

DOCUMENT RESUME

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[Procedures and Practices Used by Army and Navy Inventory Managers and Their Shipping Activities to Respond to Requests for Cancellation of Requisitions for Materiel]. LCD-77-201; B-162152. February 17, 1977. 12 pp.

Report to Secretary, Department of Defense; by Robert G. Rothwell (for Fred J. Shafer, Director, Logistics and Communications Div.).

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The Navy, having responded to earlier GAO recommendations, has implemented an automatic data processing system which has saved an estimated \$44 million in procurement and transportation costs between July 1974 and March 1976 by identifying and canceling unfilled orders for materiel which the requisitioners no longer needed. Findings/Conclusions: Unlike the Navy system, the Army's automated logistic systems only provide for demand removal on the basis of confirmed requisition cancellations. The Army could benefit by adopting the Navy's system for automatic removal of invalid demands. Army and Navy inventory control points are required to cancel direct delivery back orders if procurement action has not been started when the request is cancelled, but action should be taken only for cancellation of materiel valued at more than \$50, if procurement has been started. This practice has not been followed. The cancellation of requisitions has not been quickly processed and has cost millions of dollars. Many unnecessary procurements and shipments have occurred because of weakness in the system. The Navy's controls are inadequate to prevent duplicate filling of direct delivery of back orders. Recommendations: The Army should provide for automated removal of invalid recurring past demands from requirement computation data bases; require monthly use of special detection programs for unprocessed cancellation requests and prompt action on unprocessed cancellation requests; and require compliance with DOD criteria for cancellation of procurement or diversion of shipment. The Navy should establish automated controls to prevent duplicate filling of back orders. Uniform time standards and management controls for processing

cancellation requests, similar to the standards for processing requisitions, should be established. (Author/SS)

01121



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS
DIVISION

B-162152

FEB 17 1977

The Honorable
The Secretary of Defense

Dear Mr. Secretary:

We examined the procedures and practices used by Army and Navy inventory managers and their shipping activities to respond to requests for cancellation of requisitions for materiel previously submitted by installations or combat organizations. These procedures, under certain conditions, require cancellation of the procurement or diversion of the shipments of materiel. We also examined the effectiveness of corrective actions taken by the Navy in response to recommendations in an earlier report (B-162152, May 21, 1974), which dealt with the need for more timely and effective validation of unfilled requisitions for materiel.

We made our examination at the Army's Aviation Systems Command (AVSCOM) and Tank-Automotive Command (TACOM) and the Navy's Aviation Supply Office (ASO).

In response to our earlier report, the Navy's corrective actions resulted in estimated savings of \$110 million in procurement and transportation costs.

Additionally, the Army and the Navy could save tens of millions of dollars annually in procurement and transportation costs if, (1) the Army would remove the invalid demands from requirement computations relating to requisitions for which the requisitioners have requested cancellation rather than only on the basis of actual cancellation and confirmation of nonshipment by the supply activity, (2) the Navy would improve its automated controls over direct delivery back orders; preventing shipments from both direct delivery procurements and system stocks to fill the same back ordered requisition, and (3) both would process requests for cancellations promptly.

LCD-77-201

SAVINGS RESULTING FROM
ACTIONS TAKEN BY THE NAVY

In response to recommendations in our previous report, the Navy modified the standard automated logistic systems used by its inventory control points. This change provides for (1) eliminating from requirement computations invalid demands related to all requisitions for which cancellation requests have been received, regardless of whether the materiel has or has not been shipped and (2) identifying and canceling unfilled high-priority 30- to 74-day-old requisitions for which the materiel is no longer needed.

Since July 1974 the Navy's ASO has included unfilled high-priority requisitions 30 to 74 days old as part of its quarterly back order validation checks with customers. As a result, an estimated \$44 million in procurement and transportation costs have been saved between July 1974 and March 1976 by identifying and canceling unfilled orders for materiel which the requisitioners no longer needed.

