United States General Accounting Office

GAO

Report to Congressional Committees

February 2000

# DEFENSE INVENTORY

# Plan to Improve Management of Shipped Inventory Should Be Strengthened

GAO

Accountability * Integrity * Reliability

GAO/NSIAD-00-39

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**Abbreviations**

| | |
|---|---|
| CFO | Chief Financial Officer |
| DOD | Department of Defense |
| GAO | General Accounting Office |

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

**National Security and**
**International Affairs Division**

B-283681

February 22, 2000

Congressional Committees

The Department of Defense (DOD) annually ships inventory valued at billions of dollars to various locations around the world. For years, the Department has had difficulty tracking this inventory from origin to destination. Concerns about the vulnerability of these shipments to fraud, waste, and abuse led the Congress to enact section 349 of the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 (P.L. 105-261), which requires the Department of Defense to develop a comprehensive plan for tracking inventory while it is being shipped. The Department refers to these inventory shipments as "in-transit inventory." The statute required that the Department's plan include actions to address these tracking problems, statements of objectives for the actions, performance measures and schedules, and an identification of any resources necessary for implementing the required actions, together with an estimate of annual costs. This statute also required that our office review the plan and provide to the Congress any comments we consider appropriate. This report is in response to that requirement.

As agreed with your offices, we determined whether the plan (1) responds to the provisions of the statute, (2) contains the management elements needed for guiding effective implementation, and (3) adequately addresses other underlying weaknesses that led to ineffective control of inventory shipments.

## Results in Brief

The Department of Defense's plan is generally responsive to the statute and represents a necessary first step toward improving the Department's control over inventory shipments. Specifically, the plan includes 18 proposed actions to improve the tracking of inventory shipments. As required by the statute, the plan also includes statements of objectives for the actions, performance measures, and schedules for implementation. The Department intends to complete 14 of the proposed actions between fiscal year 2000 and 2006; the remaining four proposed actions are ongoing, with no specific completion date provided. The plan only briefly addresses the issue of resources necessary to implement the proposed actions, and it does not contain an estimate of the annual costs involved, as required by the statute.

The plan does not contain some key management elements needed to effectively implement the proposed actions. The Government Performance and Results Act, commonly referred to as the Results Act, offers a model for developing an effective management framework to improve the likelihood of successfully implementing initiatives and assessing results. Although the statute did not require that DOD's plan conform to the Results Act, congressional reports and administrative guidance regarding the Results Act indicate that activities such as inventory management should be subject to these results-oriented principles. DOD's plan does not fully reflect these principles. Specifically, in most cases the actions, objectives, and performance measures in the plan are not specific enough to guide implementation. The performance measures do not identify how the Department will assess progress using baseline data, benchmarks (i.e. interim targets), or actual results compared to desired outcomes. Also, the plan does not assign accountability within the Department or the military services for implementing the individual initiatives. Lastly, the plan does not describe the operational processes, skills, technology, human capital, or other resources required to implement each of the specific actions. Without identifying the resources required, the Department is not in a position to determine the cost-effectiveness or feasibility of its proposed actions.

The plan does not adequately address underlying weaknesses that have led to the lack of control over inventory shipments. For example, the plan does not fully address how the Department will correct errors in the automated systems the military services use to manage this inventory. These weaknesses and related data errors, if not corrected, will limit the Department's ability to control inventory shipments and prepare accurate financial reports. Moreover, the plan does not address the widespread problem of military supply activities that do not consistently follow existing departmental policies and procedures. This lack of adherence often occurs because personnel are not being adequately trained or are not fully aware of the procedures. Furthermore, the plan does not show how the Department will address the cultural resistance to change that has hampered its prior initiatives. More specifically, the plan does not demonstrate a strong commitment to change. For example, the Department states in the plan that it does not believe weaknesses in the visibility over items being shipped are significant when viewed in the context of the overall security of its worldwide inventories.

We are recommending that the Department improve the plan by modifying it to include (1) key management elements for monitoring implementation

and measuring progress and (2) specific actions to address underlying weaknesses in the controls over inventory being shipped.

## Background

Inventory being transported between two locations typically involves the following types of material.

- Warehoused material: material redistributed between storage activities, broken items shipped from consolidation points to a commercial or other military repair facility, and material returned from a commercial or other military repair facility or an end user.
- Purchased material: new material shipped from a commercial source to a storage activity.
- End-user material: material ordered from a storage activity or commercial source by a unit that expects to use it.

Since at least 1990, our office has considered DOD inventory management a high-risk area because its inventory management systems and procedures are ineffective. The lack of control[1] over inventory shipments and the resulting vulnerability of inventory to undetected loss and theft have been major areas of concern. The lack of adequate controls over inventory shipments substantially increases the risk that millions of dollars will be spent unnecessarily. For example, we reported in March 1999 that the Navy was unable to account for over $3 billion in inventory shipments during fiscal years 1996 through 1998.[2] We also reported in February 1998 that DOD did not have receipts for about 60 percent of its 21 million shipments to end users in fiscal year 1997.[3]

Because DOD has not fully corrected these problems, section 349 of the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 required DOD to submit a comprehensive plan to the Congress addressing

[1] DOD uses the term "visibility" to describe its ability to track the identity, status, and location of items being shipped from one location to another.

[2] *Defense Inventory: Navy's Procedures for Controlling In-Transit Items Are Not Being Followed* (GAO/NSIAD-99-61, Mar. 31, 1999).

[3] *Department of Defense: In-Transit Inventory* (GAO/NSIAD-98-80BR, Feb. 27, 1998).

how it will ensure visibility over shipments of all end items and secondary items.[4] The statute requires that the plan address the specific mechanisms to be used to enable DOD to identify at any time the quantity and location of all end items. Regarding shipments of secondary items, the statute requires that the plan address the following problems in DOD's inventory management:

- the vulnerability of secondary items to loss through fraud, waste, and abuse;
- the loss of oversight of secondary items, including any loss of oversight when items are being transported by commercial carriers; and
- the loss of accountability for secondary items due to either a delay of delivery of the items or a lack of notification of a delivery of the items.

The statute further requires that, for both end items and secondary items, the plan include (1) actions to address weaknesses in the control over items being shipped, (2) statements of objectives, (3) performance measures and schedules, and (4) an identification of any resources necessary for implementing the required actions together with an estimate of the annual costs.

The statute required that DOD submit its plan to the Congress on March 1, 1999. On March 4, 1999, DOD informed the Congress that it needed additional time to complete its plan due to, among other things, the broad scope of the requirement. The Under Secretary of Defense for Acquisition and Technology submitted the plan to the Congress on September 14, 1999.

