

**Audit**



**Report**

OFFICE OF THE INSPECTOR GENERAL

**PURCHASES OF CONSUMABLE ITEMS TRANSFERRED  
TO THE DEFENSE LOGISTICS AGENCY**

Report No. 95-165

April 4, 1995

**Department of Defense**

### **Additional Copies**

To obtain additional copies of this report, contact the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932.

### **Suggestions for Future Audits**

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch, Audit Planning and Technical Support Directorate, at (703) 604-8939 (DSN 664-8939) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

Inspector General, Department of Defense  
OAIG-AUD (ATTN: APTS Audit Suggestions)  
400 Army Navy Drive (Room 801)  
Arlington, Virginia 22202-2884

### **DoD Hotline**

To report fraud, waste, or abuse, call the DoD Hotline at (800) 424-9098 or write to the DoD Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of writers and callers is fully protected.

### **Acronyms**

DCSC	Defense Construction Supply Center
DESC	Defense Electronics Supply Center
DLA	Defense Logistics Agency
ICP	Inventory Control Point
NSN	National Stock Number



**INSPECTOR GENERAL**  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-2884



April 4, 1995

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE FOR  
LOGISTICS  
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL  
MANAGEMENT)  
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 Purchases of Consumable Items Transferred to the  
Defense Logistics Agency (Report No. 95-165)

We are providing this report for your review and comments. It discusses purchases of consumable items that the Military Departments initiated before transferring management of the items to the Defense Logistics Agency. Comments on a draft of this report from the Army, the Navy, the Air Force, and the Defense Logistics Agency were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations and potential monetary benefits be resolved promptly. Therefore, we request the Defense Logistics Agency to comment on one unresolved recommendation and monetary benefits and the Military Departments to comment on monetary benefits by June 5, 1995.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. James Kornides, Audit Program Director, or Mr. Joel Chaney, Audit Project Manager, in our Columbus Office at (614) 337-8009. Copies of the final report will be distributed to the organizations in Appendix D. The audit team members are listed on the inside back cover.

Robert J. Lieberman  
Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. 95-165  
(Project No. 4LE-0035.01)

April 4, 1995

### PURCHASES OF CONSUMABLE ITEMS TRANSFERRED TO THE DEFENSE LOGISTICS AGENCY

#### EXECUTIVE SUMMARY

**Introduction.** Defense Management Report Decision 926, "Consolidation of Inventory Control Points," included a recommendation to transfer all consumable items managed by the Military Departments to the Defense Logistics Agency (DLA). The DoD program to transfer the consumable items was to be completed in two phases. Phase I of the transfer program was nearing completion in May 1994 when our audit began. In July 1994, DoD approved Phase II of the consumable item transfer program, which involves transfer of more costly and complex consumable items. Phase II of the transfer is to be completed by the end of FY 1997.

**Objectives.** The objectives of the audit were to determine, for those items which management transferred to DLA, whether purchases by the Military Departments were properly recorded in the DLA requirements determination system, and whether requirements warranted continuation of the purchases. We also reviewed the adequacy of management's implementation of the DoD Internal Management Control Program and applicable internal controls.

**Audit Results.** Purchases of consumable items were not properly recorded in the DLA requirements determination system after management of the items was transferred to DLA, and requirements for the purchase of consumable items were not being adequately reevaluated before award of contracts. Inventory control points of the Military Departments and DLA were purchasing materiel valued at \$9.2 million for the 37 items we reviewed. Approximately \$2.7 million of the inventory purchases were excess to current requirements. Further, unless automated system improvements and management controls are implemented, the excessive purchases of inventory will continue during Phase II of the consumable item transfer program.

**Potential Benefits of Audit.** Benefits that may accrue during Phase II of the consumable item transfer program could not be quantified because accurate measures of those benefits were not available. During the course of the audit, the inventory control points reduced or canceled excessive purchases valued at \$1.3 million (see Appendix B).

**Summary of Recommendations.** We recommend that the Military Departments and DLA implement specific internal control procedures to ensure that the Military Department purchase requests are properly recorded in the DLA requirements determination system and that the Military Departments discontinue management of the items when item management is transferred to DLA. Additionally, we recommend that the Military Departments and DLA implement procedures to reevaluate requirements for Military Department purchases for more than \$25,000 before awarding contracts. We also recommend that procedures be developed and implemented for DLA inventory managers to obtain current and accurate requirements information from the Military Department inventory control points after management of items transfers to DLA.

**Management Comments.** The Army, the Navy, and the Air Force concurred with the finding and recommendations and provided information on actions taken and planned. DLA concurred with the finding and four recommendations. DLA nonconcurred with the recommendation to revise DLA policy that limited the reevaluation of requirements for Military Department purchase requests. The Military Departments and DLA did not comment on the potential monetary benefits. In addition, the Navy and DLA indicated that they had completed the programming and were pursuing implementation of Approved MILSTRAP Change Letter 49A between the Navy and DLA. See Part II for a discussion of managements' comments and Part IV for the complete texts of the comments.

**Audit Response.** We request that DLA provide additional comments on revising its policy for reevaluation of requirements. We also request that the Military Departments and DLA provide comments on the potential monetary benefits. We further request that the Navy and DLA provide information on the test schedule and the status of their actions to implement Approved Milstrap Change Letter 49A. All comments are requested by June 5, 1995.

# Table of Contents

---

<b>Executive Summary</b>	i
<b>Part I - Introduction</b>	1
Background	2
Objectives	2
Scope and Methodology	2
Internal Controls	3
Related Audits and Other Reviews	4
<b>Part II - Finding and Recommendations</b>	5
Purchases of Consumable Items Transferred to DLA	6
<b>Part III - Additional Information</b>	17
Appendix A. Excessive Purchases	18
Appendix B. Summary of Potential Benefits Resulting From Audit	20
Appendix C. Organizations Visited or Contacted	21
Appendix D. Report Distribution	23
<b>Part IV - Management Comments</b>	25
Department of the Army Comments	26
Department of the Navy Comments	31
Department of the Air Force Comments	38
Defense Logistics Agency Comments	41

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

## **Part I - Introduction**

## Background

Consumable items consist of components and piece parts that are not repaired at the end of their useful lives. Defense Management Report Decision 926, "Consolidation of Inventory Control Points," November 1989, included a recommendation to transfer all consumable items managed by the Military Departments to the Defense Logistics Agency (DLA). The consumable item transfer program was to be completed in two phases. Phase I, which involved the transfer of about 756,000 consumable items, was nearing completion when our audit began in May 1994. Planning for Phase II of the transfer began in July 1994. Phase II will involve the transfer of more complex items, such as design critical items. During Phase II, the Military Departments will transfer approximately 171,000 additional items to DLA. This phase will be completed by the end of FY 1997. Under current planning, the Military Departments will retain management of the most critical consumable items, such as design unstable items, after Phase II is completed.

DoD Manual 4140.26-M, "DoD Manual for Logistics Reassignments," January 1992, requires the Military Departments to have sufficient stock on hand or on order at the time of transfer to ensure uninterrupted supply support. In May 1994, the Military Departments were purchasing \$15.9 million of inventory (each procurement valued at or more than \$50,000) to ensure sufficient stock was on hand for 100 items that they had transferred to DLA.

## Objectives

The objectives of the audit were to determine for items transferred to DLA during Phase I whether the Military Departments' purchases of consumable items were properly recorded in the DLA requirements determination system, and whether requirements warranted continuation of the purchases. We also evaluated the adequacy of the managements' implementation of the DoD Internal Management Control Program and applicable internal controls.

## Scope and Methodology

We evaluated requirements data for 37 consumable items (judgmentally selected from a population of 100 consumable items that had been transferred to DLA by the Military Departments) with ongoing procurement actions, as of May 1994, valued at or more than \$50,000. The Military Departments and DLA were purchasing materiel valued at \$6.8 million for the 37 items. The four DLA inventory control points (ICPs) assuming management of the sampled items

were the Defense Construction Supply Center (DCSC), the Defense Electronics Supply Center (DESC), the Defense General Supply Center, and the Defense Industrial Supply Center. Our evaluation included the review of records and correspondence covering the period from May 1990 through October 1994.

Except to verify that the Military Department purchases were properly recorded in the DLA requirements determination system, we made no independent assessment of the reliability of the computer-processed data used in the DLA requirements determination system. We did not use statistical sampling procedures to conduct this audit.

This economy and efficiency audit was conducted from August through November 1994, in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as considered necessary. We visited or contacted the organizations listed in Appendix C.

## Internal Controls

**Controls Assessed.** We evaluated internal controls procedures that the Military Departments and DLA used to ensure that purchases of inventory by the Military Departments were reported to DLA and properly recorded in the DLA requirements determination system when management of the items transferred to DLA. We also evaluated the Military Departments' and DLA policy and procedures for reevaluating requirements before contract award. In addition, we reviewed the portion of the DoD Internal Management Control Program at the Military Department and DLA ICPs applicable to the audit objectives.

**Internal Control Weaknesses.** The audit identified material internal control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Internal controls did not ensure that the Military Department purchase requests were reported to DLA and properly recorded in the DLA requirements determination system and that the Military Departments and DLA reduced or canceled excessive purchases before contracts were awarded. The Military Departments and DLA did not identify those internal control deficiencies in their FY 1993 Internal Management Control Program Reports. Although the Military Departments and DLA have recognized supply operations and, more specifically, requirements determination as a high risk area, the responsibilities for solicitation and award of the contract and for requirements determination were fragmented between the Military Departments and DLA. The recommendations, if implemented, will correct the material internal control weakness we identified. The ICPs of the Military Departments and DLA reduced or canceled purchases, valued at about \$1.3 million, related to our review (see Appendix B). We could not quantify the potential monetary benefits to be realized during Phase II of the Consumable Item Transfer Program from implementing the recommendations.

## Introduction

---

A copy of this report will be provided to the senior officials responsible for internal controls within the Office of the Secretary of Defense, the Military Departments, and DLA.

## Related Audits and Other Reviews

No prior audits have been performed relating specifically to the procurement of consumable items transferred to DLA. However, the Inspector General, DoD, recently completed an audit of other aspects of the program to transfer management of consumable items to DLA.