In addition, from July 1975 through March 1976, ASO's standard automated logistic system removed invalid recurring demands totaling an estimated \$244.9 million from its requirement computation data bases. These invalid demands were identified with canceled, unfilled orders and orders on which cancellations were attempted but not successful. As a result, ASO saved an estimated \$66 million in procurement costs. Of this, \$10,400,000 was saved because ASO removed \$38.4 million worth of invalid recurring demands related to unsuccessful requisition cancellation actions. (Requisition cancellation attempts are unsuccessful when the cancellation requests are processed too late to enable cancellation of the related procurement or diversion of shipment of the materiel to other customers.)

ARMY CAN BENEFIT BY ADOPTING
NAVY'S SYSTEM FOR AUTOMATED
REMOVAL OF INVALID DEMANDS

Unlike the Navy's, the Army's automated logistic systems at inventory control points do not remove recurring demands of unsuccessful requisition cancellation attempts from requirement computation data bases. The Army's system only provides for demand removal on the basis of confirmed requisition cancellations. However, a requisitioner's request for cancellation is, in effect, notice that the original requirement is

no longer needed. Therefore, what the supply activity thought to be a demand, and so recorded in its system, should now be deleted. Supply activities base their inventory levels and future procurements, to a great extent, on historical demands. If this history includes invalid demands, the quantities of items procured will likely result in an excess unless there is an unforeseen (not conforming to historical trends) change in requisitioners' demands.

In 1975 the Army's AVSCOM and TACOM were unsuccessful in trying to cancel \$125 million of unfilled requisitions for demand-supported stocks for which customers had submitted cancellation requests. This represented about 56 percent of the dollar cancellations attempted.

The \$125 million worth of unsuccessful cancellation attempts represented about \$68 million worth of invalid recurring demands which would have been used in computing future requirements. On this basis, we estimate that AVSCOM and TACOM could save an estimated \$18.5 million annually in procurement costs if their automated logistic programs were modified to remove these invalid recurring demands from requirement computation data bases. Currently, they only remove recurring demands for confirmed cancellations.

PROMPT AND EFFECTIVE PROCESSING
OF REQUISITION CANCELLATION
REQUESTS NEEDED

DOD requires the Army and Navy inventory control points to cancel direct delivery back orders, regardless of value, if procurement action has not been initiated upon receipt of requisitioners' cancellation requests. If procurement action has been initiated, procurement cancellation or contract shipment diversion action should be attempted if the direct delivery back order's value is over \$50.

Requisitioners' cancellation requests are automatically processed by the computerized supply management systems at the inventory control points. If the cancellation requests are related to requisitions for materiel that have been back ordered for procurement and direct delivery from the suppliers to the requisitioners, they are rejected from the computer for manual review and processing by the inventory control point's materiel management directorate.

If procurement of the back ordered materiel has not been initiated, the materiel management directorate should immediately cancel the back order. If procurement has been initiated and the back ordered materiel is valued at more than \$50, that directorate should notify the procurement directorate, which is supposed to research the procurement status of the back order and determine whether contract termination or shipment diversion is feasible and economical.

At one Navy (ASO) and two Army (TACOM and AVSCOM) inventory control points, we tested the processing of 2,768 requests for cancellation of requisitions. These requisitions, valued at \$7.2 million, had been back ordered and placed on direct delivery. The results of our test indicate the Army and Navy could have prevented unnecessary procurements and shipments of materiel valued at millions of dollars annually by promptly and effectively processing customers' requests for cancellation.

We found numerous examples of lengthy delays (several months in many instances) in processing requisitioners' cancellation requests, which frequently prevented the cancellation of procurement or diversion of shipment. These situations occurred because cancellation requests for requisitions were not processed promptly and because the system did not monitor adequately and inform management promptly of the unreasonable delays in processing cancellation requests for requisitions.

