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ACQUISITION OF GENERAL AND INDUSTRIAL ITEMS

Report No. D-2001-076

March 13, 2001

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Department of Defense

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Abstract <p>This audit is in response to allegations made to the DoD Hotline in April 2000. The overall allegation was that the procurement work force for general and industrial items was mismanaged at the Defense Supply Center Philadelphia, resulting in a shortage of mission-essential items needed for major weapon systems. The specific allegations are summarized and responded to in Appendix C. The Defense Supply Center Philadelphia, one of three Defense Logistics Agency supply centers, focuses on managing troop support supply items (clothing and textiles, medical items, and subsistence) and general commodity items such as lighting and office supplies. The Defense Supply Center Philadelphia also has management responsibility for many industrial spare parts, such as fasteners and gaskets, that support multiple weapon systems. As of September 30, 2000, the Defense Supply Center Philadelphia managed about 1 million general and industrial items, of which 0.3 million were designated mission-essential because, without them, weapon systems could not be operated as intended. The Defense Supply Center Philadelphia supports 1,400 weapon systems and buys general and industrial items valued at about \$780 million each year in support of military requirements.</p>		
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Acronyms

CBU	Commodity Business Unit
BRAC	Base Realignment and Closure
DISC	Defense Industrial Supply Center
DLA	Defense Logistics Agency
DPSC	Defense Personnel Support Center
DSCC	Defense Supply Center Columbus
DSCP	Defense Supply Center Philadelphia
DSCR	Defense Supply Center Richmond
GSA	General Services Administration



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884**

March 13, 2001

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

**SUBJECT: Audit Report on Acquisition of General and Industrial Items
(Report No. D-2001-076)**

We are providing this report for your information and use. We conducted the audit in response to a DoD Hotline allegation that the procurement work force for general and industrial items was mismanaged at the Defense Supply Center Philadelphia. We considered management comments on a draft of this report in preparing the final report.

The Defense Logistics Agency comments conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. No additional comments are required.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Tilghman A. Schraden at (703) 604-9186 (DSN 664-9186) (tschraden@dodig.osd.mil) or Mr. Thomas D. Kelly at (215) 737-3886 (DSN 444-3886) (tkelly@dodig.osd.mil). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink that reads "Thomas F. Gimble".

Thomas F. Gimble
Acting
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2001-076
(Project No. D2000LD-0206)

March 13, 2001

Acquisition of General and Industrial Items

Executive Summary

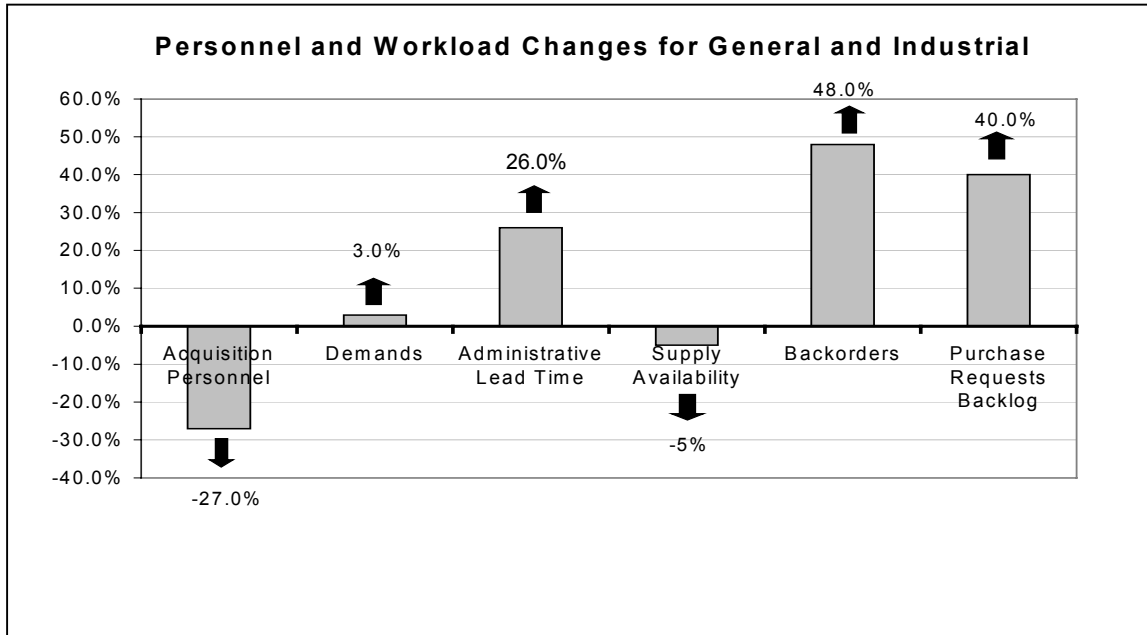
Introduction. This audit is in response to allegations made to the DoD Hotline in April 2000. The overall allegation was that the procurement work force for general and industrial items was mismanaged at the Defense Supply Center Philadelphia, resulting in a shortage of mission-essential items needed for major weapon systems. The specific allegations are summarized and responded to in Appendix C.

The Defense Supply Center Philadelphia, one of three Defense Logistics Agency supply centers, focuses on managing troop support supply items (clothing and textiles, medical items, and subsistence) and general commodity items such as lighting and office supplies. The Defense Supply Center Philadelphia also has management responsibility for many industrial spare parts, such as fasteners and gaskets, that support multiple weapon systems. As of September 30, 2000, the Defense Supply Center Philadelphia managed about 1 million general and industrial items, of which 0.3 million were designated mission-essential because, without them, weapon systems could not be operated as intended. The Defense Supply Center Philadelphia supports 1,400 weapon systems and buys general and industrial items valued at about \$780 million each year in support of military requirements.

Objective. The audit objective was to determine whether procurement support was adequate in acquiring general and industrial items. We also reviewed the management control program as it applied to the audit objective.

Results. The audit did not substantiate the allegation of mismanagement at the Defense Supply Center Philadelphia. However, procurement support at the Center was inadequate in acquiring general and industrial items. Since the implementation of Base Realignment and Closure 1995 in July 1999, supply effectiveness at the Center decreased as the administrative lead time taken by buyers to acquire general and industrial items rose from 85 to 107 days. Inadequate procurement support was largely responsible for about a 48 percent rise in backorders (137,929 in October 1998 to 203,663 in September 2000) of general and industrial items. Although customer demands (requisitions) for general and industrial items increased only slightly for the 2-year period, the purchase requests backlog increased 40 percent at the Center over the

same period. The following figure shows changes in various acquisition personnel and workload indicators over the 2-year period ending September 30, 2000, that are important for managing general and industrial items.



To address the problems, the Defense Supply Center Philadelphia had a surge in overtime, took steps to hire temporary employees, and initiated a contractor study that will likely show more personnel are needed on a permanent basis. However, there were other alternatives that the Center could have used. For details on the audit results, see the Finding section.

The management controls were adequate. See Appendix A for details on our review of the management control program.

Summary of Recommendations. We recommend that the Director, Defense Logistics Agency, in conjunction with the Commander, Defense Supply Center Philadelphia, assess whether supply effectiveness for general and industrial items could be improved by reducing the acquisition workload and realigning personnel resources.

Management Comments. The Defense Logistics Agency generally concurred with the recommendations, stating corrective actions have begun. A discussion of management comments is in the Finding section of the report and the complete text is in the Management Comments section.