Inspector General, DoD, Report No. 94-071, "Report on the Transfer of the Management of Consumable Items to the Defense Logistics Agency," March 31, 1994, concluded that, in general, the consumable item transfer program was working effectively. However, the report stated that the Military Department ICPs did not always transfer essential logistics management data promptly, and that the receiving DLA ICPs did not always use the data effectively. That affected the ability of DLA to support military customers. The audit reported that DLA wholesale stockage levels were based primarily on past demand history, and that the DLA requirements determination system did not routinely accommodate program factors and nondemand based requirements that the Military Departments used to adjust forecasts. The report recommended that the Military Departments and DLA resolve the issues delaying the timely transfer and support of program requirements. DLA concurred with the finding and indicated that a system change request was in process to capture program data requirements. In the interim, DLA said it would determine nonautomated ways, if necessary, to effectively address readiness concerns.

## **Part II - Finding and Recommendations**

---

## **Purchases of Consumable Items Transferred to DLA**

Purchases of consumable items were not properly recorded in the DLA requirements determination system after management of the items was transferred to DLA from the Military Departments. Additionally, requirements for purchases of consumable items were not being adequately reviewed before award of contracts. These conditions occurred because the Military Departments and DLA:

- o did not have effective procedures to reconcile purchase requests and requirements after item management transferred to DLA,

- o had not established internal control procedures to ensure that the Military Departments discontinued management of the items when management was transferred to DLA, and

- o had not established procedures to implement DoD policy for reevaluating requirements before awarding contracts.

As a result, the Military Departments and DLA initiated purchases for \$2.7 million of inventory in excess of current requirements. Additionally, DLA was not purchasing enough inventory for one consumable item. Further, unless reconciliation procedures and management controls are implemented, the excessive purchases of inventory will continue during Phase II of the consumable item transfer program.

## **Evaluation of Military Department Purchases of Consumable Items Transferred to DLA**

We judgmentally reviewed purchases of 37 consumable items that the Military Departments transferred to DLA. The Military Departments and DLA were procuring about \$2.7 million of inventory in excess of current requirements for 27 of the 37 items. We identified a purchase as excessive to current requirements when assets on hand and due-in from the purchase exceeded the items requirements objective by more than 6 months of forecast demand.

## Reconciliation of Military Department Purchases

For 13 of the 37 consumable items, purchase requests initiated by the Military Departments before management was transferred to DLA were not properly recorded in the DLA requirements determination system. The Military Departments and DLA were purchasing \$1 million of inventory in excess of current requirements for the 13 consumable items, because reconciliations of ongoing purchases and requirements between the Military Departments and DLA were not performed. The reconciliation of records would have detected that the Military Department purchases were not properly recorded in the DLA requirements determination system. For one other item, DLA could not adequately support military customers because the Army canceled its purchase after management transferred to DLA.

**Procedures for Recording and Reconciling Assets Due-in From Procurement.** DoD Manual 4140.26-M provided procedures for losing inventory managers (in this case the Military Department ICPs) to transfer logistics management data (including assets due-in from procurement) to the gaining inventory manager (in this case DLA). Additionally, transactions were to be reported to the gaining inventory manager when the quantity being purchased by the losing inventory manager is amended and when contracts for the purchase are awarded. The manual also provides procedures for the gaining and losing inventory managers to use in reconciling purchase requests after management of the items transferred. However, those procedures were based on a nonautomated review and reconciliation process. DoD approved a change to DoD Manual 4000.25-2-M, "Military Standard Transaction Reporting and Accounting Procedures," in May 1989. That change (Approved Milstrap Change Letter No. 49A) established an automated reconciliation process. However, the change was not implemented. The required automated system change is being delayed until the DoD Materiel Management Standard System, being developed as part of the DoD Corporate Information Management initiative, is implemented.

**DoD Waiver of Reconciliation Process.** In October 1990, DoD waived the requirement for the Military Departments and DLA to reconcile purchase requests during Phase I of the consumable item transfer program. The waiver was granted because the number of items being transferred during Phase I made the nonautomated reconciliation process unworkable.

**Purchases Not Properly Recorded in DLA Requirements Determination System.** Military Department purchase requests, valued at \$1 million, for 8 of the 13 items were not reported to DLA and properly recorded in the DLA requirements determination system at the time item management transferred to

## Purchases of Consumable Items Transferred to DLA

---

DLA. Subsequently, DLA initiated inventory purchases for the items, valued at about \$338,000. The combined purchases of the eight items by the Military Departments and DLA exceeded current requirements by about \$618,000.

For example, on October 31, 1992, the Air Force Warner Robins Air Logistics Center initiated a purchase request for 35 selectors, national stock number (NSN) 6625-00-369-7286, valued at \$54,056. The purchase was not reported to and recorded in the DESC requirements determination system when management of the selector was transferred to DESC in January 1993. In March 1993, the DESC inventory manager initiated a purchase request for 75 selectors. A contract for 75 selectors, valued at \$67,275, was awarded in July 1993. The Air Force purchase of 35 additional selectors was not recorded in the DESC records until June 1, 1994, when the Air Force awarded the contract. If the Warner Robins Air Logistics Center purchase request had been reported and properly recorded in January 1993, the DESC requirements determination system would not have recommended that the DESC inventory manager make the purchase.

Information to determine the underlying causes for all the purchases that were not properly recorded in the DLA requirements determination system was not available, because too much time had elapsed since the transfer of item management to DLA. However, working with Air Force Materiel Command personnel, we were able to identify the apparent cause for three of the eight items. For those items, Air Force inventory managers initiated the purchase requests but did not enter data in a specific field of the automated record. The Air Force used that field to identify "due-in" records that were reported to DLA. Air Force Materiel Command personnel indicated they were researching the problem and planned to take appropriate action.

**Purchases Erroneously Deleted from the DLA Requirements Determination System.** Military Department purchase requests, valued at about \$505,000, for 5 of the 13 items were erroneously deleted from the DLA requirements determination system after item management transferred to DLA. Purchases for the five items were being processed by the Military Departments. The DLA inventory managers, however, were not aware of the ongoing actions and initiated additional purchases of the five items, valued at about \$283,000. The combined purchases of the five items by the Military Departments and DLA exceeded current requirements by about \$382,000.

Again, information to determine why the purchases were deleted from the DLA requirements determination system was not always available to determine the underlying cause for all the items. We were able to determine that purchases for two items were deleted when budget constraints prompted one of the inventory management directorates at the Air Force San Antonio Air Logistics Center to reduce purchase requests to 65 percent of the original purchase

## Purchases of Consumable Items Transferred to DLA

---

quantity. Instead of reducing the purchase request quantity, the air logistics center processed transactions that deleted the purchase requests from the DLA requirements determination system. The reductions were not coordinated with the DLA ICPs.

For example, the San Antonio Air Logistics Center was procuring 962 bearing sleeves, NSN 3120-00-569-5016, valued at \$65,400, when management of the bearing sleeve was transferred to the Defense Industrial Supply Center, in September 1993. To record the mandated reduction of the original purchase request quantity, the air logistics center reversed the original purchase record. Subsequently, the air logistics center reinput the purchase for the reduced quantity, of 625 bearing sleeves. However, 126 days elapsed between the two actions. In the interim, the Defense Industrial Supply Center requirements determination system processed a purchase request for 199 bearing sleeves. When the Air Force purchase request was reinput, the Defense Industrial Supply Center inventory manager requested that the Air Force purchase request be canceled and informed the Air Force managers that requirements would be reviewed and the Defense Industrial Supply Center's purchase quantity adjusted as appropriate.

**Purchase Canceled by Military Department Inventory Manager.** For one item, a gearcase motor, the Military Department ICP inappropriately canceled a purchase request after management of the item had transferred to DCSC. The DCSC inventory manager's ability to adequately support military customer requisitions was significantly affected by cancellation of the purchase.

Before the management transfer, the Army Communications-Electronics Command initiated a purchase for 39 gearcase motors, NSN 3010-00-402-8409, valued at \$94,520. In February 1994, the Communication-Electronics Command inventory manager erroneously computed requirements and directed the buyer to reduce the purchase to 15 gearcase motors. In May 1994, the inventory manager directed that the remainder of the purchase be canceled. The item manager indicated that demands for the motor had declined and the purchase was not needed. However, the inventory manager's requirements computation was inaccurate. The management of the motor transferred to DCSC in November 1993. Accordingly, the Communications-Electronics Command inventory manager did not have current and accurate requirements data and should not have directed that the purchase be canceled. The cancellation of the purchase affected the timeliness and adequacy of the DCSC support of high priority backorders. DCSC initiated a purchase in May 1994 for the gearcase motors; however, the solicitation was delayed because it did not have a complete technical data package. The Communications-Electronics Command agreed to reinstate a purchase for 34 gearcase motors, valued at \$95,196, to support the current DCSC requirement.

### Discontinuation of Military Department Item Management

Military Department purchases for 3 of the 37 items, valued at about \$421,000, were not reported to and properly recorded in the DLA requirements determination system, because the Army and Navy did not discontinue management of the items when management was transferred to DLA. Since the purchases were not reported to DLA, the DLA inventory managers were not aware of the Military Department procurements. The DLA inventory managers initiated additional purchases of the items, valued at about \$451,000. The three items were being managed by both the losing Military Department ICP and the gaining DLA ICP, and the combined purchases of the Military Departments and DLA exceed current requirements for the items by about \$484,000. The Military Departments could give no explanation for continued management of items following the transfer to DLA. However, no control existed that would prevent or detect this condition.

An internal control mechanism, such as the periodic reconciliation of consumable item management coding between the Military Department ICPs and the catalog data maintained by the DLA, Defense Logistics Service Center, would have indicated that both a Military Department ICP and a DLA ICP were managing the same item.

For example, in August 1993, DCSC assumed management of a rotor blade tip cap assembly, NSN 1615-01-130-1469, used on the Army's UH-60 Blackhawk Helicopter. However, the Army Aviation and Troop Command did not discontinue management of the tip cap assembly. The Army Logistics Support Activity did not inform the Aviation and Troop Command item manager that management of the tip cap assembly had been transferred to DCSC. The Army's failure to prevent or detect the condition resulted in the concurrent management of the item by the Aviation and Troop Command and DCSC. As a result, the Aviation and Troop Command and DCSC were purchasing 2,809 tip cap assemblies, of which 1,202, valued at \$390,700, exceeded current requirements. DCSC suspended processing a purchase request for 438 tip cap assemblies pending the consolidation and review of the Aviation and Troop Command and DCSC requirements information.

