Audit Report

Dual Management of Commercially Available Items-Construction, Material Handling, and Related Equipment

Report Number 98-202 September 18, 1998

Office of the Inspector General
Department of Defense

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Acronyms

DLA	Defense Logistics Agency
DSCC	Defense Supply Center Columbus
FSC	Federal Supply Class
GSA	General Services Administration
HEPP	Heavy Equipment Procurement Program

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
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September 18, 1998

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND TECHNOLOGY

SUBJECT: Audit Report on Dual Management of Commercially Available Items - Construction, Material Handling, and Related Equipment (Report No. 98-202)

We are providing this report for your information and use. This report is the last in a series of five reports discussing the dual management of commercially available items. This audit was requested by the Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management). We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Tilghman Schraden at (703) 604-9186 (DSN 664-9186) or Mr. Terry Wing (215) 737-3883 (DSN 444-3883). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 98-202 **September 18, 1998**
(Project No. 6LD-5044.03)

Dual Management of Commercially Available Items - Construction, Material Handling and Related Equipment

Executive Summary

Introduction. This audit was requested by the Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management). This report is the last in a series of five reports discussing the dual management of commercially available items.

In December 1996, the Acting Administrator, General Services Administration, proposed that the Under Secretary of Defense for Acquisition and Technology transfer acquisition authority for commercial, nontactical construction, material handling, and related equipment requirements for 13 Federal supply classes from the DoD to the General Services Administration. The Acting Administrator stated that the General Services Administration had established procurement methods to support non-DoD requirements for those Federal supply classes, and that the transfer would eliminate duplication between respective supply systems and enhance overall Government economy and efficiency by maximizing the consolidation of requirements.

Of the 13 Federal supply classes, the Defense Logistics Agency was assigned acquisition authority for 11 of the classes. For one class, the Defense Logistics Agency shared the authority with the Military Departments. Acquisition authority for the remaining Federal supply class was split between the Army and the Air Force. We limited the audit to include only equipment acquired by the Defense Logistics Agency. Defense Logistics Agency procurements for those 12 Federal supply classes in FYs 1996 and 1997 were approximately $147 million.

Audit Objectives. The overall audit objectives were to determine the extent of products available through non-Defense Federal organizations, for which DoD also operates central procurement programs, and to evaluate whether the DoD programs were providing services without added benefit to DoD. The specific objective of this report was to evaluate the General Services Administration proposal to transfer acquisition authority for specified nontactical equipment and to assist the Under Secretary of Defense for Acquisition and Technology in determining whether the transfer of acquisition authority was in the best interest of DoD. We also reviewed the adequacy of the management

control programs as they applied to stated objectives. The review of the management control program applicable to the other stated objectives is reported in Inspector General, DoD, Report No. 98-037, "Dual Management of Commercially Available Items - Battery, Food Service, and Photographic Products," December 12, 1997.

Audit Results. The Defense Logistics Agency program for procuring nontactical construction, material handling, and related equipment was more beneficial than the General Services Administration programs. If acquisition authority were transferred, DoD customers would lose contracting and technical services that were readily available and generally more economical. Additionally, potential volume discounts would be lost to DoD customers because requirements for tactical and nontactical equipment would not be consolidated. See Part I for a discussion of the audit results.

Summary of Recommendations. We recommend that DoD retain acquisition authority for nontactical construction, material handling, and related equipment requirements.

Management Comments. The Deputy Under Secretary of Defense (Logistics) concurred with the recommendation and stated that DoD will not implement the General Services Administration proposal. Additionally, although not required to respond, the Deputy Director, Defense Logistics Agency agreed with the recommendation, stating that Defense Industrial Supply Center actions to fully understand the commodities and the Heavy Equipment Procurement Program and current and future initiatives will continue to provide the optimum level of support to the military customers. See Part I for a discussion of management comments and Part III for the complete text of management comments.

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Part I - Audit Results

Audit Background

The audit was requested by the Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management). This report, the last in a series of five reports on dual management of commercially available items, discusses a General Services Administration (GSA) proposal to transfer acquisition authority for 13 Federal supply classes (FSCs) (see Appendix C) from DoD to GSA. The other four reports discuss duplication of procurement and supply programs of either the Defense Logistics Agency (DLA) and GSA or DLA and the Department of Veterans Affairs. Those reports are summarized in Appendix B.