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Background

DoD Hotline Allegation. In April 2000, we received an anonymous DoD Hotline allegation that the General and Industrial Directorate of the Defense Supply Center Philadelphia was being mismanaged and that supply effectiveness was being negatively affected. The specific allegations are summarized and responded to in Appendix C.

Downsizing. During the 1990s, DoD initiated a number of measures to reduce its industrial complex to be in line with the post cold-war threat. The most ambitious measures were referred to as Base Realignment and Closure (BRAC) 1991, 1993, and 1995. Under each BRAC, DoD identified a number of bases, supply centers, and depots that could be scaled back or eliminated with the consent of Congress and the approval of the President. Aside from BRAC, Congress and DoD established goals to trim its acquisition work force and inventory. DoD reduced its acquisition work force from 460,516 in FY 1990 to 230,556 in FY 1999. The use of commercial business practices was stressed by Congress and DoD as a key means of achieving or mitigating the effects of acquisition work force and inventory reductions. The commercial business practice that was decided by DoD officials to be most applicable and productive was the use of prime vendors to take over wholesale acquisition functions. In theory, prime vendors would essentially take over the wholesale inventory and distribution functions by dealing directly with military installations to supply items on an as-needed basis either from their own stock or from manufacturers. Supply centers would play a role in establishing the prices of items with manufacturers and overseeing the performance of prime vendors. The use of prime vendors to supply medical items in 1995 was very successful and was championed by DoD and the Defense Logistics Agency (DLA) as an example of how commercial business practices could make Government logistics more effective and efficient. Other than the prime vendor concept, Congress and DoD stressed the use of more efficient contracting methods as a commercial business practice capable of increasing acquisition productivity.

Consolidation. BRAC 1995 included disestablishing the Defense Industrial Supply Center (DISC) and transferring its workload to other commodity centers of DLA. It also included creating one commodity center for the management of troop and general support items at the Defense Personnel Support Center (DPSC). That meant that DPSC would assume the new mission of managing some 400,000 general support items. Both DPSC and DISC were located in Philadelphia, but were organized to manage different commodities. Prior to BRAC 1995, DPSC was organized into three commodity directorates to manage

clothing and textiles, medical items, and subsistence. DISC was organized into nine commodity business units (CBUs) to manage industrial spare parts. A CBU essentially consists of supply control and acquisition personnel who compute requirements and buy specific classes of materiel. The classes of materiel managed by DISC included the hardware needed to repair major weapon systems.

Implementation of BRAC 1995, including the decision to disestablish DISC, began in 1998 when DPSC was renamed the Defense Supply Center Philadelphia (DSCP). One year later, in accordance with BRAC 1993, DSCP began a physical move to the same compound occupied by DISC. The three commodity directorates of the prior DPSC remained intact in the new DSCP organization. On July 2, 1999, DISC was disestablished and its six CBUs (downsized from the nine CBUs) formed the newly established General and Industrial Directorate in DSCP. From a personnel standpoint, BRAC 1995 established a beginning strength of 2,696 positions for DSCP, a reduction of 1,272 positions from what had been in place at both DPSC and DISC.

Supply Responsibility. DLA is primarily responsible for satisfying the consumable item needs of the Military Departments. DLA buys and manages consumable items through its three supply centers that remained after the implementation of BRAC 1995. One of the major evolutions of BRAC 1995 was the alignment of DLA items under a weapon system support concept. The Defense Supply Center Columbus (DSCC) was to focus on land and maritime weapon support; the Defense Supply Center Richmond (DSCR) was to focus on aviation weapon support; and DSCP was to focus on troop support (clothing and textiles, medical items, and subsistence) and general commodity items such as lighting and office supplies. The weapon system concept resulted in management responsibility for some 650,000 items being transferred among the three DLA supply centers from 1996 through 1999. DSCP assumed management of general support items under BRAC 1995; it also subsequently assumed management responsibility for many industrial spare parts, such as fasteners and gaskets, that supported multiple weapon systems. As of September 30, 2000, DSCP managed about 1 million general and industrial items, of which 0.3 million were designated mission-essential because, without them, major weapon systems could not be operated as intended. DSCP supports 1,400 weapon systems and buys general and industrial items valued at \$780 million each year in support of military requirements.

Workforce Criteria. As part of its annual budget review, DLA headquarters makes adjustments to the personnel ceilings of its supply centers based on projected funding and management initiatives. The supply centers are solely

responsible for staffing their needs within the annual personnel ceilings imposed by DLA headquarters. As of September 30, 2000, DSCP was authorized 2,955 personnel, of which 1,015 were allocated to the General and Industrial Directorate. The personnel allocation to the General and Industrial Directorate was distributed among its four CBUs (the number of CBUs was reduced from six to four in April 2000) and other activities, as shown in Table 1.

Table 1. Personnel Strength of the General and Industrial Directorate as of September 30, 2000

<u>CBU/Other</u>	<u>Acquisition*</u>	<u>Inventory Managers</u>	<u>Customer Liaison Specialists</u>	<u>Other</u>	<u>Total</u>
Bench stock	158	45	23	70	296
Equipment	60	11	29	33	133
Facilities maintenance	60	17	38	41	156
General hardware	82	27	20	40	169
Other activities	18	22	7	214	261
Total	378	122	117	398	1,015

*Acquisition personnel include contracting officers, contract specialists, and procurement technicians, occupation specialties 1101, 1102 and 1106, respectively.

To become a buyer and be authorized to award contracts, a person must earn a warrant. A warrant also establishes the dollar amount a buyer can contract for and increases with training and experience. Until a warrant is earned, acquisition personnel work as procurement technicians.

Objective

The audit objective was to determine whether procurement support was adequate in acquiring general and industrial items. We also reviewed the management control program as it applied to the audit objective. See Appendix A for a discussion of the audit scope and methodology and our review of the management control program. See Appendix B for prior coverage related to the audit objective.

Procurement Support

Procurement support at DSCP was inadequate in acquiring general and industrial items. Since the implementation of BRAC 1995 in July 1999, supply effectiveness decreased as the administrative lead time taken by buyers to acquire general and industrial items rose from 85 to 107 days. The decline in supply effectiveness occurred because:

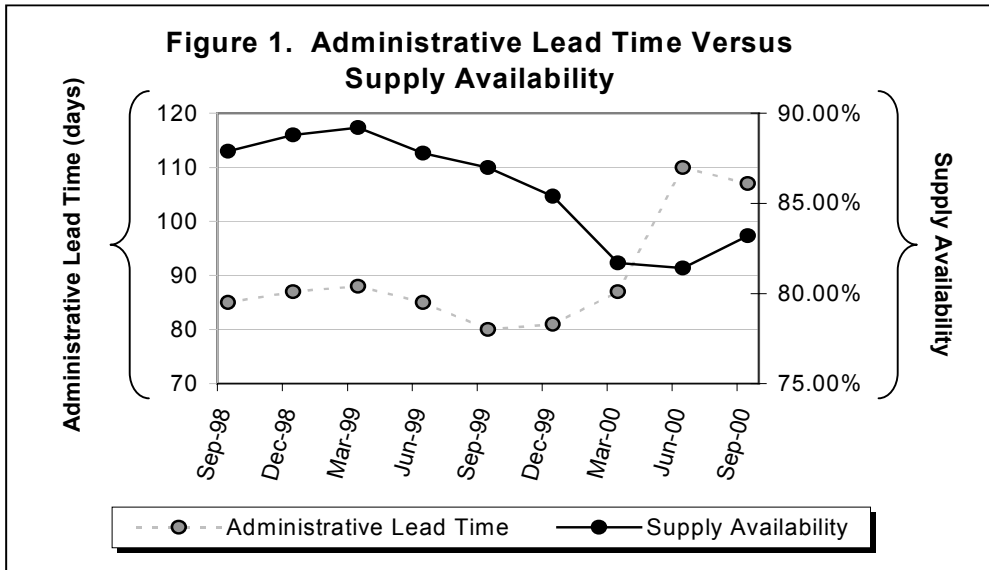
- before BRAC 1995 was implemented, DLA did not properly establish the number of personnel needed by DPSC to carry out its prescribed acquisition mission, and assigned to the newly organized DSCP item management responsibility for about 150 percent more items than envisioned by BRAC 1995, and
- after BRAC 1995 was implemented, users required more general and industrial items and, instead of focusing its work force on performing traditional business activities, DSCP engaged its work force in perpetuating and initiating new commercial business practices that did not generate enough productivity savings to offset the impact of personnel reductions.

