

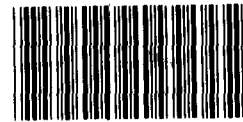
GAO

Report to the Chairman, Subcommittee
on Readiness, Committee on Armed
Services, House of Representatives

November 1990

ARMY LOGISTICS

Authorized Levels of Repair Parts at the Divisions Are Overstated



142682

**National Security and
International Affairs Division**

B-237804

November 20, 1990

The Honorable Earl Hutto
Chairman, Subcommittee on Readiness
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

In your March 19, 1990, request, you asked us to determine what actions the Army was taking to improve the efficiencies of its logistics system. You also asked whether the Army needs to buy and maintain all of the inventory that it currently stocks.

On October 4, 1990, we provided an interim briefing to your office on the results of our work to date. Our briefing focused on how well the Army is implementing its policy for determining authorized stockage levels of repair parts at its divisions. As requested, this letter summarizes the information discussed during the briefing. Work on the other issues in your request is continuing, and we will be issuing a report on these issues in the near future.

Results in Brief

Incorrect programming of computer software used by the Army to determine repair parts stockage levels on its divisions' authorized stockage lists resulted in the authorized levels being overstated by 10 days of supply (as much as \$110 million). When this matter was brought to the attention of officials in the Office of the Army Deputy Chief of Staff for Logistics, they initiated action to reprogram the computer system by reducing the authorized stockage levels at its divisions by 10 days.

Background

A division's supply structure consists of a main direct support unit and two or more forward direct support units. The division supply structure operates under the umbrella concept. That is, the main direct support unit's inventory backs up the forward direct support units' inventory and replenishes their inventory stocks as required.

Army policy stipulates that a division is authorized to stock a quantity of repair parts equal to a 15-day operating level, a 5-day safety level,

and stock for order-ship-time.¹ Army policy also provides that up to 10 days of these stocks can be positioned in the forward support units.

Improper Implementation of Army Supply Policy

Authorized stockage levels are computed using the Direct Support Standard Supply System (DS-4) computer system. During our review, we found that the DS-4 system had been programmed in such a manner that the authorized stockage levels at the forward direct support units were not included as part of authorized stockage levels of the main direct support units. This was done even though Army policy states that the stockage levels at the forward direct support units are part of the division's main direct support unit's stockage level.

We discussed the matter with officials at the Army Logistics Center who were responsible for programming the DS-4 system. The officials confirmed that the system had been programmed to compute 10 days of supply for a division's forward direct support units in addition to the stock authorized for the main direct support unit.

The officials advised us that the added stock level at the forward support units had been 45 days until March 1990, when the Logistics Center implemented a program to reduce these levels to 10 days of supply.

In response to our question as to why the March 1990 system change had not eliminated the extra 10 days of stock, the officials at the Center said that a major reprogramming effort would have been required to completely eliminate the computed stock levels at the forward support units. Furthermore, they did not believe that it was worth the effort because the DS-4 system is expected to be replaced by the Standard Army Retail Supply System in the mid-1990s.

When we brought this matter to their attention, officials in the Office of the Army's Deputy Chief of Staff for Logistics told us that the Army could not afford to continue to maintain stock levels that were not authorized and that action would be taken to correct the situation.

¹The "operating level" (15 days of supply) is the quantity of parts, based on demand history, that the support unit expects to issue during a 15-day period. The "safety level" (5 days of supply) is intended to provide for instances in which there is an unanticipated increase in demand or delays in receiving parts ordered from the next higher level of supply. The "order-ship-time" level is the quantity of items needed to fill requisitions from the time an order is placed until the ordered items are received.

Army Actions to Correct the Problem

To correct the system programming problem, Army Deputy Chief of Staff for Logistics officials prepared an emergency system change request which will reduce the main direct support units' authorized stockage by 10 days.

The officials also told us that 1 day of supply in the Army's retail level supply system equates to about \$22.5 million of inventory. However, this total includes inventory other than that related to the DS-4 system. When these other inventories are excluded from the \$22.5 million, the amount of division stock related to the DS-4 ranges from about \$9.5 million to \$11 million for a 1-day supply. Therefore, the 10-day reduction would allow the Army to reduce its inventory investment by as much as \$110 million.

Department of Defense officials said that the Department's Inventory Reduction Plan, announced by the Under Secretary of Defense for Acquisition on May 21, 1990, requires the Army and the other services to evaluate their retail level stockage policies and establish reduction goals. Furthermore, a Defense Management Review Decision proposes to reduce the services' budgets based on savings attributable to implementation of the Inventory Reduction Plan.

Scope and Methodology

We performed our review at the 82nd Airborne Division, Fort Bragg, North Carolina; the 24th Infantry Division, Fort Stewart, Georgia; the U.S. Army Logistics Center, Fort Lee, Virginia; the U.S. Army Forces Command, Fort McPherson, Georgia; and Headquarters, Department of the Army, Washington, D.C.

We reviewed Army policy and regulations to determine the Army's method of computing a division's authorized stockage level. We analyzed applicable records and reports at the 82nd Airborne and 24th Infantry Divisions to confirm that the authorized stockage levels at the forward direct support units had not been counted in the divisions' main direct support units' authorized stockage levels.

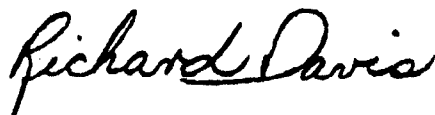
We held discussions with officials at the Army's Logistics Center to obtain an understanding of the DS-4 system and the computer logic used to compute the stockage levels. We also held discussions with Headquarters, Department of the Army, officials to advise them of our understanding of the method used to make stockage level computations and to ensure that our understanding was correct.

We conducted our review from March to September 1990 in accordance with generally accepted government auditing standards. We did not obtain official agency comments on this report. However, we discussed its contents with Army headquarters officials and obtained their agreement to take corrective action.

We are sending copies of this report to the appropriate congressional committees, other interested Members of Congress, and the Secretaries of Defense and the Army. We will make copies available to other parties on request.

If you or your staff have any questions concerning this report, please call me on (202) 275-4141. Other major contributors to this report are listed in appendix I.

Sincerely yours,

A handwritten signature in cursive script that reads "Richard Davis".

Richard Davis
Director, Army Issues

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