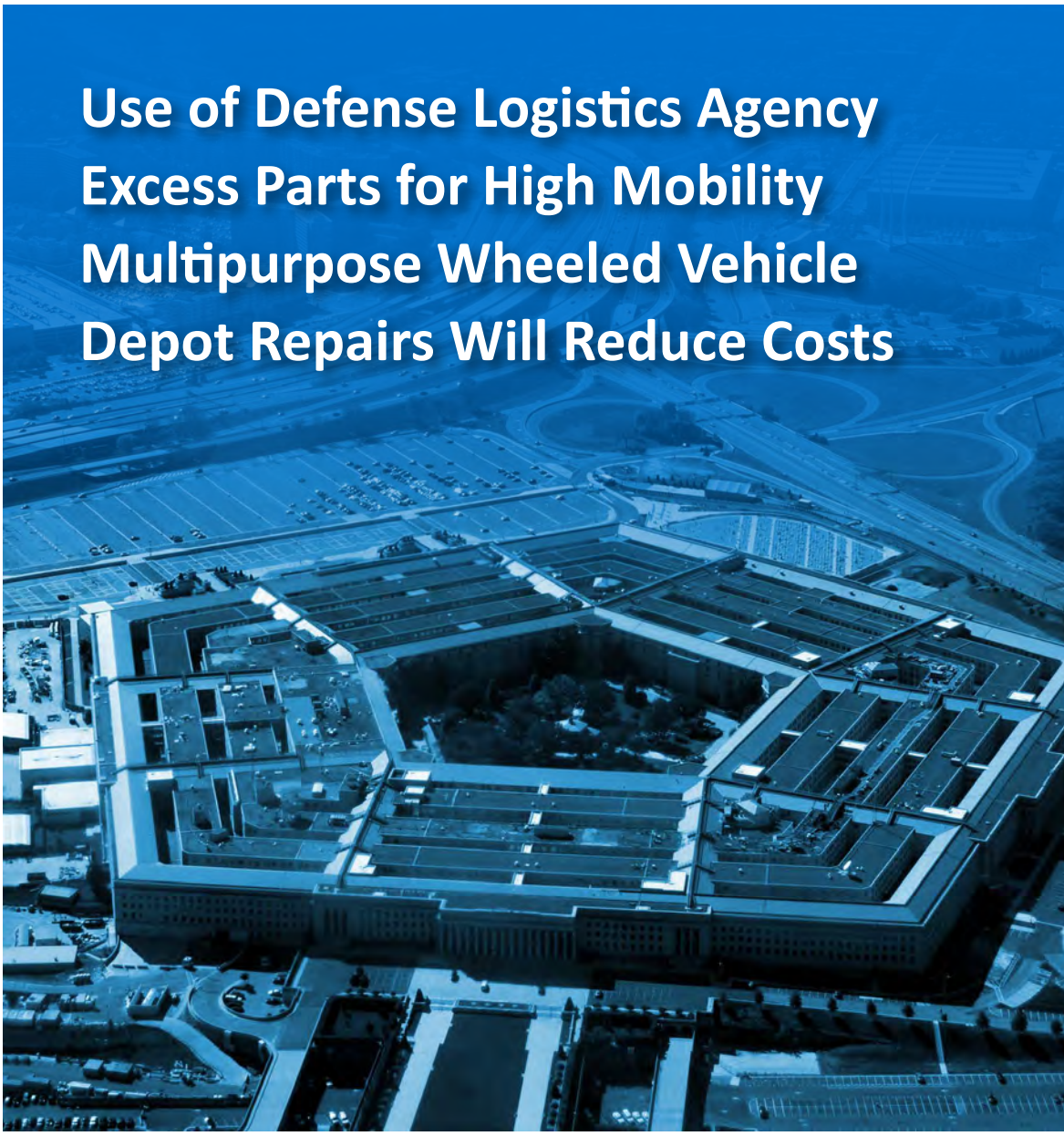
Report No. DODIG-2013-073

INSPECTOR GENERAL

Department of Defense

APRIL 25, 2013

Use of Defense Logistics Agency Excess Parts for High Mobility Multipurpose Wheeled Vehicle Depot Repairs Will Reduce Costs



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Results in Brief

Use of Defense Logistics Agency Excess Parts for High Mobility Multipurpose Wheeled Vehicle Depot Repairs Will Reduce Costs

April 25, 2013

Objective

We evaluated High Mobility Multipurpose Wheeled Vehicle (HMMWV) repair parts supply chain management at Red River Army Depot. Specifically, we reviewed Defense Logistics Agency (DLA) inventory levels, DLA annual customer demand, and the depot consumption of HMMWV repair parts to determine whether the supply chain was cost-effective.

Finding

DLA Land and Maritime did not cost-effectively manage 118 HMMWV repair parts valued at $11.1 million while purchasing these parts from AM General, LLC for $17.6 million. This occurred because DLA Land and Maritime officials did not review DLA-owned inventory at key contract decision points to maximize use of its own stock. As a result, we identified $9.7 million of excess inventory that could be used for HMMWV maintenance requirements. Thus, DLA missed an opportunity to improve DoD cash flow by drawing down DLA-owned inventory before using commercial support. Furthermore, DLA incurred costs to maintain this excess inventory.

Recommendations

The Director, DLA, should issue guidance to require periodic inventory reviews of DLA-owned inventory used in performance-based logistics agreements at award of each contract, issuance of modifications that add new program requirements, and exercise of option years.

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Recommendations Continued

Also, the Director, DLA, should direct the Commander, DLA Land and Maritime, to:

- perform periodic inventory reviews of DLA-owned HMMWV repair parts on the Integrated Logistics Partnership contract,
- develop a drawdown plan for the excess inventory identified and incorporate the plan into the final option year of the Integrated Logistics Partnership contract and any future HMMWV support contracts at Army maintenance depots, and
- provide all HMMWV repair part consumption data to supply planners.

Comments

Comments from the Deputy Director, DLA Logistics Operations, were responsive and met the intent of our recommendations. No additional comments are required. DLA stated that it would:

- issue guidance to maximize use of inventory for performance-based logistics agreements,
- implement quarterly reviews for DLA-managed over procured items on the Integrated Logistics Partnership contract,
- develop a drawdown plan for excess, and
- provide consumption data to supply planners for the contract.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director, Defense Logistics Agency		1, 2.a, 2.b, 2.c.

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

April 25, 2013

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY
COMMANDER, DEFENSE LOGISICS AGENCY LAND AND MARITIME

SUBJECT: Use of Defense Logistics Agency Excess Parts for High Mobility Multipurpose Wheeled Vehicle Depot Repairs Will Reduce Costs (Report No. DODIG-2013-073)

We are providing this report for your information and use. This is the first in a series of reports that will address repair parts for High Mobility Multipurpose Wheeled Vehicles. Defense Logistics Agency Land and Maritime did not maximize use of $11.1 million of its inventory while purchasing parts from AM General, LLC for $17.6 million. We considered management comments on a draft of this report when preparing the final report, and additional comments are not required.

Comments from the Deputy Director, Defense Logistics Agency Logistics Operations, were responsive and conformed to the requirements of DoD Directive 7650.3.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8905 (DSN 664-8905).