GSA Proposal. In December 1996, the Acting Administrator, GSA, proposed that the Under Secretary of Defense for Acquisition and Technology transfer acquisition authority for commercial, nontactical construction, material handling, and related equipment requirements for 13 FSCs from DoD to GSA. The Acting Administrator stated that GSA had established Federal supply schedule contracts and other procurement methods to support non-DoD requirements for those FSCs, and that the transfer would eliminate duplication between their respective supply systems and enhance overall Government economy and efficiency by maximizing the consolidation of requirements. An FSC is a 4-digit code that designates the general commodity grouping of an item. The types of items included in the GSA proposal were cranes, earth moving and fire fighting equipment, forklift trucks, tractors, and trailers.

Acquisition Authority. Of the 13 FSCs that GSA recommended for transfer from DoD, DLA was assigned acquisition authority for 11 of the FSCs. For one class, fire fighting equipment (FSC 4210), DLA shared acquisition authority with the Military Departments. Acquisition authority for the remaining FSC, trailers (FSC 2330), was split between the Army and the Air Force. We limited the audit to include the 12 FSCs DLA acquired.

Role of DLA. The DLA is a combat support agency responsible for worldwide logistics support, including procuring; stocking; and issuing consumable items throughout DoD. The primary focus of DLA is to support military operations in peace and war and to provide relief efforts during national emergencies. As of March 1997, DLA managed approximately 4 million national stock numbered items.

Role of GSA. The GSA was established in 1949 to supply personal property to Government organizations. GSA operates a worldwide supply system to contract for and distribute personal property and services to Federal agencies. GSA provides items to its customers through several supply programs that include Federal supply schedules, special order, and stock. GSA manages approximately 135,000 national stock numbered items and has approximately 6,000 contracts with vendors for direct delivery of commercial items to customers.

DoD and GSA Supply Management Relationship. The DoD and GSA entered into an agreement in 1971 to eliminate avoidable duplication and overlap between their respective supply systems and those of other Federal agencies. The agreement was also to provide responsive, effective, and economical integrated materiel management to all Government agencies for commonly used commodities.

With few exceptions, the agreement assigns to GSA, FSCs that Federal agencies commonly use, that are commercially available on the civilian economy, and that are not predominantly of a military nature. The agreement assigns to DLA, FSCs that are commonly used in military operations or weapons systems support, regardless of their use by civilian agencies.

Regulatory Guidance. The Defense Federal Acquisition Regulation Supplement, part 208, establishes required sources of supply for services and supplies. It provides policy and procedures for acquiring commodities used and possibly procured by more than one department or agency or GSA. Essentially, all commodities are to be acquired by a single buyer under either the Integrated Materiel Management Program or the Coordinated Acquisition Program. The Integrated Materiel Management Program applies mainly to national stock numbered consumable items. The Coordinated Acquisition Program strictly relates to contracting and primarily applies to items not covered by the Integrated Materiel Management Program, such as items included in the GSA proposal. The Defense Federal Acquisition Regulation Supplement also provides numerous exceptions to centralized procurement that permits DoD organizations to locally procure needed materiel.

On March 6, 1997, the Director, Defense Procurement, issued a memorandum, "General Services Administration Federal Supply Schedules as Preferred Sources of Supply," that establishes DoD policy on using GSA services. The memorandum urged DoD organizations to take full advantage of GSA Federal supply schedule contracts, if needed services and supplies are covered by the contracts. The Director stated that changes mirroring commercial practices, to include the use of the Internet, have made GSA Federal supply schedules even more efficient. Additionally, the use of Federal supply schedule contracts meets DoD goals to simplify the acquisition process.

Audit Objectives

The overall audit objectives were to determine the extent of products available through non-Defense Federal organizations, for which DoD also operates central procurement programs and to evaluate whether the DoD programs were providing services without added benefit to DoD. The specific objective of this report was to evaluate the GSA proposal to transfer acquisition authority for specified nontactical equipment and to assist the Under Secretary of Defense for Acquisition and Technology in determining whether the transfer of acquisition authority was in the best interest of DoD. We also reviewed the adequacy of the management control programs as they applied to stated objectives. The review of the management control program applicable to the to the other stated objectives is reported in Inspector General, DoD, Report No. 98-037, "Dual Management of Commercially Available Items - Battery, Food Service, and Photographic Products," December 12, 1997. See Appendix A for a discussion of the scope and methodology. See Appendix B for a summary of prior coverage.

