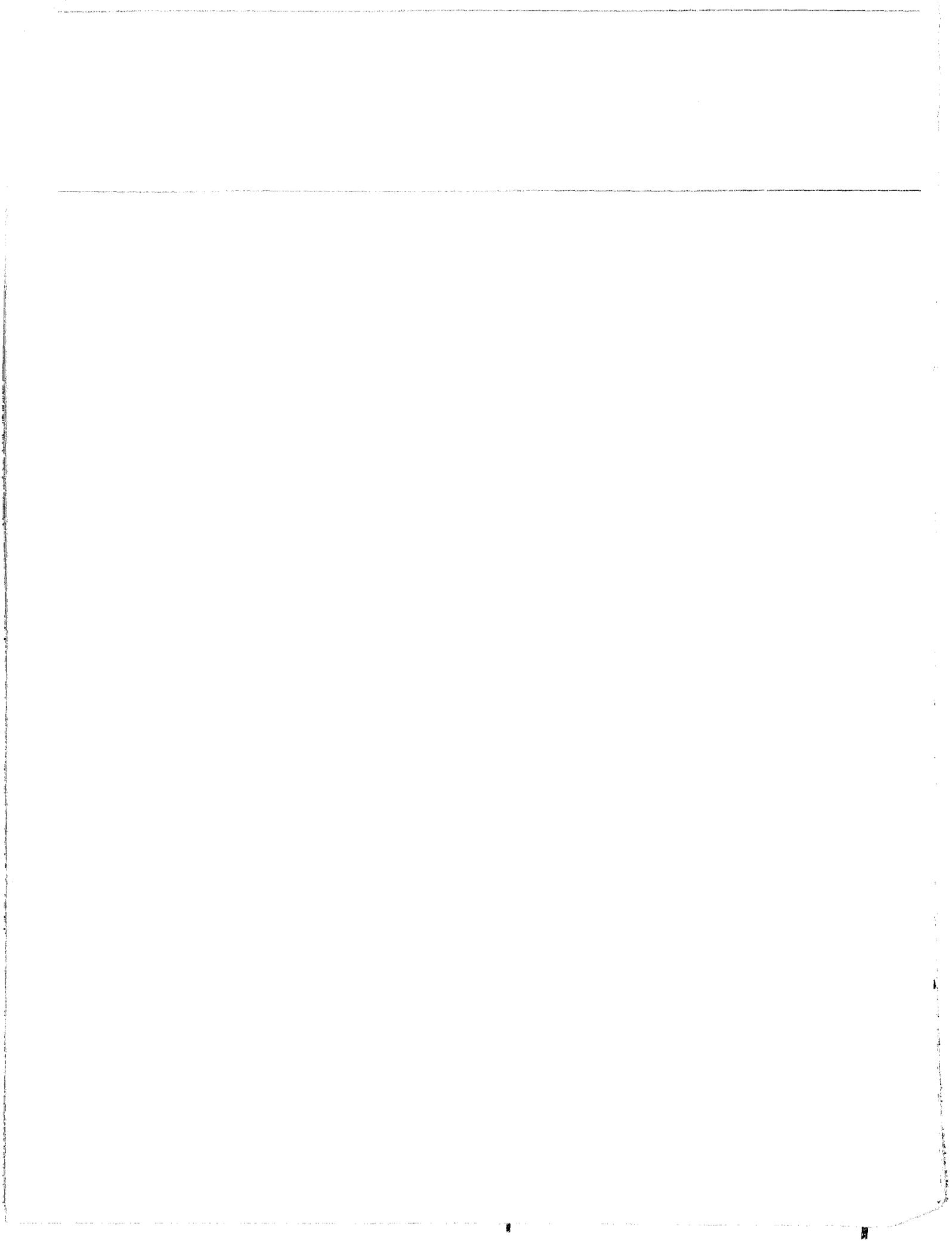


July 1991

**AIR FORCE
LOGISTICS**

**Improved
Redistribution of Retail
Inventories Needed**







United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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July 10, 1991

The Honorable Sam Nunn
Chairman, Committee on
Armed Services
United States Senate

The Honorable Les Aspin
Chairman, Committee on
Armed Services
House of Representatives

The Honorable Robert C. Byrd
Chairman, Committee on
Appropriations
United States Senate

The Honorable Jamie L. Whitten
Chairman, Committee on
Appropriations
House of Representatives

This report addresses the reporting and redistributing of Air Force retail-level assets that are excess to the retail activity's war reserve and peacetime operating needs.

We are sending copies of this report to the Secretary of Defense, the Secretary of the Air Force, and to other interested congressional committees. We will also make copies available to others on request. Please contact me on (202) 275-4268 if you or your staff have any questions. The major contributors to this report are listed in appendix III.

Nancy R. Kingsbury
Director
Air Force Issues

Executive Summary

Purpose

Congress is concerned about the rapid growth of the military services' inventory of secondary items (supplies and minor equipment), especially growth in inventory that is in excess of that needed to meet wartime reserves or current operations.

GAO made this review to determine if the Air Force's excess retail inventory is (1) accurately and completely reported, (2) properly considered in procurement decisions, and (3) used to fill other retail activities' requisitions. GAO also identified some of the primary reasons for the accumulation and growth of excess retail inventory.

Background

The Air Force supply system has a wholesale level and a retail level. Air Force policies require wholesale item managers to have visibility¹ over retail-level assets so that they can (1) reduce or eliminate procurements when retail activities have excess items and (2) improve operational readiness by redistributing items directly from retail activities that have excesses to those that have shortages. Air Force automated systems usually give wholesale managers visibility over relatively high-cost items that are returned to wholesale depots for repair, but not over consumable items and low-cost equipment managed through the Systems and General Support Divisions of the Air Force Stock Fund. Visibility over these items is limited to periodic reports of excess.

The term retail-level excess, as used in this report, refers to assets that exceed a retail activity's war reserve and peacetime operating needs. However, items that are excess from one retail activity's perspective are not necessarily excess to total Air Force needs because excesses at one activity may offset shortages at another activity. Therefore, Air Force officials and DOD comments to this report suggest that these assets should be called "redistributable assets."