Amy J. Frontz
Principal Assistant Inspector General
for Auditing


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Contents

U.S. Army paratroopers prepare to patrol after jumping into drop zone Sicily during a joint operational access exercise
Source: U.S. Air Force photo by Tech. Sgt. LeeAnn Sunn

Introduction

Objective

This is the first in a series of reports that will address repair parts for High Mobility Multipurpose Wheeled Vehicles (HMMWV). The audit objective was to determine whether DoD was cost-effectively managing repair parts for HMMWV. This report addresses the Defense Logistics Agency's (DLA) management of the HMMWV repair parts inventory provided to Red River Army Depot (RRAD) through the Integrated Logistics Partnership (ILP) contract with AM General, LLC (AMG). The second report will address the pricing of HMMWV repair parts on the ILP contract.

Background

The HMMWV is the Army's primary light tactical wheeled vehicle. As of September 2012, the Army operated about 153,000 HMMWV. The U.S. Army 2010 Tactical Wheeled Vehicle Strategy stated that the Army plans to sustain portions of the HMMWV fleet for an additional 20 years through recapitalization[1] and reset[2] repair programs. Through both programs, the Army has improved about 42 percent of the HMMWV fleet.

Defense Logistics Agency

DLA is DoD's logistics combat support agency whose mission is to provide logistics and contract management support to the military services. DLA Land and Maritime is the supply chain manager for HMMWV repair parts and is responsible for purchasing, managing, and coordinating shipments of these parts. DLA managed more than 10,000 HMMWV repair parts and had inventory valued at about $501 million as of April 30, 2012. The Industrial Prime Vendor and Kitting Branch within DLA Land and Maritime is responsible for the program management and contracting for commercial support of HMMWV repair parts. DLA Distribution is a combat support agency responsible for the receipt, storage, issue, packing, and transportation of DLA materiel, such as repair parts.

[1] The recapitalization program rebuilds and upgrades vehicles to currently fielded models and returns the vehicle to near zero time and mileage status. According to a TACOM official, the Army's recapitalization program began in FY 2004 and will continue through FY 2013. The FY 2013 National Defense Authorization Act authorized more than $271 million to continue the HMMWV recapitalization program.

[2] The reset program is a bumper-to-bumper inspection, replacement, or refurbishment of damaged parts performed on equipment returned from Southwest Asia. According to a TACOM official, RRAD conducted all reset program work from FY 2004 through FY 2012.

TACOM and Red River Army Depot

The U.S. Army TACOM Life Cycle Management Command (TACOM) manages HMMWV recapitalization and reset repair programs at various Army depots. RRAD is the Army's Center for Industrial and Technical Excellence for tactical wheeled vehicles. According to a TACOM official, RRAD's HMMWV recapitalization and reset work from FY 2004 through FY 2013 will result in about 41,000 repaired HMMWVs, or about 63 percent of the Army's recapitalization and reset repair programs' work.

Customer Pay Initiative and Contracts

In September 2004, TACOM began considering using contractor support to provide services and repair parts support for HMMWV recapitalization at Army depots. DLA responded to the market survey and agreed to partner with TACOM and a contractor to provide HMMWV recapitalization support in a pilot initiative known as Customer Pay.[3]

The Customer Pay initiative included two unique aspects: billing at the point of consumption and a dual sourcing supply chain system. Billing at the point of consumption means that DLA Land and Maritime does not pay for the part until the part is provided to depot personnel for use. A dual sourcing supply chain system involves assigning each repair part a primary source where either Government materiel (Government first source) or the contractor's materiel (AMG first source) is to be used. The dual sourcing supply chain system required AMG to price every repair part needed for the depot HMMWV repair programs and to have the capability to supply Government first source parts with little or no lead-time. DLA determined first source by a comparison of AMG's quoted price to DLA's target price; the lower price was designated first source. This determination considered the pricing of repair parts and impact to small businesses.

DLA Land and Maritime issued two firm-fixed price, performance-based contracts for the Customer Pay initiative. Specifically, DLA awarded:

- Contract SP0750-06-D-9711 (Customer Pay contract) on November 1, 2005, to AMG for a base period of 1 year with two 1-year options valued at about $201 million. The scope of the contract required AMG to assume total supply chain management for specified HMMWV repair parts, including inventory management, parts acquisition, distribution, and materiel forecasting. AMG provided $79 million of the $186.2 million repair parts provided for HMMWV repair through October 2007.

[3] A DLA Land and Maritime official stated that in 2010 DLA changed the name of the Customer Pay initiative to the Integrated Logistics Partnership.

- Contract SPM7LX-09-D-9001 (ILP contract) on November 7, 2008, to AMG as a follow-on contract to the Customer Pay contract. The ILP contract period of performance began January 16, 2009, for 1 year and had four 1-year options valued at about $416 million. The final option year began in January 2013. As of June 2012, AMG was the first source provider for 1,324 of the 2,677 repair parts on this contract. From October 2010 through June 2012, DLA Land and Maritime purchased a quantity of about 2.2 million AMG first source repair parts for $150 million.

The ILP contract applied to repair parts support for any variant of the HMMWV. All HMMWV repair parts were not required at the start of the ILP contract. When HMMWV repair programs needed support, DLA activated the purchase of the repair parts on the ILP contract. Activation of the purchase of HMMWV repair parts occurred at contract award or contract modification.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010 requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified an internal control weakness in the management of DLA's HMMWV repair parts inventory: DLA did not assess DLA-owned HMMWV repair parts inventory at key contract decision points to maximize use of its own stock before purchasing parts through an ILP contract. We will provide a copy of the report to the senior official responsible for internal controls in DLA.

Finding

Management of High Mobility Multipurpose Wheeled Vehicles Repair Parts Needs Improvement

DLA Land and Maritime did not cost-effectively manage 118 HMMWV repair parts valued at $11.1 million. Specifically, DLA did not use its own inventory of these HMMWV repair parts before purchasing them from AMG for $17.6 million. This occurred because DLA Land and Maritime officials did not review DLA-owned inventory at key contract decision points to maximize use of its own stock. As a result, we identified $9.7 million of excess DLA-owned inventory that could have been used for HMMWV maintenance requirements. Thus, DLA missed an opportunity to improve DoD cash flow by drawing down DLA-owned inventory before using commercial support. Furthermore, DLA incurred costs to maintain this excess inventory.

Guidance To Maximize Government-Owned Inventory

DLA selected commercial support for HMMWV repair part supply chain management. DoD policies provide guidance to maximize the use of Government-owned inventory when support is provided by a non-Government source. Such policies include DoD Regulation 4140.1, "DoD Supply Chain Materiel Management Regulation," May 23, 2003, and DoD Instruction 4140.01, "DoD Supply Chain Materiel Management Policy," December 14, 2011. DLA did not issue its own policy implementing guidance to maximize DLA-owned inventory while executing performance-based logistics agreements.

DoD policy provides information about stockage requirements. Specifically, DoD Regulation 4140.1 states that when support alternatives other than DoD stockage have been selected, the DoD Components should review and adjust current materiel requirements, allowing sufficient time to decrease DoD stockage and avoid unnecessary acquisition, repair, or storage costs. DoD Regulation 4140.1 also identifies appropriate levels for maintaining inventory operating stock, which is the quantity of materiel required to sustain operations. The guidance on economic order quantities[4] identifies a maximum of 2 years of stock based on demand, but the guidance also describes an exception in which purchases should not result in on hand inventory exceeding 3 years of operating stock.