## DOD's Plan Generally Responds to Requirements of the Statute

The plan is generally responsive to the requirements of the statute and is a necessary first step to improving DOD's oversight of inventory shipments. It contains 18 proposed actions, along with individual objectives, performance measures, and implementation schedules. DOD states in the plan that it is not requesting any additional resources at this time to cover the costs of implementing the plan, but that additional resources may be required at a later time. The plan did not identify an annual cost estimate for implementing each action, as was required by the statute. In commenting on a draft of this report, DOD officials stated that they were

[4] End items are major equipment items such as ships, tanks, and aircraft. Secondary items include spare parts, clothing, medical supplies, and other such items to support DOD operating forces worldwide.

not able to reliably estimate the individual costs associated with implementing each specific action because of limitations in DOD's current accounting systems. DOD's compliance in the plan with the requirements of the statute is summarized in table 1.

**Table 1: Does the Plan Comply With the Provisions of the Statute?**

| | Provisions of the statute | | | | | |
|---|---|---|---|---|---|---|
| **Subject area** | **Actions (Number)[a]** | **Objectives** | **Measures** | **Schedules** | **Resources** | **Annual cost Estimates** |
| End items | Yes (8) | Yes | Yes | Yes | Yes | No |
| Secondary items | Yes (10) | Yes | Yes | Yes | Yes | No |
| Vulnerability | Yes (1) | Yes | Yes | Yes | Yes | No |
| Oversight | Yes (4) | Yes | Yes | Yes | Yes | No |
| Accountability | Yes (5) | Yes | Yes | Yes | Yes | No |

[a]Of the 18 proposed actions, 8 actions related to the control over end items and the remaining 10 actions relate to control over secondary items. DOD's actions for end items are detailed in its plan by military service, whereas the actions for secondary items are subdivided into the individual problem areas specified in the statute.

Source: GAO analysis.

A summary of the 18 proposed actions is shown in table 2. A more detailed listing of the actions, objectives, and performance measures, along with our analyses, is contained in appendixes I and II.

**Table 2: Summary of DOD's 18 Actions Proposed in the Plan**

| | |
|---|---|
| **Actions related to end items:** | |
| 1. | The Army plans to improve inventory tracking with the development of the Global Combat Supply System. |
| 2. | The Army plans to expand the use of advanced identification technology in its transportation systems. |
| 3. | The Army plans to continue improving its Logistics Intelligence File and Logistics Integrated Database. |
| 4. | The Navy will continue to monitor systems that provide end-item visibility. |
| 5. | The Air Force is revising its Combat Ammunition System to maintain visibility of its inventory shipments. |
| 6. | The Marine Corps plans to continue deployment and enhancement of its Asset Tracking Logistics and Supply System. |
| 7. | The Marine Corps plans to develop a messaging application programming interface that facilitates the exchange of data among the inventory shipment systems that provide source data. |
| 8. | The Marine Corps plans to field a final Total Asset Visibility capability that includes an enhanced Logistics Bases Inventory Visibility System. |
| **Actions related to secondary items:** | |
| 1. | Provide timely and accurate delivery information. |
| 2. | Strengthen oversight of shipments directly from commercial suppliers to DOD activities. |
| 3. | Examine the adequacy of policy, procedures, and training related to shipment documentation, movement, and delivery, and revise as necessary. |
| 4. | Complete and implement the DOD plan to integrate automatic identification technology into DOD logistics operations. |
| 5. | Examine the adequacy of policy, procedures, and training for receipt notification processing and revise as necessary. |
| 6. | Provide for policy and procedures that fully account for unserviceable items that have been received at a commercial repair site. |
| 7. | Implement the recommendations of the Joint Logistics Commanders' Material Management Group task force to revise the DOD Disposal In-Transit Control System and enhance procedures and training. |
| 8. | Measure the time to record a receipt and make it visible to all requiring activities, including DOD financial and accounting systems. |
| 9. | Bring DOD management information systems associated with shipment control into compliance with the Chief Financial Officers Act. |
| 10. | Improve current discrepancy reporting and investigating for shipments between DOD and commercial locations. |

Source: DOD's in-transit visibility plan.

## The Plan Does Not Contain Some Key Management Elements

The plan does not contain some key management elements necessary for achieving effective implementation or for appropriate congressional oversight. Although the statute did not specifically require DOD's plan to conform to the Results Act, we found that the plan could be enhanced if it contained more of the results-oriented principles embodied in the Results Act. Table 3 summarizes our analysis of the quality of the information DOD provided in its plan. Overall, we found that the plan addresses most of the basic requirements of the statute, but lacks detail in defining

- specific actions that include steps for achieving goals;
- results-oriented objectives that are directly linked to the actions;
- performance measures that include clearly stated performance targets, information on the use of baseline data, and benchmarks (i.e., interim measures) for monitoring progress;
- specific schedules that include completion dates and interim milestones for actions that are long term;
- accountability within DOD and the military services for implementing each action; and
- resources required, including an estimated annual cost, for implementing each action.

**Table 3: GAO Analysis of Information Provided in the Plan**

| | Actions | Objectives | Performance measures | | | Schedules | Accountability | Resources and annual cost estimates |
|---|---|---|---|---|---|---|---|---|
| Action item | Need to be more specific | Need to be more specific | Need to be more specific | Baseline data needed | Interim steps Needed | Completion date needed | Needs to be assigned | Need to be identified |
| **End Items** | | | | | | | | |
| 1 | X | X | X | X | X | | X | X |
| 2 | X | X | X | X | X | X | X | X |
| 3 | X | X | X | X | X | X | X | X |
| 4 | X | X | X | X | X | X | X | X |
| 5 | X | X | X | X | X | | X | X |
| 6 | | X | X | X | X | | X | X |
| 7 | | X | X | X | X | | X | X |
| 8 | | X | X | X | X | | X | X |

Continued

| | Actions | Objectives | Performance measures | | | Schedules | Accountability | Resources and annual cost estimates |
|---|---|---|---|---|---|---|---|---|
| Action item | Need to be more specific | Need to be more specific | Need to be more specific | Baseline data needed | Interim steps Needed | Completion date needed | Needs to be assigned | Need to be identified |
| **Secondary items** | | | | | | | | |
| **1** | | | X | X | X | | X | X |
| 2 | | | X | X | X | | X | X |
| 3 | X | X | X | X | X | | X | X |
| 4 | X | | | X | X | | X | X |
| 5 | X | | X | X | X | | X | X |
| 6 | X | | X | X | X | | X | X |
| 7 | X | | X | X | X | | X | X |
| 8 | | | X | X | X | | X | X |
| 9 | X | | X | X | X | | X | X |
| 10 | X | | X | X | X | X | X | X |

Continued from Previous Page

Source: GAO analysis.

Table 4 provides our analysis of these elements and the extent to which they were addressed in the plan. More detail regarding our analysis is provided in appendix I for end items and appendix II for secondary items.