### Reevaluation of Requirements

The Military Departments and DLA were not adequately reevaluating requirements for the Military Department purchase requests before award of contracts. The ICPs were purchasing \$1.2 million in inventory exceeding current requirements for 11 of the 37 consumable items that we reviewed. The excessive purchases of items transferred to DLA occurred because the Military Departments and DLA had not established procedures implementing the DoD policy to reevaluate requirements before contract award and because DLA policy discouraged reduction of the purchases. Additionally, the Military Departments and DLA had not established effective procedures for DLA

inventory managers to obtain current and accurate requirements information from the Military Department ICPs after management transferred to DLA.

**DoD Policy for the Reevaluation of Requirements.** Management controls over purchase decisions are contained in DoD Regulation 4140.1-R, "DoD Materiel Management Regulation," January 1993. The regulation requires that ICPs ensure management emphasis on prompt reduction or cancellation of purchase requests in response to reductions in requirements during all phases of the solicitation and contract award processes. Particular emphasis is required on reducing purchases before contract award to avoid potential liability for contract termination costs. The regulation requires that ICPs establish reasonable thresholds for this review to ensure the graduated application of management effort to verify requirements based on the dollar value of the requirement, and that particular emphasis be given to validating requirements data used as the basis for purchases exceeding \$25,000.

**Reevaluation by the Military Departments.** For 1 of the 11 consumable items that we reviewed, Military Department procurement personnel awarded a contract without contacting the DESC inventory manager to reevaluate requirements and confirm that requirements warranted continuation of the purchase. The Navy Ships Parts Control Center initiated a purchase request for 34 polarized radomes, NSN 5985-01-157-5181, valued at \$137,700, before transferring management of the radome to DESC in March 1994. The Ships Parts Control Center buyer did not contact the DESC inventory manager before the contract was awarded on May 28, 1994. The DESC inventory manager had reviewed requirements for the radome in April 1994 and sent a notice requesting the buyer to cancel the purchase on May 10, 1994 (18 days before the contract was awarded). However, the buyer did not receive that notice. If the buyer had contacted the item manager, the purchase exceeding current requirements would have been canceled.

Additionally, the Military Departments awarded contracts for five items, previously discussed, for which purchases were not properly recorded in the DLA requirements determination system. Reevaluation of requirements before contract awards would have disclosed that the purchases were not properly recorded in the DLA requirements determination system and should have resulted in a reduction or cancellation of the purchases.

**Reevaluation by DLA.** For 10 of the 11 consumable items that we reviewed, the DLA inventory managers had not reevaluated requirements for the items before contract award even though the requirements determination system indicated the purchases were excessive. The Military Departments and DLA were purchasing \$1.1 million of inventory exceeding current requirements. We attributed the lack of action to DLA policy, which discouraged reduction or cancellation of the Military Department purchases, despite the DoD policy concerning requirements reevaluation.

DLA guidance has discouraged the inventory managers from taking action to either reduce or cancel the Military Department purchases or to reevaluate requirements for those purchases before contract award. For example, in an April 7, 1993, memorandum, the DLA Consumable Item Management Office

## Purchases of Consumable Items Transferred to DLA

---

specified that no action is to be taken on Military Department purchases unless the potential savings exceed \$50,000. Additionally, in an April 20, 1994, policy memorandum, the DLA Consumable Item Management Office further discouraged action by the item managers to reevaluate requirements. The memorandum states:

DLA managers can reconcile PRs [purchase requests] and contracts with the LIM [losing item manager] but should be cautioned against requesting cancellation/termination or accepting requested cancellation/termination of any due-in. Managers need to be especially cautious since the transfer of non-demand driven requirements and program data requirements is not automated at this time.

The DLA guidance is contrary to the intent of DoD policy. Additionally, the DLA guidance was not consistent with other DLA guidance for reducing unnecessary purchases. For example, Defense Construction Supply Center Staff Memorandum 4140-004 specified that action be taken to reduce an overprocured quantity (other than consumable item transfer purchase by the Military Departments) whenever the Termination Decision Model forecast a positive savings.

**DLA Procedures for Verification of Requirements Data.** In addition to the conflicting guidance for reevaluating requirements discussed above, the DLA inventory managers' ability to reevaluate requirements was limited because the Military Departments and DLA had not established procedures for the DLA inventory managers to obtain current and accurate requirements information from the Military Departments.

For the 10 items discussed above, the DLA inventory managers had not obtained current and accurate requirements information from the Military Departments. The DLA inventory managers' ability to reevaluate requirements for the items and to curtail excessive purchases was dependent on obtaining current and accurate requirements information from the Military Departments. The requirements information was needed to verify significant changes in the requirements forecasts.

The Military Departments and DLA had not established effective procedures for the DLA inventory managers to obtain and verify requirements data from the Military Department ICPs after management of an item transferred to DLA. The DLA Consumable Item Management Office developed a form letter for the DLA inventory managers to verify requirements and obtain information from the losing inventory managers. However, in most cases, the losing inventory managers were not able to provide sufficient information for the DLA inventory managers to evaluate changes in requirements.

Further, a recent change to DoD 4140.26-M will reduce the Military Department inventory managers' ability to verify requirements. The change requires the losing inventory manager to transfer the item manager folder to the gaining inventory manager. Because those folders should contain the losing

inventory manager's justification for the purchase, the losing inventory manager will not have information to evaluate any subsequent change in requirements.

We obtained information from equipment specialists and managers of the weapon systems or the next higher assemblies to verify requirements. The information they provided was typically more accurate and extensive than information the losing item managers could provide. When the Military Departments managed the consumable items, the inventory managers relied on the equipment specialists and weapon system managers to provide information critical to their management decisions. Those individuals were able to provide information that would explain significant changes in demand, such as:

- o equipment modification or phaseout plans changed after item management transferred to DLA,

- o reduction of the maintenance program for the next higher assembly, and

- o reduction of nondemand based requirements because the plans for programmed depot overhaul of an end item were revised.

For example, the San Antonio Air Logistics Center initiated purchases for flap track assemblies, NSN 1560-01-095-2318 and NSN 1560-01-095-2319, before transferring management of the flap track assemblies to the Defense General Supply Center in March 1993. The purchases of the 2 flap track assemblies (9 assemblies, valued at \$114,239, and 15 assemblies, valued at \$190,399, respectively) were based on nondemand based "quantitative" requirements identified in a June 1991 letter from the C-5 aircraft engineers. The engineers provided requirements estimates for support of programmed depot maintenance for the C-5 aircraft during FYs 1992 through 1997. The quantitative requirements estimates for FYs 1992 through 1994 had not materialized. Accordingly, we requested that engineers from the San Antonio Air Logistics Center provide updated requirements. We recomputed requirements for the 2 flap track assemblies using the revised requirements and concluded that the purchases should be reduced by 8 assemblies, valued at \$101,546, and 10 assemblies, valued at \$126,933, respectively.

### **Actions Taken by Management**

During the audit, ICPs of the Military Departments and DLA reduced or canceled purchases, valued at \$989,946, for 10 of the items that we identified as excessive. Additionally, the Defense General Supply Center requested contract terminations, valued at \$338,771, for five items that were not in the audit sample. During our review of flap track assemblies, we identified excessive purchases for five additional flap track assemblies that were managed by the Defense General Supply Center. As a result, the Defense General Supply Center initiated action to terminate the contracts associated with the following NSNs:

## Purchases of Consumable Items Transferred to DLA

---

<u>NSN</u>	<u>Contract</u>	<u>Total Value Of Termination</u>
1560-01-094-3842	F0960390G0059TYAN	\$ 60,496
1560-01-094-3843	F0960390G0059TYDT	28,518
1560-01-095-2316	F0960390G0059TYAY	91,640
1560-01-094-3840	F0960390G0059TYAD	67,357
1560-01-093-9786	F0960390G0059TY3Z	<u>90,760</u>
<b>Total</b>		<b>\$338,771</b>

## Conclusions

The Military Departments and DLA did not have effective controls to ensure that the Military Department purchase requests were properly recorded in the DLA requirements determination system. The reconciliation of purchases by the Military Departments and DLA would provide the internal control procedure needed to detect discrepancies, such as unrecorded purchases. Additionally, followup research of the discrepancy would provide a method for identifying the underlying procedural or systemic deficiency that caused the discrepancy. Further, the Military Departments and DLA did not have controls to ensure that requirements justifying those purchases were reevaluated after management was transferred to DLA and before contract award. The DLA management concern about maintaining supply performance for items transferred from the Services is commendable; however, a better balance is needed between timely procurement and requirements reevaluation. Implementing the DoD policy for reevaluating requirements before contract award and establishing procedures for DLA inventory managers to obtain current and accurate requirements information from the Military Department ICP would improve the DLA requirements forecasts and reduce the excessive purchases. Unless these issues are addressed, the Military Departments and DLA will continue to purchase inventory exceeding current requirements during Phase II of the consumable item transfer program.

## Recommendations, Management Comments, and Audit Response

1. We recommend that, for items transferred to the Defense Logistics Agency as part of the consumable item transfer program, the Commander, Army Materiel Command; the Commander, Naval Supply System Command; the Commander, Air Force Materiel Command; and the Director, Defense Logistics Agency:

## Purchases of Consumable Items Transferred to DLA

---

a. Implement procedures for periodic reconciliation of ongoing purchases in excess of \$25,000 to validate that the Military Departments' purchase requests are properly recorded in the Defense Logistics Agency requirements determination system. Additionally, when the reconciliation identifies unrecorded or inaccurate purchases, research should be performed to identify procedural or systemic deficiencies causing the unrecorded or inaccurate purchases.

b. Implement procedures for periodic reconciliation of catalog management data between the Military Departments and the Defense Logistics Agency, Defense Logistics Service Center, to ensure the Military Departments discontinue management of the transferred consumable items.

c. Implement procedures to reevaluate inventory requirements before awarding contracts for purchases in excess of \$25,000.

d. Develop and implement procedures for Defense Logistics Agency inventory managers to obtain requirements information from equipment specialists and next higher assembly or weapon system managers at the Military Department Inventory Control Points to verify that the Defense Logistics Agency requirements forecasts are accurate.