DoD Instruction 4140.01 requires DoD Components to maximize use of Government-owned inventory before seeking new commercial support. New commercial support could

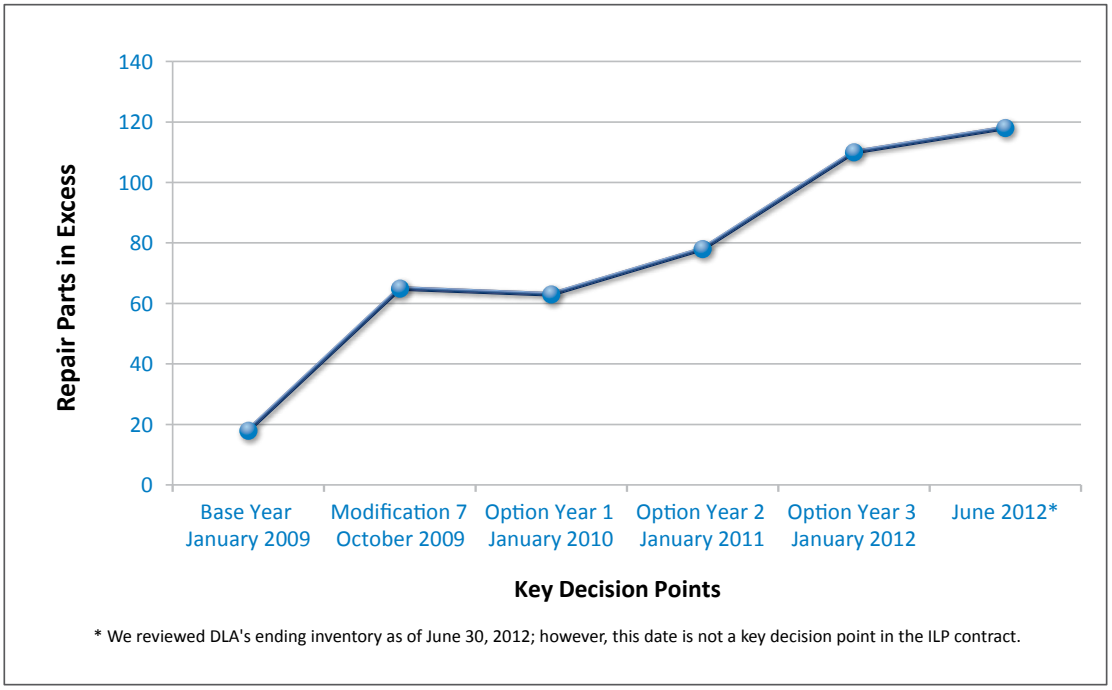
[4] Economic order quantities are used to minimize the cost of ordering and holding stock.

be at contract award, contract modifications that activate the purchase of repair parts for new repair programs, or exercise of option years. These key decision points provide an opportunity to maximize the use of Government-owned inventory. For example, on the ILP contract, a modification added new program requirements for HMMWV repair parts and an opportunity to use DLA-owned inventory.

Accumulation of Excess Inventory

DLA Land and Maritime did not cost-effectively manage 118 HMMWV repair parts valued at $11.1 million. DLA accumulated inventory in excess[5] of 3 years' operating stock for the 118 repair parts as of June 2012. We reviewed inventory for these repair parts at key decision points during the ILP contract. Figure 1 illustrates DLA's accumulation of excess inventory for the 118 repair parts from January 2009 through June 2012. This excess inventory resulted from reductions in customer demand, repair part returns, and inventory purchases outside the ILP contract.

Figure 1. Accumulation of Excess DLA Inventory of 118 Repair Parts



As of June 2012, all 118 repair parts had excess inventory. Excess inventory was accumulated at key decision points in the ILP contract for the 118 repair parts we reviewed.

[5] We define excess inventory as inventory exceeding 3 years of FY 2011 DLA annual customer demand quantities. DLA annual customer demand represents all parts requisitioned from DLA for that fiscal year. This does not include any contractor provided parts, such as parts provided by AMG through the ILP contract.

- In January 2009, DLA activated 26 repair parts on the base year contract for the recapitalization and reset programs. At this key decision point, 18 of those 26 repair parts had excess DLA inventory.
- In October 2009, DLA modified the contract to include repair part support for Up-Armored HMMWV maintenance. At this key decision point, 65 of 113 total activated repair parts had excess DLA inventory.
- In January 2010, DLA modified the contract to execute Option Year 1 maintenance. At this key decision point, 63 of 114 total activated repair parts had excess DLA inventory.
- In January 2011, DLA modified the contract to execute Option Year 2 maintenance. At this key decision point, 78 of 116 total activated repair parts had excess DLA inventory.
- In January 2012, DLA modified the contract to execute Option Year 3 maintenance. At this key decision point, 110 of 116 total activated repair parts had excess DLA inventory.
- Though not a key decision point, in June 2012, DLA had 118 activated repair parts with excess DLA inventory.

DLA accumulated HMMWV repair parts inventory in excess of DoD requirements for the 118 repair parts while purchasing the same parts from AMG on the ILP contract to support RRAD HMMWV reset and recapitalization programs. DLA Land and Maritime did not consider its accumulated inventory level in support of these programs. Of the 118 repair parts we reviewed, DLA purchased 301,066 parts for $17.6 million. In June 2012, DLA-owned inventory for these repair parts totaled 196,372 parts valued at $11.1 million. Based on DLA annual customer demands,[6] the inventory of the 118 repair parts exceeded 3 years of operating stock by $9.7 million. See Appendix B for excess calculations by repair part.

DLA accumulated HMMWV repair parts inventory in excess of DoD requirements for the 118 repair parts while purchasing the same parts from AMG on the ILP contract to support RRAD HMMWV reset and recapitalization programs.

[6] DLA annual customer demand represents all parts requisitioned from DLA for that fiscal year. This does not include any contractor provided parts, such as parts provided by AMG through the ILP contract.

Better Reviews of Inventory Levels Needed

DLA Land and Maritime officials did not review DLA-owned inventory levels to maximize the use of its inventory before obtaining commercial support through the ILP contract. Both DoD Regulation 4140.1 and the ILP contract required review of current DLA inventory levels before obtaining commercial support. Specifically the ILP contract stated the following: "The Customer Pay team[7] will assess current Government inventory levels available for use on the production lines . . . and establish individual anticipated contractor supplied inventory support dates based on inventory exhaustion projections by site, for each [repair part] included on the contract." DLA should issue guidance that requires periodic inventory reviews of DLA-owned inventory used in performance-based logistics agreements at award of each contract, issuance of modifications that add new program requirements, and exercise of option years.

Limited Effort To Maximize Use of DLA-Owned Inventory

Industrial Prime Vendor and Kitting branch officials from DLA Land and Maritime (hereafter referred to as the ILP program management office) did not conduct reviews to maximize use of DLA-owned inventory at key contract decision points when new commercial support was provided. The ILP program management office focused on preventing shortages and not on reducing DLA inventory excesses for the ILP program.

The ILP program manager stated that DLA performed a one-time review of repair parts before the first Customer Pay contract was awarded in FY 2006. However, the ILP contracting officer and the ILP program manager further stated that DLA inventory levels for the repair parts were not assessed when transitioning to the ILP contract. They stated that the ILP contract was a continuation of the Customer Pay initiative and that no gap in the period of performance existed in the transition between the two contracts.

