canceled PRs/contracts. Actions that require intervention are passed to HQ DLA and the Mil Service POCs. In addition, HQ DLA will direct DSCC and DISC to use the results from the Critical Military Departments' Purchase Requests for CIT Phase 2 Items Report. This report is based on methodology first developed at the Defense Supply Center, Richmond, and

PAGE 2 (Continued)
SUBJECT: Draft Report on Consumable Item Transfer, Phase II, Management, 6LD-5036.01

identifies the Military Departments' most critical purchase requests. The definition of "critical" is based on how soon the item will be required by a customer, compared to when that item is expected to be available. The end goal being to minimize conditions having a detrimental impact on readiness. The HQ guidance will include the requirement to verify the validity of the Military Departments' purchase requests.

DISPOSITION: Ongoing. ECD: 1st Qtr FY98

ACTION OFFICER: Linda Hanna, MMLD, 767-1521
REVIEW/APPROVAL: D.P. Keller, RADM, SC, USN, Exec. Dir., Logistics Management
COORDINATION: Sharon Entsminger, DDAI, 767-6267

DLA APPROVAL:

RAY E. McCOY
Major General, USA
Principal Deputy Director

Audit Team Members

This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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