**Management Comments.** The Army, the Navy, the Air Force, and the Defense Logistics Agency concurred with the recommendations and provided the planned actions with expected completion dates or the completed actions. In addition, the Navy and DLA indicated that they had completed programming and were pursuing implementation of Approved MILSTRAP Change Letter 49A between the Navy and DLA. The Navy indicated that the Navy and DLA will develop a test schedule by April 1995 that will provide for implementation of Approved MILSTRAP Change Letter 49A before Phase II begins. The complete texts of management comments are in Part IV.

**Audit Response.** The comments from the Army, the Navy, the Air Force, and DLA were responsive. The implementation of Approved MILSTRAP Change Letter 49A by the Navy and DLA will provide the capability to mechanically reconcile all procurement information. As a result, it should significantly improve the accuracy of the DLA records. Accordingly, we request that the Navy and DLA provide information on the test schedule and the status of their actions to implement Approved Milstrap Change Letter 49A.

2. We recommend that the Director, Defense Logistics Agency, revise policy issued by the Defense Logistics Agency, Consumable Item Management Office, that limited the reevaluation of requirements for Military Department purchase requests.

**Management Comments.** The Director, DLA, nonconcurred with the recommendation. The Director stated that DLA policy for Phase II of the Consumable Item Transfer Program will continue to be that no action will be taken on Service-initiated procurements unless the potential savings exceed \$50,000. The Director indicated that the \$50,000 threshold was determined to

## **Purchases of Consumable Items Transferred to DLA**

---

provide the most effective blend of manual work load required by the losing Military Department ICP and resulting dollar savings realized.

**Audit Response.** The recommendation was intended to resolve two problems. First, DLA policy does not comply with the intent of DoD Regulation 4140.1-R, "DoD Materiel Management Regulation," January 1993, which requires that increased management emphasis be given to reevaluating requirements data for purchases exceeding \$25,000. We believe that DLA should either revise its policy or obtain a waiver of the DoD policy. Second, either the inconsistencies in DLA policy or the miscommunication of the policy for validating requirements resulted in the item managers' noncompliance with the DLA Consumable Item Management Office guidance. The guidance specified that action would be taken when potential savings exceeded \$50,000. For 8 of the 10 excessive items cited in Appendix A, the DLA item manager had not taken action either to reduce the purchase or to validate the requirement even though the purchase value for each purchase exceeded \$50,000. We request that DLA provide additional comments to clarify its position in response to the recommendation.

**Management Comments on the Potential Benefits of Audit.** The Military Departments and DLA did not comment on the potential benefits of audit.

**Audit Response.** As discussed in Appendix B, we could not quantify monetary benefits because the data needed to accurately measure the benefits were not available. In addition, management decisions related to the scope and timing of Phase II of the Consumable Item Transfer had not been made. However, the audit resulted in either the reduction or the cancellation of purchases and termination of contracts valued at \$1.3 million. Accordingly, we request that the Military Departments and DLA provide comments in response to this final report.

## **Part III - Additional Information**

## Appendix A. Excessive Purchases

DLA ICP	Military ICP	NSN	Excessive Purchases		Purchase Reductions Resulting from Audit	
			Quantity	Value	Quantity	Value
<u>Military Department Purchases Not Recorded</u>						
DESC <sup>1</sup>	SPCC <sup>2</sup>	5915009998871	89	\$ 85,335	86	\$ 83,257
DESC	WRALC <sup>3</sup>	6625003697286	47	42,159	-	-
DGSC <sup>4</sup>	ATCOM <sup>5</sup>	1560010829202	24	82,920	-	-
DGSC	ASO <sup>6</sup>	1560012965755	22	95,437	13	56,430
DGSC	ASO	6150009085089	187	107,525	-	-
DISC <sup>7</sup>	ASO	5315012114757	225	79,875	177	62,835
DISC	SAALC <sup>8</sup>	2915008236627	680	83,064	-	-
DISC	WRALC	3110003053566	125	41,986	-	-
<u>Military Department Purchases Erroneously Deleted</u>						
DCSC <sup>9</sup>	SPCC	4320151004675	17	57,713	-	-
DESC	OCALC <sup>10</sup>	1660007775705	336	90,726	-	-
DGSC	ATCOM	3940011277500	34	185,810	35	191,275
DISC	SAALC	2915010598967	47	21,355	-	-
DISC	SAALC	3120005695016	436	23,618	436	23,618
<u>Continued Management by Military Departments</u>						
DCSC	ATCOM	1615011301469	1,202	390,794	-	-
DESC	ASO	5945013091850	151	72,748	121	56,870
DESC	ASO	5945013084230	14	20,580	14	20,580
<u>Noncompliance with DoD Policy to Reevaluate Requirements Before Contract Award</u>						
DESC	SPCC	5985011575181	21	\$ 85,050	-	-
DCSC	ACALA <sup>11</sup>	1005012114160	105	58,944	105	\$ 58,944
DGSC	ACALA	6695994373058	82	52,870	-	-
DGSC	ATCOM	1680012520374	44	182,269	-	-
DGSC	ATCOM	6115004078322	47	158,484 <sup>12</sup>	-	-
DGSC	SAALC	1560010952318	8	101,546	-	-
DGSC	SAALC	1560010952319	10	126,933	-	-
DISC	SAALC	2840010878954	3,000	170,250	3,000	170,250
DISC	SAALC	2835010447729	92	217,981	92	217,981
DISC	SAALC	5340013241112	94	47,905	94	47,906
DISC	SAALC	2835007889181	969	41,105 <sup>12</sup>	-	-
<b>Total</b>			<b>\$2,724,982</b>		<b>\$989,946</b>	

See footnotes at end of table.

- 1 Defense Electronics Supply Center.
- 2 Ships Parts Control Center.
- 3 Warner Robins Air Logistics Center.
- 4 Defense General Supply Center.
- 5 Aviation and Troop Support Command.
- 6 Aviation Supply Office.
- 7 Defense Industrial Supply Center.
- 8 San Antonio Air Logistics Center.
- 9 Defense Construction Supply Center.
- 10 Oklahoma City Air Logistics Center.
- 11 Armament and Chemical Acquisition and Logistics Activity.
- 12 During the audit, the DLA inventory manager authorized the Military Department to cancel its purchase request.

---

## Appendix B. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Type of Benefit
1.a.	Economy and Efficiency and Internal Controls. Periodic reconciliation of purchase requests would identify unrecorded purchases.	Funds Put to Better Use. Monetary benefits could not be quantified.*
1.b.	Internal Controls. Implementing controls to ensure the Military Departments discontinue management of items when management is transferred to DLA will eliminate dual management and related excessive purchases.	Funds Put to Better Use. Monetary benefits could not be quantified.*
1.c.	Internal Controls. Implementing DoD Policy to reevaluate requirements before contract award will identify unneeded purchases.	Funds Put to Better Use. Monetary benefits could not be quantified.*
1.d.	Economy and Efficiency and Internal Controls. Developing procedures for DLA inventory managers to obtain requirements information will improve the quality of manager decisions and reduce unneeded purchases.	Funds Put to Better Use. Monetary benefits could not be quantified.*
2.	Economy and Efficiency and Internal Controls. Revising DLA policy will reduce unneeded purchases.	Funds Put to Better Use. Monetary benefits could not be quantified.*

\* Benefits could not be quantified because the data needed to accurately measure the benefits were not available. The ICPs of the Military Departments and DLA reduced or canceled purchases, valued at \$989,946, related to our review of the sampled items (97X4930). Additionally, the San Antonio Air Logistics Center terminated contracts related to other nonsampled items we reviewed by \$338,771 (97X4930).

---

## **Appendix C. Organizations Visited or Contacted**

### **Office of the Secretary of Defense**

Deputy Under Secretary of Defense for Logistics, Washington, DC

### **Department of the Army**

Headquarters, Deputy Chief of Staff (Logistics), Washington, DC  
Headquarters, Army Materiel Command, Alexandria, VA  
U.S. Army Aviation and Troop Command, St. Louis, MO  
U.S. Army Armament and Chemical Acquisition and Logistics Activity,  
Rock Island, IL  
U.S. Army Communications-Electronics Command, Ft. Monmouth, NJ  
U.S. Army Missile Command, Redstone Arsenal, AL  
U.S. Army Tank-Automotive Command Warren, MI

### **Department of the Navy**

Headquarters, Naval Supply Systems Command, Washington, DC  
Naval Audit Service, Washington, DC  
Aviation Supply Office, Philadelphia, PA  
Ships Parts Control Center, Mechanicsburg, PA

### **Department of the Air Force**

Air Force Materiel Command, Wright-Patterson Air Force Base, Dayton, OH  
Air Force Audit Agency, Wright-Patterson Air Force Base, Dayton, OH  
Ogden Air Logistics Center, Ogden, UT  
Oklahoma City Air Logistics Center, Tinker AFB, OK  
San Antonio Air Logistics Center, San Antonio, TX  
Sacramento Air Logistics Center, Sacramento, CA  
Warner Robins Air Logistics Center, Robins Air Force Base, Warner Robins, GA

## Appendix C. Organizations Visited or Contacted

---

### **Defense Organizations**

Headquarters, Defense Logistics Agency, Washington, DC  
Defense Construction Supply Center, Columbus, OH  
Defense Electronics Supply Center, Dayton, OH  
Defense General Supply Center, Richmond, VA  
Defense Industrial Supply Center, Philadelphia, PA

### **Non-Defense Federal Organizations**

General Accounting Office, Washington, DC

---

## **Appendix D. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)  
Deputy Under Secretary of Defense for Logistics  
Assistant to the Secretary of Defense (Public Affairs)

### **Department of the Army**

Secretary of the Army  
Auditor General, Department of the Army

### **Department of the Navy**

Secretary of the Navy  
Assistant Secretary of the Navy (Financial Management)  
Auditor General, Department of the Navy

### **Department of the Air Force**

Secretary of the Air Force  
Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Logistics Agency  
Director, National Security Agency  
Inspector General, Central Imagery Office  
Inspector General, National Security Agency  
Director, Defense Logistics Studies Information Exchange

### **Non-Defense Federal Organizations**

Office of Management and Budget  
U.S. General Accounting Office  
National Security and International Affairs Division, Technical Information Center  
National Security and International Affairs Division, Defense and National  
Aeronautics and Space Administration Management Issues  
National Security and International Affairs Division, Military Operations and  
Capabilities Issues

## Appendix D. Report Distribution

---

### **Non-Defense Federal Organizations** (cont'd)

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 National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
- House Committee on National Security

## **Part IV - Management Comments**

# Department of the Army Comments



DEPARTMENT OF THE ARMY  
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS  
WASHINGTON, DC 20310-0500

RECEIVED  
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS  
(11119)



CLINT 30 AM 7

28 FEB 1995

DALO-SMP

MEMORANDUM THRU

DEPUTY CHIEF OF STAFF FOR LOGISTICS *hwd 1/3/95*

~~DIRECTOR OF THE ARMY STAFF~~ GREGORY P. GUILLIE, LTC, GS, ADECC 1 - MAR 1995

ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS, LOGISTICS AND ENVIRONMENT) *hwd 1/3/95*

FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (AUDITING) *Eric A. Orsini*  
Assistant Secretary of the Army

SUBJECT: Audit Report on the Purchases of Consumable Items  
Transferred to the Defense Logistics Agency (Project No.  
4LE-0035.01)--INFORMATION MEMORANDUM

1. This is in response to HQ, USAAA memorandum of 6 January 1995 (Tab A) which asked ODCSLOG to respond to your memorandum of 28 December 1994 (Encl to Tab A). Your memorandum requested Army comments on the draft copy of subject report.
2. The ODCSLOG response to subject audit is at Tab B.