Construction, Material Handling, and Related Equipment

The DLA program for procuring nontactical construction, material handling, and related equipment was more beneficial than GSA programs. The DLA program was more beneficial because it provided added value (cost economies and technical expertise) to DoD customers. As a result, if acquisition authority for specified nontactical equipment were transferred from DoD to GSA, DoD customers would lose contracting and technical services that were readily available and generally more economical. Additionally, potential volume discounts would be lost to DoD customers because requirements for tactical and nontactical equipment would not be consolidated.

Acquisition Programs

DoD and GSA had different methods for procuring nontactical construction, material handling, and related equipment. A major DoD program for procuring nontactical equipment was the DLA Heavy Equipment Procurement Program (HEPP). On the other hand, customers of GSA used the Advantage, the Federal supply schedule, and the special order programs for procuring nontactical equipment.

DLA Heavy Equipment Procurement Program. The DLA procured tactical and nontactical construction, material handling, and related equipment as part of HEPP. Customers defined their equipment requirements to DLA. Based on those requirements, DLA provided customers with acquisition planning assistance and purchasing agent and contract administration services. Those services included the flexibility to order commercial equipment, modified commercial equipment, and military application equipment; to reduce prices by consolidating requirements; to standardize equipment by reducing makes and models available, and to tailor acquisition methods that meet customer needs.

Before January 1998, the Defense Supply Center Columbus (DSCC), Columbus, Ohio, administered HEPP. In January 1998, responsibilities for the program were transferred to the Defense Industrial Supply Center, Philadelphia, Pennsylvania. HEPP procurements for 43 FSCs included in the program during FYs 1996 and 1997 were approximately $191 million. Procurements for the 12 FSCs included in the GSA proposal accounted for approximately $147 million (77 percent) of the $191 million, while the DSCC cost to administer HEPP was about $1.4 million annually.

HEPP Contract Types. DLA used various long-term contracting methods to procure HEPP equipment that offered DoD customers different benefits. For example, DLA used:

o customer-value schedule contracts that were schedules with more than one supplier for comparable items. The schedules provided customers with a greater choice of models and configurations of equipment and a wide variance among vendors regarding price and discounts.

o indefinite delivery type contracts that provided established pricing for an indefinite quantity within stated limits, for specific items during a fixed period.

o requirements contracts that were similar to indefinite delivery type contracts, in that they provided for established prices and reduced leadtime, but they had no maximum order limit. Deliveries were scheduled by placing orders against the contract.

GSA Procurement Programs. The GSA customers used the Advantage program, the Federal supply schedule, and the special order program for procurement.

Advantage Program. The GSA Advantage program provides Federal customers an automated method for acquiring products. Advantage became operational in October 1995 and is being developed incrementally. When completed, it will bring together related products in all GSA supply programs, along with their descriptions, delivery options, and prices as a means to simplify ordering. Advantage allows customers to use the Internet to browse, perform searches, and place orders for products.

Federal Supply Schedule Program. The Federal supply schedule program provides an economical means of procuring nontactical equipment. Under the Federal supply schedule program, GSA enters into contracts with vendors to provide supplies and services at stated prices for given periods. The program provides customers with access to high quality commercial products at a volume discount price through direct delivery. Customers place orders directly with contractors, and contractors make deliveries directly to customers. Of the 12 FSCs DLA acquired, 7 had Federal supply schedules, the remaining 5 had no supply schedules.

Special Order Program. The special order program is available to Federal customers for those items that GSA does not stock or those that are not available through existing supply or procurement programs. Customers submit requisitions to GSA for special order items and GSA either sends a purchase order to vendors, if the items are covered by existing contracts, or initiates a contract to have the items shipped directly to the customers.

Comparison of HEPP and GSA Programs

The DLA program for procuring nontactical construction, material handling and related equipment was more beneficial than the GSA programs. A comparison of the HEPP and GSA procurement programs showed that DLA generally added value to DoD customers in the services it provided in awarding and administering contracts and in the fees it charged to recoup administrative costs. Additionally, a

comparison of prices that DLA and GSA charged customers for the same type of equipment indicated that prices DLA charged were generally cheaper. Benefits to DoD customers would be lost if acquisition authority for specified nontactical equipment were transferred from DoD to GSA.