**Table 4: Management Elements Not Adequately Addressed in the Plan**

| Elements of a management framework | Summary of GAO analysis |
|---|---|
| Actions could be more specific. | We found that 12 of the 18 proposed actions could be more specific to address the problem areas. In general, the actions are stated as goals and do not identify specific steps to attain those goals. For example, for one action related to end items, DOD states that the "Navy will continue to monitor systems that provide end item visibility to prevent gaps in visibility." In another example, DOD states that it will "bring DOD management information systems associated with in-transit items into compliance with the Chief Financial Officers' Act." Neither of these actions identify the steps DOD will follow to accomplish these goals or the specific problem areas they will address. |

Continued

| Elements of a management framework | Summary of GAO analysis |
|---|---|
| Objectives could be more specific. | For all 8 actions related to end items and 1 of the 10 actions related to secondary items, the statements of objectives could be more clearly stated and specific. For example, DOD's plan includes only one objective for end items. This objective is for each of the military services to achieve 100 percent visibility of end items at all times. This objective, however, could be more directly linked to the eight proposed action items. Similarly, the objective for action 3 related to secondary items (to "ensure that shippers, carriers, and consignees are in full compliance with policy and procedures related to shipment documentation, movement, and delivery") is not directly linked to the proposed action. The proposed action is to "examine the adequacy of policy, procedures, and training related to shipment documentation, movement, and delivery and revise as necessary". There is no link, however, to identify how DOD's proposed action of reviewing policies, procedures, and training will ensure that shippers, carriers and consignees are in full compliance. |
| Performance measures could be more specific by including baseline data and benchmarks. | In all cases but one, the performance measures could be strengthened by including quantifiable goals for measuring progress and a method for comparing actual results with desired outcomes. Performance measures in the plan are not results-oriented and do not include clearly stated performance targets or provisions for using baseline data or benchmarks. For example, most of DOD's performance measures for the actions regarding secondary items identify data that DOD plans to collect. These performance measures, however, do not identify how the data will be used, the level of performance DOD hopes to attain, or the interim measures for assessing progress. |
| Schedules need completion dates and interim milestones. | Four of the 18 proposed actions are ongoing and no completion date is specified. For the other 14 proposed actions, the completion dates extend from fiscal years 2000 through 2006 without any identification of interim milestones DOD will use to monitor progress. For example, for action 5 regarding end items, the Air Force plans to revise its Combat Ammunition System by fiscal year 2006. However, the Air Force does not identify interim milestones it will use to ensure the action is on schedule and will likely be completed on time. |
| Accountability needs to be assigned. | DOD's plan does not assign accountability for any of the 18 proposed actions. DOD states in the plan that the Deputy Under Secretary of Defense for Logistics will oversee implementation of the plan, but does not assign accountability to the military services, the United States Transportation Command, or the Defense Logistics Agency for implementing specific proposed actions. Consequently, DOD cannot ensure that the actions will be implemented as intended. |
| Resources need to be identified. | DOD's plan does not describe the operational processes, skills, technology, human capital, information, or other resources required for any of the 18 proposed actions. DOD states in the plan that it is not requesting additional resources at this time, but that additional funding may be required at a later date. |
| Annual cost estimates need to be identified. | DOD's plan does not provide an annual cost estimate for implementing the 18 proposed actions, as required by the statute. DOD has not identified the costs associated with implementing the proposed actions, such as the number of staff or staff days required. As a result, it is unclear whether DOD has identified the resources that will be required or whether it is devoting adequate resources to correcting the problems. DOD officials stated that inadequate resources have contributed to the Department's inability to correct its in-transit visibility weaknesses. |

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Source: GAO analysis.

## Plan Could Be Improved By More Fully Addressing Underlying Weaknesses

While the plan addresses many of the weaknesses regarding DOD's lack of control over items being shipped, it does not adequately address the underlying problems that have been consistently highlighted in prior GAO and DOD audit reports. For example, GAO reported in January 1999 that the Department's plans for improving financial management do not clearly address how data should be shared among DOD's various functional areas, such as accounting and property management (which includes inventory management).[5] Defining how data should be shared among functions is vital to ensure that DOD's financial systems facilitate accurate financial reporting and maintain proper controls over assets. Specifically, DOD has had difficulties for many years in obtaining timely and accurate information on the location, movement, and status of material being shipped. The underlying causes of this lack of visibility include (1) uncorrected errors in the systems DOD uses to manage its inventory shipments, (2) military supply activities' failure to consistently follow existing DOD policies, and (3) a DOD-wide cultural resistance to change.

### Weaknesses in Inventory Management Systems

The plan does not fully address how DOD will correct the errors in the automated logistics systems it uses to manage inventory shipments. Examples of these logistics systems weaknesses are presented below:

- DOD states in its plan that the Global Transportation Network will be the primary DOD-wide tool to collect and provide visibility information for items being shipped. However, this system has not been fully developed, and it relies on more than 20 DOD automated logistics systems to provide inventory shipment data that our reports and DOD audit reports have found inaccurate. Unless substantive improvements are made in these systems, DOD's inventory records and financial reports will continue to be inaccurate. For example, the Army Audit Agency reported in 1998 that shipment visibility problems have existed in recent years primarily due to interface problems among its inventory management systems and related weaknesses in its logistics processes. As a result, the Army did not have reliable data on the value of inventory being shipped, and it reported that a significant number of its inventory shipment records were invalid. Similarly, the Air Force Audit Agency reported in September 1998 that the Air Force did not accurately

[5] *Financial Management: Analysis of DOD's First Biennial Financial Management Improvement Plan* (GAO/AIMD-99-44, January 29, 1999).

account for its items being shipped and did not know the value of this inventory. This report further stated that these weaknesses in the lack of control over Air Force inventory while it is being shipped impairs DOD's ability to (1) maintain central visibility over assets; (2) safeguard assets from physical deterioration, theft, or loss; and (3) prevent the purchase of assets already on hand.

- The Army Audit Agency reported in 1996 that approximately 69 percent of the material shipments recorded in the Army's Continuing Balance System-Expanded (the Army's primary system for visibility of end items) had been received at the shipping destinations, but that the receipt documents had not been properly processed to close the shipping transaction.[6] A number of reasons were cited in the Army Audit Agency report for the invalid shipment records, including system interface problems, use of duplicate unit identification codes, and shipments that were redirected to another destination after the shipment was initiated. In February 1998 we reported that DOD did not have receipts for about 60 percent of its 21 million shipments in fiscal year 1997.[7]

## Lack of Adherence to Policies and Procedures

Our prior reports and DOD audit reports have consistently identified the primary cause of DOD's lack of visibility over inventory shipments as the failure of military supply activities to follow DOD policies and procedures for ensuring that items being shipped are accounted for. Specifically, DOD supply activities have failed to properly process receipt documents and follow up on items that are reported as not received. While DOD states in the plan that it intends to review its policies and procedures in these areas, the plan does not include any actions to ensure the military services comply with the standard DOD-wide policies and procedures.