2 Encls

*John J. Cusick*  
JOHN J. CUSICK  
Major General, GS  
Director of Supply  
and Maintenance

CF:  
VCSA  
CDR, AMC  
SAAG-PRF-E  
DALO-ZXA

OASA(I,L&E) - Concur, Mr. Croom/75727 (conference)  
USAMC (AMCLG-SM) - Concur, Mr. Stan Darden/274-8511 (fax)

Linda Tutor/77061

DRAFT OF A PROPOSED REPORT  
PURCHASES OF CONSUMABLE ITEMS TRANSFERRED TO  
THE DEFENSE LOGISTICS AGENCY  
PROJECT NO. 4LE-0035.01  
DECEMBER 28, 1994

Finding. Purchases of consumable items were not properly recorded in the DLA requirements determination system after management of the items was transferred to DLA from the Military Departments. Additionally, requirements for purchases of consumable items were not being adequately reviewed before award of contracts. These conditions occurred because the Military Departments and DLA:

- o did not have effective procedures to reconcile purchase requests and requirements after item management transferred to DLA.

- o had not established internal control procedures to ensure that the Military Departments discontinued management of the items when management was transferred to DLA, and

- o had not established procedures to implement DOD policy for reevaluating requirements before awarding contracts. As a result, the Military Departments and DLA initiated purchases for \$2.7 million of inventory in excess of current requirements. Additionally, DLA was not purchasing enough inventory for one consumable item. Further, unless reconciliation procedures and management controls are implemented, the excessive purchases of inventory will continue during Phase II of consumable item transfer program.

Concur. The Army agrees that (1) the Military Components need more effective procedures to reconcile purchase requests and requirements after item management is transferred, (2) dual management has occurred in some instances, and (3) the DOD policy for reevaluating requirements before awarding contracts exceeding a designated dollar value needs to be consistently implemented across all inventory control points (ICPs). One of the main causes for these conditions was the difference in requirements computations. We, along with DLA and the other Services, are working with the Joint Logistics Systems Center to develop the Requirements Control System module of the Logistics Corporate Information Management. We have met with DLA to provide information on how we modify demand history to reflect changing

## Department of the Army Comments

---

DRAFT OF A PROPOSED REPORT  
PURCHASES OF CONSUMABLE ITEMS TRANSFERRED TO  
THE DEFENSE LOGISTICS AGENCY  
PROJECT NO. 4LE-0035.01  
(CONTINUED)

force structure, thereby more correctly sizing our requirements. The dual management was due to non-demand based requirements not being considered by DLA. This is being reconciled, and an automated system will be in place in January 1996 which will enable DLA to accept all DOD non-demand based requirements. The Army has been reconciling all purchase requests for items transferred under the Consumable Item Transfer (CIT) program that exceed \$25,000 since December 1994. The Defense Integrated Materiel Management Manual for Consumable Items, DOD 4140.26M, is being updated to reflect this dollar criteria for Phase I and Phase II of CIT.

Recommendation 1. We recommend that, for items transferred to DLA as part of the consumable item transfer program, the Commander, Army Materiel Command; the Commander, Naval Supply System Command; the Commander, Air Force Materiel Command; and the Director, Defense Logistics Agency:

a. Implement procedures for periodic reconciliation of ongoing purchases in excess of \$25,000 to validate Military Departments' purchase requests are properly recorded in the Defense Logistics Agency requirements determination system. Additionally, when the reconciliation identifies unrecorded or inaccurate purchases, research should be performed to identify procedural or systemic deficiencies causing the unrecorded or inaccurate purchases.

Concur. Periodic reconciliations of ongoing purchases of items in excess of \$25,000 will be conducted as required. In December 1994, the DOD Integrated Materiel Management Committee (IMMC) rescinded the DOD waiver of the requirement for the Services and DLA to reconcile purchase requests during Phase I of the CIT program. Since that time, all purchases exceeding \$25,000 for formerly Army-managed items have been reconciled with DLA. The new policy will be reflected in DOD 4140.26M. No further action is deemed necessary or required.

b. Implement procedures for periodic reconciliation of catalog management data between Military Departments and the Defense Logistics Service Center, to ensure the Military Departments discontinue management of the transferred consumable items.

DRAFT OF A PROPOSED REPORT  
PURCHASES OF CONSUMABLE ITEMS TRANSFERRED TO  
THE DEFENSE LOGISTICS AGENCY  
PROJECT NO. 4LE-0035.01  
(CONTINUED)

Concur. A joint Service, DLA, and Defense Logistics Service Center (DLSC) working group met periodically to assist in the development of a CIT tracking system; the system change requests have been implemented to allow for periodic reconciliation. DLSC is the single repository for all consumable items and has an extensive tracking mechanism in place for CIT which includes periodic file updates to reconcile all cataloging actions to include identification of dual management.

c. Implement procedures to reevaluate inventory requirements before awarding contracts for purchases in excess of \$25,000.

Concur. The CIT Phase II policy which will be incorporated in DOD 4140.26M, requires validation of requirements for purchase requests greater than \$25,000. One of the primary reasons for "excessive" procurements was DLA not recognizing the Service programmed requirements in support of maintenance programs. DLA and the Services are developing a standard non-demand based transaction record to augment the item management and contract history data which will be available in an automated mode. The Phase II milestone plan identifies this need and DLA and the Services are expected to have an automated processing capability prior to the January 1996 start date for Phase II.

d. Develop and implement procedures for Defense Logistics Agency inventory managers to obtain requirements information from equipment specialists and next higher assembly or weapon systems managers at the Military Department Inventory Control Points to verify that the Defense Logistics Agency Requirements forecasts are accurate.

Concur. The U.S. Army Materiel Command (AMC) will submit a system change request to the AMC Commodity Command Standard System (CCSS) to add another record to its supply management data application (CCSS Appl 709). The new record will provide the gaining inventory manager at DLA with Army's non-demand based requirements. Target date for implementation is 30 September 1995. In addition, DLA has a plan of action to expand their weapons systems management processes that, when implemented, will offer visibility of the next higher assembly or weapons system in

DRAFT OF A PROPOSED REPORT  
PURCHASES OF CONSUMABLE ITEMS TRANSFERRED TO  
THE DEFENSE LOGISTICS AGENCY  
PROJECT NO. 4LE-0035.01  
(CONTINUED)

which a given consumable is used. DLA is developing a statistical demand forecasting model and is working with the Services to determine how they determine their programmed requirements and how they modify their demand history to reflect changes in force structure.

# Department of the Navy Comments



THE ASSISTANT SECRETARY OF THE NAVY  
Research Development and Acquisition  
1000 Navy Pentagon  
Washington DC 20350-1000

28 FEB 1995

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR  
GENERAL FOR AUDITING

Subj: DODIG DRAFT AUDIT REPORT ON THE PURCHASE OF CONSUMABLE  
ITEMS TRANSFERRED TO THE DEFENSE LOGISTICS AGENCY (PROJECT  
NO. 4LE-0035.01)

Ref: (a) DODIG memo of 28 Dec 94

Encl: (1) Department of the Navy Comments

We have reviewed reference (a), and we concur with the findings and recommendations of the report. Purchases not properly recorded in the requirements determination system, requirements not being reevaluated before contract award, and dual management of items are examples of these findings. The Navy has recognized these problems, and is diligently working with the Defense Logistics Agency and other military departments to solve them. Detailed comments are provided by enclosure (1).

The point of contact for this issue is CDR Brian Kelm CEC,  
USN at (703) 614-3185 or FAX (703) 614-3192.

*Nora Slatkin*

Nora Slatkin

Copy to:  
NAVCOMPT (NCB-53)  
NAVINGEN

## Department of the Navy Comments

DEPARTMENT OF THE NAVY COMMENTS  
ON  
DODIG DRAFT REPORT  
ON  
PURCHASES OF CONSUMABLE ITEMS TRANSFERRED TO THE  
DEFENSE LOGISTICS AGENCY  
(PROJECT NO. 4LE-0035.01)

Finding: Purchases of Consumable Items Transferred to Defense Logistics Agency

Purchases of consumable items were not properly recorded on the Defense Logistics Agency (DLA) requirements determination system after management of the items was transferred to DLA from the Military Departments. Additionally, requirements for purchases of consumable items were not being adequately reviewed before award of contracts. These conditions occurred because the Military Departments and DLA:

- did not have effective procedures to reconcile purchase requests and requirements after item management transferred to DLA,
- had not established internal control procedures to ensure that the Military Departments discontinued management of the items when management was transferred to DLA, and
- had not established procedures to implement DOD policy for reevaluating requirements before awarding contracts.

As a result, the Military Departments and DLA initiated purchases for \$2.7 million of inventory in excess of current requirements. Additionally, DLA was not purchasing enough inventory for one consumable item. Further, unless reconciliation procedures and management controls are implemented, the excessive purchases of inventory will continue during Phase II of the consumable item transfer program. (Finding page 6.)