Services Provided. DLA provided DoD customers with a wide variety of contracting and technical services that normally were not included in the GSA Federal supply schedule program. The services included acquisition planning; assistance with warranty actions; demonstration testing of equipment; equipment setup and installation; inspection and acceptance; operational training; post award orientation; pre-solicitation conferences; resolving payment, quality, and quantity problems; and technical assistance in configuring equipment. Additionally, in some procurements, DSCC negotiated with GSA Federal supply schedule vendors instead of the customer negotiating with the vendor or the customer using the GSA special order program. For example,

o in May 1996, DSCC issued a delivery order, valued at $1.2 million, against a GSA Federal supply schedule for snow removal equipment. The vendor normally gave GSA customers a 2.5 percent discount. DSCC negotiated an additional 5 percent discount and saved the customer $63,542.

o in July 1996, DSCC issued a delivery order, valued at $811,442, against a GSA Federal supply schedule for laser leveling equipment to be used in grading and excavation work. DSCC negotiated the equipment price with the vendor and coordinated dealer installation of the equipment and the training required to operate the equipment at 21 different locations.

o in March 1997, DSCC issued a delivery order against a customer-value schedule, valued at $10.2 million, to a vendor for 25 commercial, rough-terrain container handlers (FSC 3930). DSCC negotiated contract provisions for a test vehicle with a system support package, contractor support for the test vehicle, safety assessment reports, and commercial manuals.

GSA Federal supply schedule equipment procurements generally require that customers contact vendors directly to order equipment. Customers must obtain vendors' catalogs and, if appropriate, negotiate pricing for their requirements to include modifications, options, installation of equipment, and training. Customers were also directed to contact vendors for any problems regarding their order. Customers can contact GSA, for assistance, if problems cannot be resolved directly with vendors.

Under the special order program, customers requisition equipment from GSA and GSA places orders with vendors. Because GSA negotiates special services with the vendors, if requested, it will perform services similar to those provided by DLA but normally at a higher rate.

Fees for Service. DLA and GSA charged customers different fees to recover costs incurred for specific services. DoD customers would generally pay less for services provided for procurements through the Federal supply schedule program and pay more for procurements of forklifts and other equipment ordered through the GSA special order program.

DSCC and GSA Service Cost Recovery Factors. The DSCC cost recovery factor for services in FY 1997 was 1.56 percent of the contract price of the equipment and, in FY 1998, it was reduced to 1.387 percent. DSCC added the cost recovery factor to the contract price of the equipment and customers paid those fees directly to DLA. By comparison, the GSA factor for equipment procurements from Federal supply schedule contracts, except for forklifts (Federal supply schedule 39 II B), was normally 1 percent. Vendors' included the 1 percent factor in catalog prices and rebated it to GSA. For forklifts, the factor was 4 percent. Again, if a DoD customer had special needs, such as training on the use of the equipment, the customer would have to negotiate with the vendor if the Federal supply schedule or the GSA special order program were used.

GSA Special Order Program Cost Recovery Factors. For GSA special order program procurements, various cost recovery factors were applied. The factor for special order material handling equipment was 3.5 percent, and 1 percent for construction highway equipment and fire fighting equipment. If equipment were special ordered from Federal supply schedule vendors, customers paid both the special order and the 1 percent Federal supply schedule factors.

Computing Cost Recovery Fees. The information needed to determine whether equipment purchased in FY 1996 and 1997 could have been more economically procured from a Federal supply schedule or whether the equipment could have been special ordered was not available. Therefore, we were unable to compute overall costs or savings associated with the differences in cost recovery factors. However, DoD customers saved money in FY 1997 by purchasing forklifts through HEPP instead of using GSA programs. HEPP procurements of forklifts in FY 1997 totaled approximately $44 million. The GSA administrative fee for those procurements would have been approximately $1.7 million while the DLA fee was approximately $700,000, or about $1 million less than the GSA fee.