Results in Brief

Between September 1987 and March 1990, inventories of consumable items and low-cost equipment that were excess to Air Force retail activities' war reserve and peacetime operating needs increased from \$442 million to \$927 million, or 110 percent. However, wholesale item managers had visibility over only a small portion of the retail-level excess. As a result, wholesale managers procured items valued at millions of dollars that were excess at some retail-level activities and opportunities for redistributing assets were missed. Further, wholesale

¹Inventory status and location of retail-level assets.

managers were not effectively using known retail excess to fill backorders.

Retail-level excesses are primarily caused by decreasing demands, customer turn-ins, and requisitioning problems. These three reasons accounted for about 90 percent of the excess inventories at the activities that GAO reviewed. The Air Force is studying inventory growth to develop strategies for reducing inventories without adversely affecting readiness and sustainability. However, that study is not broad enough to identify specific corrective action for some of the problems GAO identified.

Principal Findings

Magnitude of Retail-Level Excess

Air Force retail supply activities had about \$2.3 billion of consumable items and low-cost equipment inventories on hand as of March 31, 1990. Approximately \$927 million, or 41 percent, were excess to war reserve and peacetime operating needs. Also, Air Force retail activities had \$107 million of items on order that were excess to Air Force needs.

Limited Visibility Over Retail Excess Causes Unnecessary Procurement

GAO compared the System Support Division retail-level excesses on hand, valued at \$108.3 million, at 14 retail activities as of March 31, 1990, with procurement actions being taken at the five air logistics centers (ALC) and found that there were ongoing or planned procurements for \$32.1 million, or 29.6 percent, of these retail item excesses. The ALCS were aware of only \$1.5 million, or about 5 percent, of the \$32.1 million in retail excess. The lack of visibility of the excess occurred because (1) the Air Force does not require complete reporting, (2) Air Force systems prematurely cancel information on reported excesses from wholesale records, and (3) the Air Force has suspended excess reporting requirements for depot maintenance retail supply activities due to problems with these activities' automated systems. In addition, some bases did not comply with excess reporting requirements.

Wholesale Managers Do Not Effectively Use Retail Excess to Fill Backorders

Wholesale item managers used known retail-level excess to fill backorders only about 21 percent of the times when it was appropriate to do so. The failure to use retail-level excess to fill backorders occurred when item managers manually processed reports of excess. When the reports

were automatically processed, retail activities were directed to redistribute their excess assets.

Primary Reasons for Retail-Level Excess

The primary reasons for retail-level excesses are decreasing demands for items, customer turn-ins of previously ordered and delivered items, and requisitioning problems such as receipt of more items than were requisitioned. These three accounted for about 90 percent of the excess items GAO reviewed. In addition, inventory adjustments were needed because physical inventories revealed errors in inventory records. The deletion of authorized stock levels that were based on factors other than demand experience also contributed to the excess GAO identified. Each of these reasons represents a problem that warrants management attention. For example, between September 1987 and September 1990, customers turned in to retail supply activities more than \$1.5 billion of consumable items and low-cost equipment, about one-sixth of the amount they had purchased.

Although the Air Force is studying the causes of inventory growth to develop strategies for reducing inventories, that study is not expected to make any recommendations on retail activities' requisitioning and customer turn-in problems.

Recommendations

GAO makes several specific recommendations in chapter 2 to the Secretary of the Air Force to improve item managers' visibility over excess assets and to ensure that more of these assets are used to fill requisitions and backorders. GAO also recommends in chapter 3 that the Air Force expand its study on inventory growth to address the causes of excess that GAO identified.

Agency Comments

DOD concurred with our findings and four of the five recommendations, and advised us of corrective actions taken or planned by the Air Force and DOD. DOD also concurred with the intent of the remaining recommendation to increase the time retail reports of excess are maintained by the Defense Automated Addressing Office. However, DOD already had initiated action to lengthen the time to 75 days and did not believe that further action was warranted to increase the time to 90 days as we had recommended.

Executive Summary

Because retail levels report excesses about every 90 days, GAO believes the Air Force should retain visibility over the reports of excess for 90 days, or until the next report is received.

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Abbreviations

ALC	Air Logistics Center
DEPRA	Defense Program for the Redistribution of Assets
DOD	Department of Defense
GAO	General Accounting Office
GSD	General Support Division
SSD	Systems Support Division

Introduction

The Air Force supply system has a wholesale level comprised of five air logistics centers (ALC), which report to the Air Force Logistics Command, and a retail level comprised primarily of Air Force bases. The ALCs calculate wholesale requirements for items and buy, store, and ship the items to retail activities. Retail activities compute authorized stockage levels, requisition items from wholesale activities, and store them for use by Air Force units and other customers.

Wholesale item managers' visibility over retail assets varies with the type of item. The managers usually have visibility over relatively high-cost items that are returned to wholesale depots for repair. However, for items that are not economically repairable (consumable supplies) or that will be discarded if they cannot be repaired in the field (field repairable supplies and low-cost equipment items), visibility is usually limited to periodic reports of excess.

Most consumable supply, field repairable supply, and low-cost equipment items are managed through the Systems Support Division (SSD) or General Support Division (GSD) of the Air Force Stock Fund. SSD items are managed by Air Force inventory item managers, while GSD items are managed by the Defense Logistics Agency, the General Services Administration, or the other military services. As of March 31, 1990, Air Force SSD and GSD inventories totaled about \$8.6 billion—\$6.3 billion at the wholesale level and \$2.3 billion at the retail level.

Air Force Procedures for Identifying and Reporting Excess Retail Inventory

Department of Defense (DOD) Directive 4100.37, Retention and Transfer of Materiel Assets, directs retail activities to report excess serviceable or economically repairable materiel to DOD wholesale managers for reuse. The directive does not specifically state which assets should be reported as excess but, instead, leaves this to the discretion of the individual services.

Within the Air Force, an item's requisitioning objective is the quantity that a retail activity should have on hand or on requisition to meet peacetime operating needs. The requisitioning objective is usually computed based on past demand experience and generally represents about a 1-year supply.

Four times a year, retail activities' automated systems compute requisitioning objectives for their SSD and GSD items and compare them to the total quantity on hand and on requisition. If the quantity on requisition is greater than the requisitioning objective, the automated systems

submit cancellation requests to wholesale item managers. If the quantity on hand exceeds the requisitioning objective, the systems report the excess to wholesale item managers and to the Defense Program for the Redistribution of Assets (DEPRA).