The ILP program manager stated it was his responsibility, in conjunction with supply planners, to monitor ILP program parts; however, his focus was to prevent RRAD stock shortages rather than to reduce excess in DLA-owned inventory. The ILP program officials explained that supply planners conduct ongoing reviews of repair part levels on the ILP contract inventory. The ILP program manager stated that he takes action on monthly shortage reports to prevent stock outs,[8] but there is no comparable excess report because supply planners are responsible for review of repair parts inventory. However, ILP supply

[7] The Customer Pay team consisted of personnel from TACOM, DLA Land and Maritime (formerly known as Defense Supply Center Columbus) Industrial Prime Vendor and Kitting Branch, the Army depots conducting maintenance under the ILP, the HMMWV program office, and the contractor.

[8] "Stock outs" refer to when required parts are not available on time to meet production. If the right part, right quantity are not available before the truck exits the workstation, it is considered to be a "stock out."

planner personnel clarified that their focus was shortages and backorders, not identifying parts with excess DLA inventory. The ILP supply planner personnel do not have a process to identify excess inventory, unless there is a pending purchase request or contract.[9] DLA Land and Maritime should review its inventory and develop a drawdown[10] plan to use excess HMMWV repair parts to avoid unnecessary costs for the final option year of the ILP contract and future support contracts.

Furthermore, DLA Land and Maritime did not consider consumption data from the ILP program to assist in the management of HMMWV repair parts. The repair parts used or consumed are expensed at the point of consumption and DLA does not record the AMG-sourced repair parts in inventory or record the demand quantities of these parts in its inventory system.[11] Supply planners did not receive information about AMG-sourced repair parts consumed through the ILP contract to support DLA's management of its HMMWV repair parts inventory; in addition, this consumption data is not captured as DLA annual customer demands within DLA's inventory system. Thus, supply planners are not aware of total HMMWV parts usage, which would impact DLA's ability to make informed drawdown decisions. DLA should provide this consumption data to supply planners to assist in the management of HMMWV repair parts.

Benefits of Inventory Reviews at Key Decision Points

Inventory reviews at key contract decision points would provide opportunities for DLA to use its inventory on hand before purchasing parts through the ILP contract to reduce unnecessary costs. Key decision points may include contract award, contract modifications that activate repair parts, and execution of contract option years.

Inventory reviews at key contract decision points would provide opportunities for DLA to use its inventory on hand before purchasing parts through the ILP contract to reduce unnecessary costs.

Maximizing the Use of DLA-Owned Inventory at Contract Award

ILP program management officials could have maximized use of DLA inventory and reduced unnecessary storage costs by reviewing inventory on hand before contract award. At this key decision point, about 730 AMG first source repair parts were available for DLA Land and Maritime officials to review.

[9] According to the Supply Planning Branch Chief, once every 90 days there is an automated comparison of repair part requirements with assets on hand. If assets on hand exceed requirements and a procurement is in process, the supply planners receive a notification to review the situation.

[10] "Drawdown" is defined as reduction. This term is commonly used in the military in situations when resources are reduced.

[11] Enterprise Business System is DLA's information technology used to manage its supply chains. It integrates DLA business systems in areas such as procurement, demand and supply planning, and order fulfillment.

Figure 2. DLA-Owned Vehicular Control Arm Available for Use
Source: DLA Distribution

For example, in November 2008, the vehicular control arm (NSN 2530-01-554-8336) had more than 15,000 parts in DLA inventory, with an annual demand of 1,094 parts in FY 2008. If DLA maintained 3 years of inventory for this part, 11,700 parts were in excess as of November 2008. These excess parts were available at the start of the ILP contract and remained in excess throughout the contract's period of performance. Through the ILP contract, AMG provided 7,437 of these parts to RRAD from October 2010 through June 2012. Excess of more than 10,500 parts remained in the DLA vehicular control arm inventory as of June 2012, and annual demand dropped to 565 parts. If ILP program management officials had reviewed this part at key contract decision points like contract award, DLA could have supplied RRAD with parts from their own inventory. Thus, DLA could have used the $1.8 million worth of vehicular control arms purchased from AMG from October 2010 through June 2012 to improve cash flow and reduce storage costs. Before awarding a new contract, DLA should perform an inventory review to ensure DoD maximizes the use of its own inventory.

Maximizing the Use of DLA-Owned Inventory at Activation

Inventory reviews only at the start of the contract would not be sufficient to decrease DLA inventory and avoid unnecessary acquisition and storage costs. New commercial support occurred when DLA activated the purchase of repair parts in response to new

repair program requirements. For example, a modification activated more than 600 repair parts to support Up-Armored HMMWV maintenance. For the 118 repair parts, if DLA had reviewed inventory at key contract decision points like activation, DLA would have found that 67 repair parts had excess DLA inventory at repair parts activation.

For example, DLA had no excess inventory of nonmetal hose assemblies (NSN 4720-01-536-3061) at contract award. However, a year later, in October 2009, when DLA activated the hose assembly on the ILP contract, DLA had accumulated excess hose assemblies of more than 1,400 parts in their inventory. Instead of using this excess inventory to meet RRAD maintenance requirements, DLA purchased more than 2,200 parts from AMG. DLA could have used about $657,000 of its own inventory instead of purchasing it from AMG. Before issuing modifications that add new program requirements, DLA should perform an inventory review to ensure that DoD maximizes the use of its own inventory.

Maximizing the Use of DLA-Owned Inventory at Contract Option Years

Inventory reviews at contract award and activation modifications would not be sufficient to decrease DLA inventory and avoid unnecessary acquisition and storage costs. Contract option years reengaged the contractor to provide parts and presented another opportunity for DLA to conduct inventory reviews to decrease DLA inventory and avoid unnecessary acquisition and storage costs.

For example, DLA had no excess inventory of stabilizer bars (NSN 2510-01-554-4726) at contract award. However, by January 2010, when DLA exercised Option Year 1, DLA had more than 2,500 stabilizer bars in inventory beyond 3-years of operating stock. Instead of using these parts to meet the RRAD maintenance requirements, DLA purchased more than 5,800 parts through the ILP contract. DLA continued to maintain excess inventory at the next two contract option year decision points. DLA could have used about $350,000 of its own inventory instead of purchasing this part from AMG. DLA should perform an inventory review before exercising contract option years to ensure that DoD maximizes the use of its own inventory.

Use of Existing Inventory Will Improve DoD Cash Flow

A goal of the ILP program was to reduce DoD inventory and increase DoD cash flow. This goal was not fully achieved because of the lack of inventory reviews to determine when to drawdown excess and

Specifically, as of June 2012, DLA had $9.7 million of excess inventory for the 118 repair parts available for use on its current ILP contract and for future contracts.

begin commercial support. Specifically, as of June 2012, DLA had $9.7 million of excess inventory for the 118 repair parts available for use on its current ILP contract and for future contracts. By holding inventory instead of using it, DLA will incur unnecessary storage costs; however, we did not include these storage costs when calculating excess inventory. Also, DLA could make more informed drawdown decisions to decrease inventory costs by providing supply planners with consumption data for all its HMMWV repair parts.

The U.S. Army 2010 Tactical Wheeled Vehicle Strategy indicates the need to maintain HMMWVs for the next 20 years. DLA plans to continue its support through performance-based logistics agreements, according to the ILP contracting officer. We anticipate DLA inventory levels for repair parts to increase with the planned reduction and withdrawal of U.S. forces from Afghanistan by the end of 2014. Monitoring these inventory levels will improve DoD cash flow and allow DLA to provide repair parts without unnecessary purchases and storage costs. In supporting future HMMWV maintenance requirements, DLA has the opportunity to remedy its excess inventory levels, avoid unnecessary future commercial purchases and increase efficiencies given the constraints of the current fiscal environment.