Price Comparison. DLA prices for equipment purchased from a commercial vendor were generally less than GSA prices. We analyzed HEPP records and identified 948 procurements valued at about $147 million for 10 of the 12 FSCs in the GSA proposal. There were no procurements for the remaining two supply classes (FSCs 3830 and 3835). We selected a judgmental sample of 189 of the 948 procurements, valued at about $71.6 million, to determine the extent of DLA and GSA procurement of the same items and their contracting with the same vendors. Of the 189 procurements, 144, valued at about $52.4 million, were from vendors that participated in both the HEPP and GSA Federal supply schedule program.

DLA Prices Versus GSA Prices. Overall, DLA prices were lower than GSA Federal supply schedule prices for more items in our sample. Of the 144 procurement actions from vendors that participated in the HEPP and the GSA Federal supply schedule program, we were able to compare prices for 81 of the actions. The comparisons between DLA and GSA prices were made generally on the basic model of items procured because the various options and modifications requested by DSCC customers were not always individually priced or included in GSA vendors' catalogs. DLA prices were lower by about $1.5 million for 52 procurements and GSA prices were lower by about $213,000 for 24 procurements. We considered the cost recovery factor in the prices for DLA and GSA. For example:

o In November 1996, DSCC awarded a delivery order against a customer-value schedule for 16 forklifts. The value of the order was about $363,780. The GSA Federal supply schedule price for the forklifts was about $339,800, or about $23,980 cheaper than the DLA price.

o In September 1997, DSCC awarded an indefinite delivery type contract to a vendor for 15 tractors. DSCC negotiated a unit price of $182,669 for the basic model of the tractor. After adding its cost recovery factor of 1.56 percent, the total cost for the tractors was about $2.8 million. The GSA Federal supply schedule price for the basic tractor, after discounts, was $199,144. The total price for the tractors using the GSA schedule would have been about $3 million, or $200,000 more than the DLA price.

For five procurements, both organizations paid the same price for the equipment. We could not make a determination for the remaining 63 procurements because either the vendors' catalogs were not available for review or we could not identify the item procured in the GSA vendors' catalog.

Basis of our Comparison. Our comparison was based on prices in the Federal supply schedule; therefore, the prices could vary depending on whether the customer ordered the equipment directly from the schedule or whether GSA ordered the equipment. In each of those situations, the customer or GSA may have negotiated a price reduction of the Federal supply schedule price.

Consolidation of Purchases

DoD customers benefited from lower prices through volume discounts because purchases of nontactical equipment were consolidated with purchases of tactical equipment. In 1993, the National Performance Review reported that consolidating purchasing actions would benefit the taxpayer through greater volume discounts and simplified administration. Vendors reduce their order processing and administrative expenses for large quantity orders and generally will pass on to their customers any savings or volume discounts.

The GSA proposal addressed only the transfer of acquisition authority for nontactical equipment. Therefore, if the acquisition authority were transferred from DoD to GSA, nontactical and tactical requirements would be divided between DLA and GSA and customers would lose the potential for volume discounts. Such a division of procurement requirements would also be impractical. DSCC did not have specific criteria for distinguishing between tactical and nontactical equipment and HEPP procurement records did not identify any distinguishing characteristics between the two types of equipment. Senior DoD and GSA personnel advised us that the ultimate use of the equipment would dictate whether the equipment would be classified as tactical or nontactical, and the user of the equipment was in the best position to make that determination. Consequently, separating and classifying the two types of equipment for the GSA proposal would require special administrative procedures not currently necessary or in place.

Industry Perspective of Acquisition Authority

Vendors generally were not supportive of the proposed transfer of acquisition authority of nontactical equipment from DoD to GSA. We received 24 responses to 30 questionnaires that we sent to vendors who sold equipment to the Government. The vendors' general theme was that DSCC personnel had sound technical expertise in contracting for the equipment and that GSA personnel were not as technically oriented as DLA personnel. However, one vendor also raised concerns that some of the DLA expertise was lost when the HEPP was transferred to the Defense Industrial Supply Center. Specifically, the vendors stated that:

o DoD procurement people were far more knowledgeable of the construction equipment products. Further, they understood that there were application, design, and technology differences between brands and local support.

o the product they sold was not a bolt or nut or a standard item that came off a production line in mass quantities, nor was it a simple item that could be purchased and just given to an end user to use without training or pre-knowledge of its use.

o the majority of the forklifts that the Government purchased were used by DoD organizations that DLA logically should have serviced. DLA should be the contracting organization. Although forklifts may not be tactical, vendors believed that forklifts were a key ingredient in material handling and material management and were the heart of military capability.

o the transfer of acquisition authority to GSA would be a great improvement. It would make vendors' procedures much easier and authorizing one agency would be a cost-saving measure.