Wholesale item managers direct reporting activities to ship their excess items to those activities with backorders (unfilled requisitions), and if there are no backorders, either retain the items or return them to a wholesale depot. DEPRA tries to match reported excesses with requisitions that are received after the excess is reported.

The terms "excess retail inventories" and "retail-level excess", as used in this report, refer to on-hand assets that exceed the requisitioning objective plus war reserve requirements. This definition is consistent with the Air Force's excess reporting criteria for consumable SSD items. However, items that are excess from an individual retail activity's perspective are not necessarily excess to total Air Force requirements because one activity's excess may offset another activity's shortage. Air Force officials and DOD's comments to this report suggest that these assets should be called "redistributable assets." Air Force supply officials acknowledge that both wholesale item managers and DEPRA should have visibility over these assets.

DOD Is Attempting to Reduce Inventory Levels

In May 1990, DOD issued its 10-point Inventory Reduction Plan, which identifies several actions that could reduce inventory levels at both the wholesale and retail levels. As part of this plan, the military services are to (1) evaluate opportunities for increasing wholesale visibility and the use of retail excess to reduce procurements, (2) minimize returns of retail excess to wholesale depots by redistributing items directly to retail activities that have shortages, and (3) evaluate a proposed DOD billing system amendment to permit reimbursement of shipping costs to the shipping activity when redistribution takes place.

Objectives, Scope, and Methodology

Our objectives were to determine if excess SSD and GSD retail inventory is (1) accurately and completely reported to wholesale inventory managers and DEPRA, (2) properly considered in procurement decisions, and (3) effectively used to fill other retail activities' requisitions. We also identified some of the causes of excess retail inventory.

To determine if retail activities accurately and completely report excess inventory, we discussed reporting policies, procedures, and practices

with (1) base supply personnel at Travis Air Force Base, Calif.; Mather Air Force Base, Calif.; and Nellis Air Force Base, Nev.; (2) systems analysts at the Air Force Standard Systems Center, Gunter Air Force Station, Ala.; and (3) supply officials in Air Force Logistics Command Headquarters at Wright Patterson Air Force Base, Ohio.

We analyzed March 1990 supply data for 9 of the 12 Air Force bases in the Air Force's Stock Control Data Bank. (See app. II.) For each of the nine bases, we identified excess assets and determined if these excess assets were being reported to wholesale item managers and DEPRA. Complete data were not available for the other three bases. We validated our methodology for identifying retail-level excess by calculating the value of excess SSD and GSD assets for an entire base and then confirming that our results agreed with the results that the Air Force Logistics Management Center obtained when it processed the same base's data.

We used information in the Data Bank because the Air Force Logistics Management Center (1) uses the Data Bank extensively to develop retail supply policy and (2) has conducted statistical tests to confirm that the Data Bank bases generally represent Air Force bases worldwide.

To determine if wholesale item managers properly considered excess retail inventory in their procurement decisions, we (1) discussed policies and procedures with officials at each ALC, (2) matched February 1990 ALC procurement data with February 1990 data on excess retail inventories for five ALC maintenance activities, and (3) matched March 1990 ALC procurement data with March 1990 data on excess retail inventory for the nine Stock Control Data Bank bases.

To determine if excess retail inventories were being used to fill requisitions, we discussed redistribution procedures with officials and systems analysts in the Office of the Assistant Secretary of Defense (Production and Logistics), the Office of the Air Force's Deputy Chief of Staff for Logistics and Engineering, Air Force Logistics Command Headquarters, the Defense Automated Addressing System Office, the Air Force Standard System Center, and the five ALCs, as well as at selected bases. We also reviewed DEPRA operations reports and actions ALC item managers took on reports of excess that were submitted for 50 items that had unfilled orders.

To identify some of the causes of excess retail inventory, we talked with supply personnel at bases, major commands, and Air Force Headquarters and analyzed excess cause code data for the nine Stock Control Data

Bank bases. These excess cause codes are assigned automatically based on the supply transaction that caused an item to become excess.

We tested procurement and excess inventory data generated by various automated systems to assess its validity and accuracy. For example, we traced selected information on the ALC procurement tapes back to the ALCS' procurement history records. While there were some discrepancies, the level of accuracy was sufficient to allow us to rely on the data in the automated systems.

Our review was performed from August 1989 to March 1991 in accordance with generally accepted government auditing standards.

Improved Reporting and Redistribution of Excess Retail Inventory Is Needed

The Air Force has accumulated about \$1 billion in excess retail inventory over which wholesale inventory managers and DEPRA lack adequate visibility. As a result, wholesale managers are spending millions of dollars to buy items that are excess at the retail level. Further, reported retail excess is not always used to fill backorders.

In addition to restricting Air Force wholesale managers' ability to use the excess to fill backorders or avoid procurements, limited visibility over retail-level excess also affects DEPRA's ability to redistribute these excesses to fill incoming Air Force requisitions. Based on our analysis of DEPRA operations reports, of the Air Force retail activities' \$927 million in excess SSD and GSD inventories, DEPRA had visibility over only \$34.1 million, or less than 4 percent, as of March 31, 1990.

Extent of Excess Retail Inventories

Air Force retail activities had about \$2.3 billion of SSD and GSD inventories as of March 31, 1990. About \$927 million, or 41 percent of these inventories, were excess to retail activities' war reserve and peacetime operating needs. Air Force retail activities also had about \$107 million of SSD and GSD items on requisition that were reported by retail activities as excess to their war reserve and peacetime operating needs. Together, these retail activities had about \$1 billion of excess SSD and GSD inventory either on hand or on requisition as of March 31, 1990.

Limited Visibility Over Retail Excess Causes Unnecessary Procurement

According to DOD policy and Air Force guidance, wholesale inventory managers and DEPRA should have visibility over retail-level excess to allow them to redistribute the items to satisfy shortages or to reduce or eliminate procurements. However, wholesale item managers and DEPRA have only limited visibility over retail-level excesses because (1) the Air Force does not require complete reporting, (2) Air Force systems frequently cancel reports of excess prematurely, and (3) the Air Force has suspended excess reporting for depot maintenance retail supply activities due to automated systems' problems. In addition, some bases have not complied with automated excess reporting procedures.