In March 1999, we reported that Navy units had not always reported as required that they received requested items and that the Navy's shipping and receiving activities had not adequately investigated unreported receipts.[8] Similarly, our July 1999 report on property being shipped to

[6] *Financial Reporting of Equipment In Transit*, U.S. Army Audit Agency, AA 96-156 (Alexandria, VA: June 17, 1996).

[7] *Department of Defense In-Transit Inventory* (GAO/NSIAD-98-80R, Feb. 27, 1998).

[8] *Defense Inventory: Navy's Procedures for Controlling In-Transit Items Are Not Being Followed* (GAO/NSIAD-99-61, Mar. 31, 1999).

disposal sites states that DOD does not know the status of this property because the accuracy of inventory shipment data is questionable and control procedures are not adhered to.[9] We found that these control procedures were not being followed because service and disposal office personnel were not adequately trained and did not always understand the procedures. (A listing of related GAO products discussing these problems is provided at the end of this report.)

## Cultural Resistance to Change

Although each of the military services has a number of ongoing initiatives to improve in-transit visibility, the plan does not address how the Department will successfully overcome its long-standing cultural resistance to change. The plan itself expresses this resistance when it states in the executive summary that DOD does not believe that weaknesses in its visibility over inventory shipments are significant when viewed in the context of the overall security of its worldwide inventories. At the same time the Department acknowledged, in commenting on our March 1999 report, that the Navy reported over $3 billion in inventory shipments for fiscal years 1996-98 that remain unaccounted for, including some classified and sensitive items such as aircraft guided munitions, missile launchers, military night vision devices, and communications equipment.[10] In addition, DOD's statement that these visibility weaknesses are not significant is inconsistent with the military services' Federal Managers' Financial Integrity Act reports and the reports of various defense audit agencies, which identify DOD's lack of control over inventory shipments as a serious weakness.

Our prior work has shown that a key factor for implementing change is top management commitment and that cultural changes within DOD have been difficult to effect. Consequently, DOD's prior initiatives to improve inventory management have progressed slowly. DOD's statement in the plan raises questions as to whether such a commitment exists on this issue.

[9] *Defense Inventory: Property Being Shipped to Disposal Is Not Properly Controlled* (GAO/NSIAD-99-84, July 1, 1999).

[10] *Defense Inventory: Navy's Procedures for Controlling In-Transit Items Are Not Being Followed* (GAO/NSIAD-99-61, Mar. 31, 1999).

## Conclusions

DOD's plan for improving its control over inventory being shipped generally responds to the requirements of the statute and represents a necessary first step for improving the management of this inventory. However, the likelihood of the plan achieving its goal could be enhanced by adding key management elements that are consistent with principles embodied in the Results Act, such as specific actions, results-oriented objectives, detailed performance measures, completion dates that include interim milestones, accountability for oversight and implementation, and an identification of required resources. The plan could also be enhanced by addressing underlying weaknesses such as problems and errors in the military services' automated inventory shipment systems, the failure of the military supply activities to follow existing DOD policies and procedures, and a perceived lack of commitment among DOD managers. By making these improvements to the plan, the Congress and DOD management will be able to better measure progress and focus actions on weaknesses that need to be addressed. Without these improvements and the necessary implementation, DOD's in-transit inventory will continue to remain vulnerable to fraud, waste, and abuse.

## Recommendations

To increase the likelihood that DOD's plan will enhance control over inventory shipments, we recommend that the Secretary of Defense direct the Under Secretary of Defense for Acquisition and Technology to revise the Department's plan to include

- actions that more specifically address inventory shipment visibility weaknesses and the specific steps necessary for attaining DOD's goals;
- statements of objectives that are directly linked to each action;
- performance measures that contain quantifiable goals, methods for comparing actual results with desired outcomes, baseline data, interim measures, and clearly stated performance targets;
- implementation schedules that contain specific completion dates and interim milestones for monitoring long-range actions;
- accountability for overseeing and implementing each action;
- an identification of the resources necessary for implementing each action, together with an estimate of the annual costs;
- actions to address the errors in the systems that the military services use to manage inventory shipments;
- actions to address the problem of military supply activities failing to consistently follow existing DOD policies and procedures, including adequate training for supply personnel; and

- actions that address how the Department will successfully overcome its long-standing cultural resistance to change to ensure consistent implementation by the military services.

We also recommend that the Secretary of Defense submit the Department's detailed implementation plans, scheduled to be completed in April 2000, to the Congress to facilitate appropriate congressional oversight.

## Agency Comments and Our Evaluation

DOD provided written comments on a draft of this report. They are reprinted in appendix III. DOD also provided detailed technical comments that we included in the report where appropriate.

For the most part, the Department concurred with the report and its recommendations. However, with regard to our recommendation that DOD revise its plan to improve inventory tracking, DOD believes the level of detail we are recommending is not appropriate for a plan submitted to the Congress. The Department stated it intends to develop Department-level implementation plans that will include the specific information that we recommended DOD include in a revised plan. The Department intends to complete these implementation plans in April 2000. We endorse this effort because these detailed plans would be helpful to DOD as it implements the planned actions. Furthermore, they will be useful to the Congress in carrying out its oversight of DOD inventory management programs. Therefore, we have added a new recommendation to the report that calls for DOD to provide copies of the April 2000 implementation plans to the appropriate congressional committees. We also plan to review DOD's implementation plans when they are completed.

DOD also commented that, because of the limits in its current accounting systems, the Department is not able to reliably estimate the individual costs associated with implementing each specific action. We have consistently reported that DOD's accounting systems contain numerous weaknesses, and we recognize these limitations. However, DOD's current budget and accounting systems contain sufficient data to estimate the resources needed to implement the plan. Therefore, we made no revisions to our recommendation on this issue.

Finally, DOD also stated it does not perceive the same long-standing cultural resistance to change cited in our report. We found, however, that prior DOD initiatives to correct in-transit visibility weaknesses have been hindered by the military services' reluctance to implement

Department-wide corrective actions. We continue to believe DOD's plan should include a strategy to address this parochialism within the military services. Therefore, we made no revisions to our recommendation on this issue.

## Scope and Methodology

Our analysis of DOD's plan was based on the requirements of section 349 of the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 (P.L. 105-261), information contained in the plan, discussions with DOD officials, and prior work regarding DOD's control over its inventory shipments. Specifically, to ascertain the extent DOD's plan responds to the legislative mandate, we compared the plan to each of the key requirements set forth in the statute.

To determine whether the plan contains an appropriate management framework for implementation, we used the requirements of the Government Performance Results Act, commonly referred to as the Results Act,[11] as a model for the types of information the plan should contain. We compared the contents of the plan and the requirements of the Results Act. Additionally, we reviewed the plan in terms of outcome-oriented Results Act principles and identified areas in which it could be improved to achieve successful implementation. Congressional reports and administrative guidance regarding the Results Act indicate that activities such as inventory management should be subject to the outcome-oriented principles of the Results Act. We did not assess the merits of DOD's proposed actions or the likelihood of success for these actions.