DON Comment

Concur that the Military Departments and DLA could have more effective procedures to reconcile purchase requests and requirements after item management is transferred; that dual management has occurred in some instances; and that the DOD policy for reevaluating requirements before awarding contracts in excess of \$25,000 needs to be consistently implemented across our Inventory Control Points (ICPs). However, it is the Navy's experience that these conditions, with the exception of dual management, have usually resulted in the understatement of requirements by DLA. In 1992/1993 the DLA Defense Supply Centers (DSCs) generated approximately 50-100 messages a month to each one of our ICPs requesting purchase requests and contracts be canceled/terminated. Analysis by our ICPs and the other Military Departments revealed that the DLA inventory manager (IM) requests

to either reduce or cancel the purchase requests/contracts were almost always invalid. These requests were invalid for two reasons: 1) The DLA IM had not included our non-demand driven requirements such as Planned Program Requirements (PPRs) in their requirements model; and 2) the components of the DLA requirements model varied significantly from the Military Departments, i.e., Economic Order Quantity (EOQ), Reorder Level, Safety Level, Lead-times, etc. The components were consistently lower in the DLA model. The auditor confirmed that other than verifying that the Military Departments' purchase requests were properly recorded in the DLA requirements determination system, no independent assessment of the reliability of the computer-processed data used in the DLA system was conducted. It is with this background of a large workload imposed on the Military Departments' ICPS to review messages containing unsubstantiated purchase requests/contract termination requests that the DLA Consumable Item Management Office directed the DSCs to take no action on Military Departments' purchases unless the "potential savings" exceeded \$50,000.

Both DLA and the Military Departments recognized the shortcomings in the DLA requirements determination system and held a series of meetings in 1992/93 to develop a standard non-demand based transaction record to augment the item management and contract history data routinely submitted to DLA in an automated mode. In the interim, the Navy ICPS were providing this information to the appropriate DSC on microfiche. This record consisting of PPRs, EOQ, procurement cycle quantity, provisioning item indicator, etc., was programmed by the Navy and initial transactions transmitted to the DSCs in August 1993. However, as of this date, DLA has not developed the capability to process this information in their Standard Automated Material Management System. The Consumable Item Transfer (CIT) Phase II milestone plan identifies this need and DLA and the other Military Departments are expected to have automated processing capability before Phase II transfers begin in January 1996.

Effective Dues-in reconciliation procedures between DLA and Navy have been handicapped by the inability of the Air Force and Army to implement Approved Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP) Change Letter (AMCL) 49A, Reconciliation and Follow-up Procedures for Dues-in after Logistics Reassignment. This capability and implementation date of 1 November 1989 was suspended by DLA until all the Military Departments could comply with the requirements. The programs were implemented by the Navy ICPS in March 1992. A dialogue is ongoing with the DLA and Navy MILSTRAP officers to determine if it is feasible to implement AMCL 49A between Navy and DLA. While its implementation would not negate the need for discussion between our ICPS and the DSCs, it gives us the ability in a mechanical mode, to keep DLA's picture of Dues-in current - and significant changes do occur after the Effective Transfer Date (ETD).

The condition that resulted in dual management (both DLA and the Military Department managing an item at the same time) is caused by the lack of an effective closed loop transaction reporting system among the Defense Logistics Service Center (DLSC), the DLA ICP, and the Military Department ICP. DLSC is the hub for all CIT transactions and controls the series of documents between the ICPs. Under the scenario of dual management, the DLA ICP accepted management for a specific date in the future. DLSC was advised of the acceptance and recorded the future date in the Federal Cataloging System; however, the Military Department ICP did not receive or process a corresponding transaction. Therefore, the Military Department ICP continued to assume management with the retention of wholesale assets, etc. In the fall of 1993, following on the heels of DLSC modernization (conversion to new hardware and software), the DLSC controlled transactions and the closed loop system failed to the extent that DLA suspended CIT for two months. During this period thousands of items and their corresponding transactions were "lost." CIT started up again in January 1994 after DLSC had demonstrated through a series of tests with the Military Departments that the system was reliable. Since that time, lack of accountability has been the exception and the process has been working quite well. A joint working group consisting of representatives from DLA, DLSC, and the Military Departments will be exploring ways to tighten up the process before Phase II is initiated. This group will be looking for mechanical reconciliations that can be inserted into the process to flag error conditions, etc. In addition, we will instruct our ICPs to routinely query DLSC each transaction cycle on all items where a positive or negative response has not been received from DLSC.

Finding: Purchases Not Properly Recorded in DLA Requirements Determination System

Military Departments' purchase requests, valued at \$1.0 million, for eight of the 13 items were not reported to DLA and properly recorded in the DLA requirements determination system at the time item management transferred to DLA. Subsequently, DLA initiated inventory purchases for the items, valued at about \$338,000. The combined purchases of the eight items by the Military Departments and DLA exceeded current requirements by about \$618,000. (Finding pages 7-8.)

DON Comment

Concur that in some instances Military Departments' purchase requests were not recorded in the DLA requirements determination system at the time item management transferred to DLA; however, do not concur that the Navy did not report the purchase requests to DLA. Uniform Inventory Control Point (UICP) program CO8 is designed to generate and forward to the gaining inventory manager (GIM), Navy ICP Due-in records (DOCID DDX) for all contracts and purchase requests resident in the Due-in file at

ETD. Changes to ICP Due-in records including purchase request to contract conversion, quantity changes, etc., subsequent to ETD, are generated on DDX transactions by UICP program FO2. During the audit, research of available historical data indicated that the C08 and FO2 programs were generating the proper DDX transactions.

Finding: Purchases Erroneously Deleted from the DLA Requirement-Determination System

Military Departments' purchase requests, valued at about \$505,000, for five of the 13 items were erroneously deleted from the DLA requirements determination system after item management transferred to DLA. Purchases for the five items were being processed by the Military Departments. The DLA IMS, however, were not aware of the ongoing actions and initiated additional purchases of the five items, valued at about \$283,000. The combined purchases of the five items by the Military Departments and DLA exceeded current requirements by about \$382,000. (Finding page 8.)

DON Comment

Concur that in some instances Military Departments' purchase requests were erroneously deleted from the DLA requirements determination system after item management transferred to DLA; however, do not concur that this condition resulted from the Navy ICPs not reporting the purchase request or from the generation of erroneous delete purchase request transactions for the same reasons noted in our reply to the previous finding. In addition, UICP program FO2 will generate DDX reversal transactions to the GIM for all cancelled purchase requests or contracts.

RECOMMENDATIONS

1. We recommend that, for items transferred to DLA as part of the consumable item transfer program, the Commander, Army Materiel Command; the Commander, Naval Supply Systems Command (NAVSUP); the Commander, Air Force Materiel Command; and the Director, DLA:

a. Implement procedures for periodic reconciliation of ongoing purchases in excess of \$25,000 to validate that the Military Departments' purchase requests are properly recorded in the DLA requirements determination system. Additionally, when the reconciliation identifies unrecorded or inaccurate purchases, research should be performed to identify procedural or systemic deficiencies causing the unrecorded or inaccurate purchases.

DON Comment

Concur. NAVSUP will ensure that its ICPs reconcile all on going purchases with the GIM that are in excess of \$25,000. However, the implementation of AMCL 49A will give DLA and the Navy the

capability to mechanically reconcile all purchase requests and contract data. The Navy and DLA will develop a test schedule by April 1995 that will provide this reconciliation capability before Phase II begins in January 1996. In addition, both ICPs established a CIT team in 1990 that implemented Phase I and serves as the point of contact for any problems related to a transfer item. This team is responsible for coordinating the resolution of all CIT problems.

b. Implement procedures for periodic reconciliation of catalog management data between the Military Departments and the DLA, DLSC, to ensure the Military Departments discontinue management of the transferred consumable items.

DON Comment

Concur. The DLSC closed-loop tracking system implemented in January 1994 has significantly reduced the potential for dual management of CIT items. A joint working group consisting of representatives from DLA, DLSC, and the Military Departments will be exploring ways to improve the process before Phase II is initiated. This group will be looking for mechanical reconciliations that can be inserted in the process to flag error conditions, etc. In addition, NAVSUP will instruct the ICPs to routinely query DLSC each transaction cycle on all items where a positive or negative response has not been received from DLSC.

c. Implement procedures to reevaluate inventory requirements before awarding contracts for purchases in excess of \$25,000.

DON Comment

Concur, see comments under recommendation 1a.

d. Develop and implement procedures for DLA IMs to obtain requirements information from equipment specialists and next higher assembly or weapon system managers at the Military Departments' ICPs to verify that the DLA requirements forecasts are accurate.

DON Comment

Concur. However, the Navy believes that this requirement is generally satisfied through UICP program C08, which provides requirements data in accordance with DOD 4140.26M, and through hard copy data provided to the GIM. The Navy ICPs have also provided training to the DLA IMs on accessing ICP databases through the ICP network. Finally, as directed by the DUSD(L) memo of 12 July 1994, DLA will expand its weapon system management/support function to include interface with the Military Departments' equipment specialists and Weapons Systems Managers.

2. We recommend that the Director, DLA revise policy issued by the DLA, Consumable Item Management Office, that limited the revaluation of requirements for Military Departments' purchase requests.

DON Comment

Defer to DLA.

# Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE  
HEADQUARTERS UNITED STATES AIR FORCE  
WASHINGTON DC

21 FEB 1995

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

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

SUBJECT: DoD IG Draft Audit Report, "Purchase of Consumable Items Transferred to the Defense  
Logistics Agency" (Project No. 4LE-0035.01)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force  
(Financial Management and Comptroller) to provide Air Force comments on subject report.

The AF concurs with both the findings and recommendations. Specific actions including dates of  
implementation are attached.

Point of contact in AF/LGSP is Ms. Karen DeGrange, DSN 225-4895.