Inventory data for nine Air Force bases and five depot retail activities, which are listed in appendix II, showed that, as of March 1990, these activities had about \$108.3 million of SSD inventories on hand that exceeded their war reserve and peacetime operating needs. We compared this excess with ALC procurement actions and found ongoing or planned procurements for \$32.1 million, or 29.6 percent, of these retail-level excesses. Retail activities had reported only \$1.5 million, or about

5 percent, of the \$32.1 million in retail-level excess that was being procured by the ALCS. Following are examples of unreported excess inventory:

- 43 excess batteries at four bases were not reported as of March 1990. At the same time, the Sacramento ALC was procuring 266 batteries. Had Sacramento known about the excess batteries, a cost avoidance of about \$40,600 could have been achieved.
- nine excess F5E aircraft antennas at one base were not reported. At the same time, the Sacramento ALC was initiating procurement of 19 antennas. Had the wholesale manager been aware of the excess antennas, a cost avoidance of about \$13,270 could have been achieved.

Air Force Does Not Require Complete Reporting

The Air Force does not require complete reporting of retail-level excess for all items; however, complete reporting is required for consumable SSD items. For GSD items, only the quantity that exceeds the requisitioning objective plus 2 years of anticipated demands must be reported, and for field repairable SSD items, only the quantity that exceeds 2 years of anticipated demands must be reported.

Air Force supply officials cited two reasons for not reporting all assets above the requisitioning objective: (1) they do not want their retail activities to ship excess items to non-Air Force customers unless they are reimbursed for both the cost of the item and packaging and shipping and (2) they want to minimize the amount of materiel that retail activities return to the wholesale level and subsequently reorder. Retail activities could be reimbursed for not only the excess items they are asked to ship but also for packaging and shipping. Further, complete reporting of excess would not necessarily cause an increase in the amount of materiel that retail activities return to the wholesale level and subsequently reorder. The wholesale item manager should have visibility over the item, but the movement of an item need not take place until it is actually needed.

Reports of Excess Canceled Prematurely

Visibility over retail-level excess is also limited by the premature cancellation of the reports of excess. The cancellation occurs automatically, even though the items are still excess, if a wholesale item manager asks a retail activity to return the excess items to the wholesale level without financial credit and the retail activity has had a demand for the item within the previous 30 months.

By canceling the reports of excess rather than complying with an item manager's request for the return of the item, the Air Force reduces the number of times retail activities return items to the wholesale level and subsequently reorder them. However, these premature cancellations also cause DEPRA and the wholesale item managers to lose visibility over the excess assets. For example, an Air Force base reported an item excess on December 12, 1989. The item manager asked the base to return the item without financial credit on December 28, 1989. The base canceled the report of excess on December 30, 1989. This same item was reported excess three more times during the year. Each time the same sequence of events occurred.

The Air Force has revised the procedures for processing wholesale item managers' disposition instructions. When item managers request the return of an item to the wholesale level, the Defense Automated Addressing System Office will hold the request for up to 50 days before forwarding it to the retail activity. During this time, DEPRA will continue to match the reported excess with incoming requisitions, and both DEPRA and the item managers will continue to have visibility over the excess.

However, Air Force retail activities submit reports of excess about once every 90 days and DEPRA will only match reports of excess with incoming requisitions for 50 days. Even if retail activities completely report all of their excess, DEPRA and inventory managers may still lack visibility over the excess items for as much as 40 out of every 90 days.

Reporting Requirements Suspended for Some Retail Activities

As of February 1990, about \$76.3 million of retail-level excess was not being reported because the Air Force had suspended excess reporting requirements for the retail supply activities that support the ALCs' depot maintenance mission. Air Force supply officials took this action when they determined that these retail supply activities' automated system had not been programmed to respond to DEPRA redistribution orders.

The requirement to process DEPRA redistribution orders has been identified in an Air Force computer system requirements document. However, since the ALCs' automated system is scheduled to be replaced by a new system in June 1991, the corrective action is being deferred until that time.

Some Bases Are Not Complying With Excess Reporting Requirements

Reports of excess are supposed to be sent to DEPRA and to wholesale inventory managers automatically. However, we found that some retail activities were diverting the reports of excess to an internal file in their automated systems.

The quarterly DEPRA operations reports that are provided to Air Force major commands showed that 36 retail activities did not report any excess during the first quarter of fiscal year 1990. We contacted four of the activities and found that each activity was diverting the reports of excess into an internal file in its automated system. Officials at all four activities told us that they were unaware that this was occurring and took corrective action by June 30, 1990. Two retail activities that had not been reporting any excess took corrective action when we pointed out the problem, and each reported about \$4.5 million of excess the next quarter.

Wholesale Managers Do Not Effectively Use Retail Excess to Fill Backorders

When wholesale item managers receive reports of excess for items on backorder, they are supposed to issue redistribution orders that instruct the reporting activity to ship the item directly to the requisitioning activity. However, our review of 244 reports of excess showed that redistribution orders were issued to fill backorders only about 21 percent of the times when it was appropriate. These opportunities were missed because item managers failed to issue redistribution orders when they manually processed reports of excess.

For each of the 5 ALCs, we selected 10 items that had outstanding backorders and determined that the ALCs had received at least one report of excess for 31, or 62 percent, of the items during the prior 180 days. Reported excesses should have been used to fill backorders 244 times during this 180-day period. However, as shown in table 2.1, the ALCs directed bases to redistribute the excess to fill the backorder only about 21 percent of the time.

**Chapter 2
Improved Reporting and Redistribution of
Excess Retail Inventory Is Needed**

Table 2.1: ALC Actions on Reports of Excess That Had Matching Backorders

ALC	Lateral redistribution ^a		Return to wholesale depot		Other ^b	
	Number	Percent	Number	Percent	Number	Percent
Ogden	1	2.8	35	97.2	0	0.0
Oklahoma City	7	41.2	10	58.8	0	0.0
Sacramento	11	40.7	16	59.3	0	0.0
San Antonio	32	23.4	105	76.6	0	0.0
Warner Robins	1	3.7	22	81.5	4	14.0
Total	52	21.3	188	77.1	4	1.0

^aRedistribution direct from the retail supply activity that reported excess to the using activity that requisitioned the item on backorder.