To determine whether the plan adequately addressed the underlying weaknesses that led to DOD's ineffective control of its items being shipped, we reviewed the results of prior DOD internal studies, DOD Inspector General reports, related GAO reports and testimonies, and other related documentation. Specifically, we reviewed the plan to identify any gaps in DOD's coverage of these weaknesses and to establish the degree to which the plan addressed these weaknesses.

[11] The Results Act provides the primary guiding principles agencies should use to develop a successful management framework. Its key elements require each agency to (1) define its mission and goals, (2) develop quantifiable performance measures that will indicate how well goals are being achieved, and (3) include a description of required resources (i.e., staff operational roles, skills, schedules, and other costs). Additionally, the Results Act requires agencies to report actual performance against performance goals, the reasons certain goals were not met, and future actions they plan to take to meet these goals.

We performed our work at DOD activities in the Washington, D.C., area and discussed the contents of the plan and its implementation with appropriate DOD officials.

We conducted our review from August 1999 to November 1999 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the appropriate congressional committees; the Honorable William Cohen, Secretary of Defense; the Honorable Louis Caldera, Secretary of the Army; the Honorable Richard Danzig, Secretary of the Navy; the Honorable F. Whitten Peters, Secretary of the Air Force; General James L. Jones, Commandant of the Marine Corps; Lieutenant General Henry T. Glisson, Director, Defense Logistics Agency; and the Honorable Jacob Lew, Director, Office of Management and Budget.

If you or your staff have any questions regarding this report, please contact me or Charles I. Patton, Jr., at (202) 512-8412. Key contributors to this report were Lawson Gist, Jr.; David Schmitt; and Patricia Blowe.

David R. Warren, Director
Defense Management Issues

List of Congressional Committees

The Honorable John Warner
Chairman
The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Floyd Spence
Chairman
The Honorable Ike Skelton
Ranking Minority Member
Committee on Armed Services
House of Representatives

The Honorable Ted Stevens
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Committee on Appropriations
United States Senate

The Honorable Jerry Lewis
Chairman
The Honorable John Murtha
Ranking Minority Member
Subcommittee on Defense
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House of Representatives

# Analysis of Plan Regarding End Items

This appendix provides the Department of Defense's (DOD) eight proposed actions, statement of objective, and performance measures to address the lack of control over shipments of end items (i.e., ships, tanks, and aircraft), and our analysis of these elements. DOD's actions for end items are detailed in its plan by military service. The page references in brackets refer to the page numbers in DOD's plan where the actions, objectives, and performance measures are discussed.

In its plan DOD identifies one objective for all eight proposed actions. DOD states that each military service has the same objective, which is to achieve 100 percent visibility of end items at all times. We believe that this objective and five of the eight proposed actions could be stated more specifically to define the mechanisms the Department will use to identify the quantity and location of end items. The proposed actions for the Army and the Marine Corps include plans to improve the systems for controlling items being shipped, whereas the proposed actions for the Air Force and Navy do not. Also, DOD's performance measures for all eight proposed actions are not stated as results-oriented goals. These performance measures could be more specific by including baseline data, interim measures, and performance targets. In addition, DOD does not provide a completion date for three of the proposed actions and states that the actions are ongoing. Lastly, DOD did not assign accountability for implementing each action and did not identify the resources required or an estimated annual cost for implementing any of the proposed eight actions.

**DOD's Overall Objective:**

All military departments have the same goal—to achieve 100 percent visibility of end items at all times.

## Army

Action 1: Improve tracking with the development of a Global Combat Supply System-Army[1] (estimated completion date—fourth quarter of fiscal year 2002). [page 2-7]

Action 2: Expand the use of advanced identification technology in Army transportation systems (estimated completion date—ongoing). [page 2-7]

[1] An integrated retail supply system that combines the functions of the Standard Property Book System-Redesign.

Action 3: Continue to improve the Logistics Intelligence File[2] and Logistics Integrated Database, with potential application of the Logistics Intelligence File and the Army Total Asset Visibility to identify more closely the location of in-transit end items (estimate completion date—on-going). [page 2-7]

**DOD's Proposed Performance Measures:**

- Number of discrepancies between the Standard Property Book System Redesign transactions submitted and the Army's Logistics Support Activity confirmation of receipts. [page 2-7]
- Number of discrepancies between the Continuing Balance System-Expanded balance and the Standard Property Book System-Redesign balance. [page 2-7]

**GAO Analysis:**

These actions are broadly stated goals and do not specify the steps necessary to improve the Army's systems used for controlling inventory shipments. For example, the Army states in action 2 that it plans to expand its use of advanced identification technology, but it does not identify how this technology will be used to improve the Army's transportation systems.

The three proposed actions and the two performance measures are not directly related. In addition, the performance measures do not specify baseline data, interim steps, or measurable goals for monitoring progress toward achieving the objective. For example, DOD plans to determine the number of discrepancies among the various Army systems for tracking visibility over end items, but does not include interim targets or goals for monitoring the Army's progress in correcting weaknesses in its systems. The Army's primary tracking system for end-item visibility is the Continuing Balance System-Expanded, but no measures have been included in the plan to assess the Army's progress in correcting the invalid data in this system. DOD has not identified the data sources that it will use to compile this data or how the data will be utilized to rectify the number of discrepancies. Also, two of the three proposed actions do not include a completion date. Without a completion date, it will be difficult for DOD to measure progress or determine when the actions are completed.

[2] Logistics Intelligence File tracks the status of an item from the time the unit submits the requisition through various departments in the pipeline until the receiving unit transmits a receipt document.

Navy

Action 4: The Navy will continue to monitor systems that provide end-item visibility to prevent gaps in visibility. [page 2-7]

**DOD's Proposed Performance Measure:**

- The Navy will continue to maintain 100 percent asset visibility in its end-item reporting systems. [page 2-7]

**GAO Analysis:**

This action is too generic to determine how the Navy will improve visibility of end items being shipped. This action does not identify the specific steps the Navy will follow to monitor its systems or attain 100 percent visibility.

Similarly, DOD's proposed performance measure is simply a goal and does not include baseline data or interim steps for implementing the Navy's initiatives. DOD does not identify what data sources or analyses it will use to measure shipment visibility for Navy end items. Without identifying the data sources and strategies for analysis, DOD is unable to ensure that it is collecting the right data for controlling end-item shipments. Lastly, DOD does not identify the projected completion date and will be unable to measure progress toward attaining its goal.

Air Force

Action 5: The Air Force is revising the Combat Ammunition System to maintain asset visibility of in-transit shipments (estimated completion date—fiscal year 2006). [page 2-8]

**DOD's Proposed Performance Measure:**

- The plan being developed will include performance measures and its status will be briefed quarterly to senior Air Force managers. [page 2-8]

**GAO Analysis:**

This action item is not comprehensive regarding the Air Force's visibility systems for controlling items being shipped. The Combat Ammunition System is only one of many systems the Air Force relies on to support visibility of end items. However, the plan does not include actions to enhance the other systems. For example, the Air Forces uses its Reliability and Maintainability Information System to provide asset accountability and control. GAO has previously reported that this system contains inaccurate data that limits the usefulness of this system.

