

DOCUMENT RESUME

03685 - [B2874145]

[Implementation of Recommended Improvements by the Defense Logistics Agency]. ICD-77-111; B-133118. October 14, 1977. 9 pp.

Report to Secretary, Department of Defense; by Robert G. Rothwell (for Fred J. Shafer, Director, Logistics and Communications Div.).

Issue Area: Military Preparedness Plans: Military Communications and Information Processing Needs (803).

Contact: Logistics and Communications Div.

Budget Function: National Defense: Defense-related Activities (054).

Organization Concerned: Defense Logistics Agency.

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

A review of the actions taken by the Defense Logistics Agency (DLA) to implement the recommendations contained in the report entitled "Automated Support of Depot Operations Could Be Improved" showed that DLA has not fully implemented those recommendations that will provide the most substantial improvements in the automated depot system.

Findings/Conclusions: DLA can realize substantial savings in materiel shipment costs when it improves consolidation of parcel post shipments with freight shipments. Additional controls and verification procedures are still needed before DLA should rely on its microfiche records for its shipping and transportation data. Recommendations: The Secretary of Defense should direct the Director of the Defense Logistics Agency to revise the automated depot systems to identify those parcel post shipments that can be combined with freight shipments and sent at a reduced cost and to incorporate additional procedures and controls to provide assurance that all shipping data related to its shipments is included in the microfiche records. In addition, the Office of the Secretary of Defense should provide for evaluation of the process of establishing and maintaining materiel descriptions used by the military services. After the evaluation, the establishment of effective procedures should be assured by the Office so that the freight description of materiel will be consistent and uniform. (SC)



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

03685
LOGISTICS AND COMMUNICATIONS
DIVISION

B-133118

The Honorable
The Secretary of Defense

OCT 14 1977

Dear Mr. Secretary:

We have recently completed a review of the actions taken by the Defense Logistics Agency (DLA) ^{1/} to implement the recommendations contained in our report entitled "Automated Support of Depot Operations Could be Improved" (LCD-76-108, Feb. 20, 1976). This work was performed under GAO Code 941103.

We evaluated DLA's progress in taking timely and appropriate actions to implement the improvements recommended in our report. We held discussions with officials at the Memphis and Ogden depots, DLA Headquarters, the General Services Administration, and DLA's Data Systems Automation Office, which has the responsibility for the operation and maintenance of DLA's automated depot systems.

In our February 20, 1976, report we recommended that changes should be made to DLA's automated depot systems to assist the Defense logistical system in

- shipping materiel more economically,
- assuring the accurate preparation, recording, and reporting of materiel shipments, and
- providing improved control over the processing of customer requisitions.

Once these improvements have been made, we stated that we believe the Department of Defense would have a depot information processing concept worthy of consideration for use at its other depots.

^{1/}Effective January 1, 1977, the Defense Supply Agency was designated the Defense Logistics Agency.

LCD-77-111
(941103)

On April 27, 1976, the Deputy Assistant Secretary of Defense, Installations and Logistics, informed the Congress he basically agreed with our recommendations, made in our February 1976 report, and stated that implementing actions have been or are being taken accordingly. However, he had some reservations concerning the extent of savings to be realized by greater consolidation of parcel post and freight shipments.

The contents of this report have been discussed with DLA officials and their comments have been considered.

DLA'S ROLE IN THE DEPARTMENT OF DEFENSE'S LOGISTICAL SYSTEM

DLA was established in 1961 to provide effective logistical support of common supplies and services to the military services and other Federal agencies at the lowest feasible cost. On December 31, 1976, this responsibility included the management, procurement, storage, and distribution of approximately 1.9 million items valued at about \$3.15 billion.

To meet its supply management responsibilities, DLA has supply centers compute materiel requirements, procure needed materiel, process customer requisitions, and perform related financial activities. The physical handling of materiel is performed by its depots, when directed by the responsible center.

ADDITIONAL IMPROVEMENTS COULD BE MADE

DLA has taken a number of actions to carry out our recommendations but still needs to improve its automated depot systems to

- combine shipments to customers to minimize shipping costs and assure the accuracy and completeness of its microfiche records of materiel shipments.

Also, although DLA has essentially implemented our recommendations for improving materiel freight descriptions, which are the basis for determining correct transportation charges, there appears to be a need for evaluation of the procedures and to assure the implementation of consistent and uniform assignment of freight descriptions.

MATERIEL COULD BE SHIPPED
MORE ECONOMICALLY

The Government could save an estimated \$1.2 million annually if DLA's automated depot systems were revised to identify those shipments that could be combined as recommended in our report. During fiscal year 1976 DLA spent about \$71.7 million to ship materiel from its depots. Of this amount about \$18.7 million was spent for parcel post shipments. On April 27, 1976, the Deputy Assistant Secretary of Defense informed the Congress that transportation costs for parcel post shipments could be reduced if changes were implemented; however, DLA has not fully implemented revisions to its automated depot systems that incorporate these changes.