Customer Perspective of Acquisition Authority

Military organizations were generally pleased with the procurement services DLA provided and the prices they paid for equipment. We sent 11 questionnaires to organizations that procured construction, material handling, and related equipment. The following are representative comments and concerns from the eight customers who responded.

o Our understanding is that GSA schedules are effective if you buy exactly what is on the schedule. Our equipment is not 100 percent commercial and DLA routinely works with customers to modify their contracts to meet customer needs. GSA is effective for installation acquisitions where commercial equipment does not require any modification.

o In the few instances when GSA was contacted regarding procurement through one of their schedules, we had to make some concessions since variation of commercial models was limited.

Summary

The DLA generally provided added value (cost economies and technical expertise) to DoD customers in procuring nontactical construction, material handling, and other related equipment. The equipment ordered by DoD organizations generally required contracting personnel with expertise to provide services that satisfied requirements for equipment modifications, options and installation, price negotiations, and training of personnel. Additionally, the GSA proposal addressed only the transfer acquisition authority for nontactical equipment. Under the existing proposal, DLA resources would still be needed to procure tactical equipment. Consequently, if the transfer occurred, there would be no apparent value in splitting the requirements for similar types of equipment and lose the potential for volume discounts.

Recommendation and Management Comments

We recommend that the Under Secretary of Defense for Acquisition and Technology retain acquisition authority for nontactical construction, material handling, and related equipment requirements for the 13 Federal supply classes included in the General Services Administration proposal.

Management Comments. The Office of the Deputy Under Secretary of Defense (Logistics) concurred, stating that it would not implement the GSA proposal. Additionally, although not required to respond, the Deputy Director, DLA, agreed with the recommendation, stating that Defense Industrial Supply Center actions to fully understand the commodities and the Heavy Equipment Procurement Program and current and future initiatives will continue to provide the optimum level of support to the military customers.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We reviewed DLA and GSA procurement records to identify construction, material handling, and related equipment that each procured. We also used the records to identify vendors that supplied equipment to both organizations, the prices that each organization charged its customers, and the services that each organization provided. Specifically, we reviewed DSCC HEPP FYs 1996 and 1997 procurement files and GSA Federal supply schedule procurement data and vendor catalogs. To evaluate the value added by DLA, we selected a judgmental sample of 189 DSCC HEPP procurements, valued at $71.6 million. Those procurements were selected according to dollar value and vendor, to ensure that we had sufficient coverage in each FSC included in the GSA proposal. The documentation reviewed covered the period from July 1993 through April 1998. We also sent questionnaires to DSCC customers and vendors to solicit their opinions about the proposed transfer.

DoD-wide Corporate Level Government Performance and Results Act (GPRA) Goals. In response to the GPRA, DoD established 6 DoD-wide corporate level performance objectives and 14 goals for meeting those objectives. This report pertains to achievement of the following objective and goal.

> **Objective:** Fundamentally reengineer DoD and achieve 21st Century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. **(DoD-6)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal.

> **Logistics Functional Area. Objective:** Streamline logistics infrastructure. **Goal:** Implement most successful business practices (resulting in reductions of minimally required inventory levels). **(LOG-3.1)**

General Accounting Office High Risk Area. The General Accounting Office has identified several high risk areas in the DoD. This report provides coverage of the Defense Inventory Management high risk area.

Use of Computer-Processed Data. We used computer-processed procurement data provided by DSCC from its Military Interdepartmental Purchase Request Table. To the extent that we reviewed the computer-processed data, we concluded that the data were sufficiently reliable to be used in meeting our objectives. We did not audit the systems that produced the data or assess relevant general and application controls.

Audit Type, Dates, and Standards. We performed this economy and efficiency audit from August 1997 through May 1998 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 and GSA. Further details are available on request.

Appendix B. Summary of Prior Coverage

Inspector General, DoD, Report No. 98-154, "Acquisition of Medical Supplies," June 15, 1998.

Inspector General, DoD, Report No. 98-144, "Dual Management of Commercially Available Items - Information and Imaging Solutions," June 3, 1998.