DOD has not developed performance measures for this proposed action. Therefore, the department has no baseline data or interim steps to measure progress.

## Marine Corps

Action 6: Continue deployment and enhancement of the Asset Tracking Logistics and Supply System (ATLASS II+) to migrate from a mainframe batched processing system into a client-server environment (estimated completion date—fourth quarter of fiscal year 2002). [page 2-8]

Action 7: Develop a messaging application programming interface that facilitates the exchange of data among in-transit visibility source systems, to specifically include the Asset Tracking Logistics and Supply System and a functional capability similar to the Transportation Coordinator's Automated Information for Movement System II (TC AIMS II). Use automated identification technology with the two systems to capture all asset movement at the source (estimated completion date—fourth quarter of fiscal year 2003). [page 2-8]

Action 8: Field a final Marine Corps Total Asset Visibility capability that includes an enhanced Logistics Bases Inventory Visibility System with information from the Logistics Intelligence File to maintain asset visibility in all stages including in-transit, in-process, and in-storage (estimated completion—fourth quarter of fiscal year 2004). [page 2-8]

**DOD's Proposed Performance Measure:**

- Completion of the above actions will allow for real-time in-transit visibility, including the status of customer requisitions to retail and wholesale sources of supply. [page 2-8]

**GAO Analysis:**

DOD provides one performance measure for these three proposed actions, and the performance measure and the actions are not directly related. This proposed performance measure is simply a statement of intent and does not include baseline data or interim steps for implementing the Marine Corps' initiatives. DOD does not identify what data sources or analyses it will use to measure visibility for Marine Corps end items being shipped. Without identifying the data sources and strategies for analysis, DOD is unable to make certain that it is collecting the right data for ensuring visibility over end items being shipped.

# Analysis of Plan Regarding Secondary Items

This appendix provides DOD's 10 proposed actions, statements of objectives, and performance measures to address the lack of control over secondary items being shipped (e.g., spare parts, clothing, and medical supplies), and our analysis of these elements. DOD's actions for secondary items are detailed in its plan by the following problem areas specified in the statute:

- the loss of oversight of secondary items, including any loss of oversight when items are being transported by commercial carriers;
- the loss of accountability for secondary items due to either a delay of delivery of the items or a lack of notification of a delivery of the items; and
- the vulnerability of secondary items to loss through fraud, waste, and abuse.

The page references in brackets refer to the page numbers in DOD's plan where the actions, objectives, and performance measures are discussed.

Of the 10 proposed actions, 7 were not adequately specific to address the problems. In addition, 1 of the 10 objectives was not directly related to the action. Also, the proposed performance measures generally lacked criteria for measuring progress, baseline data, and interim measures for accomplishing the objectives. Lastly, DOD did not assign accountability for implementing each action and did not identify the resources required or an estimated annual cost for implementing any of the proposed 10 actions.

## Loss of Oversight of Secondary Items

Action 1: Provide timely and accurate delivery information by the following times:

- Near term: obtain carrier electronic data interchange (EDI) messages. [page 3-2]
- Long term: complete development and fielding of the Transportation Coordinator's Automated Information for Movement System II. [page 3-2]

**Objectives:**

- For the near-term action, the goal is for 28 air, motor, and rail carriers and 7 ocean carriers to submit electronic data interchange status messages (estimated completion date—fourth quarter of fiscal year 1999). [page 3-2]

- For the long-term action, the goal is worldwide deployment to 443 locations; 7,337 sites; and 14,584 users (estimated completion date—ongoing; initial module fielding fiscal year 2001). [page 3-2]

**DOD's Proposed Performance Measure:**
- Percent of shipments with delivery information. [page 3-2]

Action 2: Strengthen oversight of shipments directly from commercial suppliers to DOD activities by

- developing a vendor in-transit implementation plan that identifies schedules and milestones for fielding in-transit techniques for vendors that perform direct deliveries (estimated completion—fourth quarter of fiscal year 1999) and
- completing the direct vendor delivery pilot with a DOD pharmaceutical vendor to provide the Global Transportation Network information via electronic data interchange (estimated completion—third quarter of fiscal year 2000). [page 3-2]

**Objective:**
- Ensure visibility of direct shipments from commercial sources to DOD consignees, including items in-transit to and from contractor repair facilities. [page 3-3]

**DOD's Proposed Performance Measures:**
- Successful fielding of the direct vendor delivery in-transit visibility pilot effort. [page 3-3]
- Development and implementation of the vendor in-transit implementation plan, which will include other metrics for expanding in-transit visibility of vendor shipments. [page 3-3]
- Percent of commercial contracts with shipping notification and documentation requirements. [page 3-3]

Action 3: Examine the adequacy of policy, procedures, and training related to shipment documentation, movement, and delivery and revise as necessary (estimated completion date—third quarter of fiscal year 2000). [page 3-3]

**Objectives:**
- Ensure that shippers, carriers, and consignees are in full compliance with policy and procedures related to shipment documentation, movement, and delivery. [page 3-3]

- Ensure timely and accurate information from shippers, carriers, and consignees. [page 3-3]

**DOD's Proposed Performance Measure:**
- Percent of shipments with shipment notification. [page 3-3]
- Percent of shipments arriving with proper documentation. [page 3-3]

Action 4: Complete and implement the DOD plan to integrate automatic identification technology into DOD logistics operations (estimated completion date—fourth quarter fiscal year 2002. [page 3-3]

**Objective:**
- Improve the accuracy and speed of identification as items move through shipping and receiving nodes as well as transportation nodes. [page 3-4]

**DOD's Proposed Performance Measure:**
- Data timeliness that uses the following standards:
  - Sustainment airlift cargo arrivals and departures at all nodes are visible in the Global Transportation Network within 1 hour of the event. [page 3-4]
  - Sustainment sealift cargo arrivals and departures at all nodes are visible in the Global Transportation Network within 4 hours of the event. [page 3-4]
  - Shipments both originating and terminating in an operating theater or in the Continental United States are visible in the Global Transportation Network within 2 hours of the event. [page 3-4]

**GAO Analysis:**

For the 4 actions DOD proposes regarding the loss of oversight of secondary items, actions 3 and 4 could be more specific. For example, action 3 does not identify what steps or criteria DOD will use to examine and revise its policies, procedures, and training related to shipment documentation, movement, and delivery. Similarly, action 4 does not identify how DOD will integrate its automatic identification technology into its logistics operations.

The objective for action 3 does not provide a link to identify how examining the adequacy of DOD's policies, procedures, and training will ensure full compliance.