^bIncludes two excess reports that failed the ALC's edit check and two for which the disposition instructions were "not returnable."

At the Ogden, Oklahoma City, and Sacramento ALCS, 12 of the 80 excess reports we reviewed were processed by the ALCS's automated systems and the excess was used to fill backorders. For the remaining 68, which were processed manually by item managers, the excess was used to fill backorders only seven times (10 percent). Further, four of these seven redistribution actions were taken only after we pointed out that such action was required. The wholesale item managers told us that directing a retail activity to return reported excesses to a wholesale depot is a simple, one-step process, whereas manually issuing redistribution orders is a more complicated, multi-step, and time-consuming process.

Although several factors can prevent reports of excess from being automatically matched with backorders, the most common is the assignment of a management review code (to ration items that are in short supply). For example, one of the items in our sample had seven reports of excess—five that were processed automatically and two that were processed manually after a management review code was assigned. The five reports that were processed automatically resulted in redistribution orders. For the two processed manually, the item manager directed the base to return the excess item to the wholesale level even though there were five high priority and numerous lower priority backorders at the time.

Conclusions

A supply system that gives wholesale item managers visibility over retail assets allows them to eliminate or reduce procurements by considering retail-level excess in their procurement decisions and use reported excess to fill backorders. Effective redistribution procedures help to

maximize the use of government materiel and limit the accumulation of excess assets.

The Air Force supply system does not give its wholesale item managers and DEPRA adequate visibility over retail activities' excess SSD and GSD inventories. As a result, Air Force item managers are buying items that are excess at some retail activities. Further, the ALCS do not always use reported excesses to fill backorders, and DEPRA, which is the primary mechanism used by the Air Force to redistribute retail-level excesses, is not aware of many redistribution opportunities.

The lack of asset visibility occurs primarily because the Air Force does not require complete reporting of excess and allows retail activities to prematurely cancel reports of excess. In addition, some bases do not report excesses as required. According to Air Force officials, the current level of reporting minimizes returns and subsequent reorders and shipping costs for interservice redistribution of excesses. We believe that the amount of excess returned to the depot and then reordered can be minimized. The items could be held in place until needed and shipping costs could be reimbursed to the retail activity. Activities that do not report any excess could be identified through quarterly DEPRA operations reports and followed up to ensure compliance with reporting requirements.

The Air Force also needs to ensure that its ALCS use retail-level excess to fill backorders. As a minimum, ALC item managers should (1) have clear guidance on the procedures used to manually process redistribution orders and (2) understand the importance of redistribution of excess to fill backorders whenever possible. However, we question whether management review codes should cause reports of excess to be manually processed by item managers. If the reports are processed by the ALC automated system, they will be processed upon receipt and automatically matched with the highest priority backorder. Since the ALCS' automated systems are effective in matching reports of excess with backorders, the Air Force should try to minimize the number of excess reports that must be reviewed and manually processed by item managers.

Recommendations

We recommend that the Secretary of Defense

- instruct the Director, Defense Logistics Agency, to hold item managers' responses to Air Force reports of excess for a maximum of 90 days rather than 75 days.

We further recommend that the Secretary of the Air Force

- require retail supply activities to report all assets above their requisitioning objectives to wholesale inventory managers and to DEPRA,
- direct the Commander of the Air Force Logistics Command to minimize the manual processing of reports of excess and ensure that ALC item managers have clear guidance on the procedures that should be used to manually direct the redistribution of reported excess to fill backorders, and
- direct major commands to use the quarterly DEPRA operations report to monitor whether bases are reporting their excess assets.

Agency Comments and Our Evaluation

DOD concurred with our findings and with three of the recommendations in this chapter, and advised us of corrective actions taken or planned by the Air Force and DOD. (See app. I.) We believe the actions taken or planned are generally responsive to our recommendations and should bring about needed improvements.

DOD also concurred with the intent of the first recommendation in this chapter to increase the time that the Defense Automated Addressing System Office holds wholesale manager's responses to Air Force retail reports of excess. However, DOD stated that the recommendation should be eliminated because (1) the Secretary of the Air Force does not have the authority to direct the Addressing System Office to take the recommended action and (2) DOD initiated action on January 1, 1991, to extend the time period to 75 days. We have redirected the recommendation to the Secretary of Defense. Further, while the action taken by DOD to extend the period of wholesale visibility over reported retail excesses has merit, wholesale managers and DEPRA will still lack visibility over reported retail excesses for 15 days out of every 90-day retail-level excess reporting cycle. Thus, opportunities for redistributing retail excesses could still be lost.

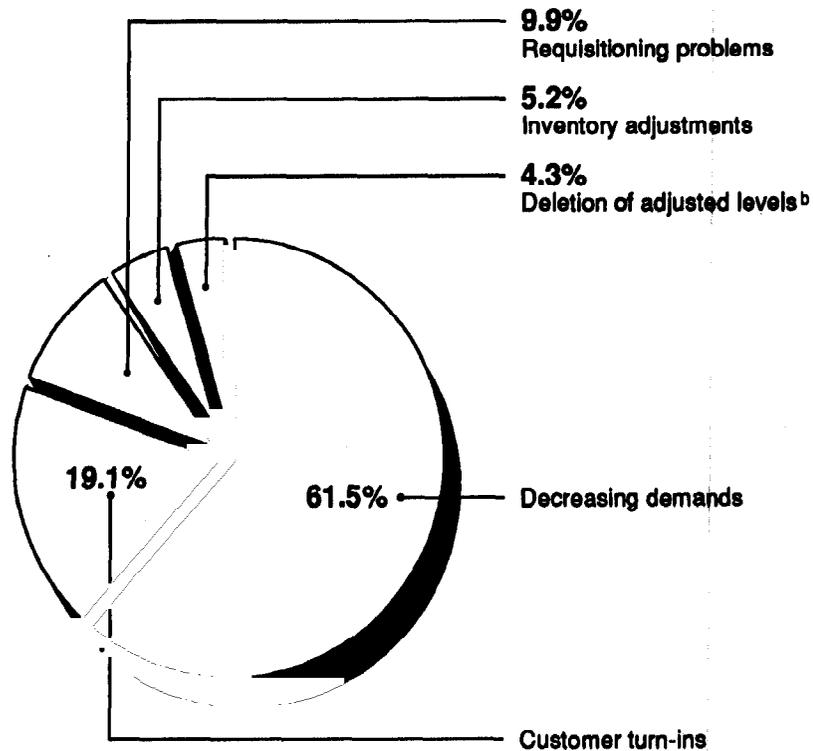
Chapter 2
Improved Reporting and Redistribution of
Excess Retail Inventory Is Needed

DOD took exception to our use of the term "excess" in the context of the report. DOD stated that the term is misleading and could be misinterpreted to mean unneeded inventories. We do not agree that the term excess as defined and used in the report is misleading or could be misinterpreted. We point out in both the executive summary and introduction to the report that items that are excess from an individual retail activity's perspective are not necessarily excess to total Air Force requirements because excesses at one activity may offset shortages at another activity.