As a result, inadequate procurement support at DSCP was responsible for about a 48 percent rise in backorders (137,929 in October 1998 to 203,663 in September 2000) of general and industrial items. To address procurement support problems, DSCP had a surge in overtime, took steps to hire temporary employees, and initiated a contractor study that will likely show more personnel are needed on a permanent basis. However, there were other alternatives that DSCP could have used.

Supply Effectiveness

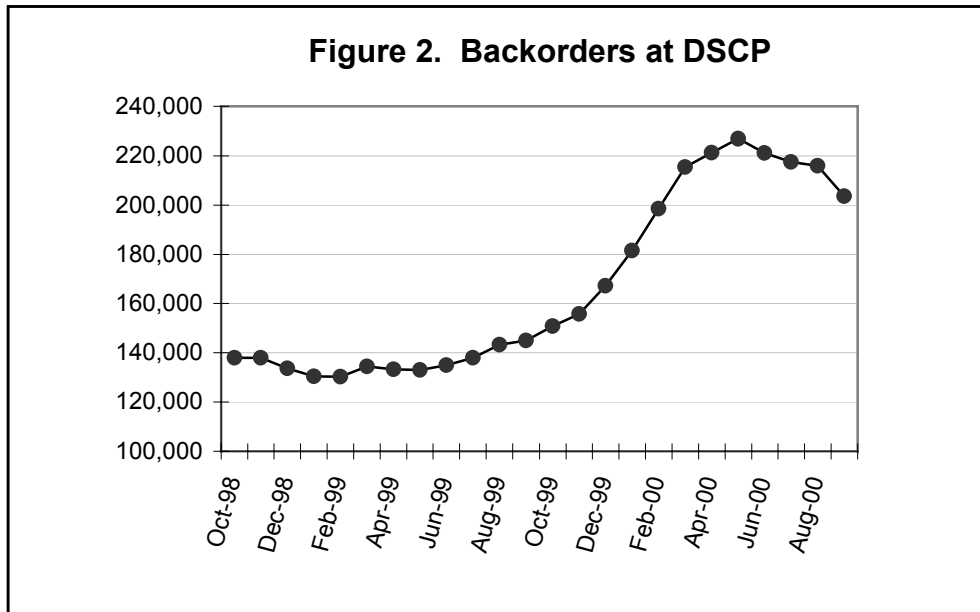
Procurement Support at DSCP. Since the implementation of BRAC 1995 in July 1999, DSCP experienced a gradual decline in supply effectiveness. To evaluate the adequacy of procurement support and supply effectiveness, we determined the administrative lead time it took to award purchase requests for general and industrial items and the percentage of requisitions filled from stock (supply availability) over the 2-year period ending September 30, 2000. Before BRAC 1995 was implemented in July 1999, purchase requests were being awarded in 85 days and requisitions were being filled from stock at an 88 percent rate--effectively meeting the DLA goal of 85 percent for satisfying

customer requirements. As of September 30, 2000, purchase requests were being awarded in 107 days and requisitions were being filled from stock at an 83 percent rate. Figure 1 shows the rise in administrative lead time and the decline in supply availability over the 2-year period evaluated, from October 1, 1998, through September 30, 2000.



While Figure 1 depicts supply effectiveness for both general and industrial type items, the supply effectiveness for industrial items, which are most critical to customers, had similar changes. As of September 30, 2000, purchase requests for industrial items were being awarded in 117 days and requisitions were being filled from stock at an 84 percent rate. From a significance standpoint, about \$18 million in additional inventory would be needed to return DSCP to an 88 percent supply effectiveness rate, assuming personnel support remained the same and demand could be accurately forecasted.

Customer Support. The decline in supply effectiveness meant that DSCP increasingly did not provide its customers with the items they requisitioned. Instead, DSCP placed the requisitions on backorder until the items were acquired. As of September 30, 2000, backorders for general and industrial items were at 204,000, a 66,000 (48 percent) increase since July 1999. Figure 2 shows the rise in backorders over the 2-year period evaluated.



To determine the effect that backorders had on DoD customers, we visited the largest customer of DSCP, the Oklahoma City Air Logistics Center (the Oklahoma Center), located at Tinker Air Force Base, Oklahoma. The Oklahoma Center performs depot-level repair and overhaul work on a wide range of aircraft and components. Readiness requires that the work be done timely and that the aircraft and major components be returned to customers. During FY 2000, the Oklahoma Center sent 172,000 requisitions to DSCP for general and industrial items. As of November 30, 2000, DSCP had 8,328 requisitions from the Oklahoma Center on backorder. Operating personnel at the Oklahoma Center who were dependent upon industrial items to repair and overhaul aircraft engines stated that a lack of industrial items had degraded their ability to satisfy the needs of their customers and had caused other workload inefficiencies as well. The operating personnel specifically noted the following inefficiencies that occurred because of a shortage of industrial items.

- Aircraft and aircraft components were not repaired on time and equipment was not returned to the users as scheduled.
- Repair parts that should have been disposed of were reused in order to complete the maintenance process.

-
- Idle hours rose while repair work was delayed, thus increasing maintenance costs.
 - Skilled aircraft maintenance personnel were assigned routine cleaning and maintenance tasks to keep busy.
 - Major components were overscheduled for repair in order to “rob back” parts in the repair process. “Rob back” is a maintenance term for removing parts from one component in order to complete the repair process on another component.

DSCP officials told us that the comments made by operating personnel at Oklahoma Center are indicative of all supply chains where supply availability is less than 100 percent. Nevertheless, the comments were made specifically about industrial items and the number of times the inefficiencies occur is a product of reduced supply effectiveness.

Acquisition Personnel

Inadequate procurement support for general and industrial items can be traced to before BRAC 1995 was implemented, when DLA did not properly establish the number of personnel needed by DPSC to perform its new acquisition mission. BRAC 1995 dictated that DPSC was to continue managing troop support items and would assume management of some 400,000 general support items. To perform that total workload, BRAC 1995 authorized DPSC a staff of 2,696 personnel. According to DLA officials, that number was generated from a cost model that contained information from diverse sources; DLA officials considered information generated from the cost model to be inconsistent and inaccurate. DLA did not systematically analyze available personnel and workload to determine the staff actually needed to acquire just the general support items. As the DPSC directorates for troop support commodities were to remain essentially intact after BRAC 1995 was implemented, the responsibility for acquiring general support items was to be left entirely to those personnel who had acquired industrial spare parts at DISC.