U.S. Soldiers with the 118th Military Police Company (Airborne) patrol their area of responsibility
Source: U.S. Air Force photo by Staff Sgt. Stephany D. Richards

Management Comments to the Finding and Our Response

A summary of the comments from the Deputy Director, DLA Logistics Operations, on the finding follow, with our response. See Appendix C for DLA management comments to the draft report.

Comments

Defense Logistics Agency Comments

The Deputy Director, DLA Logistics Operations, agreed that there are opportunities for improvement in the ILP program and also acknowledged the positive financial impact the program has achieved for the DoD in the past few years. He stated that the ILP program already provided the DoD over 50 million items to support recapitalization and reset HMMWV production lines, and the ILP program saved DoD $8 million in operation costs and additional manpower costs.

Our Response

Although the Deputy Director, DLA Logistics Operations, identified the merits and positive impact of the ILP program to the DoD, this report identified areas of improvement for DLA HMMWV repair parts inventory management and did not address efficiencies of the U.S. Army's recapitalization and reset HMMWV production lines.

Recommendations, Management Comments, and Our Response

Revised Recommendation Numbering

We renumbered the draft recommendations from A.1, A.2.a, A.2.b, and A.2.c, to recommendations 1, 2.a, 2.b, and 2.c.

Recommendation 1

We recommend that the Director, Defense Logistics Agency, issue guidance to require periodic inventory reviews of Defense Logistics Agency-owned inventory used in performance-based logistics agreements at award of each contract, issuance of modifications that add new program requirements, and exercise of option years.

Comments

Defense Logistics Agency Comments

The Deputy Director, DLA Logistics Operations, agreed, and stated that DLA would issue guidance that ensured maximum use of DLA inventory.

Our Response

Comments from the Deputy Director, DLA Logistics Operations, were responsive, and the actions met the intent of the recommendation. No further comments are required.

Recommendation 2

We recommend that the Director, Defense Logistics Agency, direct the Commander, Defense Logistics Agency Land and Maritime, to:

a. perform periodic inventory reviews of Defense Logistics Agency-owned High Mobility Multipurpose Wheeled Vehicle repair parts on the Integrated Logistics Partnership contract,

b. develop a drawdown plan for the excess inventory identified and incorporate the plan into the final option year of the Integrated Logistics Partnership contract and any future High Mobility Multipurpose Wheeled Vehicle support contracts at Army maintenance depots, and

c. provide all High Mobility Multipurpose Wheeled Vehicle repair part consumption data to supply planners.

Comments

Defense Logistics Agency Comments

The Deputy Director, DLA Logistics Operations, agreed with the recommendations. He stated that DLA Land and Maritime would perform a quarterly review of DLA-managed items that were contractor first source and DLA over procured, and renegotiate with AMG to determine first source for these parts. In addition, he stated that by April 30, 2013, DLA Land and Maritime will develop a drawdown plan to use for future HMMWV support contracts at Army maintenance depots. Lastly, the Deputy Director stated that supply planners were now provided with ILP consumption data in the form of an email.

Our Response

Comments from the Deputy Director, DLA Logistics Operations, were responsive, and the actions met the intent of the recommendations. No further comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from March 2012 through March 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

Interviews and Documentation

During April and May 2012, we met with representatives from the Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology); DLA Land and Maritime, Distribution, and Acquisition; and TACOM.

We conducted a site visit to RRAD, Texarkana, Texas in August 2012. During this site visit, we interviewed the:

- contracting officer representative for contract SPM7LX-09-D-9001,
- DLA Distribution Depot personnel,
- RRAD Material Management Division and Production Management Division personnel, and
- AMG personnel.

In August 2012, at DLA Distribution Red River, Texas and DLA Distribution Susquehanna, Pennsylvania, we observed stored repair parts that were also part of DLA's ending inventory for June 2012.

We reviewed the HMMWV recapitalization performance-based agreement, the business case analysis, the ILP acquisition plan, contract SP0750-06-D-9711, and contract SPM7LX-09-D-9001 and contract modifications. We reviewed the Federal Acquisition Regulations, DoD Regulations and DLA policies for guidance related to supply chain and inventory management.

HMMWV National Stock Numbers Reviewed

We obtained June 2012 DLA inventory balances from the DLA Office of Operations Research and Resource Analysis for HMMWV repair parts on the ILP contract; a list of repair parts on the ILP contract as of June 2012; and the RRAD consumption data for the ILP contract from October 2010 through June 2012. We then applied the following criteria to filter repair parts with potential excess inventory:

- sales unit of measure with "each,"
- AMG was designated as first source,
- AMG provided 80 percent or greater of FY 2011 DLA annual customer demands and RRAD consumption data, and
- DLA's inventory exceeded 3 years of FY 2011 DLA annual customer demands.

Applying the above criteria resulted in 118 repair parts with a total ending inventory of $11.1 million. We reviewed these 118 repair parts along with ILP contract requirements to identify excess that could be used to satisfy current and future requirements.

Use of Computer-Processed Data

We relied on computer-processed data from DoD, DLA, and AMG. We obtained data from the DoD Electronic Mall system and the DLA Office of Operations Research and Resource Analysis to identify the universe of DLA-managed HMMWV repair parts, inventory levels, demand, and pricing data. In addition, we used consumption data obtained from AMG along with data from Haystack Gold, a commercial system, to identify DLA purchases from AMG. We determined that the computer-processed data was reliable as a result of visits to the DLA Distribution Red River, Texas, and the DLA Distribution Susquehanna, Pennsylvania, where we compared data to inventory stored on site. We did not find material errors or significant differences in the data. Therefore, we determined that the data was sufficiently reliable for the purposes of this report.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the Department of Defense Inspector General (DOD IG) have issued five reports discussing DoD spare part inventory levels and supply chain management. Unrestricted GAO reports can be accessed over the Internet at http://www.gao.gov. Unrestricted DOD IG reports can be accessed at http://www.dodig.mil/audit/reports.

GAO

Report No. GAO-12-493, "Defense Inventory: Actions Underway to Implement Improvement Plan, but Steps Needed To Enhance Efforts," May 3, 2012

Report No. GAO-11-569, "Defense Logistics: DOD Needs to Take Additional Actions To Address Challenges in Supply Chain Management," July 28, 2011

Report No. GAO-10-469, "Defense Inventory: Defense Logistics Agency Needs to Expand on Efforts to More Effectively Manage Spare Parts," May 11, 2010

DOD IG

Report No. DODIG-2012-004, "Changes Are Needed to the Army Contract with Sikorsky To Use Existing DoD Inventory and Control Costs at the Corpus Christi Army Depot," November 3, 2011

Report No. D-2011-061, "Excess Inventory and Contract Pricing Problems Jeopardize the Army Contract with Boeing to Support the Corpus Christi Army Depot," May 3, 2011

Appendix B

Excess DLA-Owned Inventory for 118 AM General, LLC, First Source Repair Parts

The following chart presents excess DLA-owned inventory for 118 AM General, LLC (AMG) first source repair parts that the audit team reviewed. AMG provided these parts through the ILP contract to support RRAD HMMWV reset and recapitalization programs. The chart includes information on RRAD consumption, DLA inventory and demand, and excess inventory calculations from October 2010 through June 2012. Overall, the 118 repair parts represented DLA inventory valued at $11.1 million, with $9.7 million in excess of 3 years' operating stock.

