

DOCUMENT RESUME

00093 - [A0751103]

Defense Inactive Item Program Could Be More Effective.
LCD-77-204; B-133118. January 26, 1977. 5 pp.

Report to Secretary, Department of Defense; by Fred J. Shafer,
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Issue Area: Facilities and Material Management (700).

Contact: Logistics and Communications Div.

Budget Function: National Defense: Department of Defense -
Military (except procurement & contracts) (051); General
Government: General Property and Records Management (804).

Organization Concerned: Defense Supply Agency.

Congressional Relevance: House Committee on Armed Services;
Senate Committee on Armed Services.

A review of DOD's program for eliminating unneeded inactive items in its supply system was found to be ineffective in many respects. The Defense Supply Agency (DSA) maintains these inactive items amounting to about 17% of supplies at a cost of \$46 million annually. Findings/Conclusions: The Defense Inactive Item Program, designed to eliminate unneeded items that occupy space, time, and computer capacity has not been successful in meeting its objectives. The lack of progress resulted from technical difficulties in merging the program with the overall computer system, delays in identifying organizations which used supplies, and the absence of systems for keeping supply centers informed and for verifying reasons for keeping inactive items. Recommendations: The Department of Defense should reemphasize benefits of the inactive item program and periodically review its status. The DSA should be required to improve its computer program to provide prompt and complete user information, including statistical information on items eliminated. A system should be established to verify reasons given by military services for keeping inactive items. (HTW)



*UNITED STATES
GENERAL ACCOUNTING OFFICE*

Defense Inactive Item Program Could Be More Effective

Defense Supply Agency

The Department of Defense's program to eliminate unneeded inactive items from the supply system has not been effective. The Department should:

- Reemphasize the benefits of the inactive item program to all its components and periodically review the program's status.
- Require the Defense Supply Agency to improve its computer program to provide (1) prompt and complete user information and (2) statistical information on items eliminated as a result of the inactive item program.
- Establish a system for independently verifying the reasons the military services give for retaining inactive items.



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS
DIVISION

B-133118

The Honorable
The Secretary of Defense

Dear Mr. Secretary:

This report discusses our review of the Department of Defense's Inactive Item Program to eliminate unneeded inactive items in its supply system. We found that the program, as implemented by the Defense Supply Agency, has not been fully effective.

This report contains recommendations to you on page 5. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 30 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretaries of the Army, Navy, and Air Force; the Director, Defense Supply Agency; and the Chairmen and ranking minority members of the House and Senate Committees on Armed Services and Government Operations.

Sincerely yours,

A handwritten signature in cursive script that reads "Fred J. Shafer".

Fred J. Shafer
Director

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	<u>ABBREVIATIONS</u>	
DOD	Department of Defense	
DSA	Defense Supply Agency	
GAO	General Accounting Office	

D I G E S T

The Defense Supply Agency manages about 1.9 million different items, or about 50 percent of the items in the Department of Defense's supply system. Agency officials estimate that as many as 319,000, or 17 percent, of these items may be considered as inactive items during the next year. It costs the Agency about \$46 million annually to maintain this number of inactive items in the supply system. (See pp. 1 and 2.)

The Agency operates the Defense Inactive Item Program to eliminate from the supply system unneeded items which use warehouse space, personnel time, and computer processing time. However, in spite of the program, the Agency has not eliminated such items from the system. (See pp. 1 and 2.)

The program has not been fully effective because of

- technical difficulties in merging the inactive item program with the overall computerized system,
- delays in identifying the organizations which used the supplies and lack of a mechanism to inform the supply centers when they had received information on all inactive items, and
- absence of a system to independently verify the reasons the military cited for keeping inactive items. (See p. 2.)

The Secretary of Defense should:

- Reemphasize the benefits of the inactive item program to all Department of Defense components and periodically review the program's status.

- Require the Defense Supply Agency to improve its computer program to provide (1) prompt and complete user information and (2) statistical information on items eliminated as a result of the program.
- Establish a system for independently verifying the reasons the military services give for keeping inactive items.
(See p. 5.)

CHAPTER 1

INTRODUCTION

The Defense Supply Agency (DSA) manages about 1.9 million different supply items, or about 50 percent of the items in the Department of Defense's (DOD's) supply system. Our past reports 1/ have pointed out that many items in the supply system are inactive and that savings could be realized if such items were eliminated.

DOD officials have generally agreed with our findings and have cited a number of existing or planned programs intended to reduce the number of unneeded inactive items in their inventories.

One such program designed by DSA, the Defense Inactive Item Program, was adopted DOD-wide in July 1968. Its basic objective is to eliminate from the supply system unneeded inactive items which use warehouse space, personnel time, and computer processing time.

We studied DOD's program as implemented by DSA to determine if it was effectively eliminating inactive items. Our survey was done at (1) the Office of the Assistant Secretary of Defense (Installations and Logistics), (2) DSA headquarters, (3) the DSA Defense Construction Supply Center, (4) the U.S. Army General Materiel and Petroleum Activity, (5) the U.S. Navy Fleet Materiel Support Office, and (6) the U.S. Navy Ships Parts Control Center. We reviewed regulations, reports, and other records on the inactive item elimination program and discussed the program's policies, procedures, and criteria with agency officials.

1/"Substantial Savings Available by Eliminating Low-Cost, Low-Demand Spare Parts From Defense Supply System," (B-133118, Oct. 31, 1967); "Need To Remove More Low-Cost, Low-Usage Items From Inventories," (B-133118, Mar. 31, 1971); and "Greater Use of Commercial Distribution Systems for Minor, Low-Use Supply Items Can Reduce Defense Logistics Costs," (B-133118, Aug. 9, 1976).