On balance, the number of personnel who would be available to acquire 400,000 general support items appeared sufficient at the time, considering that there were about 580 acquisition personnel at DISC supporting about 1.2 million industrial spare parts when BRAC 1995 was approved and the industrial spare parts workload was to be transferred to other supply centers. Furthermore, the acquisition process for general support items is normally less complex and less time-consuming than for industrial spare parts, given the commercial nature of general support items. Nevertheless, without a systematic analysis of personnel

and workload, the reasonableness that 580 acquisition personnel could support the acquisition of 400,000 general support items after BRAC 1995 was approved cannot be substantiated. Moreover, since BRAC 1995 was approved, subsequent increases in workload and the introduction of commercial business practices complicated the process considerably for establishing the personnel baseline needed for acquiring general support items and measuring the effectiveness of subsequent procurement support. Even so, the number of personnel that supported the acquisition of general and industrial items as of September 30, 2000, was clearly inadequate as demonstrated by the substantial decrease in supply effectiveness that occurred since BRAC 1995 was implemented.

Item Management Responsibility

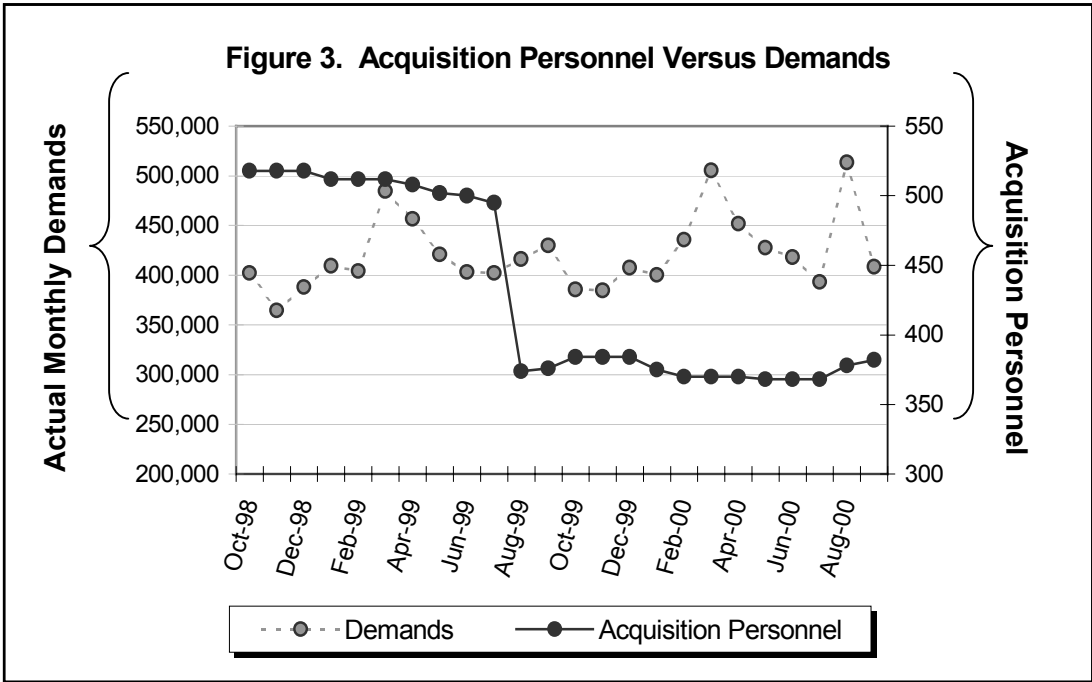
DLA contributed greatly to inadequate procurement support when, before BRAC 1995 was implemented, it assigned DSCP with item management responsibility for about 150 percent more items than envisioned by BRAC 1995. In July 1995, the Defense Base Closure and Realignment Commission reported to the President its recommendations for reducing the DoD infrastructure, to include disestablishing DISC. DLA prepared the justification for disestablishing DISC, which centered on a weapon system concept of management. The justification called for all industrial parts that supported weapon systems to be managed by either DSCC or DSCR, depending on whether the weapon system was based on air, land, or sea. General items that did not support weapon systems were to be managed by DPSC along with those consumable items associated with the welfare of troops. The rationale was that the acquisition of general support items was conducive to the same commercial business practices that had been adopted by DPSC in support of troops and, therefore, all items at DPSC would fall under the same management philosophy.

Within 2 years after the decision in July 1995 to disestablish DISC, DLA elected to have DPSC assume management of about 600,000 industrial items common to one or more weapon systems that were originally to be managed by DSCC or DSCR. That decision, according to DLA officials, was made primarily to balance the workload of the three supply centers that would remain after BRAC 1995 was implemented. The decision was not accompanied by a systematic analysis of personnel and workload, although the addition of 600,000 industrial items represented a 150 percent increase in workload from the initial assignment of 400,000 general items. From the standpoint of procurement support, the decision meant that DSCP would have--after the item transfers were made--about the same number of hardware items to manage as DISC, but with substantially fewer acquisition personnel. In July 1995, DISC

had about 580 acquisition personnel assigned to support the procurement of about 1.2 million industrial items. As of September 30, 2000, the General and Industrial Directorate of DSCP had about 378 acquisition personnel assigned to support the procurement of about 1 million general and industrial items.

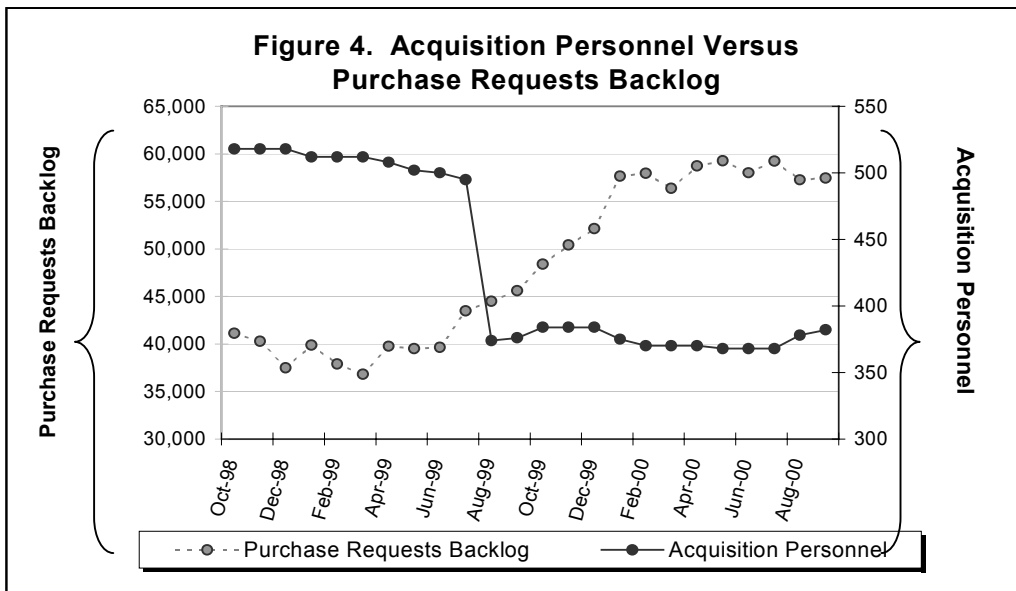
More Business

Demands. An increase in customer demands (requisitions) after BRAC 1995 was implemented also played a role in the inadequate procurement support provided for general and industrial items. While the number of general and industrial items remained about the same, the number of demands for those items rose slightly after BRAC 1995. The rise in customer demands (particularly in the quantities of items ordered in the third and fourth quarters of FY 2000) aggravated the already significant problem posed by the loss of acquisition personnel as a result of BRAC 1995. Figure 3 shows that the number of acquisition personnel for general and industrial items declined from 518 to 378 (27 percent) over the 2-year period ending September 30, 2000, while average monthly demands for the items they supported rose from 415,263 in FY 1999 to 427,699 in FY 2000 (3 percent). The actual monthly demands rose from 402,377 in October 1998 to 408,387 in September 2000.