Additionally, AVSCOM officials had arbitrarily imposed a \$1,000 minimum on the value of requisitioned materiel for which procurement cancellation or shipment diversion would be attempted. As a result, many unnecessary procurements and shipments of unneeded materiel were made which met DOD's criteria (over \$50) for cancellation. Furthermore, at AVSCOM even the \$1,000 limit frequently was not adhered to. We found many instances in which requested cancellations were not attempted even though the contracted price of the requisitioned materiel was valued at over \$1,000. This occurred because the \$1,000 minimum on procurement cancellations was based on the standard price cited on the materiel requisition rather than the contract price. Frequently, the contract price for materiel on direct shipment is much higher than the standard price.

Examples of these conditions are described below.

On December 17, 1975, ASO received a requisition for one fixed attenuator (FSN 5905-253-3898) valued at \$150. It could not be issued from stock and was procured for direct delivery on February 11, 1976. On March 20, 1976, ASO received a request for cancellation of this requisition. The attenuator was shipped to the requisitioner on May 1, 1976, or 42 days after ASO's receipt of the requisitioner's cancellation request. The ASO item manager stated that he had not received notice of the cancellation request and therefore had not attempted to cancel the procurement or to divert the shipment.

ASO's unprocessed cancellation requests also included 12 outstanding requests for cancellation of a direct delivery procurement of shoulder bolts valued at \$816 which were over 90 days old. After we brought these unprocessed cancellation requests to ASO's attention, the direct delivery procurement was canceled.

AVSCOM's unprocessed cancellation requests as of January 1976 included an outstanding cancellation request received on May 14, 1975, for a requisition dated April 22, 1975, for one unit of a nonstocked item with a standard unit price of \$110. The requisitioned item was contracted for direct delivery at a price of \$1,489.20 on June 2, 1975, or 19 days after receipt of the cancellation request. AVSCOM's procurement directorate did not receive notice of the cancellation request until June 26, 1975, or 43 days later and 24 days after contract award. Cancellation action was not attempted by procurement because of the arbitrary imposition of a \$1,000 criteria for cancellation actions. Although the contracted price was more than \$1,000, the \$1,000 criteria was applied to the standard unit price of \$110 cited on the requisition.

In February 1974 Army auditors at TACOM reported that weaknesses in its automated logistic system hindered the timely processing of requests from customers for canceling unfilled requisitions for materiel back ordered for procurement and direct delivery. Also, weaknesses in TACOM's system prevented prompt removal of direct delivery back orders which had been filled from the unfilled order records. As a result, unnecessary procurements and shipments occurred.

According to Army auditors, TACOM was aware of these conditions and in July 1973 implemented a special computer program for identifying (1) unfilled direct delivery back orders with outstanding cancellation requests and (2) direct delivery back orders which had been filled but not closed out. For the direct delivery back orders so identified, TACOM took the necessary manual actions to cancel unfilled orders or to close out completed orders. However, TACOM was criticized for its infrequent use of this program. The Army auditors recommended that TACOM use this program more to prevent unnecessary procurements and shipments of materiel.

We found that the previously identified weaknesses in TACOM's automated logistic system still exist. Also we found that over a 22-month period, TACOM used only once its special computer program to identify and resolve outstanding cancellation requests for unfilled direct delivery back orders and completed direct delivery back orders which had not been removed from the unfilled order records.

Examples of these conditions are presented below.

TACOM's special computer program run in November 1975 of direct delivery back orders with unprocessed cancellation requests revealed a 22-month-old outstanding request for cancellation of a direct delivery back order for materiel (FSN 5130-792-9883) valued at \$1,964. The cancellation request was received by TACOM on January 19, 1974, or 3 months prior to materiel shipment on April 19, 1974. However, TACOM's procurement directorate did not receive notice of the cancellation request until September 26, 1974, or 5 months after materiel shipment. Thus, no attempt was made to cancel the related procurement or to divert shipment to fill other needs.

TACOM's special computer program run in November 1975 revealed an outstanding cancellation request received on October 6, 1975, for a direct delivery back order for materiel (FSN 2540-087-0198) valued at \$3,856. Although the requisitioner had already received the requisitioned materiel by direct vendor shipment in May 1975, a cancellation request was submitted in response to TACOM's quarterly back order validation check to advise TACOM to purge from its unfilled orders file

requisitioned materiel which had been received. TACOM failed to act in a timely manner to close the completed direct delivery order and a second unnecessary shipment of materiel was made from depot stocks on January 2, 1976.

