

DEFENSE SUPPLY AGENCY MANAGEMENT OF SUPPLY ITEMS HAVING LITTLE OR NO DEMAND

We sent a letter report on March 30, 1967, to the Secretary of Defense advising him of the large volume of inactive and low demand items being managed by the Defense Supply Agency (DSA). In our November 1966 draft report regarding a similar situation in the Navy, we stated that potential savings were available either by elimination from the supply system or transferring those replacement parts that have little or no demand to decentralized management.

We indicated in our recent letter report that almost one-half of the DSA inventory since 1963 has been composed of inactive items—those having no demands within the past 21 months. The observations presented therein were based on a limited survey into the DSA program to eliminate items with no demand from its supply system. Under this program the Defense Supply Centers refer inactive items to military users, who either advise that they have no further need for the item(s) or verify that a continuing requirement exists.

Our work disclosed that although some form of inactive item review program has been in existence in the Defense Supply Agency since 1963, the number of inactive items centrally managed by this Agency ranged from 44 to 56 percent of the total inventory. We believe the principal cause for the slow progress is that military users often lack the technical capability to determine whether an item should be deleted or retained. In this connection, for example, the Air Force is returning all referrals coded for retention, as are certain activities of the Army. It is our opinion that, until the military services are fully capable of performing an adequate review of items referred by DSA Centers, little if any progress will be made in eliminating inactive items from the DSA supply system.

In addition to the problem of managing volumes of inactive items, DSA also manages thousands of low unit value/low demand type items. According to DSA reports for fiscal year 1966, over 390,000 items, or 56 percent, of the total active items managed by the four Defense Supply Centers, had a unit price of \$10 or less and an annual cumulative demand of \$100 or less.

The total demand value for the 390,000 active items amounted to \$9.6 million which is less than one percent of the total demand value for all items managed by Defense Supply Centers. It is evident that after DSA was established as the integrated manager for common usage items, it acquired many low unit value and low demand type items from the military services, as reported by the Assistant Secretary of Defense (Installations and Logistics) in the "Study of the Interface Between the Military Services and the Defense Supply Agency."

The DSA is currently preparing to introduce a completely new management system (Standard Automated Material Management System). The cost of procuring and installing new data processing equipment for this type is approximately \$25 million. DSA informed us that the requirements for the new system are predicated on the present inventory stratification and no program is planned to expedite the elimination of inactive or slow moving items prior to the implementation of the new standard management system. The primary purpose for this new management system, according to DSA, is to provide uniformity in Supply Center operations and provide a basis for future improvements and growth in agency operations.

In commenting on our earlier Navy report of November 23, 1966, on inactive and low-demand items, Department of Defense officials advised us that, while they agree that inactive items should be eliminated from the supply systems when there is evidence of no future needs, they are of the opinion that the Item Entry Control Program, the Standardization Program, as well as the Inactive Item Review Program, are capable of reducing the number of items in the supply systems. While we believe that these programs will, in future years, lead to more effective controls over the number and types of items required to be managed, it is our opinion that more aggressive action is required to eliminate inactive items from the system until such a time the cited programs attain full effectiveness.

In this connection, we suggested that the Secretary of Defense consider granting the Defense Supply Agency reasonable discretionary authority to take unilateral action to delete inactive items without referral to the services. Although this approach could result in some subsequent reactivations, we believe that the advantages to be gained by reducing the volume of inactive items will more than offset the costs involved in reactivating some items.