



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

DoD Inspector General Report

Date: December 14, 2006
Report No: D-2007-034
Project No.: D2005-D000LH-0211.000

MEMORANDUM FOR DEPUTY CHIEF OF STAFF FOR LOGISTICS, G-4

SUBJECT: Audit of Transportation Policies, Procedures, and Processes Implemented to Meet DoD Customer Demands

Objectives. The overall audit objective was to evaluate DoD policies, procedures, and processes that facilitate the movement of supplies in meeting customer demands. Specifically, we determined whether DoD transportation managers were using the most effective transportation mode to meet customer requests and DoD customers were following policies and procedures for requesting supplies.

Conclusion. While Army customers generally followed policies and procedures outlined in DoD and Army guidance, we identified three areas where the Army could improve procedures in the requisition process. Army guidance was not updated to accurately reflect responsibilities for oversight of the Army requisition process. In addition, the Army used air transportation to repetitively¹ ship some supplies to the U.S. Central Command (CENTCOM) Area of Responsibility (AOR). Finally, procedures for shipping supplies to units with an air line of communication (ALOC) designation did not follow Army guidance. Officials within the Office of the Deputy Chief of Staff for Logistics, G-4, were aware of the problem areas that we identified and have either initiated or planned actions to mitigate them. Actions that the Deputy Chief of Staff for Logistics, G-4, initiated or planned should improve the processes so that the most effective mode of transportation is used to meet customer requests.

Scope and Methodology. We conducted this audit from June 2005 through August 2006 in accordance with generally accepted government auditing standards. We limited our scope to 613,221 Army requisitions for supplies shipped from the continental United States to the CENTCOM AOR by air transportation from October 1, 2004, through July 31, 2005. We reviewed the requisitions to determine whether DoD and Army guidance allowed the supplies to be shipped by air and whether the most effective mode of transportation was used. We met and interviewed officials from the offices of the Assistant Deputy Under Secretary of Defense

¹Repetitively shipped items were shipped to Army units on at least 20 separate occasions during the 10-month period ending July 31, 2005.

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(Transportation); Deputy Chief of Staff for Logistics, G-4; Deputy Chief of Staff for Operations, G-3; Army Materiel Command; Defense Logistics Agency; Air Mobility Command; and Army Airlift Clearance Authority. In addition, we compared requisitions in the Defense Logistics Agency database to those in the Army Logistics Support Activity database by matching nine critical fields: requisition number, issue priority group, priority designator, required delivery date, national stock number, mode of transportation, world wide express, class of supply, and quantity shipped.

Results and Management Actions

Army customers generally followed policies and procedures outlined in DoD and Army guidance for requisitioning and transporting supplies to the CENTCOM AOR. However, we identified that Army guidance did not accurately reflect changes to responsibilities for oversight of the supply requisition process. The Army also used air transportation to repetitively ship some supplies to the CENTCOM AOR. We also identified that the procedures related to shipping supplies to units in the CENTCOM AOR with an ALOC designation that did not follow Army guidance. Officials at the Office of the Deputy Chief of Staff for Logistics, G-4, stated that they were aware of the problem areas we identified during the audit and have either initiated or planned corrective actions. Actions that the Deputy Chief of Staff for Logistics, G-4, initiated or planned should improve the procedures and processes so that the most effective transportation mode is used to meet customer requests.

Background. The DoD supply chain management goal is to deliver the “right items to the right place at the right time” for the warfighter. DoD Components must accomplish the timely and quality delivery at the lowest cost. DoD Regulation 4500.9-R, “Defense Transportation Regulation Part II - Cargo Movement,” November 2004, and DoD Manual 4000.25-M, Military Standard Requisitioning and Issue Procedures,” April 28, 2004, recommends air or surface transportation depending on the:

- importance of the customer’s mission,
- importance of the item being requisitioned in relation to the customer’s mission, or
- date the customer requires the item to successfully complete the mission.

Guidance for Army Supply Chain Management. Army guidance did not accurately reflect current operations of the Army’s supply chain management. Specifically, the Army guidance was outdated and did not accurately reflect changes to responsibilities for oversight of the Army requisition process. Army Regulation 725-50, “Requisitioning, Receipt, and Issue System,” November 15, 1995, requires that the Office of the Deputy Chief of Staff for Operations, G-3, conduct administrative audits and inspections regarding supply requisitions; however, the Office of the Deputy Chief of Staff for Logistics, G-4, stated that they conducted the audits and inspections to determine whether the requisition system was used properly. According to Army officials, the Army reorganized oversight responsibilities about 3 years ago, but did not update the regulation to reflect changes.

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Management Actions. Officials within the Office of Deputy Chief of Staff for Logistics, G-4, stated that the Army is updating Army Regulation 725-50 to reflect current operations and responsibilities for overseeing the Army's supply requisition process. This revision will include updated oversight responsibilities for conducting administrative audits and inspections for supply requisitions. Officials stated that the Army expects to complete the revision of the Army Regulation by May 2007. We are making no recommendations and therefore, no further action is required.

