

# GAO Highlights

Highlights of [GAO-16-450](#), a report to the Committee on Armed Services, U.S. Senate

## Why GAO Did This Study

DOD manages approximately \$97 billion of inventory. To enhance efficiency and effectiveness, the 2005 base realignment and closure round and a June 2005 decision by the Under Secretary of Defense for Acquisition, Technology, and Logistics required the military services to transfer to DLA all of their retail inventory supply, storage, and distribution functions at most depot-level industrial sites.

Senate Report 114-49, accompanying a bill for the National Defense Authorization Act for Fiscal Year 2016, included a provision for GAO to examine DLA's supply support to DOD industrial sites.

This report evaluates the extent to which (1) the services have transferred retail supply, storage, and distribution functions at DOD industrial sites to DLA, and whether the results have been used to inform future efforts, and (2) DLA and the services have adopted metrics that allow them to effectively and efficiently manage supply and maintenance operations. GAO reviewed DOD, DLA, and service guidance and documentation; evaluated DLA and service processes; and interviewed officials.

## What GAO Recommends

GAO is making six recommendations including that DLA, the Army, Navy shipyards, and Marine Corps conduct business case analyses, drawing on lessons learned, to determine if further transfer of retail functions is warranted, and that DOD, DLA, and the services develop metrics to monitor costs and accuracy of demand planning factors. DOD concurs with GAO's recommendations.

View [GAO-16-450](#). For more information, contact Zina Merritt at (202) 512-5257 or [merrittz@gao.gov](mailto:merrittz@gao.gov).

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## DEFENSE INVENTORY

### Further Analysis and Enhanced Metrics Could Improve Service Supply and Depot Operations

## What GAO Found

The military services have, to varying degrees, transferred retail supply, storage, and distribution functions at their depot-level industrial sites to the Defense Logistics Agency (DLA) and achieved some efficiencies, but have not fully assessed the costs and benefits of transferring more retail functions to DLA at Army and Marine Corps depots and Navy shipyards. Specifically, Air Force Air Logistics Complexes (ALC) and Navy Fleet Readiness Centers (FRC) transferred all retail supply, storage, and distribution functions to DLA over the course of several years. For example, according to officials and GAO's assessment, these changes have led to a number of benefits, including a 20 percent reduction in on-hand inventory and a 10 percent reduction in backorders at the Air Force ALCs over a 5-year period (see figure for examples of benefits).

#### Examples of Benefits from the Defense Logistics Agency Handling Retail Supply, Storage, and Distribution Functions at Service Industrial Sites



Source: GAO analysis of Defense Logistics Agency documents and discussions with Air Force and Navy personnel. | GAO-16-450

By contrast, the Army and Marine Corps have retained most supply functions at their depots and DLA manages inventory at the Navy shipyards while still using Navy systems and processes, rather than those of DLA. The Navy and DLA began to transition to DLA business processes and systems at Norfolk Naval Shipyard in 2012, but the Navy reversed course after 7 months when it resulted in increased waits for inventory and work stoppages. Meanwhile, DLA is pursuing limited steps to improve retail supply, storage, and distribution functions at the industrial sites to improve supply support and overcome service concerns. However, the Department of Defense (DOD), DLA, Army, Navy shipyards, and the Marine Corps have not conducted business case analyses on the benefit of additional transfers of retail functions, though the Army is planning to conduct one. Without such analyses, decision makers will not be positioned to ensure that further transfers of retail functions, if warranted, are efficient and effective.

DOD, DLA and the services have some internal efficiency measures, but they generally do not have metrics that would allow for more effective and efficient management of supply and maintenance operations. Specifically, DOD, the services and DLA have not adopted metrics on the accuracy of planning factors, such as the accuracy of part lists, or the costs created by backorders. Officials noted that accurate planning factors improve demand forecasts needed to minimize backorders and excess inventory. Without relevant metrics on cost and planning factors, DOD, DLA and the services will be unable to optimize supply and maintenance operations and may miss opportunities to improve the efficiency and effectiveness of depot maintenance.