Primary Reasons for Excess Retail Inventory

Between September 1987 and March 1990, Air Force retail activities' excess SSD and GSD inventories increased from \$442 million to \$927 million, or 110 percent. Our analysis of excess cause codes—codes assigned based on the supply transaction that caused an item to become excess—for nine bases identified five primary causes of retail-level excess, as shown in figure 3.1.

Figure 3.1: Causes of Excess SSD and GSD Items at Nine Air Force Bases^a



^aSee appendix II for a list of bases.

^bAn adjusted level is an authorized stockage level based on something other than past usage.

Three of the five causes—decreasing demands, customer turn-ins, and requisitioning problems—accounted for about 90 percent of the retail excess at the bases we reviewed.

Decreasing Demands

Our analysis showed that demand-level reductions were the cause of excess for 61.5 percent of the items we reviewed. Air Force supply personnel gave several reasons why demand levels might decrease. They include (1) the Air Force's retail-level stockage policy, (2) mission changes, and (3) decisions to repair items previously classified as consumable.

Retail Stockage Policy

During the 1980s, changes in the Air Force's stockage policies allowed retail activities to stock more items. For example, at one time an item could not be stocked unless customers ordered it at least three times. However, the Air Force revised its stockage policy during the 1980s to allow retail activities to stock items based on a single order if the retail activity's inability to satisfy that order caused equipment to become inoperable. Because of funding constraints, however, Air Force supply officials have decided that they can no longer continue this practice. The Air Force Logistics Management Center is currently evaluating other changes to retail-level stockage policies to further limit the amount of inventory that retail activities are allowed to maintain.

Mission Changes

Mission changes are a cause of retail-level excess that are likely to become even more significant as the Air Force reduces its force structure. For example, when Mather Air Force Base lost its B-52 mission in 1989, it no longer needed thousands of items specific to the B-52 and had a reduced need for other items that were common to both the B-52 and other weapons systems.

Consumable Items Reclassified as Repairable

Items classified as consumable can be reclassified as repairable if wholesale managers or individual bases determine that it is more economical to repair the item than to buy it. This can happen if the price of the item increases or the cost to repair drops. Such a change causes a reduction in the demand level because it would allow some requirements to be satisfied by the repaired items rather than new ones from the supply system.

Customer Turn-Ins

Customer turn-ins accounted for 19.1 percent of the excess items we reviewed and are the second most significant cause of excess retail inventory. Between September 1987 and September 1990, Air Force units and activities returned more than \$1.5 billion of SSD and GSD items to retail supply activities, or about one-sixth the value of the items they bought during this period.

Requisitioning Problems

Requisitioning problems, the cause of excess for 9.9 percent of the excess items we reviewed, are situations in which (1) retail activities receive items for which they have no record of a requisition, (2) customers cancel requests for items after the retail activity has requisitioned them from wholesale inventory, or (3) the quantity received is greater than the quantity ordered.

Inventory Adjustments

Adjustments resulting from physical inventories made up 5.2 percent of the excess items we reviewed. In each instance, the quantity on hand was greater than the quantity reflected in the supply records and, when the appropriate adjustment was made in the supply records, the quantity on hand exceeded the requisitioning objective.

We have issued several reports on the accuracy of the Air Force's inventory records. In May 1988, we reported¹ that the Air Force had implemented various policies and practices to improve both inventory management and the accuracy of inventory reports. While considerable progress had been made in improving inventory control, we noted that inventory inaccuracy continued to be a problem, and that the Air Force continued to experience problems in conducting causative research into the differences between physical inventory counts and record balances.

Deletion of Adjusted Levels

The deletion or reduction of adjusted levels was the cause of 4.3 percent of the excess items we reviewed. Adjusted levels are authorized stockage levels that are based on factors other than past demands, for example, a special project or the initial fielding of a weapon system at a base. As of March 31, 1990, Air Force retail activities had \$318 million of SSD and GSD inventory on hand to fill adjusted levels.

The deletion of Initial Spares Support List authorizations accounted for about 56 percent of the excess items in the "Deletion of Adjusted Levels" category. These authorizations, which are established when a weapon system or other major end item is initially assigned to a base, provide the range and depth of stock that is necessary to ensure that the end item can be adequately supported.

These authorizations remain in effect for 3 years from the date the last end item is delivered to a base. During this period, bases are not

¹Inventory Management: Air Force Inventory Accuracy Problems (GAO/NSIAD-88-133, May 12, 1988).

required to identify and delete unneeded items from these authorized levels.

Air Force Efforts to Address the Problem of Retail-Level Excess

The Air Force Logistics Management Center is conducting a study, the Inventory Dynamics Study, to develop strategies for reducing inventories without adversely affecting readiness and sustainability. We believe this study, currently scheduled to be completed in May 1991, is an important step in addressing the problem of retail-level excess. However, it is not broad enough in scope to identify specific corrective action for some of the problems we identified. For example, a Center official stated that the study will probably not make any recommendations on retail activities' requisitioning and customer turn-in problems.

Conclusions

Air Force retail activities have experienced significant growth in the amount of SSD and GSD inventories in excess of their peacetime operating and war reserve needs. However, the Air Force has not identified the root causes for the excess.

We identified five causes of excesses, but additional analysis will be required before specific recommendations for corrective action can be developed. For example, the \$1.5 billion in SSD and GSD customer turn-ins that occurred between September 1987 and September 1990 are a significant cause of retail-level excess. However, it is difficult to limit the volume of future turn-ins without first determining why unneeded supplies are consistently being ordered and subsequently turned in by retail supply activities' customers.