The loss of acquisition personnel from BRAC 1995 had a dramatic effect on personnel support and affected the morale of those remaining personnel who had worked at DISC. Besides breaking ties with many of their co-workers as a result of BRAC 1995, DISC personnel had to undergo several internal reorganizations that, according to a DSCP official, left them without experienced, senior leadership and essentially anxious and mistrustful. In effect, the work force was not equipped in numbers or spirit to handle additional work.

Purchase Requests. The increase in customer demands contributed to a substantial increase in purchase requests and a growing backlog that had to be awarded by acquisition personnel for general and industrial items. In October 1998, DSCP had 41,100 purchase requests on hand to be awarded for general and industrial items. Figure 4 shows that the number of acquisition personnel for general and industrial items declined from 518 to 378 (27 percent) over the 2-year period ending September 30, 2000, while the amount of purchase requests on hand for the items they supported rose to 57,500, an increase of 16,400 (about 40 percent).



The growth in the backlog of purchase requests began about the time acquisition personnel were substantially reduced in July 1999. The decrease in buyers available to award purchase requests began when BRAC 1995 was fully implemented, creating a problem in processing purchase requests that intensified as the number of monthly purchase requests rose from 27,666 to 40,433 (46 percent) over the 2-year period ending September 30, 2000.

Because there were fewer buyers and technicians, and more purchase requests, the processing time needed to award purchase requests for backordered items increased. Table 2 lists six examples of backordered items that operating personnel at the Oklahoma Center identified as critical to the repair of aircraft engines. Table 2 shows the actual processing time taken by DSCP to award individual purchase requests for the six items after BRAC 1995 was implemented.

Table 2. Examples of Backordered Items from Oklahoma City Air Logistics Center		
<u>National Stock Number</u>	<u>Nomenclature</u>	<u>Actual Item Processing Time in Days (Post-BRAC 1995)</u>
5310-01-126-8473	Washer	307
5330-01-128-8037	Packing Assembly	297
5331-01-126-8476	O-Ring	245
5330-01-128-8036	Packing Assembly	189
5320-01-197-6644	Threaded Pin-Rivet	186
5330-01-128-8045	Packing Retainer	145

Before the implementation of BRAC 1995, the processing time for awarding purchase requests for the Federal Supply Classes of the above six items averaged 67 to 92 days. After the implementation of BRAC 1995, the actual processing time for each of the six items ranged from 145 to 307 days. Based on interviews conducted with inventory management and acquisition personnel at DSCP, the time required to process the purchase requests increased because of a workload backlog and a shortage of personnel to handle the workload.

Commercial Business Practices

Instead of focusing its work force on performing traditional business activities after BRAC 1995 was implemented, DSCP engaged its work force in perpetuating and initiating new commercial business practices that did not generate enough productivity savings to offset the impact of a decrease in personnel and an increase in customer demands and purchase requests. In 1997, following higher level direction to shift to commercial business practices, DISC reclassified (and in many cases promoted) 60 of its most skilled buyers as customer liaison specialists. The main task of the specialists was to explore contracting out supply and distribution functions to prime vendors, and thus reduce the need for item managers and buyers as well as reduce storage space

needed at depots. The reclassification made sense in 1997 because of the impending BRAC personnel decreases and because the workload, general support items, to be assigned to DPSC would be entirely conducive to the prime vendor concept. In fact, another 57 customer liaison specialists were added to explore commercial business practices before BRAC 1995 was implemented, and before the number of personnel at DPSC and DISC was reduced by 1,272 positions. However, the decision to retain a large number of industrial items at DPSC meant that item managers and buyers would still be needed to support traditional business after the personnel reductions from BRAC 1995 took effect.

Nevertheless, DSCP elected to impose the total impact of BRAC cutbacks in July 1999 on those personnel remaining to support traditional business. Those personnel reclassified as customer liaison specialists to explore commercial business practices in 1997 and afterward were not affected by BRAC 1995 reductions. The majority of the personnel reductions were made to occupation specialties 1102 (contract specialists) and 1106 (procurement technicians), the latter made up mostly of lower grade employees who acted as administrative assistants or helpers in awarding contracts for traditional business. Thus, the buyers that remained to support traditional business had to handle more work as well as the duties normally performed by administrative assistants. The reductions in personnel practically ensured that supply effectiveness related to traditional procurement support of general and industrial items would decline. To offset the potential decline in supply effectiveness, DSCP relied on the shift to new commercial business practices, such as prime vendor initiatives and more efficient contracting methods, for immediate benefits and to substantially ease the acquisition workload.

Benefits Achieved From Prime Vendor Initiatives. Efforts to improve personnel support at the wholesale level for general and industrial items through the introduction of prime vendor initiatives have not materially improved productivity. The most productive way that prime vendors can be of benefit at the wholesale level is by eliminating items to manage; that is, by taking over acquisition and distribution responsibility from supply centers. Since 1997, there have been nine initiatives to engage prime vendors: eight for various categories of general items and one for bench stock, the largest category of industrial items.

General Items. As of September 30, 2000, DSCP had transferred about 33,000 (8 percent) of its general support items to prime vendors to manage. Those items included cleaning products, film, and paints. What those items, and many similar general support items still managed by DSCP, have in common is that they do not support weapon systems and can easily be acquired

locally. In fact, users can and often do acquire the same type of items locally to avoid delays and surcharge costs associated with wholesale support. Thus, the general support items that were transferred to prime vendors may have reduced acquisition workload, but the workload was not as critical to the warfighter as filling requisitions for mission-essential spare parts. Furthermore, customer liaison specialists were still required to oversee the prime vendors who managed the items. A more productive alternative for reductions in general item workload could have been achieved by transferring management responsibility for the items to the General Services Administration (GSA).

From 1997 through 1999, we issued five reports that questioned DSCP use of acquisition resources to buy general support items and explore commercial business practices when acquisition support was available through the GSA. The five reports are listed in Appendix B. As of September 30, 2000, DSCP had not transferred management responsibility for any general support items to the GSA. DSCP officials told us that management responsibility was not transferred to GSA because of the added value DSCP provides to its customers--mainly, providing a competitive option and determining the emergency requirements of customers and acting as an intermediary with vendors in the event of a crisis. Nevertheless, DSCP did reduce administrative costs by using GSA procurement services. Since the last of our five reports was issued in December 1999, DSCP issued a blanket purchase agreement for 11,657 administrative product line items with a GSA schedule holder. Although DSCP may provide added value and use GSA procurement services, it could further improve supply effectiveness by using its scarce resources to acquire critical weapon system items for the warfighter rather than acquiring commercially available items.

Industrial Items. As of September 30, 2000, DSCP had not transferred any of its industrial items to prime vendors to manage. DSCP initiated the industrial prime vendor program in July 1998 as a 5-year test program to explore innovative logistics solutions for providing spare parts used by maintenance, repair, and overhaul facilities. The conceptual goal of the program was to improve logistics support to depot facilities at a lower cost by streamlining the logistics pipeline. Productivity benefits were expected to accrue at the wholesale level by transferring materiel management responsibility from the Government to the contractor. Under the test program, DSCP awarded a number of prime vendor contracts to support defense depots around the world. However, materiel management responsibility had not been transferred to a contractor for items in the test program.