National Stock Number	Item Name	RRAD Consumption Quantity (October 2010 to June 2012)	RRAD Consumption Value (October 2010 to June 2012)	DLA Unit Price (June 2012)	DLA Annual Customer Demand FY 2011	DLA Inventory Quantity (June 2012)	Total DLA Inventory Value (June 2012)	Excess Quantity [12] (June 2012)	Excess Value at DLA Unit Price (June 2012)
2510011856647	BRACKET,CROSSMEMBER	2,194	$119,013	$51.03	27	1,309	$66,798	1,228	$62,665
2510011877033	FRAME SECTION,STRUC	3,558	150,895	41.28	44	811	33,478	679	28,029
2510015479911	INSULATION PANEL, VEHICULAR CAB	1,873	55,731	37.22	11	83	3,089	50	1,861
2510015482055	SHELL,CARGO,VEHICUL	113	150,925	1,561.48	6	211	329,472	193	301,366
2510015486641	PANEL, BODY, VEHICULAR	320	989	4.19	27	138	578	57	239
2510015544726	BAR,STABILIZER	5,806	484,713	110.66	-	4,171	461,563	4,171	461,563
2510015663852	FRAME SECTION,STRUC	2,886	76,437	25.61	28	251	6,428	167	4,277
2530011856714	PISTON,DISC BRAKE	2,343	20,910	7.75	130	1,466	11,362	1,076	8,339
2530014732724	CYLINDER, HYDRAULIC	3,086	238,325	85.92	100	420	36,086	120	10,310
2530015548270	ARM,CONTROL,VEHICUL	7,110	1,734,363	202.79	272	9,532	1,932,994	8,716	1,767,518
2530015548309	ARM, CONTROL, VEHICULAR	2,225	236,075	85.31	404	8,363	713,448	7,151	610,052
2530015548315	ARM,CONTROL,VEHICUL	2,210	234,208	86.01	89	8,395	722,054	8,128	699,089

[12] We define excess inventory as inventory exceeding 3 years of FY 2011 DLA annual customer demand quantities. DLA annual customer demand represents all parts requisitioned from DLA for that fiscal year. This does not include any contractor provided parts, such as parts provided by AMG through the ILP contract.

National Stock Number	Item Name	RRAD Consumption Quantity (October 2010 to June 2012)	RRAD Consumption Value (October 2010 to June 2012)	DLA Unit Price (June 2012)	DLA Annual Customer Demand FY 2011	DLA Inventory Quantity (June 2012)	Total DLA Inventory Value (June 2012)	Excess Quantity (June 2012)	Excess Value at DLA Unit Price (June 2012)
2530015548336	ARM, CONTROL, VEHICULAR	7,437	1,813,830	203.20	565	12,242	2,487,574	10,547	2,143,150
2530015660133	DRAG LINK,STEERING	2,816	515,222	223.02	33	437	97,460	338	75,381
2530015670400	ADAPTER,CALIPER,DIS	2,706	134,270	77.92	31	121	9,428	28	2,182
2540011853110	ARMOR,SUPPLEMENTAL,	210	5,328	64.77	7	2,045	132,455	2,024	131,094
2540012765935	VENTILATOR,AIR CIRCULATOR	287	2,760	11.16	34	152	1,696	50	558
2540014729914	INSULATION,THERMAL,	3,043	291,437	127.41	65	259	32,999	64	8,154
2540014730369	INSULATION,THERMAL,	3,066	299,925	112.99	22	171	19,321	105	11,864
2540015049511	INSULATION,THERMAL,	1,452	3,009	18.77	2	87	1,633	81	1,520
2540015204910	GUARD,SPLASH,VEHICU	2,559	70,056	453.00	-	57	25,821	57	25,821
2540015602757	INSULATION,THERMAL,	1,974	103,416	65.58	84	776	50,890	524	34,364
2540015602873	INSULATION,THERMAL,	2,965	85,075	34.00	287	992	33,728	131	4,454
2540015609361	INSULATION,THERMAL,	1,712	159,086	114.98	105	547	62,894	232	26,675
2540015609370	INSULATION,THERMAL,	1,978	90,936	58.89	103	752	44,285	443	26,088
2590015390647	BRACKET,VEHICULAR C	661	7,148	12.78	7	171	2,185	150	1,917
2590015390673	BRACKET,VEHICULAR C	735	7,947	12.72	8	163	2,073	139	1,768
2590015479874	BRACKET,VEHICULAR C	501	8,465	19.71	1	89	1,754	86	1,695
2590015657332	BRACKET,VEHICULAR C	3,250	5,695	2.03	-	890	1,807	890	1,807
2590015658851	BRACKET,VEHICULAR C	2,732	6,262	2.71	-	45	122	45	122
2590015658855	BRACKET,VEHICULAR C	2,839	6,720	6.20	-	57	353	57	353
2590015659341	BRACKET,VEHICULAR C	2,641	5,223	2.68	5	156	418	141	378
2590015659510	BRACKET,VEHICULAR C	2,709	7,270	3.19	2	165	526	159	507

National Stock Number	Item Name	RRAD Consumption Quantity (October 2010 to June 2012)	RRAD Consumption Value (October 2010 to June 2012)	DLA Unit Price (June 2012)	DLA Annual Customer Demand FY 2011	DLA Inventory Quantity (June 2012)	Total DLA Inventory Value (June 2012)	Excess Quantity (June 2012)	Excess Value at DLA Unit Price (June 2012)
2590015662523	BRACKET, DIFF COOLER LINES, REAR	2,990	10,326	3.08	5	37	114	22	68
2590015663013	BRACKET,VEHICULAR C	2,740	13,877	5.04	4	110	554	98	494
2590015663545	BRACKET,VEHICULAR C	2,700	591,498	252.52	9	50	12,626	23	5,808
2590015663551	BRACKET,VEHICULAR C	2,692	607,087	259.99	1	35	9,100	32	8,320
2590015663923	BRACKET, VEHICULAR C	2,779	6,129	2.32	-	251	582	251	582
2590015663934	BRACKET,VEHICULAR C	2,779	101,955	42.35	1	41	1,736	38	1,609
2910014473911	TANK ASSEMBLY, FUEL EXPANDED	4,441	1,336,114	276.48	241	1,790	494,899	1,067	295,004
2940012852942	FILTER BODY,FLUID	20	505	222.92	1	44	9,808	41	9,140
2990015680722	HEAT SHIELD, EXHAUST	2,799	143,301	70.27	5	16	1,124	1	70
3020014322553	GEAR,SPUR	214	11,338	48.92	5	6,812	333,243	6,797	332,509
3020014762701	GEAR, SPUR	346	28,628	101.04	7	2,588	261,492	2,567	259,370
4130015367685	FILTER-DRIER,REFRIG	2,916	585,113	234.92	8	1,429	335,701	1,405	330,063
4130015967104	CONDENSER,REFRIGERA	1,390	1,751,410	951.90	-	1	952	1	952
4130015967206	CONDENSER,REFRIGERA	1,522	1,917,731	951.90	-	1	952	1	952
4710013582127	TUBE ASSEMBLY,METAL	3,259	8,365	3.10	247	2,411	7,474	1,670	5,177
4710014131360	TUBE ASSEMBLY,METAL	4,383	56,648	13.30	241	10,175	135,328	9,452	125,712
4710014954268	TUBE ASSEMBLY,METAL	142	5,987	50.98	7	438	22,329	417	21,259
4710014954302	TUBE ASSEMBLY,METAL	108	6,128	99.20	7	168	16,666	147	14,582
4710015550263	TUBE ASSEMBLY,METAL	545	121,228	280.41	55	236	66,177	71	19,909
4710015657219	TUBE,BENT,METALLIC	2,819	90,025	33.39	1	62	2,070	59	1,970
4710015657558	TUBE ASSEMBLY,METAL	2,900	33,197	12.12	13	694	8,411	655	7,939
4710015657659	TUBE,BENT,METALLIC	2,850	43,276	23.65	2	24	568	18	426