The proposed performance measures for actions 1 through 3 do not include measurable data elements or a structure for assessing progress, such as comparing historic and current data. These performance measures do not include baseline data or interim steps for monitoring progress or ensuring that valid information is collected. With the exception of the performance measures for action 4, DOD did not include near- or long-term goals or specific performance indicators for assessing whether implementation is on target.

## Loss of Accountability for Secondary Items

Action 5: Examine the adequacy of policy, procedures, and training for receipt notification processing and revise as necessary (estimated completion date—third quarter of fiscal year 2000). [page 3-5]

**Objectives:**

- Ensure that consignees are in full compliance with receipt acknowledgment policies and procedures. [page 3-5]
- Reconcile system and system interface problems that deter receipt acknowledgment. [page 3-5]
- Ensure proper financial accountability of receipts. [page 3-5]

**DOD's Proposed Performance Measure:**

- Percent of shipments closed with a receipt acknowledgment or a closure notification. [page 3-5]

Action 6: Provide for policy and procedures that fully account for unserviceable items that have been received at a commercial repair site (estimated completion date—third quarter of fiscal year 2000). [page 3-5]

**Objective:**

- Maintain proper accountability of unserviceable assets shipped to commercial facilities for repair. [page 3-5]

**DOD's Proposed Performance Measure:**

- Number and value of unserviceable items shipped to commercial sites without receipt notification as percentages of total numbers and values of unserviceable items shipped to commercial sites. [page 3-5]

Action 7: Implement the recommendations of the task force established under the Joint Logistics Commanders' Materiel Management Group to revise the DOD Disposal In-Transit Control System and enhance associated procedures and training (estimated completion—ongoing; recommendations due by second quarter of fiscal year 2000). [page 3-5]

**Objectives:**

- Ensure visibility of items shipped to disposal. [page 3-5]
- Ensure the proper documentation of shipments of controlled items to disposal. [page 3-5]

**DOD's Proposed Performance Measure:**

- For items in-transit to disposal, the following apply [pages 3-5 and 3-6]:
  - discrepant receipt numbers and values as percentages of total numbers and values of shipments to disposal,
  - discrepant receipts and mismatches resolved within established timeframes, and
  - duration of unresolved discrepancies.

Action 8: Measure the time to record a receipt and make it visible to all requiring activities, including DOD financial and accounting systems (estimated completion date—fourth quarter of fiscal year 2001). [page 3-6]

**Objective:**

- Ensure that consignees are in full compliance with receiving policies and procedures, especially as they relate to timeliness. [page 3-6]

**DOD's Proposed Performance Measure:**

- Percent of receipts processed within established time. [page 3-6]

Action 9: Bring DOD management information systems associated with in-transit items into compliance with the Chief Financial Officers (CFO) Act (estimated completion date—fiscal year 2005). [page 3-6]

**Objective:**

- Ensure systems and internal controls associated with in-transit inventory meet CFO accountability standards.

**DOD's Proposed Performance Measure:**

- Percent of systems that are compliant with the Chief Financial Officers Act. [page 3-6]

**GAO Analysis:**

With the exception of action 8, DOD's actions could be more specific to address how DOD will correct weaknesses related to the loss of accountability for shipments of secondary items. For example, actions 5 and 6 do not identify the procedures DOD will use to determine whether its

policies, procedures, and training are adequate. Similarly, action 7 does not identify how implementing the recommendations of the Joint Logistics Commanders' Materiel Management Group will correct accountability weaknesses.

The proposed performance measures for these 5 actions identify the type of data to be collected, but do not identify how this data will be used to measure performance. The performance measures lack baseline data and do not specify interim steps for assessing progress.

## Vulnerability of Secondary Items to Loss Through Fraud, Waste, and Abuse

Action 10: Improve current in-transit discrepancy reporting and investigating for shipments between DOD locations and between commercial locations and DOD locations by

- examining the effectiveness and efficiency of current procedures and systems for discrepancy reporting and make necessary changes (estimated completion—third quarter of fiscal year 2000);
- enhancing the preparation and submission of discrepancy reports through automated, on-line capabilities; and
- developing a program for monitoring discrepancies (estimated completion date—first quarter of fiscal year 2001). [page 3-7]

**Objective:**

- Ensure that discrepancies in item, quantity, and location are reported and investigated in accordance with established policies and procedures. [page 3-8]

**DOD's Proposed Performance Measure:**

- The quantity and value of receipts with a discrepancy. [page 3-8]
- Percent of discrepancies resolved. [page 3-8]

**GAO Analysis:**

This action is an important first step to improving discrepancy reporting and follow up procedures for shipments reported as not received at the intended destination. However, the plan does not go far enough to identify how DOD will use its discrepancy reporting procedures to eliminate the vulnerability of shipments of secondary items to loss through fraud, waste, and abuse. The DOD Inspector General has found that these discrepancy reports are primarily used to grant customers credit for the value of lost material instead of determining the causes for lost items. This proposed

action could be enhanced by including actions for using the discrepancy reporting process to identify and eliminate the causes of lost inventory.

The proposed performance measures for this action identify the types of data to be collected, but do not identify how this data will be used to measure performance. The performance measures lack baseline data and do not specify interim steps for assessing progress.

# Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

OFFICE OF THE UNDER SECRETARY OF DEFENSE

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ACQUISITION AND TECHNOLOGY

(L/LSM)

JAN 21 2000

Mr. David Warren
Director, Defense Management Issues
National Security and International Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "DEFENSE INVENTORY: Plan for Improving the Management of Items Being Shipped Should be Enhanced," Dated November 15, 1999 (GAO Code 709440/OSD Case 1927).

For the most part, the Department concurs with the recommendations in the draft report. However, the Department does not agree that the level of detail requested in the draft report is appropriate for the Congressional-level plan submitted to Congress dated September 7, 1999, titled "Plan to Ensure Visibility of In-Transit End Items and Secondary Items." In fact, the draft report acknowledges that conformance with the Government Performance and Results Act was not required by the statute. However, the Department does intend to develop Department-level In-Transit Visibility implementation plans that should address the detail discussed in the draft report as appropriate. These plans, currently scheduled for publication in April of 2000, will address implementation of the high level actions cited in the September 7, 1999 congressional plan.

The Department is committed to implementing the actions in the September 7, 1999 congressional plan. However, because of the limits of the current accounting system, we are not able to reliably estimate the individual costs associated with implementing the specific actions as requested in this report, particularly since in-transit visibility, not in itself a mission outcome, is only a part of ongoing initiatives.