In Inspector General, DoD, Report No. D-2001-072, "Industrial Prime Vendor Program at the Naval Aviation Depot-North Island," March 5, 2001, our review of one of those contracts--to support the Naval Aviation Depot-North Island, California--showed that the wholesale-level goal of transferring materiel management responsibility would likely not be achieved. At the retail level, the prime vendor program had a more positive result in that the depot reduced its inventory and logistics personnel. However, at the wholesale level, the prime vendor program helped create a dual supply system because the contractor could not provide the depot with parts cheaper than DSCP and because DSCP still had to supply the same items to customers who were not supported by the contractor. In fact, 82 percent of the items provided to the Naval Aviation Depot-North Island by the contractor came from the DLA supply system. Here again, the application of scarce acquisition resources to satisfy several warfighters and achieve future benefits needed to be weighed against the immediate, critical needs of all warfighters.

Application of Prime Vendor Concept. The prime vendor concept may not improve supply effectiveness because the concept is not readily adaptable to purchasing industrial spare parts. The prime vendor concept worked particularly well with DSCP-managed medical items because the concept had already been introduced successfully to the retail medical industry and the same items needed by DSCP were widely available through commercial channels. The Government workload, in total, represented only about a 1 percent increase in business for the medical prime vendors already in place and could be accommodated easily anywhere in the continental United States or overseas. Just the opposite environment and conditions existed for introducing industrial spare parts to the prime vendor concept, particularly mission-essential items that are uniquely military in supporting weapon systems.

Benefits Achieved From More Efficient Contracting Methods. Efforts to improve personnel support for general and industrial items, through the introduction of more efficient contracting methods, have also had limited success at the wholesale level but appear to offer better potential for improving productivity than prime vendor initiatives. Efficient contracting methods include the use of corporate and long-term dedicated contracts to satisfy user needs. Corporate contracts are awarded for the full product line of a vendor and the aggregate requirements of one or more inventory control points. Long-term dedicated contracts are awarded to one manufacturer for a number of years. Both types of contracts usually involve direct delivery of goods to users and incorporate electronic data interface ordering capability.

The advantage of exploring more efficient contract methods, as opposed to prime vendor initiatives, is that they require fewer resources to accomplish and can be used by all customers--the latter having a particularly positive effect on personnel support by eliminating day-to-day management tasks. As of September 30, 2000, DSCP had management responsibility for 22 corporate contracts to supply about 4,500 industrial line items. Also, as of September 30, 2000, DSCP had placed about 5,400, mostly industrial, line items on long-term dedicated contracts and had solicited bids for long-term dedicated contracts for additional line items. Overall, DSCP had engaged about 13 contract specialists full time to successfully place about 9,900 of its industrial line items under more efficient contracting methods. That compares with 117 customer liaison specialists that DSCP engaged full time who successfully placed 33,000 general support items, and attempted to place an unknown number of bench stock spare parts, under prime vendor contracts.

Conclusion

DSCP did not have enough acquisition personnel to adequately sustain the procurement of mission-essential spare parts for weapon systems. The traditional way of sustaining weapon systems, at the retail level by users and at the wholesale level by depots and inventory control points, was largely undone during the 1990s by a series of initiatives that reduced acquisition personnel and inventory. The reductions in acquisition personnel and inventory were dictated by decreases in DoD funding and were to be mitigated through greater use of commercial business practices, most notably the use of prime vendors to deal directly with customers in satisfying their needs for consumable items. In effect, Government support was to be replaced by commercial support and more innovative procurement methods. That concept was largely the rationale for BRAC 1995 reductions and the reduction of personnel in the DSCP General and Industrial Directorate. However, the reductions in acquisition personnel and inventory were made before the commercial business practices were proven successful for industrial items. In FYs 1999 and 2000, the newly established DSCP was not equipped to handle traditional business as well as explore new commercial business practices. The post-BRAC 1995 staff at the General and Industrial Directorate was neither capable of nor receptive to handling a larger workload. To improve supply effectiveness, DSCP initiated measures that increased personnel costs without fully assessing more efficient alternatives.

Efforts to Improve Supply Effectiveness. DSCP initiated a number of cost-additive measures to improve the supply effectiveness for general and industrial items. Most notably, it incurred about \$1.4 million in personnel overtime during FY 2000, which effectively stopped the rise in backorders and brought

the backorders down to a monthly level of about 200,000. DSCP had also planned to hire about 40 temporary employees by the end of January 2001. In addition, it initiated a \$190,000 contractor study of staffing requirements that will likely show more personnel are needed on a permanent basis. Although those measures should improve supply effectiveness, they come with the price of higher personnel costs--possibly even higher than before BRAC 1995 was implemented.

Alternatives. Several alternatives for improving supply effectiveness at DSCP could prove to be more efficient than increasing personnel costs. DLA and DSCP could make better use of the acquisition services of GSA for general items that do not support weapon systems and could transfer the responsibility for acquiring industrial items that support weapon systems to either DSCC or DSCR. Another alternative to increasing personnel costs would be for DSCP to focus on greater use of corporate and long-term dedicated contracts. Further, DSCP could improve productivity by realigning its work force to better perform traditional business activities. The last alternative appears to offer the most promise for a quick and practical increase in supply effectiveness.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Logistics Agency, in conjunction with the Commander, Defense Supply Center Philadelphia, assess whether supply effectiveness for general and industrial items could be improved by reducing the acquisition workload and realigning personnel resources. Specifically, an evaluation should be made to determine improvements to procurement support by:

1. Transferring management or procurement responsibility for general items that do not support weapon systems and that can be acquired commercially to the General Services Administration.

Defense Logistics Agency Comments. DLA partially concurred and stated that DLA and GSA will continue to reassess the management of commercially available items as opportunities arise. However, DLA also indicated that the use of GSA to acquire commercially available items could be a detriment to planning and reacting to wartime readiness requirements.

Audit Response. The DLA comments are responsive. We would not expect GSA to be used to acquire general support items that critically impact readiness. Our recommendation only addresses those general support items being acquired by DSCP that are of little consequence to the warfighter mission and can be acquired commercially anywhere and anytime.

2. Transferring industrial items that support weapon systems to either the Defense Supply Center Columbus or the Defense Supply Center Richmond, depending on their application.

Defense Logistics Agency Comments. DLA concurred and stated that, in September 2000, it formed a Process Action Team to review the realignment of weapon system items among inventory control points. As of February 2001, the team was evaluating options for further transfer of weapon system items based on best support and business sense.

3. Emphasizing the use of more efficient contracting methods, such as corporate and long-term dedicated contracts.

Defense Logistics Agency Comments. DLA concurred and stated that it is well along in creating more effective long-term contracts to replace repetitive small purchases. DLA stated it will continue to review national stock numbers for additional strategic sourcing opportunities.

4. Reassigning personnel involved in exploring commercial business practices to support traditional business in reducing backorders to mission-essential spare parts.

Defense Logistics Agency Comments. DLA concurred and stated that DSCP is detailing and reassigning personnel to better manage resources and workload. During August 2000, 29 customer liaison specialists and business analysts were detailed to buying teams to help reduce the procurement backlog in traditional areas.