National Stock Number	Item Name	RRAD Consumption Quantity (October 2010 to June 2012)	RRAD Consumption Value (October 2010 to June 2012)	DLA Unit Price (June 2012)	DLA Annual Customer Demand FY 2011	DLA Inventory Quantity (June 2012)	Total DLA Inventory Value (June 2012)	Excess Quantity (June 2012)	Excess Value at DLA Unit Price (June 2012)
4710015657666	TUBE,BENT,METALLIC	2,829	43,936	17.95	2	49	880	43	772
4710015658119	TUBE,BENT,METALLIC	2,829	53,144	21.68	4	40	867	28	607
4710015659209	TUBE ASSEMBLY,METAL	2,907	26,516	9.12	8	609	5,554	585	5,335
4710015659639	TUBE ASSEMBLY,METAL	2,915	20,959	7.55	13	644	4,862	605	4,568
4710015659736	TUBE ASSEMBLY,METAL	2,909	26,980	9.76	16	629	6,139	581	5,671
4710015661567	TUBE ASSEMBLY,METAL	2,922	11,782	3.95	24	575	2,271	503	1,987
4710015661672	TUBE ASSEMBLY,METAL	2,975	19,359	7.60	24	85	646	13	99
4720014963717	HOSE ASSEMBLY,NONME	316	20,385	76.45	28	668	51,069	584	44,647
4720015363061	HOSE ASSEMBLY,NONME	2,262	822,084	433.84	14	1,797	779,610	1,755	761,389
4720015370552	HOSE ASSEMBLY,NONME	605	10,050	19.85	76	1,580	31,363	1,352	26,837
4720015518752	HOSE,PREFORMED	1,354	46,290	45.15	-	218	9,843	218	9,843
4720015587665	HOSE ASSEMBLY,NONME	3,022	121,181	50.59	157	1,332	67,386	861	43,558
4720015658135	GUARD, HOSE-TUBING	2,838	9,113	5.10	83	403	2,055	154	785
4730013994206	ELBOW,PIPE TO HOSE	2,825	20,932	23.46	17	58	1,361	7	164
4730014785151	CLAMP,HOSE	6,165	23,248	4.57	474	4,903	22,407	3,481	15,908
4730015280977	ELBOW,TUBE TO HOSE	1,102	11,243	19.45	18	485	9,433	431	8,383
4820014957582	VALVE,FLOW CONTROL	330	4,728	92.29	39	186	17,166	69	6,368
5307014725614	STUD,PLAIN	2,774	33,934	15.17	32	533	8,086	437	6,629
5330012708317	GASKET	323	6,747	22.41	24	120	2,689	48	1,076
5330014091981	SEAL,NONMETALLIC CH	27,650	23,134	0.95	2,396	37,651	35,768	30,463	28,940
5330014200705	SEAL,NONMETALLIC CH	2,879	1,615	1.00	77	833	833	602	602
5330015480890	SEAL,NONMETALLIC SP	180	2,898	18.41	6	121	2,228	103	1,896

National Stock Number	Item Name	RRAD Consumption Quantity (October 2010 to June 2012)	RRAD Consumption Value (October 2010 to June 2012)	DLA Unit Price (June 2012)	DLA Annual Customer Demand FY 2011	DLA Inventory Quantity (June 2012)	Total DLA Inventory Value (June 2012)	Excess Quantity (June 2012)	Excess Value at DLA Unit Price (June 2012)
5330015548439	SEAL, NONMETALLIC CHANNEL	850	8,939	15.65	84	410	6,417	158	2,473
5330015800176	SEAL,PLAIN ENCASED	11,914	85,916	9.39	72	544	5,108	328	3,080
5340011867173	BRACKET,ANGLE	930	6,898	9.34	28	2,158	20,156	2,074	19,371
5340012097767	PLATE,MENDING	4,983	15,796	4.26	312	1,000	4,260	64	273
5340012124714	BRACKET,ANGLE	3,115	4,339	1.31	256	7,438	9,744	6,670	8,738
5340012546543	BRACKET,MOUNTING	300	3,407	16.49	6	1,422	23,449	1,404	23,152
5340014566557	STRAP,RETAINING	17,013	11,068	0.54	314	2,864	1,547	1,922	1,038
5340014570003	BRACKET,MOUNTING	2,566	20,043	7.67	15	602	4,617	557	4,272
5340014847646	BRACKET,MOUNTING	1,710	20,528	12.03	186	1,000	12,030	442	5,317
5340014885619	BRACKET,ANGLE	1,008	10,834	9.60	11	36	346	3	29
5340015304739	BRACKET,MOUNTING	575	2,238	3.78	106	6,190	23,398	5,872	22,196
5340015363003	PLATE,RETAINING,SEA	521	72,207	152.93	3	497	76,006	488	74,630
5340015363290	BRACKET,MOUNTING	2,017	34,920	19.14	58	1,200	22,968	1,026	19,638
5340015364120	BRACKET,DOUBLE ANGL	86	1,073	32.72	-	501	16,393	501	16,393
5340015480334	BRACKET,MOUNTING	1,444	19,189	15.37	5	198	3,043	183	2,813
5340015480979	BRACKET,MOUNTING	1,400	17,596	15.30	5	172	2,632	157	2,402
5340015482936	PLATE,MOUNTING	13	69	6.62	2	207	1,370	201	1,331
5340015486639	BRACKET,MOUNTING	225	4,308	23.15	17	75	1,736	24	556
5340015487211	BRACKET,MOUNTING	1,157	16,485	16.77	-	98	1,643	98	1,643
5340015546161	BRACKET,MOUNTING	688	222,572	400.76	6	93	37,271	75	30,057
5340015550341	COVER,ACCESS	3,160	5,948	2.14	285	4,228	9,048	3,373	7,218