Similarly, the fact that Air Force retail activities have more than \$100 million of excess SSD and GSD items on requisition, combined with requisitioning problems as a cause of retail-level excess, is sufficient to conclude that this area warrants management attention. However, these facts are not enough to determine why these items were requisitioned, why the requisitions were not canceled, or what can be done to correct the problem.

The Air Force is studying the causes of inventory growth. However, its study is not broad enough to serve as a basis for recommending corrective actions for several of the problems that we identified.

Recommendation

We recommend that the Secretary of the Air Force direct the Commander of the Air Force Logistics Command to expand the scope of the Air Force Logistics Management Center's Inventory Dynamics Study to enable the Center to recommend actions that will reduce (1) the amount of unneeded materiel that Air Force units and activities buy and subsequently return and (2) the amount of excess SSD and GSD materiel that retail supply activities have on requisition.

Agency Comments and Our Evaluation

DOD concurred with our findings and recommendation in this chapter and advised us that the report of the Commander of the Air Force Logistics Management Center, estimated to be released in May 1991,² makes two recommendations which address the amount of material Air Force units requisition and subsequently return. The first is to conduct a study of the models currently used to determine the depth of Air Force stocks. The second recommendation is to modify the system so selective requisitions will be coded with a nonrecurring demand code.

We believe the actions planned by the Air Force are responsive to our recommendation and, if promptly and properly carried out, should bring about needed improvements.

²Subsequently advised by Air Force Headquarters that report release date had been rescheduled for July 1991.

Comments From the Department of Defense



PRODUCTION AND
LOGISTICS
(L/SD)

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-8000

30 MAY 1991

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "AIR FORCE LOGISTICS: Improved Reporting and Redistribution of Excess Retail Inventories Would Save Millions of Dollars," dated April 11, 1991 (GAO Code 392506), OSD Case 8661. The Department concurs with the draft report findings and recommendations, with two exceptions.

The Department does not agree with the use of the term "excess" in the context of this report. The term has been widely misinterpreted to mean "unnecessary" inventories, which is particularly incorrect in this case. The Department is in complete agreement with the GAO position that retail inventory visibility provides the management information necessary to utilize fully maldistributed DoD assets. The Department strongly suggests that the term "excess" be changed to "redistributable assets."

Secondly, Recommendation 2 is moot. Approved Military Standard Requisitioning and Issuing Procedures Change Letter 42, issued January 1, 1991, changed the DoD policy and now requires that the Defense Automated Addressing System Office hold Inventory Control Point responses for 75 days. Implementation of this change is scheduled for November 1, 1994. The Department is examining the advisability of changing the 75 day hold time to the 90 days recommended by the GAO.

The Department considers Total Asset Visibility a high priority and is developing a comprehensive, integrated and accelerated program to achieve that objective for all aspects of materiel distribution. The detailed DoD comments on the GAO draft report recommendations are provided in the enclosure.

Sincerely,

David J. Berteau
David J. Berteau
Principal Deputy

DOD DETAILED COMMENTS ON GAO DRAFT REPORT,
"AIR FORCE LOGISTICS: Improved Reporting and Redistribution of
Excess Retail Inventories Would Save Millions of Dollars,"
Dated April 11, 1991, (GAO Code 392506), OSD Case 8661

GENERAL COMMENT

* * * * *

The Department does not concur with the use of the term "excess" in the context of this draft report. This term has been widely misinterpreted to mean "unnecessary" inventories, which is particularly incorrect in this case. While acknowledging that the Department nonconcur with such improper use of the term, the GAO nevertheless, used it throughout the report. Use of the term "excess" will surely mislead the readers and be counterproductive. It is grossly incorrect and misleading to categorize and define assets that stratify within the Approved Force Acquisition Objective as "excess." The Department is in complete agreement with the GAO that visibility of retail assets provides the management information necessary to fully utilize maldistributed DoD assets. The Department strongly suggests, however, that the term "excess" be changed to "redistributable assets" throughout the report, including the report title.

* * * * *

RECOMMENDATIONS

- **RECOMMENDATION 1:** The GAO recommended that the Secretary of the Air Force require retail supply activities to report all assets above their requisitioning objectives to wholesale inventory managers and the Defense Program for the Redistribution of Assets. (p. 4, p. 21/GAO Draft Report)

DoD RESPONSE: Concur. On January 28, 1991, the Headquarters, U.S. Air Force, tasked the Standard Systems Center to modify the S1100-60 to report all assets above the requisitioning objective to the Defense Program for Redistribution of Assets, which will also provide visibility to item managers. The estimated completion date is February 1992.

- **RECOMMENDATION 2:** The GAO recommended that the Secretary of the Air Force direct the Commander of the Defense Automated Addressing System Office to hold responses of item managers to Air Force reports of excess for a maximum of 90 days, rather than 50 days. (p. 4, p. 21/GAO Draft Report)

DoD RESPONSE: Partially concur. The Department concurs that the time period should be lengthened; however the Recommendation is moot. First, the Defense Automated Addressing System Office does not work for the Secretary of the Air Force, making the

ENCLOSURE

Discussed on pp. 2,5 18-19.

Now on p.18.

Now on p.17-18.

recommendation impossible to implement as currently structured. Secondly, the Department already initiated the action to extend the time period. Approved Military Standard Requisitioning and Issuing Procedures Change Letter 42, issued January 1, 1991, changed the DoD policy and now requires that the Defense Automated Addressing System Office hold Inventory Control Point responses for 75 days. Implementation of this change is scheduled for November 1, 1994. The Department is examining the advisability of changing the 75 day hold time to the 90 days recommended by the GAO.

Now on p.18.

- **RECOMMENDATION 3:** The GAO recommended that the Secretary of the Air Force direct the Commander of the Air Force Logistics Command to minimize the manual processing of reports of excess, and ensure that Air Logistics Center item managers have clear guidance on the procedures that should be used to manually direct the redistribution of reported excess to fill backorders. (pp. 4-5, p. 21/GAO Draft Report)

DOD RESPONSE: Concur. By May 31, 1991, the Headquarters, U.S. Air Force, will direct the Air Force Logistics Command to review existing procedures for the manual processing of redistribution orders. The Air Force Logistics Command will be directed to issue instructions to the Air Logistics Centers not later than July 1, 1991, to ensure that item managers process redistribution actions to fill backorders when base reports of redistributable assets require manual processing.