Inspector General, DoD, Report No. 98-037, "Dual Management of Commercially Available Items - Battery, Food Service and Photographic Products," December 12, 1997.

Inspector General, DoD, Report No. 97-205, "Dual Management of Commercially Available Items - Defense Logistics Agency Electronic Catalog," August 15, 1997.

Appendix C. Federal Supply Classes Included in General Services Administration Proposal

Class	Description
2330	trailers
2410	tractors, full track, low speed
2420	tractors, wheeled
3805	earth moving and excavating equipment
3810	cranes and crane-shovels
3815	crane and crane-shovel attachments
3820	mining, rock drilling, earth boring, and related equipment
3825	road clearing and cleaning equipment
3830	truck and tractor attachments
3835	petroleum production and distribution equipment
3930	warehouse trucks and tractors, self-propelled
3950	winches, hoists, cranes, and derricks
4210	fire fighting equipment

Appendix D. Report Distribution

Office of the Secretary of Defense

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  Deputy Under Secretary of Defense (Logistics)
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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, Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part III – Management Comments

Deputy Under Secretary of Defense (Logistics) Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
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ACQUISITION AND TECHNOLOGY

(L/MDM)

MEMORANDUM FOR DOD INSPECTOR GENERAL

SUBJECT: DoDIG Draft Audit Report, "Dual Management of Commercially Available Items – Construction, Material Handling, and Related Equipment," dated June 29, 1998 (Project No. 6LD-5044.03)

This responds to your memorandum of June 29,1998, on the subject draft audit report. The draft audit report recommends that DoD retain acquisition authority for nontactical construction, material handling, and related equipment requirements for the 13 Federal supply classes included in the General Services Administration proposal. This office concurs with the recommendation, and will not implement the GSA proposal. Should further information be required, Tom Carter may be reached at (703) 697-5216.

Roger W. Kallock
Deputy Under Secretary
of Defense (Logistics)

Defense Logistics Agency Comments

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
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24 AUG 1998

DDAI

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on Dual management of Commercially Available Items - Construction, Material handling and Related Equipment, 6LD-5044.03

Enclosed are our comments to your request of 29 June 1998. If you have any questions, please notify Mimi Schirmacher 767-6263.

Encl

JEFFREY GOLDSTEIN
Chief (Acting), Internal Review

cc:
DLSC-BO
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DSCP

24 AUG 1998

SUBJECT: Dual Management of Commercially Available Items - Construction, Material Handling, and Related Equipment, 6LD-5044.03

FINDING: Construction, Material Handling, and Related Equipment. The DLA program for procuring nontactical construction, material handling, and related equipment was more beneficial than GSA programs. The DLA program was more beneficial because it provided added value (cost economies and technical expertise) to DoD customers. As a result, if acquisition authority for specified nontactical equipment were transferred from DoD to GSA, DoD customers would lose contracting and technical services that were readily available and generally more economical. Additionally, potential volume discounts would be lost to DoD customers because requirements for tactical and nontactical equipment would not be consolidated.

DLA COMMENTS: Concur. See comments to Recommendation.

RECOMMENDATION: Recommend the Under Secretary of Defense for Acquisition and Technology retain acquisition authority for nontactical construction, material handling, and related equipment requirements for the 13 Federal supply classes included in the General Services Administration proposal.

DLA COMMENTS: Concur. Adherent to the BRAC 95 decision, DLA is shifting inventory management responsibilities along weapon systems and troop/general support commodity lines. As such, the construction commodities formerly managed by Defense Supply Center Columbus (DSCC) were transferred to Defense Industrial Supply Center (DISC) in late 1996 and early 1997. While there may have been a temporary degradation of technical expertise, as was noted in the "Industry Perspective of Acquisition Authority" section of the report, the team at DISC has since rallied to achieve a full understanding of the commodities and the Heavy Equipment Procurement Program. We are certain that this, and future, support initiatives at DISC will continue to provide the optimum level of support to the military customers.

DISPOSITION: Considered complete

ACTION OFFICER: Lora Conrad, DLSC-LS, 767-1521
REVIEW: D. P. Keller, RADM, SC, USN, Commander, DLSC
COORDINATION: Sharon Entsminger, DDAI, 767-6267

DLA APPROVAL:

E.R. CHAMBERLIN
Rear Admiral, SC, USN
Deputy Director

Audit Team Members

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

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