Improving materiel shipment methods

Currently, DLA's automated depot systems combine requisitions for the same customers into shipments based on such things as the customer's urgency of need for the materiel, the location of the materiel in the warehouse, and whether the materiel is compatible for packing with other materiel ordered by the customer. After the requisitions have been combined, a program in the computer determines whether the shipments will be sent by parcel post or freight. This determination is based primarily on the shipment's weight and urgency of need without regard to the transportation costs. Generally, all shipments weighing over 66 pounds are automatically shipped by air or motor freight while all shipments weighing less than 66 pounds are generally shipped as parcel post. DLA established the 66-pound weight limitation to essentially comply with the U.S. Postal Service maximum weight limitation of 70 pounds for parcel post shipments.

Because these automated systems do not include criteria to consolidate parcel post and freight shipments for the same customer or geographical area, individual parcel post and freight shipments are processed and made concurrently. Many of these shipments could be combined and shipped more economically as freight.

Materiel shipments can be combined

DLA's depot at Ogden, Utah, reported on February 4, 1977, that our recommendation for reducing the cost of shipping materiel to its customers had been tested. The test results confirmed transportation cost savings can be expected when parcel post shipments are combined with freight shipments

already going to the same geographic area. Based on these results, depot officials projected over 53,000 parcel post shipments could be combined annually with freight shipments and about \$75,000 could be saved annually at the Ogden depot alone.

However, the depot's test procedures considered consolidating only routine parcel post shipments weighing between 20 and 46 pounds. The test excluded the possibility of consolidating routine parcel post shipments weighing less than 20 pounds and between 46 and 66 pounds with freight shipments, higher priority shipments, or air freight shipments.

On March 3, 1977, DLA agreed with the content of the Ogden depot's test report and requested that the depot prepare the functional requirements for implementation of the improved procedures DLA-wide. However, DLA does not believe that 20 pounds is the lowest weight limit that could be used since lower weight limits could be established at DLA depots that do not have the mechanized materiel handling equipment used at the Ogden depot. Also, DLA believes that those depots with this materiel handling equipment can lower their minimum weight capabilities by using weighted trays or baskets.

Since the Ogden depot processes about 25 percent of DLA's parcel post shipments, we estimate the consolidation of parcel post shipments weighing between 20 and 46 pounds with freight shipments could save DLA an estimated \$300,000 annually, if similar conditions prevail at the other DLA depots. Had the Ogden test considered routine parcel post shipments weighing between 10 and 66 pounds, rather than 20 to 46 pounds, the number of parcel post shipments that could have been combined with freight shipments could have been substantially increased. We estimate this change could increase the savings, at the Ogden depot alone, to about \$200,000 annually and DLA's total savings could be \$800,000 or more annually. Should DLA expand this capability to include both routine and high priority parcel post shipments weighing between 10 to 66 pounds, we estimate DLA could save at least \$1.2 million annually.

MICROFICHE RECORD ACCURACY
NEEDS IMPROVING

During our earlier review, DLA requested our approval to destroy the supporting shipping and transportation

documentation and rely solely on microfiche records 1/ for such information.

We found that the microfiche records did not include all the information contained on the original documents necessary to assure DLA that materiel was shipped only to authorized recipients and shipments were made at the most economical freight rate. As a result, we recommended that DLA incorporate control procedures. These procedures would provide assurance that all of the information needed to identify and control the movement of materiel and to serve as the basis for payment to carriers was included in the microfiche records.

Additional controls required

Although the Deputy Assistant Secretary of Defense said corrective actions would be taken and DLA has made changes to improve the reliability of its microfiche records, many microfiche records still do not accurately describe or support how the materiel shipments were actually made. The newly incorporated controls are intended to provide assurance that all bill of lading information is recorded on microfiche. These controls do not provide assurance that the bill of lading information is itself complete before being transferred and recorded. In addition, control procedures have not been implemented to assure that when manual changes are made to bills of lading these changes are entered correctly into the system and reflected on the microfiche records. We found that many of the manual changes to bills of lading were not entered correctly into the system. As a result, our analysis indicates DLA can expect a 15- to 26-percent error rate in the corrective entries that are made to the microfiche records.

We believe DLA should develop and incorporate record counts and verification procedures to provide assurance that all shipping information used to prepare bills of lading and all manual changes to bills of lading are properly

1/Microfiche records contain photographic pages of information in reduced size and are used by the depots as their primary source of information for responding to shipment inquiries.

recorded on microfiche records. In view of the above, DLA should continue to retain copies of bills of lading with supporting documentation until it can provide greater assurance that its microfiche records are accurate and complete, and General Services Administration and Department of Defense regulations have been changed to allow retention of microfiche records in lieu of paper copies of bills of lading.

FREIGHT CLASSIFICATION GUIDE
SYSTEM INCORPORATED AS BASIS
FOR MATERIEL DESCRIPTION

As recommended in our February 1976 report, DLA has adopted the Freight Classification Guide System information as the basis for materiel freight descriptions in its automated depot systems. However, DLA is not consistently following the procedures specified by Department of Defense regulations or those described to the Congress by the Deputy Assistant Secretary of Defense in his April 27, 1976, letter.