National Stock Number	Item Name	RRAD Consumption Quantity (October 2010 to June 2012)	RRAD Consumption Value (October 2010 to June 2012)	DLA Unit Price (June 2012)	DLA Annual Customer Demand FY 2011	DLA Inventory Quantity (June 2012)	Total DLA Inventory Value (June 2012)	Excess Quantity (June 2012)	Excess Value at DLA Unit Price (June 2012)
5340015550346	COVER,ACCESS	2,848	5,355	2.21	123	457	1,010	88	194
5340015648809	BRACKET,MOUNTING	2,162	54,231	13.85	3	169	2,341	160	2,216
5342012779102	BRACKET,REAR AXLE	149	1,569	19.76	4	949	18,752	937	18,515
5360015663298	SPRING,HELICAL,EXTE	5,671	23,107	3.87	25	140	542	65	252
5365012644023	SPACER,SLEEVE	2,590	19,299	7.89	227	5,289	41,730	4,608	36,357
5365014560730	SPACER,RING	6,217	36,980	7.11	539	4,183	29,741	2,566	18,244
5365014565637	SPACER,PLATE	146	1,418	11.72	2	518	6,071	512	6,001
5365015394098	SPACER,PLATE	5,440	771	0.14	63	6,067	849	5,878	823
5365015480905	SPACER,PLATE	8	175	27.42	-	120	3,290	120	3,290
5365015484284	SPACER,STRAIGHT	1,055	1,089	1.33	2	413	549	407	541
5365015485005	SPACER,PLATE	23	502	46.32	-	118	5,466	118	5,466
5365015557102	SPACER,PLATE	3,300	39,272	14.87	-	2,788	41,458	2,788	41,458
5925003331584	CIRCUIT BREAKER	3,042	85,198	34.98	323	4,361	152,548	3,392	118,652
6150015397293	CABLE ASSEMBLY,SPEC	2,457	10,919	10.82	5	1,413	15,289	1,398	15,126
6150015486004	CABLE ASSEMBLY,SPEC	446	5,248	13.83	5	317	4,384	302	4,177
6150015486007	WIRING HARNESS,BRAN	1,735	35,821	23.77	27	102	2,425	21	499
6150015557011	WIRING HARNESS,BRAN	1,982	162,148	99.93	66	284	28,380	86	8,594
6150015557025	CABLE ASSEMBLY,SPEC	1,228	5,204	5.39	35	936	5,045	831	4,479
6350015546612	CONTROL,ALARM	340	293,280	1,037.84	7	156	161,903	135	140,108
6350015547818	CONTROL,ALARM	310	253,482	1,003.10	8	203	203,629	179	179,555
Total [13]	**118**	**301,066**	**$17,581,234**			**196,372**	**$11,119,780**	**165,994**	**$9,724,304**

[13] The total dollar values do not add due to rounding.

Appendix C

Defense Logistics Agency Comments

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

MAR 2 9 2013

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR GENERAL (JOINT AND SOUTHWEST ASIA OPERATIONS)

SUBJECT: Response to Draft Report, "Use of Defense Logistics Agency Excess Parts for High Mobility Multipurpose Wheeled Vehicle Depot Repairs Will Reduce Costs" (Project No. D2012- D000JA-0102.000)

The Defense Logistics Agency (DLA) concurs with recommendations outlined in the subject DoD IG draft report issued on March 7, 2013. Attached is DLA's plan of action that addresses each recommendation.

DLA Land and Maritime will prepare a consolidated package for the Department of Defense Inspector General (DoD IG) that will include the revised Contract Management Plan and a copy of the aforementioned consumption data email sent to Supply Planners. The package will be sent to DLA Logistics Operations no later than April 30, 2013, to forward to your office through DLA OIG.

While there is room for improvement in the Integrated Logistics Partnership (ILP) program, this DoD IG draft report falls short in recognizing the program's positive impact to DoD. For instance, since FY 10, the Army has invested nearly one billion dollars for a production run of 7,760 Up-Armored HMMWVs at Letterkenny and Red River Army Depots. The excess materiel costs identified in this draft report is only 1.1 percent of the Department's cost in just this two-year period of a seven-year program. In addition, an Army Materiel Support Analysis Activity (AMSAA) study dated August 10, 2006, concluded the ILP program saved $8 million in just the first four months of operation, an amount nearly equal to the excess identified in this report. In 2007, AMSAA documented this program saved the Army from $3,414 to $4,520 per HMMWV in parts and manpower savings. In addition, AMSAA concluded inventory levels necessary to support the HMMWV production lines dropped by $87 million. This inventory reduction had nearly 10 times the impact on positive cash flow as the excess material identified in this report. Since program inception, ILP provided over 50 million items to support production of 50,000 Recap and Reset HWMMVs. Assuming the low estimate of $3,414 cost savings per vehicle, the ILP program helped the Department save over $17M, or nearly 20 times the excess identified in this report.

Again, we agree there are always areas for improvement in any program of this scope; however, we have a body of evidence that indicates this program had a positive financial impact for DoD and should be given due consideration within this report.

The DLA Logistics Operations point of contact for this matter is [redacted] J33. She may be contacted at [redacted] or e-mail: [redacted]

REDDING HOBBY, SES
Deputy Director
DLA Logistics Operations

Attachment
As stated

DEFENSE LOGISTICS AGENCY RESPONSE TO DRAFT REPORT
USE OF DEFENSE LOGISTICS AGENCY EXCESS PARTS FOR HIGH MOBILITY MULTIPURPOSE WHEELED VEHICLE DEPOT REPAIRS WILL REDUCE COSTS
(PROJECT NO. D2012- D000JA-0102.000)

Final Report Reference

The Defense Logistics Agency (DLA) concurs with recommendations outlined in the subject DoD IG draft report issued on March 7, 2013. The following is a plan of action addressing each recommendation.

Recommendation A.1: The Director, DLA, should issue guidance to require periodic inventory reviews of DLA-owned inventory used in performance based logistics agreement at award of each contract, issuance of modifications that add new program requirements, and exercise of option years.

Renumbered as Recommendation 1

Response: DLA concurs with recommendation. DLA will issue internal guidance to ensure DLA inventory is used to the "maximum extent".

Recommendation A.2.a: We recommend that the Director, Defense Logistics Agency, direct the Commander, Defense Logistics Agency Land and Maritime to: Perform periodic inventory reviews of Defense Logistics Agency-owned-High Mobility Multipurpose Wheeled Vehicle repair parts on the Integrated Logistics Partnership (ILP) contract.

Renumbered as Recommendation 2.a

Response: DLA concurs with the recommendation. On a quarterly basis, DLA Land and Maritime will review the list of DLA managed items that are 1st sourced to the ILP Vendor (AMG) and for which DLA is over procured. This list will be shared with AMG and negotiations will occur to see if we can switch the 1st source of supply until DLA can draw down some of the stock. The Contract Management Plan will be updated by 30 April 2013 to include this control.

Recommendation A.2.b: We recommend that the Director, Defense Logistics Agency, direct the Commander, Defense Logistics Agency Land and Maritime to: Develop a drawdown plan for the excess inventory identified and incorporate the plan into the final option year of the Integrated Logistics Partnership contract and any future High Mobility Multipurpose Wheeled Vehicle support contracts at Army maintenance depots.

Renumbered as Recommendation 2.b

Response: DLA concurs with the recommendation. DLA Land and Maritime will develop a drawdown plan by 30 April 2013 and will include in our Contract Management Plan by the same 30 April 2013. This revised Contract Management Plan will also be a key part of any future HMMWV contracts.

Recommendation A.2.c: We recommend that the Director, Defense Logistics Agency, direct the Commander, Defense Logistics Agency Land and Maritime to: Provide all High Mobility Multipurpose Wheeled Vehicle repair part consumption data to supply planners.

Renumbered as Recommendation 2.c

Response: DLA concurs with the recommendation. The consumption data is now provided to the entire ILP planning community including the supply planners. The evidence will be in the form of an E-mail that will include the supply planners as addressees.

Acronyms and Abbreviations

AMG	AM General, LLC
DLA	Defense Logistics Agency
HMMWV	High Mobility Multipurpose Wheeled Vehicles
ILP	Integrated Logistics Partnership
RRAD	Red River Army Depot
TACOM	U.S Army TACOM Life Cycle Management Command

Whistleblower Protection
U.S. Department of Defense

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For more information about DoD IG reports or activities, please contact us:

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