The Department's detailed response to the recommendations is enclosed. Technical comments were provided under separate cover. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

for Roger W. Kallock
Deputy Under Secretary (Logistics)

Enclosure

**GAO DRAFT REPORT - DATED NOVEMBER 15, 1999**
**(GAO CODE 709440) OSD CASE 1927**

**"DEFENSE INVENTORY: PLAN FOR IMPROVING THE MANAGEMENT OF ITEMS BEING SHIPPED SHOULD BE ENHANCED"**

**DEPARTMENT OF DEFENSE COMMENTS TO THE RECOMMENDATIONS**

The GAO recommended the Secretary of Defense direct the Under Secretary of Defense for Acquisition, Technology and Logistics to revise the Department's plan to:

**RECOMMENDATION 1:** Include actions that more specifically address inventory shipment visibility weaknesses and the specific steps necessary for attaining DoD's goals.

**DOD RESPONSE:** Concur. The Department-level implementation plans will address more specific steps to achieve the high-level actions in the congressional plan.

**RECOMMENDATION 2:** Include statements of objectives that are directly linked to each action.

**DOD RESPONSE:** Concur. The Department-level implementation plans will address any objectives not directly linked to the actions, as appropriate.

See comment 1.

**RECOMMENDATION 3:** Include performance measures that contain quantifiable goals, methods for comparing actual results with desired outcomes, baseline data, interim measures and clearly stated performance targets.

**DOD RESPONSE:** Partially concur. The statute did not require that DoD's plan conform strictly to the Results Act. Moreover, in-transit visibility is not itself a mission outcome, but rather an attribute of an effective process. However, the Department-level implementation plans will address performance measures appropriate to the implementation of the specific actions necessary to improve in-transit visibility.

**RECOMMENDATION 4:** Include implementation schedules that contain specific completion dates and interim milestones for monitoring long-range actions.

**DOD RESPONSE:** Concur. The Department-level implementation plans will include schedules.

**RECOMMENDATION 5:** Include accountability for overseeing and implementing each action.

**DOD RESPONSE:** Concur. The Department-level implementation plans will address

responsible activities.

See comment 2.

**RECOMMENDATION 6:** Include an identification of the resources necessary for implementing each action, together with an estimate of the annual costs.

**DOD RESPONSE:** Partially concur. Given the limits of the current accounting system, we are not able to reliably allocate costs that are part of a larger initiative. However, the Department is fully committed to implementing each action and will ensure these actions are part of fully funded initiatives.

**RECOMMENDATION 7:** Include actions to address the errors in the system that the military services use to manage inventory shipments.

**DOD RESPONSE:** Concur. The Department-level implementation plans will address steps taken to improve in-transit visibility. To the extent that those actions involve system errors, those will be addressed.

**RECOMMENDATION 8:** Include actions to address the problems with getting the military supply activities to consistently follow existing DoD policies and procedures, including adequate training for supply personnel.

**DOD RESPONSE:** Concur. One of the actions in the congressional plan is to examine the adequacy of policy, procedures and training. To the extent that problems are identified, those will be addressed in the Department-level implementation plans.

See comment 3.

**RECOMMENDATION 9:** Include actions that address how the Department will successfully overcome its longstanding cultural resistance to change to ensure consistent implementation by the military services.

**DOD RESPONSE:** Partially concur. The Department does not perceive the same "longstanding cultural resistance to change" cited by the GAO in this report. The fact that we have an honest disagreement with GAO on their conclusions does not imply a lack of commitment on our part. Our statement about the magnitude of the problem did not suggest any lack of commitment or vigor in correcting identified deficiencies. Regarding cultural change, the Department has proven ready and able to make changes as evidenced by our ability to adapt to a post-cold war environment with frequent contingencies and ever-changing support requirements. However, to the extent that any cultural resistance is found during our analysis, the Department-level implementation plans will address those concerns.

The following are GAO's comments on the Department of Defense's (DOD) letter dated January 21, 2000.

## GAO Comments

1. As DOD stated in its cover letter, our draft report acknowledged that the statute did not require that DOD's plan conform to the Results Act. However, congressional reports and administrative guidance regarding the Results Act indicate that activities such as inventory management should be subject to the results-oriented principles contained in this Act. The Results Act offers a model for developing an effective management framework to improve the likelihood of successfully implementing initiatives and assessing results. We believe that the likelihood of the plan achieving its goal will be enhanced by adding key management elements, consistent with principles embodied in the Results Act, such as specific actions, results-oriented objectives, detailed performance measures, completion dates that include interim milestones, accountability for oversight and implementation, and an identification of required resources.

2. We are aware of the limitations in DOD's accounting systems, and we understand the difficulties of estimating specific annual costs associated with each of DOD's proposed actions. However, DOD's prior initiatives to correct in-transit visibility weaknesses have been hindered by funding limitations. We believe that DOD's implementation plans must accurately reflect the estimated annual costs for implementing its proposed actions to ensure that these actions are feasible and can be implemented as scheduled within current funding levels.

3. Although DOD has begun a number of initiatives to correct in-transit visibility weaknesses in response to several of our recent reports, it has not addressed the Department's long-standing inability to implement far-reaching, department-wide improvements in this area. Prior GAO reports have consistently highlighted the military services' reluctance to implement DOD-wide initiatives aimed at correcting in-transit visibility weaknesses. This resistance to change is among the most prominent reasons that defense inventory management has for many years been deemed a high risk area within the federal government. We believe, therefore, that DOD's implementation plans must include a strategy for ensuring that the Department's initiatives will be embraced and fully implemented throughout the Department.

# Related GAO Products

*Defense Inventory: Property Being Shipped to Disposal Is Not Properly Controlled* (GAO/NSIAD-99-84, July 1, 1999).

*DOD Financial Management: More Reliable Information Key to Assuring Accountability and Managing Defense Operations More Efficiently* (GAO/T-AIMD/NSIAD-99-145, Apr. 14, 1999).

*Defense Inventory: DOD Could Improve Total Asset Visibility Initiative With Results Act Framework* (GAO/NSIAD-99-40, Apr. 12, 1999).

*Defense Inventory: Navy Procedures for Controlling In-Transit Items Are Not Being Followed* (GAO/NSIAD-99-61, Mar. 31, 1999).

*Performance and Accountability Series: Major Management Challenges and Program Risks—Department of Defense* (GAO/OCG-99-4, Jan. 1999).

*High-Risk Series: An Update* (GAO/HR-99-1, Jan. 1999).

*Department of Defense: Financial Audits Highlight Continuing Challenges to Correct Serious Financial Management Problems* (GAO/T-AIMD/NSIAD-98-158, Apr. 16, 1998).

*Department of Defense: In-Transit Inventory* (GAO/NSIAD-98-80R, Feb. 27, 1998).

*Inventory Management: Vulnerability of Sensitive Defense Material to Theft* (GAO/NSIAD-97-175, Sept. 19, 1997).

*Defense Inventory Management: Problems, Progress, and Additional Actions Needed* (GAO/T-NSIAD-97-109, Mar. 20, 1997).

*High-Risk Series: Defense Inventory Management* (GAO/HR-97-5, Feb. 1997).

*High-Risk Series: Defense Financial Management* (GAO/HR-97-3, Feb. 1997).

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