Appendix A. Audit Process

Scope and Methodology

We reviewed the procedures and management controls for staffing the acquisition of general and industrial items for the period October 1998 through September 2000. We reviewed documentation associated with the establishment of DSCP and higher level initiatives that affected staffing and workload throughout the 1990s. Specifically, we reviewed the rationale for BRAC 1995, DoD goals for reducing acquisition personnel and inventory, and DoD plans for adopting commercial business practices. We also interviewed officials and obtained documentation from DLA headquarters and DSCP, including organizational charts, personnel classification data, and performance measurement statistics, dated from October 1998 through September 2000. In addition, we visited the largest customer of DSCP general and industrial items, the Oklahoma City Air Logistics Center at Tinker Air Force Base, to evaluate supply performance.

DoD-Wide Corporate-Level Government Performance and Results Act Coverage. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goal, and performance measure.

FY 2001 DoD Corporate-Level Goal 2: Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key war fighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**

FY 2001 Subordinate Performance Goal 2.3: Streamline the DoD infrastructure by redesigning the Department's support structure and pursuing business practice reforms. **(01-DoD-2.3) FY 2001**

Performance Measure 2.3.4: Logistics Response Time. **(01-DoD-2.3.4)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal.

Logistics Functional Area. Objective: Reduce logistics cycle times.
Goal: Reduce average logistics response times by 1/3 by 9/97 (based on 1st QTR FY 1996 averages) and reduce average age of backordered items to 30 days by 10/01. **(LOG-1.1)**

High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Inventory Management high-risk area.

Use of Computer-Processed Data. We used computer-processed statistics and supply management information that came from the Standard Automated Materiel Management System. To the extent that we reviewed the computer-processed data, we concluded the data were sufficiently reliable to be used in meeting our objective. We did not audit the system that produced the data.

Audit Type, Dates, and Standards. We conducted this economy and efficiency audit from June through December 2000 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available on request.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of DSCP management controls over procuring spare parts. Specifically, we reviewed DSCP management controls over backorders of

general and industrial spare parts needed for major weapon systems. Because we did not identify a material weakness, we did not assess management's self-evaluation.

Adequacy of Management Controls. DSCP management controls for spare part procurement were adequate as they applied to the audit objective.

Appendix B. Prior Coverage

During the last 5 years, the General Accounting Office issued four reports and the Inspector General, DoD, issued eight reports covering aspects of spare parts procurement. Unrestricted General Accounting Office reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted Inspector General, DoD, reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

General Accounting Office

GAO Report No. NSIAD-00-89 (OSD Case No. 2011), “Defense Logistics: Actions Needed to Enhance Success of Reengineering Initiatives,” June 23, 2000

GAO Report No. NSIAD-00-30 (OSD Case No. 1920), “Defense Inventory: Opportunities Exist to Expand the Use of Defense Logistics Agency Best Practices,” January 26, 2000

GAO Report No. NSIAD-99-63 (OSD Case No. 1784), “Air Force Depot Maintenance: Management Changes Would Improve Implementation of Reform Initiatives,” June 25, 1999

GAO Report No. NSIAD/AIMD-99-77 (OSD Case No. 2011), “Air Force Supply: Management Actions Create Spare Parts Shortages and Operations Problems,” April 29, 1999

Inspector General, DoD

Inspector General, DoD, Report No. D-2001-072, “Industrial Prime Vendor Program at the Naval Aviation Depot-North Island,” March 5, 2001

Inspector General, DoD, Report No. D-2000-088, “DoD Acquisition Workforce Reduction Trends and Impacts,” February 29, 2000

Inspector General, DoD, Report No. D-2000-056, “DoD Electronic Mall Implementation Planning,” December 15, 1999

Inspector General, DoD, Report No. 99-184, “Financial Impacts of Defense Logistics Agency Electronic Catalog and Office Supplies Initiatives on Retail Level Purchasing,” June 11, 1999

Inspector General, DoD, Report No. 99-037, “Initiatives to Improve Acquisition Lead Time,” November 23, 1998

Inspector General, DoD, Report No. 98-144, "Dual Management of Commercially Available Items--Information and Imaging Solutions," June 3, 1998

Inspector General, DoD, Report No. 98-037, "Dual Management of Commercially Available Items--Battery, Food Service, and Photographic Products," December 12, 1997

Inspector General, DoD, Report No. 97-205, "Dual Management of Commercially Available Items--Defense Logistics Agency Electronic Catalog Pilot Program," August 15, 1997

Appendix C. DoD Hotline Allegation

Allegation. This report was prepared in response to an April 2000 Defense Hotline allegation that the procurement work force for general and industrial items was mismanaged, resulting in a shortage of mission-essential items needed for major weapon systems. The allegation was specific in contending that a particular individual effected two separate personnel decisions.

- The individual removed experienced managers and replaced them with inexperienced managers. The individual transferred three GS-15 managers with technical knowledge of weapon systems from the bench stock CBU and replaced them with three GS-15 managers from the Subsistence Directorate of DSCP.
- The individual reduced the number of buyers with warrants. In March or April 2000, the individual reduced the number of buyers in the bench stock CBU from 200 to 50 or 60. The number of buyers in the entire General and Industrial Directorate was reduced by 205 positions, from 479 to 274.

Conclusion. The allegation could not be substantiated. The specific contention that a particular individual removed experienced managers and replaced them with inexperienced managers was unfounded because the particular individual had never been in a position to change management personnel. When the General and Industrial Directorate was reduced to four CBUs in April 2000, new managers were selected and promoted competitively from a list of qualified members of the DSCP work force and approved at the highest level within DSCP. Also, the specific contention that the same particular individual reduced the number of buyers with warrants was unfounded because the reduction in buyers came about as a result of BRAC 1995 and the realignment of personnel to explore new commercial business practices--actions that predated the formation of the General and Industrial Directorate and the particular individual's authority. Nevertheless, the DoD Hotline allegation was factual in contending that problems existed with the work force and that those problems reduced supply effectiveness.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Deputy Under Secretary of Defense (Logistics and Materiel Readiness)
Deputy Under Secretary of Defense (Acquisition Reform)
Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Logistics Agency
Commander, Defense Supply Center Philadelphia

Non-Defense Federal Organizations

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations

Senate Subcommittee on Defense, Committee on Appropriations

Senate Committee on Armed Services

Senate Committee on Governmental Affairs

House Committee on Appropriations

House Subcommittee on Defense, Committee on Appropriations

House Committee on Armed Services

House Committee on Government Reform

House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform

House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform

House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Defense Logistics Agency Comments



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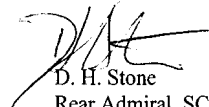
FEB 14 2001

IN REPLY
REFER TO J-33

MEMORANDUM FOR DoD IG

SUBJECT: Audit Report on the Acquisition of General and Industrial Items
(Project No. D2000LD-0206)

In response to your memorandum dated January 29, 2001, subject as above, we have reviewed the draft audit report and our comments are attached. Our point of contact is CDR Al McCosh, J-3821, (703) 767-4098 (alan_mccosh@hq.dla.mil).


D. H. Stone
Rear Admiral, SC, USN
Director, Logistics Operations

Attachment

SUBJECT: Acquisition of General and Industrial Items Project No. D2000LD-0206

FINDING: Procurement Support. Procurement support at DSCP was inadequate in acquiring general and industrial items. Since the implementation of BRAC 1995 in July 1999, supply effectiveness decreased as the administrative lead-time taken by buyers to acquire general and industrial items rose from 85 to 107 days. The decline in supply effectiveness occurred because:

- Before BRAC 1995 was implemented, DLA did not properly establish the number of personnel needed by DPSC to carry out its prescribed acquisition mission, and assigned to the newly organized DSCP item management responsibility for about 150 percent more items than envisioned by BRAC 1995, and
- After BRAC 1995 was implemented, users required more general and industrial items and, instead of focusing its work force on performing traditional business activities, DSCP engaged its work force in perpetuating and initiating new commercial business practices that did not generate enough productivity savings to offset the impact of personnel reductions.