CHAPTER 2

LIMITED PROGRESS IN ELIMINATING

INACTIVE ITEMS

Defense Supply Agency officials estimate that as many as 319,000 items, or about 17 percent of the items they manage, will be considered as inactive items during the next year. Based on DSA's estimate of the cost of managing supply items (\$165 for stocked items and \$125 for nonstocked items), we estimate that it costs \$46 million annually to maintain these inactive items.

Despite the Department of Defense's desire to eliminate unneeded inactive items, the Defense Inactive Item Program has not been completely successful. Program effectiveness has been reduced because of

- technical difficulties in merging the inactive item program with DSA's computerized material management system,
- delays in identifying the organizations which used the supplies and lack of a feedback mechanism to inform the supply centers when they had received user information on all inactive items, and
- absence of a system for independently verifying the reasons the military cited for keeping inactive items.

HOW THE PROGRAM WORKS

DSA's inactive item program is a computerized system that is integrated with DSA's overall computerized material management system. DSA's system to identify inactive items involves several steps. First, each DSA supply center identifies those items it manages which meet the criteria for an inactive classification (in the supply system 7 years and no demands for the past 2 years). Second, the supply centers query DSA's integrated data system for the names of all DOD organizations that use the item. Third, the supply centers forward the inactive item data to a focal point within each military service which distributes the data to the users. Fourth, the users decide whether to retain or eliminate items by evaluating technical data as well as demand and requirements data and send their decisions back to the focal point. The focal point then forwards the retain/delete decisions to the DSA supply center.

If all users decide to delete an item, its stock number is eliminated from the supply system and the supply centers dispose of all stock on hand. If one or more users decide to retain an item, the item is kept in the system. If a user either decides the item is not needed or does not respond to the supply center's inquiry within 6 months, the user's name is removed from the DSA catalog records for that item.

TECHNICAL DIFFICULTIES HALTED PROGRAM

DSA's inactive item program was suspended for most of 1973 and 1974 because of computer programming and other technical difficulties in merging the program with its overall material management system. In the fall of 1974, DSA merged the systems, and in January 1975 it referred about 255,000 inactive items to the military services for retain/delete decisions. The inactive item program was suspended again in March 1975 while DSA phased in a new integrated data system. In November 1975 the program resumed and another 60,000 inactive items were referred to the military services. DSA could not tell us how many items were eliminated because the integrated data system did not provide this information. Without such data DSA cannot evaluate the program's effectiveness.

PROBLEMS IN ACQUIRING AND CONTROLLING USER INFORMATION

Although DSA is again using the inactive item program, the system is not as effective as it should be because

- there have been delays in obtaining user information from DSA's integrated data system and
- the computer is not programmed to tell DSA's supply centers when they have received user information on all of the inactive items included in the query.

Before inactive items can be referred to the military services for review, the supply centers must identify user organizations from DSA's integrated data system. Although DSA's goal is to furnish this information to the supply centers within 3 days of the request, the system is not meeting this goal. For example, on recent requests the Defense Construction Supply Center has waited more than 3 weeks for user information. Thus, the entire system is delayed.

The computer program for DSA's overall material management system was not designed to include a mechanism to tell the supply center when user information on all items in their query has been provided. Consequently, items for which no user information has been supplied are excluded from the inactive item listing forwarded to the military services for review. Since the inactive item elimination program is run semiannually, the review of inactive items missed in one query is delayed for 6 months.

In October 1975 the Defense Construction Supply Center told DSA headquarters of this problem. The Center asked headquarters to develop a control system to inform the supply centers when all replies have been received from the integrated data system. In April 1976 DSA approved a computer programming change to correct the problem; however, the change had not been implemented during our study.

INACTIVE ITEMS RETAINED WITHOUT VERIFICATION OF FUTURE REQUIREMENTS

A military service may keep an inactive item provided it certifies that the item is needed. In March 1971 we reported that DSA supply centers were not effectively eliminating unneeded inactive items because the program did not provide for periodic independent verification of the military services' reasons for retaining the items.

DOD still has not developed a verification system and inactive items may have been needlessly retained. For example, we selected 20 inactive items that the Defense Construction Supply Center sent to the Army focal point (General Material and Petroleum Activity) for review in November 1975 and asked focal point officials why they decided to retain the items. Although none of the users of 12 of the 20 items responded to the focal point's retain/delete inquiries, the focal point nevertheless forwarded retain decisions to the DSA center so the users' names would not be deleted from catalog records. In most cases the Army was the only recorded user of the item. Such unvalidated retain decisions could result in items being unnecessarily retained in the system.

Army officials said the above action had been necessary because the user organizations had become confused by recent changes in the format of the inactive item data transmitted between the DSA supply centers, the Army focal point, and the Army users during the item review process.

CHAPTER 3

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

The Defense Inactive Item Program provides a means of reducing supply management costs through identifying and eliminating inactive items which are needlessly using warehouse space, personnel time, and computer processing time.

Unfortunately, the program has not completely succeeded in eliminating unneeded inactive items from the Defense Supply Agency's system. Failure to do so has contributed to a 9-percent growth in the number of items managed by DSA and an increase in its supply management costs.

RECOMMENDATIONS

We recommend that the Secretary of Defense:

- Reemphasize the benefits of the inactive item program to all DOD components and agencies and periodically review the program's status.
- Require DSA to improve its computer program to provide (1) prompt and complete user information and (2) statistical information on items eliminated as a result of the inactive item program.
- Establish a system for independently verifying the reasons the military services give for retaining inactive items.