ASSISTANT SECRETARY OF THE AIR FORCE  
FINANCIAL MANAGEMENT AND COMPTROLLER  
DEPARTMENT OF THE AIR FORCE  
1030 AIR FORCE PENTAGON  
WASHINGTON, DC 20330-1030  
AF3522

cc:  
SAF/FMPF

**MANAGEMENT COMMENTS**

**DoD IG Report of Audit, Purchase of Consumable Items Transferred to the Defense Logistics Agency (Project No. 4LE-0035.01)**

**Recommendation 1.** We recommend that, for items transferred to DLA as part of the consumable item transfer program, the commander, Air Force Materiel Command:

a. Implement procedures for periodic reconciliation of ongoing purchases in excess of \$25,000 to validate that the Military Departments purchase requests are properly recorded in the Defense Logistics Agency requirements determination system. Additionally, when the reconciliation identifies unrecorded or inaccurate purchases, research should be performed to identify procedural or systemic deficiencies causing the unrecorded or inaccurate purchases.

b. Implement procedures for periodic reconciliation of catalog management data between the Military Departments and the Defense Logistics Agency, Defense Logistics Service Center, to ensure the Military Departments discontinue management of the transferred consumable items.

c. Implement procedures to reevaluate inventory requirements before awarding contracts for purchases in excess of \$25K.

d. Develop and implement procedures for Defense Logistics Agency inventory Managers to obtain requirements information from Equipment Specialists (ES) and next higher assembly or weapon system managers at the Military Department Inventory Control Points to verify that the Defense Logistics Agency requirements forecasts are accurate.

**Management Comments:**

a. Concur.

The Procurement Request reconciliation required in DoD 4140.26M, Appendix 1, was waived for Cit Phase 1 due to the large volume of items to be transferred. It has not been waived for Phase 2.

Further, concerning research, the Air Force will continue in Phase II as it did in Phase I to monitor due-in data accuracy and make appropriate program changes as identified to correct deficiencies. As part of this continuing effort, AF and DLA are currently performing a controlled test of the due-in reporting system. The goal of this effort, which began in December 1994 and will run 3-6 months, is to identify and resolve any systematic problems which still affect accurate due-in reporting. ECD: 30 Jun 95.

b. Concur.

In Sep 1992 AF implemented procedures to account for all transfer transactions initiated. The process automatically generates inquiries if a estimated date of future transfer transactions or reject notifications are not received for each item proposed for transfer. Problems encountered during the Defense Logistics Service Center (DLSC) modernization of the Federal Logistics Information System (FLIS) (implemented in June 1993) contributed to the conditions allowing dual management of an item. Those problems resulted in a suspension of the transfer until the problems were corrected. During that time aggressive actions were taken to reconcile our files. DLSC also developed a CIT tracking system to assure 100 percent accountability of all transactions. In preparation for Phase 2, ADUSD (L/MRM), in conjunction with the Components established procedures for total reconciliation of the FLIS and Service cataloging systems. The combination of the current Air Force procedures, DLSC tracking and the ADUSD/Service reconciliation procedures will avoid dual management of transferred items.. Action Complete.

c. Concur.

The AF routinely validated requirements prior to contract award for the items we manage. Phase 2 implementation plans include the requirement to validate purchase requests in excess of \$25K. DLA and AF are currently working to establish procedures which will accomplish the validation process for CIT items. ECD: 1 Jan 1996

d. Concur.

The need for DLA to have programmed requirements information was recognized early in the CIT process by the military services. AF now passes additional program based requirements information to DLA for each item transferred. We are also working closely with DLA to develop the mechanisms to pass program demand data, including peace time program rations. DLA has selected a Statistical Demand Forecasting model that will allow them to increase or decrease projected demand calculations using factors based on end item mission intelligence. AF has also identified the requirement for development of an automated process which will provide on-line access of identification of the DLA item manager and AF ES for each item transferred. DUSD has also directed DLA to expand their weapon system support functions to accommodate the transfer of the Phase 2 items. They were directed to include points of contact for front-line weapon system. This effort includes closer coordination between HQ DLA, DLA Centers and Service Program Managers to ensure DLA IMs can effectively react to changing requirements. ECD: 1 Jan 1996.

# Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
CAMERON STATION  
ALEXANDRIA, VIRGINIA 22304-6100



IN REPLY  
REFER TO

6 MARCH 1995

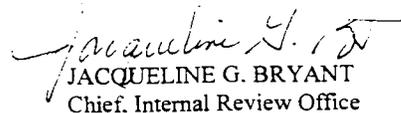
DDAI

MEMORANDUM FOR THE ASSISTANT INSPECTOR GENERAL FOR AUDITING,  
DEPARTMENT OF DEFENSE  
(ATTN: Mr. Joel Chaney)

SUBJECT: DoD IG Draft Report on Purchases of Consumable Items Transferred to the Defense  
Logistics Agency (Project No. 4LE-0035.01)

This is in response to your 28 December 1994 request.

6 Encl

  
JACQUELINE G. BRYANT  
Chief, Internal Review Office

cc:  
MMA

TYPE OF REPORT: AUDIT

DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Purchases of Consumable Items Transferred to the Defense Logistics Agency (Project No. 4LE-0035.01)

FINDING: Purchases of Consumable Items Transferred to DLA. Purchases of consumable items were not properly recorded in the DLA requirements determination system after management of the items was transferred to DLA from the Military Departments. Additionally, requirements for purchases of consumable items were not being adequately reviewed before award of contracts. These conditions occurred because the Military Departments and DLA:

- o did not have effective procedures to reconcile purchase requests and requirements after item management transferred to DLA,
- o had not established internal control procedures to ensure that the Military Departments discontinued management of the items when management was transferred to DLA, and
- o had not established procedures to implement DoD policy for reevaluating requirements before awarding contracts.

As a result, the Military Departments and DLA initiated purchases for \$2.7 million of inventory in excess of current requirements. Additionally, DLA was not purchasing enough inventory for one consumable item. Further, unless reconciliation procedures and management controls are implemented, the excessive purchases of inventory will continue during Phase II of the consumable item transfer program.

DLA COMMENTS: Concur that the Military Departments and DLA need more effective procedures to reconcile purchase requests and requirements after item management is transferred; that dual management has occurred in some instances; and that the DoD policy for reevaluating requirements before awarding contracts exceeding a designated dollar value needs to be consistently implemented across all ICPs. It has been our experience that the primary reasons for discrepant procurement actions were DLA's lack of visibility of non-demand requirements and the different requirements computation methodologies used by DoD components. During the first year of CIT, the DLA ICPs were generating a significant number of requests every month for Service-initiated due-in reductions/cancellations. The volume of manual review required as a result of these requests severely impacted the already heavy workload at the ICPs.

Analysis revealed that, in almost every case, there were valid requirements to justify continuation of the entire due-in. The decision to take no action on Service-initiated Procurement unless the potential savings exceeded \$50,000 was published by HQ DLA (DLA-OSP) in May 1992. This dollar value threshold was determined to provide the most effective blend of manual workload required by the losing Military Service activity and resulting dollar savings realized. A review of the dollar value range and volume of recommended purchase reductions generated for CIT

items during the period August 1991 through April 1992 was performed as the basis of this decision.

We disagree with the methodology used to determine the \$2.7 million excess inventory procured in excess of requirements. As the intent of this audit was to determine whether Military Service purchases were being properly recorded in the DLA system, the maximum dollar value of excess purchases computed should be no larger than the dollar value of the Military Service purchase not correctly reflected in the DLA system. For example, NSN 6625-00-369-7286 should only show an overprocurement quantity of 35, based on the objective of this audit - the Military Service purchase quantity was not correctly recorded in the DLA system.

Excessive purchases were quoted on items where the Military Services erroneously deleted, or cancelled, their purchases. DLA purchases initiated to support computed requirements, that should have been supported by the Military Services, should not be identified as excessive purchases. DLA initiates these purchases to compensate for requirements left uncovered when the Military Service erroneously cancelled their purchases after transfer.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

- ( ) Nonconcur.
- (X) Concur; however, weakness is not considered material.
- ( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

MONETARY BENEFITS: N/A

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Lora Conrad, MMSP-CIMO, X77333, 16 Feb 95

REVIEW/APPROVAL: J. S. Rountree, Capt. SC, USN, Acting Deputy Executive Director,  
Supply Management, MMSD, X70510, 23 Feb 95

COORDINATION: A. Broadnax, DDAI, x49607, 28 Feb 95

*Jacqueline G. St., DDAI, 1 Mar 95*

DLA APPROVAL:

09 MAR 1995



LAWRENCE P. FARRELL, JR.  
Major General, USAF  
Principal Deputy Director

## Defense Logistics Agency Comments

---

TYPE OF REPORT: AUDIT

DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Purchases of Consumable Items Transferred to the Defense Logistics Agency (Project No. 4LE-0035.01)

RECOMMENDATION 1.a: We recommend that, for items transferred to DLA as part of the consumable item transfer program, the Commander, Army Materiel Command; the Commander, Naval Supply System Command; the Commander, Air Force Materiel Command; and the Director, Defense Logistics Agency implement procedures for periodic reconciliation of ongoing purchases in excess of \$25,000 to validate that the Military Departments' purchase requests are properly recorded in the Defense Logistics Agency requirements determination system. Additionally, when the reconciliation identifies unrecorded or inaccurate purchases, research should be performed to identify procedural or systemic deficiencies causing the unrecorded or inaccurate purchases.

DLA COMMENTS: Concur. The Procurement Request reconciliation required in DoD 4140.26M, Appendix I, was waived for CIT Phase 1 due to the large volume of items to be transferred. This magnitude of manual reviews would have severely hindered the everyday workload of the MilDep and DLA managers. CIT Phase 2 policy, which is to be included in the DoD Manual, requires validation of requirements immediately prior to award for PRs greater than \$25,000. Also, DLA's excess procurement model notifies item managers when known requirements do not justify continuation of the procurement action. As in Phase 1, the decision has been made to direct the DLA Centers to take action on only those Service-initiated dues-in that would result in at least a \$50,000 savings.

Navy and DLA are the only DoD Components who have completed programming of AMCLO 49A, "Reconciliation and Follow-up Procedures for Due-In After Logistic Reassignment." We are pursuing the possibility of implementing those programs between DLA and Navy. Implementation of these procedures throughout DoD would provide a significant improvement in accurate due-in reporting.

Air Force and DLA are in the process of performing a controlled test of due-in reporting. The goal of this effort, which began in December 1994 and will run 3-6 months, is to identify and resolve any systemic problems which affect accurate due-in reporting.

DISPOSITION:

- Action is ongoing. Estimated Completion Date: July 1995
- Action is considered complete

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

- Nonconcur.
- Concur; however, weakness is not considered material.

( ) Concur: weakness is material and will be reported in the DLA Annual Statement of Assurance.