Now on p.18.

- **RECOMMENDATION 4:** The GAO recommended that the Secretary of the Air Force direct the major commands to use the quarterly Defense Program for the Redistribution of Assets operations report to monitor whether bases are reporting their excess assets. (p. 5, p. 22/GAO Draft Report)

DOD RESPONSE: Concur. The Air Force Major Commands currently receive the quarterly Defense Program for Redistribution of Assets operations report. By May 15, 1991, the commands will be instructed to monitor the reports to ensure that the bases under their cognizance are reporting excesses.

Now on p.24.

- **RECOMMENDATION 5:** The GAO recommended that the Secretary of the Air Force direct the Commander of the Air Force Logistics Management Center to expand the scope of the Inventory Dynamics Study to enable the Center to recommend actions that will reduce (1) the amount of unneeded material that Air Force units and activities buy and subsequently return, and (2) the amount of excess material that retail supply activities have on requisition. (p. 5, p. 28/GAO Draft Report)

Appendix I
Comments From the Department of Defense

DoD RESPONSE: Concur. The report of the Commander of the Air Force Logistics Management Center, estimated to be released in May 1991, makes two recommendations which address the amount of materiel Air Force units requisition and subsequently return. The first is to conduct a study of the current models used to determine the depth of Air Force stocks. The second recommendation proposes to modify the system so selective requisitions will be coded with a nonrecurring demand code.

Retail Supply Activities Included in GAO's Review

Air Force Bases

Bitburg Air Base, Germany
Clark Air Base, Republic of the Philippines
Elmendorf Air Force Base, Alaska
Kusan Air Base, Republic of Korea
Langley Air Force Base, Virginia
Little Rock Air Force Base, Arkansas
Minot Air Force Base, North Dakota
RAF Bentwaters, United Kingdom
Randolph Air Force Base, Texas

Depot Maintenance Activities

Ogden Air Logistics Center, Hill Air Force Base, Utah
Oklahoma City Air Logistics Center, Tinker Air Force Base, Oklahoma
Sacramento Air Logistics Center, McClellan Air Force Base, California
San Antonio Air Logistics Center, Kelly Air Force Base, Texas
Warner Robins Air Logistics Center, Robins Air Force Base, Georgia

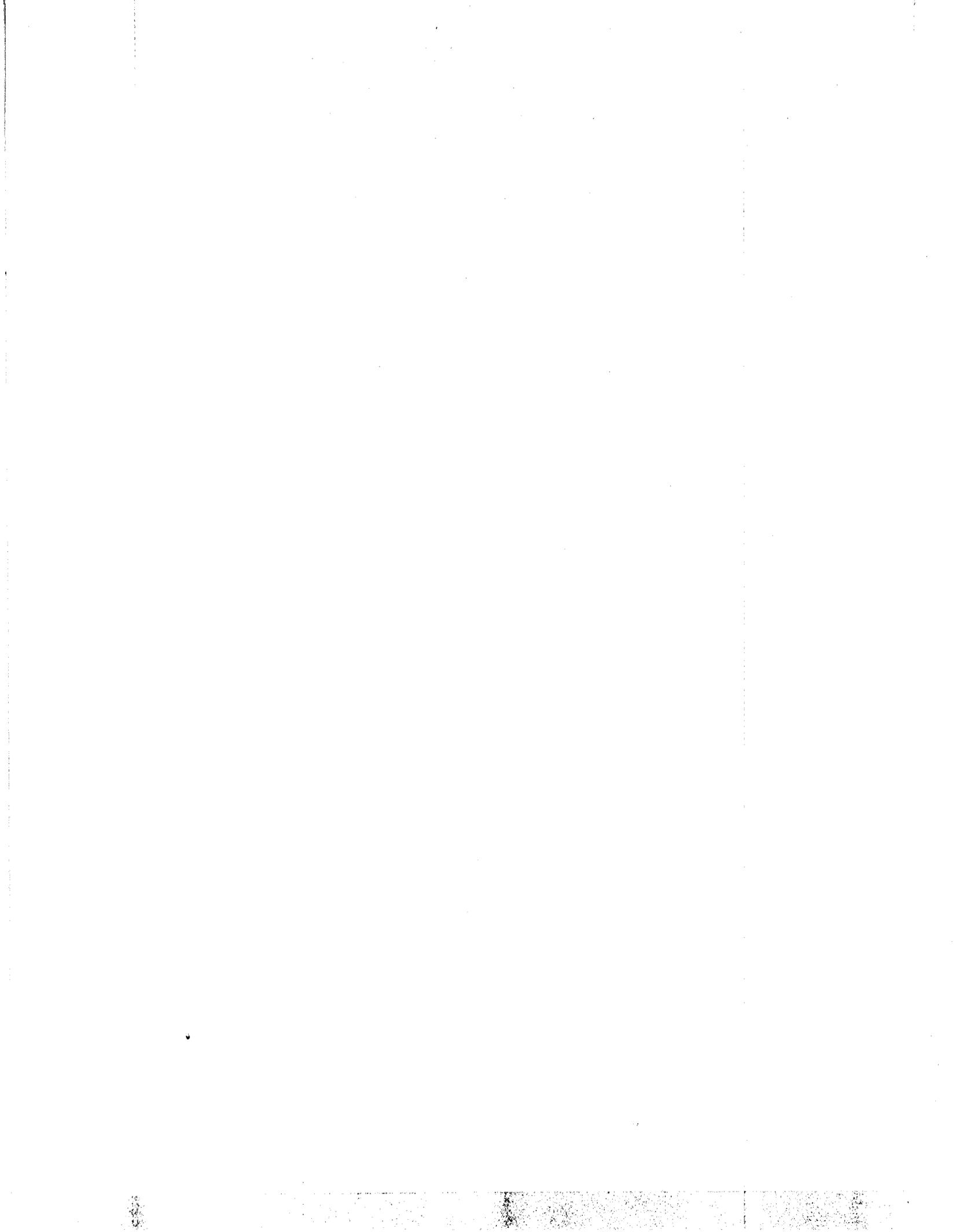
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