Repetitively Shipped Supplies. The Army used air transportation to repetitively ship some supplies by way of air transportation to the CENTCOM AOR because the Office of the Deputy Chief of Staff, G-4, did not consistently review stock levels for items being repetitively shipped to the CENTCOM AOR. DoD Regulation 4140.1-R, "Supply Chain Materiel Management Policy," April 22, 2004, states that supplies "shall be positioned to maximize customer responsiveness while minimizing total stockage, distribution, and transportation costs." The FY 2005 Supplemental Request for Operation Iraqi Freedom, Operation Enduring Freedom, and Operation Unified Assistance states that DoD is working to reduce the proportion of air transportation used and to lower transportation costs. The request further states that even with strict management controls, CENTCOM will continue to need air transportation for the most critical items and equipment.

In the 10-month period ending July 31, 2005, the average additional cost to send supplies by air versus by surface transportation was \$2.19 per pound. During that time, the Army used air transportation to repetitively ship 3.39 million supply and equipment items. Shipments included 4,369 vehicle track shoe sets, 1,283 collapsible chests, 1,040 starter engines, 914 engine hoods, 459 engine radiators, 276 engine hoods, and 195 55-gallon barrels of lubrication oil. The Army used air transportation to ship the supplies on at least 20 separate occasions within the 10-month period ending July 31, 2005. Without reviewing stock levels and determining whether the supply items could be stocked in or closer to the CENTCOM AOR to better meet the needs of DoD customers, the Army could not provide assurance that they minimized costs to the supply chain.

Management Actions. Officials from the Office of the Deputy Chief of Staff for Logistics, G-4, acknowledged that they did not consistently review stock levels for all supplies shipped to the CENTCOM AOR. However, officials in the Office of the Deputy Chief of Staff for Logistics, G-4, stated that they, in coordination with CENTCOM AOR personnel, review stock levels for large or heavy supply items every 90 days and adjust the stock levels as necessary. In addition, officials from the Office of the Deputy Chief of Staff for Logistics, G-4, stated that they worked closely with the RAND Corporation to conduct studies and provide suggestions on stock levels of supplies at the Defense Distribution Depot, Kuwait, Southwest Asia. Officials within the Office of the Deputy Chief of Staff for Logistics, G-4, stated that they have worked with the RAND Corporation since inception of the Defense Distribution Depot, Kuwait, Southwest Asia in 2004 to review the large, heavy items that may cost more money to ship by air transportation than to forward stock in theater. Officials provided evidence of the RAND Corporation's studies and ongoing analysis of stock positioning. We are making no recommendations and therefore, no further action is required.

Procedures for Shipping Non-maintenance Related Supplies. Procedures for shipping supplies did not follow Army guidance. Army Regulation 710-2, "Supply Policy Below the National Level," July 8, 2005, permits Army units with an ALOC designation to receive maintenance-related supplies by air transportation, regardless of importance or requested

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delivery date. However, we identified that ALOC units receive maintenance and non-maintenance supplies, such as 11,000 maps, by air transportation. The Army had not established controls or corrected the business rules for units with an ALOC designation to prevent air delivery of low priority, non-maintenance related items.

Management Actions. Officials from the Office of the Deputy Chief of Staff for Logistics, G-4, stated that the Army is establishing a subgroup to the Supply Chain Integration Team to improve retail and theater supply performance. Part of this review will involve identifying the classes of supplies that should be closely screened and diverted to surface transportation when surface will meet the customer's needs. Officials stated that the Army is also receiving support for this initiative from the CENTCOM Distribution Working Group, and will enlist the help of the Defense Distribution Depot in New Cumberland, Pennsylvania to correct the business rules within the transportation system. Officials from the Deputy Chief of Staff for Logistics, G-4, stated that the subgroup is drafting its charter and expects to complete it by October 2006. We are making no recommendations; however, we request that management provide comments on the status of this action.

We reviewed the Army requisition process for supplies shipped between October 1, 2004, and July 31, 2005. Although we identified problem areas where the Army could improve the requisition process, Army officials identified actions taken or planned that will correct them. Therefore, we are making no recommendations.

Management Comments Required

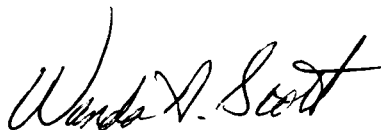
The Army did not comment on a draft of this report. We request that the Army provide comments on the final report related to the status of the charter for the subgroup to the Supply Integration Team that was scheduled for completion in October 2006. We should receive the comments by January 10, 2007. If possible, please provide management comments in electronic format (Adobe Acrobat file only) to AudROS@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET). We normally include copies of the comments in the final report. Matters considered by management to be exempt from public release should be clearly marked for Inspector General consideration.

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We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Timothy Wimette at (703) 604-8876 (DSN 664-8876) or Ms. Melissa McBride at (703) 604-9283 (DSN 664-9283). If management requests, we will provide a formal briefing on the results.

By direction of the Deputy Inspector General for Auditing:



Wanda A. Scott
Assistant Inspector General
Readiness and Operations Support

cc:

Under Secretary of Defense for Acquisition, Technology, and Logistics
Assistant Secretary of the Army for Acquisition, Logistics, and Technology
Deputy Chief of Staff for Operations, G-3
Auditor General, Department of the Army

(This note is not part of the final report as issued.)

Report No. D-2007-034, 'Audit of Transportation Policies, Procedures, and Processes Implemented to Meet DoD Customer Demands,' was distributed to:

U.S. Army Audit Agency