As a result, inadequate procurement support at DSCP was responsible for about a 68 percent rise in backorders (135,019 in June 1999 to 226,873 in May 2000) of general and industrial items. Additionally, DSCP did not use or plan the most efficient alternatives to improve supply effectiveness. Instead, DSCP had a surge in overtime, took steps to hire temporary employees, and initiated a contractor study that will likely show more personnel are needed on a permanent basis.

DLA COMMENTS:

DLA concurs with the audit finding that the allegation of mismanagement at the Defense Supply Center Philadelphia DLA was not substantiated.

DLA believes that it is an inaccurate assessment to link procurement support issues at DSCP as a direct result of Base Realignment and Closure 1995. While procurement support at DSCP declined following the personnel losses in July 1999, the BRAC implementation plan was only one of many contributing factors to the radical change experienced. BRAC 95 was approved at a time when DLA was restructuring inventory management to better respond to customer requirements and leverage best commercial business practices. A large transfer of Consumable Items from the Military Services was in progress, and DLA was moving from commodity oriented item management to focus on managing by weapon system. In implementing the BRAC 1995 decision to disestablish the Defense Industrial Supply Center (DISC), DLA chose to realign item management responsibilities to further enhance its focus on weapon systems platforms, while at the same time emphasizing adopting best commercial business practices for commercially supportable items. The personnel losses as a result of BRAC appeared acceptable at the time based on the productivity gains expected from the shift to commercial practices initiatives. Implementation of these changes, however, took longer than anticipated to achieve the intended benefit.

Temporary declines in support are inherent in achieving the extensive changes all DoD ICPs have experienced in the 1990s. DSC Columbus is an excellent example of a period of readjustment, followed by continuous fine-tuning and improvement, which is required to stabilize the workforce and return an ICP to

maximum levels of support. They are now performing at greatly improved performance levels and Philadelphia is tracking on the same model.

DLA has and will continue to evaluate methods of fine-tuning support issues. As in all business practices, some decisions will prove more successful than others, but the strategy has proven its worth in shifting the Agency focus to a Lead Center concept based on weapons systems. The strategy has experienced some of the best success of all DLA customer support initiatives.

A January 2000 GAO Report, entitled, *Opportunities Exist to Expand the Use of Defense Logistics Agency Best Practices*, supports the Agency's attempt to build on the success of its implemented initiatives and expand the use of best practices. The report states "(DLA) has made significant progress implementing the best practice initiatives contained in the schedule, but opportunities exist to expand these efforts. Recognizing this opportunity, the Agency is taking steps to develop a strategy to expand the use of best practices for hardware items, which, if successful, could lead to further supply system improvements and cost reductions."

RECOMMENDATIONS: We recommend that the Director, Defense Logistics Agency, in conjunction with the Commander, Defense Supply Center Philadelphia, assess whether supply effectiveness for general and industrial items could be improved by reducing the acquisition workload and realigning personnel resources. Specifically, an evaluation should be made to determine improvements to procurement support by:

1. Transferring management or procurement responsibility for general items that do not support weapon systems and that can be acquired commercially to the General Services Administration.

Partially concur. The 1971 agreement between DLA and GSA provides for DLA to manage FSCs commonly used in military operations or weapons systems support irrespective of their use by civil agencies. This agreement does not require that the items meet any weapons system essentiality criteria. DLA does not believe that GSA is able to provide the full range of support to include planning and contingency support for military items. Transfer of management responsibility makes sense if GSA is able to plan and react to wartime readiness requirements from the Commander in Chiefs (CINCs). This is not a mission that GSA has assumed, and rightfully so, because it is already being accomplished by DLA. GSA has also been decreasing their support to overseas customers by closing their overseas facilities, while DSCP executes its forward support mission through overseas presence. As a combat support agency, DLA is committed to supporting its military customers during peacetime and wartime, both CONUS and overseas, with a full range of logistics services. Readiness support is our core competency. This difference in DLA focus provides a critical value added, especially in a contingency or wartime scenario.

DSCP has taken the opportunity to partner with GSA whenever this is the most advantageous method of support for our customers. Most recently, partnering has been undertaken in the management of administrative products. G&I has in place a Blanket Purchase Agreement (BPA) with Boise Cascade, a GSA schedule holder for administrative products. DLA/GSA will continue to reassess the management of commercially available items as opportunities arise.

2. Transferring industrial items that support weapon systems to either the Defense Supply Center Columbus or the Defense Supply Center Richmond, depending on their application.

Concur. The location of weapons support items among the Centers was initially discussed during the first round of consumable item transfers beginning in FY95. The decision was made at that time to retain FSCs at DSCP that, while some items were coded to weapons systems, they were essentially general, commercial items used on numerous weapons and non-weapons applications. This would allow DSCP to leverage its experience with prime vendor and other shift to commercial practice

initiatives. Prior to the audit, DLA and the Inventory Control Points (ICPs) again began analyzing Federal Supply Classes to establish the best weapons support locations.

In September 2000, DLA formed a Process Action Team (PAT) under the direction of DLA-J-33 to review FSC realignment among the ICPs. The team is currently evaluating options for further transfer of weapons system items based on best support and business sense. We expect the study group recommendations to result in the best management support options for our DoD customers.

DSCP G&I will continue the intensive recovery actions taken over the past year including recruiting additional acquisition personnel to resolve backorders and replace expected workforce aging losses. Current initiatives include a system to post on-the-shelf inventory for G&I buyers (DILNET), the PACE automation system to help reduce backorders and manual purchase requests, and other customer focused backorder resolution initiatives.

3. Emphasizing the use of more efficient contracting methods, such as corporate and long-term dedicated contracts.

Concur. This is DLA's strategic direction and we will continue to pursue it aggressively. We are well along in the strategic material sourcing program that will create more effective long-term contracts to replace the multiplicative repetitive small purchases now being made. This is an ongoing process and we will continue to review NSNs for additional strategic sourcing opportunities. Currently, the 400 long-term contracts in place, in conjunction with our prime vendor contracts, account for approximately 46 percent of G&I's overall obligations.

Joint Vision 2010/2020 projects how commercial business practices must be developed in the future to support the U.S. military in the new millennium. Working towards fulfillment of this vision and DLA's Strategic Plan, DSCP has taken the lead in working with customers and industry in pursuit of partnerships and in identifying innovative targets of opportunity that will benefit from a shift to best commercial practices.

4. Reassigning personnel involved in exploring commercial business practices to support traditional business in reducing backorders to mission-essential spare parts.

Concur. DSCP G&I is using details and reassignments as a tool to manage resources and workload. During August 2000, twenty-nine Customer Liaison Specialists and Business Analysts were detailed to buying teams to help reduce the procurement backlog in traditional areas. Overtime is also being used.

DISPOSITION:

(X) Action is Ongoing. ECD: TBD

ACTION OFFICER: CDR Al McCosh

REVIEW/APPROVAL: DLA-J-3

COORDINATION: J-33, J-34, J-308 and DSCP-D

DLA APPROVAL:

Audit Team Members

The Readiness and Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

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