To make certain that the Government describes the materiel it ships in a uniform and consistent manner which can be recognized and accepted by all freight carriers and transportation agencies, the Department of Defense requires the military services to use the materiel freight description information provided in the Freight Classification Guide System. This system is managed by the Military Traffic Management Command. To be sure that uniform and consistent materiel freight descriptions are available for use by the military services, the Department of Defense designated its Defense Integrated Data System for distribution of the Guide System's information. Because a proper description of the materiel is necessary to assure the appropriate assessment of transportation charges, DLA has made its depots responsible for assuring that the Guide System's description information is suitable for DLA managed materiel.

DLA is to report materiel freight descriptions considered to be unsuitable or believed not to be in the Government's best interest to the Military Traffic Management Command for consideration and to maintain a record of all reported deficiencies.

Unless the Military Traffic Management Command agrees with DLA's suggested change and corrects the Freight Classification Guide System and/or DLA is notified of the change, prior to issuance, DLA depots must continue to use the

freight description information provided by the Guide System. While this corrective process may require the temporary use of freight description information that might not be in the Government's best interest, DLA must assure that its depots consistently use the freight descriptions that have been authorized by the Military Management Command.

In his April 27, 1976, response to our report, the Deputy Assistant Secretary of Defense said all DLA depots had been directed to preserve the information established by the Military Traffic Management Command and not to change this relationship without the Command's concurrence. During this follow-up review we found DLA (1) did not always use the freight description information provided by the Guide System and (2) records did not indicate that the Military Traffic Management Command had authorized the deviation. Instead, DLA had used descriptions that depot officials believed more suitable, for the materiel being shipped, without the description being authorized by the Military Traffic Management Command.

We believe DLA has essentially implemented our recommended improvements for the use of descriptions. However, we believe DLA's practice of using materiel descriptions that deviate from the Freight Classification Guide System indicates the need for evaluating how the Department of Defense establishes and maintains these descriptions. While we agree that materiel shipped should be described correctly, we believe the procedures used for maintaining these descriptions should also be evaluated. For example, the claim by depot officials that DLA descriptions are believed to be more suitable raises questions about the accuracy of the Freight Classification Guide System.

OTHER IMPLEMENTED IMPROVEMENTS

On April 27, 1976, the Deputy Assistant Secretary of Defense stated that in response to our recommendations, DLA had revised its automated depot systems to select correct freight tariffs and compute acceptable estimates of transportation costs. Also, DLA had revised these systems to cancel bill of lading numbers assigned to voided bills and to assign new bill numbers to the reissued bills. Finally, DLA had adopted the use of a common data file to eliminate the need to regularly reconcile the individual working files of its two automated depot systems.

CONCLUSIONS AND RECOMMENDATIONS

DLA has implemented several of our recommended improvements in its automated depot systems; however, it has not fully implemented those recommendations that will provide the most substantial improvements. We believe that these improvements should be made expeditiously so that DLA can

--ship materiel more economically, and

--rely on the microfiche records for the shipping and transportation data.

DLA's Ogden depot has demonstrated the economic desirability of identifying parcel post shipments that can be combined with freight shipments going to the same geographical area. Although the full potential of our recommended improvement was not tested by the Ogden depot, we believe DLA can realize substantial savings in materiel shipment costs when DLA improves its consolidation of parcel post shipments with freight shipments. Such savings could be at least \$1.2 million annually.

We also believe DLA has improved the accuracy and reliability of its microfiche records. However, additional controls and verification procedures are still needed before DLA should rely on these records for its shipping and transportation data. These changes are needed to assure that all data used by DLA to ship materiel to its customers is reflected on the microfiche. DLA must continue to retain copies of bills of lading with supporting documentation, until two conditions are met. First, DLA must be able to provide assurance that its microfiche records are accurate and complete and second, the General Services Administration and Department of Defense regulations must be changed to allow retention of microfiche records in lieu of copies of bills of lading.

We recommend that your Office provide for evaluation of the process of establishing and maintaining material descriptions used by the military services. After the evaluation, we recommend that the establishment of effective procedures be assured by your Office so that the freight description of materiel will be consistent and uniform.

We again recommend that your Office direct the Director, Defense Logistics Agency, to

- revise the automated depot systems to identify those parcel post shipments that can be combined with freight shipments and sent at a reduced cost and
- incorporate additional procedures and controls to provide assurance that all shipping data related to its shipments is included in the microfiche records.

We believe that when the improvements relating to DLA have been made, DLA will have essentially complied with the intent of our February 1976 recommendations, and the Department of Defense should consider using DLA's automated techniques at other Defense depot activities.

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 Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 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.

If you wish to obtain more specific information or have questions concerning any aspect of this report, please contact Mr. C. C. Smith, Assistant Director, on 275-6572.

Copies of this report are being sent to the House and Senate Committees on Appropriations; the House Committee on Government Operations; the Senate Committee on Governmental Affairs; and the House and Senate Committees on Armed Services. Copies of this report are also being provided to the Director, Defense Logistics Agency.

Sincerely yours,


for Fred J. Shafer
Director