MONETARY BENEFITS: N/A  
DLA COMMENTS:  
ESTIMATED REALIZATION DATE:  
AMOUNT REALIZED:  
DATE BENEFITS REALIZED:

ACTION OFFICER: Lora Conrad. MMSP-CIMO. X77333, 16 Feb 95  
REVIEW/APPROVAL: J. S. Rountree. Capt, SC, USN, Acting Deputy Executive Director.  
MMSD. X70510, 23 Feb 95  
COORDINATION: A. Broadnax. DDAI. x49607, 28 Feb 95

*Engst, DDAI, 1 Mar 95*

DLA APPROVAL:

05 MAR 1995



LAWRENCE S. CAMPBELL, JR.  
Major General, USAF  
Principal Deputy Director

## Defense Logistics Agency Comments

---

TYPE OF REPORT: AUDIT

DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Purchases of Consumable Items Transferred to the Defense Logistics Agency (Project No. 4LE-0035.01)

RECOMMENDATION 1.b: We recommend that, for items transferred to DLA as part of the consumable item transfer program, the Commander, Army Materiel Command; the Commander, Naval Supply System Command; the Commander, Air Force Materiel Command; and the Director, Defense Logistics Agency implement procedures for periodic reconciliation of catalog management data between the Military Departments and the Defense Logistics Agency, Defense Logistics Service Center, to ensure the Military Departments discontinue management of the transferred consumable items.

DLA COMMENTS: Concur. The Defense Logistics Services Center (DLSC) CIT tracking efforts have greatly reduced the potential for dual management of CIT items. DLA has recently developed a repository of all incoming and outgoing CIT cataloging transactions. Using that file, DLA will provide monthly reports of all transactions received, processed and rejected for all Service ICPs. The Services will also perform a monthly DLSC reconciliation of cataloging actions to ensure that all appropriate files are updated. In addition, DLSC is developing reconciliation tools from the baseline validation being performed for CIT Phase 2. These reports should be run on a quarterly basis and reconciled by the applicable Services, DSC, DLSC when mismatches occur.

DISPOSITION:

- Action is ongoing. Estimated Completion Date: July 1995
- Action is considered complete

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

- Nonconcur.
- Concur; however, weakness is not considered material.
- Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

MONETARY BENEFITS: N/A

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Lora Conrad, MMSP-CIMO, X77333, 16 Feb 95  
REVIEW/APPROVAL: J. S. Rountree, Capt, SC, USN, Acting Deputy Executive Director,  
Supply Management, MMSD, X70510, 23 Feb 95

COORDINATION: A. Broadnax, DDAI, x49607, 28 Feb 95  
*Bryant, DDAI, 1 Mar 95*

DLA APPROVAL:

*[Signature]* P. Farrell

MAR 1995

*[Faint stamp]*

## Defense Logistics Agency Comments

---

TYPE OF REPORT: AUDIT

DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Purchases of Consumable Items Transferred to the Defense Logistics Agency (Project No. 4LE-0035.01)

RECOMMENDATION 1.c: We recommend that, for items transferred to DLA as part of the consumable item transfer program, the Commander, Army Materiel Command; the Commander, Naval Supply System Command; the Commander, Air Force Materiel Command; and the Director, Defense Logistics Agency implement procedures to reevaluate inventory requirements before awarding contracts for purchases in excess of \$25,000.

DLA COMMENTS: Concur. CIT Phase 2 policy, which is to be included in the DoD Manual, requires validation of requirements immediately prior to award for PRs greater than \$25,000. Also, DLA's excess procurement model notifies item managers when known requirements do not justify continuation of the procurement action. As in Phase 1, the decision has been made to direct the DLA Centers to take action on only those Service-initiated dues-in that would result in at least a \$50,000 savings.

Navy and DLA are the only DoD Components who have completed programming of AMCL 49A, "Reconciliation and Follow-up Procedures for Due-In After Logistic Reassignment." We are pursuing the possibility of implementing those programs in an effort to ensure the most accurate due-in reporting possible. Implementation of these procedures throughout DoD would provide a significant improvement in accurate due-in reporting.

DISPOSITION:

- Action is ongoing. Estimated Completion Date: July 1995
- Action is considered complete

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

- Nonconcur.
- Concur; however, weakness is not considered material.
- Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

MONETARY BENEFITS: N/A

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Lora Conrad, MMSP-CIMO, X77333, 16 Feb 95

REVIEW/APPROVAL: J. S. Rountree, Capt, SC, USN, MMSD, X70510, 23 Feb 95

COORDINATION: A. Broadnax, DDAI. x49607. 28 Feb 95

*J. Bryant, DDAI, 17 Nov 95*

DLA APPROVAL:

*[Signature]*

## Defense Logistics Agency Comments

---

TYPE OF REPORT: AUDIT

DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Purchases of Consumable Items Transferred to the Defense Logistics Agency (Project No. 4LE-0035.01)

RECOMMENDATION 1.d: We recommend that, for items transferred to DLA as part of the consumable item transfer program, the Commander, Army Materiel Command; the Commander, Naval Supply System Command; the Commander, Air Force Materiel Command; and the Director, Defense Logistics Agency develop and implement procedures for Defense Logistics Agency inventory managers to obtain requirements information from equipment specialists and next higher assembly or weapon system managers at the Military Department Inventory Control Points to verify that the Defense Logistics Agency requirements forecasts are accurate.

DLA COMMENTS: Concur. Generally, this recommendation can be accommodated by the additional requirements data now provided to DLA by Navy and Air Force which augments the item management data forwarded. Army is currently developing program changes to provide DLA this data. The estimated completion date is August 1995. This record, implemented in early 1994, provides non-demand requirements for which the Service has committed acquisition dollars. DLA will consider this data when reviewing items in the model to determine overprocurement.

DLA is pursuing an effort to routinely accept program demand data from the Services for use in the Statistical Demand Forecasting model. This information will allow DLA to increase, or decrease, projected demand calculations using factors based on such information as changes to end item density, end item operational use (i.e., flying hours) or force structure adjustments.

Navy and DLA have completed programming of AMCL 49A, "Reconciliation and Follow-up Procedures for Due-In After Logistic Reassignment." We are pursuing the implementation of those programs between DLA and Navy. Implementation of these procedures throughout DoD would provide a significant improvement in accurate updates to Service-initiated due-in assets.

DLA is expanding the weapon systems support role in preparation for CIT Phase 2. This effort includes closer coordination between HQ DLA, DLA Centers and Service Program Managers to ensure DLA managers can effectively react to changing requirements.

DISPOSITION:

- Action is ongoing. Estimated Completion Date: August 1995
- Action is considered complete

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

- Nonconcur.
- Concur: however, weakness is not considered material.

( ) Concur: weakness is material and will be reported in the DLA Annual Statement of Assurance.

MONETARY BENEFITS: N/A

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Lora Conrad, MMSP-CIMO, X77333, 16 Feb 95

REVIEW/APPROVAL: J. S. Rountree, Capt, SC, USN, Acting Deputy Executive Director.  
Supply Management, MMSD, X70510, 23 Feb 95

COORDINATION: A. Broadnax, DDAI, x49607, 28 Feb 95

*Byrd, DDAT, March 95*

DLA APPROVAL:

06 MAR 1995



LAWRENCE J. FARRELL, JR.  
Major General, USAF  
Principal Deputy Director

## Defense Logistics Agency Comments

---

TYPE OF REPORT: AUDIT

DATE OF POSITION:

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Purchases of Consumable Items Transferred to the Defense Logistics Agency (Project No. 4LE-0035.01)

RECOMMENDATION 2: We recommend that the Director, Defense Logistics Agency, revise policy issued by the Defense Logistics Agency, Consumable Item Management Office, that limited the reevaluation of requirements for Military Department purchase requests.

DLA COMMENTS: Nonconcur. The DLA policy for CIT Phase 2 will continue to be that no action on Service-initiated Procurement be taken unless the potential savings exceed \$50,000. This dollar value threshold was determined to provide the most effective blend of manual workload required by the losing Military Service activity and resulting dollar savings realized. A review of the dollar value range and volume of recommended purchase reductions generated for CIT items during the period August 1991 through April 1992 was performed as the basis of this decision. The additional non-demand requirements data now provided to DLA by Navy and Air Force, which augments the item management data forwarded, will be considered when reviewing items in the model to determine overprocurement. Army is currently developing program changes to provide DLA this data. The estimated completion date is August 1995.

During the first year of CIT, the DLA ICPs were generating a significant number of requests every month for Service-initiated due-in reductions/cancellations. The volume of manual review required as a result of these requests severely impacted the already heavy workload at the ICPs. Analysis revealed that, in almost every case, there were valid requirements to justify continuation of the entire due-in. It has been our experience that the primary reasons for discrepant procurement actions were DLA's lack of visibility of non-demand requirements and the different requirements computation methodologies used by DoD components. It was this background that prompted DLA to direct the ICPs to pursue only those Service-initiated purchases that with a potential savings greater than \$50,000. Also, CIT Phase 2 policy, which is to be included in the DoD Manual, requires validation of requirements immediately prior to award for PRs greater than \$25,000.

Navy and DLA have completed programming of AMCL 49A, "Reconciliation and Follow-up Procedures for Due-In After Logistic Reassignment." We are pursuing the possibility of implementing those programs in an effort to ensure the most accurate due-in reporting possible. Implementation of these procedures throughout DoD would provide a significant improvement in accurate updates to Service-initiated due-in assets.

DISPOSITION:

- ( ) Action is ongoing. Estimated Completion Date:
- (X) Action is considered complete

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

- (X) Nonconcur.
- ( ) Concur; however, weakness is not considered material.
- ( ) Concur: weakness is material and will be reported in the DLA Annual Statement of Assurance.

MONETARY BENEFITS: N/A

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Lora Conrad, MMSP-CIMO, X77333, 16 Feb 95

REVIEW/APPROVAL: J. S. Rountree, Capt, SC. USN, Acting Deputy Executive Director,  
Supply Management, MMSD, X70510, 23 Feb 95

COORDINATION: A. Broadnax, DDAI, x49607, 28 Feb 95

*gonyat, DDAI, March 95*

DLA APPROVAL:

06 MAR 1995



J. S. ROUNTREE, SR.  
CAPTAIN, USN  
Acting Deputy Executive Director

## **Audit Team Members**

Shelton R. Young  
Joel K. Chaney  
David L. Luce  
Ted R. Paulson  
Amy J. Frontz  
Anthony C. Hans  
Michael D. Davis  
Scott K. Miller