TACOM's special computer program run in April 1976, performed at our request, revealed a 38-day-old outstanding cancellation request for a direct delivery back order for 20,507 pounds of tire treading materiel (FSN 2640-177-6817) valued at \$11,278.85. The direct delivery back order for which cancellation was requested was one of eight requisitions submitted on September 17, 1975, for a total of 720,500 pounds of tire treading materiel valued at \$396,275 by the U.S. Army Maintenance Plant, Ober Ramstadt, Germany. This activity is the sole user of the subject tire treading materiel which has a short shelf life of 6 months; must be shipped in refrigerated vans; and, if stored, must be under controlled conditions for a short period of time. A direct delivery contract for the 720,500 pounds of tire treading materiel was awarded on January 29, 1976. Approximately 1 month later on March 3, 1976, TACOM received, in response to its request for a quarterly back order validation check, a cancellation request from the U.S. Army Maintenance Plant for a direct delivery back order for 20,507 pounds of the tire treading materiel. As a result of the April 1976 computer printout of outstanding cancellation requests, a notice was sent to TACOM's procurement directorate to attempt procurement cancellation. However, no action was taken by the procurement directorate and the tire treading materiel was shipped by the vendor on June 9, 1976. We were advised that no procurement cancellation attempt was made because it was felt that the customer erred in submitting the cancellation request. However, we found no evidence that the requisitioner was contacted concerning the validity of his cancellation request.

NEED FOR IMPROVED CONTROLS
IN THE NAVY TO PREVENT
DUPLICATE FILLING OF
DIRECT DELIVERY BACK ORDERS

At Navy inventory control points, requisitions for materiel that are back ordered and later contracted for direct delivery of the materiel to the requisitioners can be referred to Navy supply points for shipment if supply system stocks are received 45 days before the estimated contract delivery date. When this occurs the system automatically prepares a requisition referral notice which the stock control division is supposed to forward to the appropriate item manager. That directorate should then cancel the related direct delivery procurement or divert the shipment to another requisitioner or to a Navy stock point as an increase to system stocks.

Our tests of requisition cancellations at ASO showed many instances of back ordered requisitions being filled twice--once by contract direct delivery and again by shipment from system stocks. These conditions resulted from (1) frequent and substantial inaccuracies in estimated delivery dates used to determine whether direct delivery back orders were eligible for referral and shipment from depot stocks and (2) substantial delays by ASO's stock control division in sending requisition referral notices to the appropriate item managers so that related direct delivery procurements could be canceled or shipments diverted.

We did not attempt to evaluate the dollar value of unnecessary procurements and shipments resulting from the above problem. However, we believe that it could be important in as much as the value of direct delivery back orders at ASO during our review was about \$50 million. Examples of this condition are presented below.

ASO placed a direct delivery order on February 11, 1976, for five fixed attenuators (FSN 5905-253-3898) at \$150 each. The five units were to be shipped direct to five different requisitioners to fill high-priority requisitions. Based on an estimated contract delivery date of June 28, 1976, the five requisitions were also eligible for referral to Navy stock points if system stock became available prior to 45 days before the estimated direct delivery date,

or until May 14. One of the requisitions from the Air National Guard, Madison, Wisconsin, was referred to NAS, Alameda, on February 26, 1976, and shipped the following day. According to ASO's procedures a computerized requisition referral notice should have been forwarded to the appropriate item manager within 10 days so that the related direct delivery procurement unit could be canceled or shipment diverted to system stocks. However, we were advised by the item manager that notice of the referral was not received. On May 1, 1976, or 65 days after the requisition was filled by referral, it was also filled by direct shipment.

Another of the five requisitions from Bergstrom Air Force Base, Texas, was also filled by direct vendor shipment on May 1, 1976. However, it was filled again 11 days later by referral to NAS, Alameda. This occurred because under ASO's procedures, open requisitions on direct delivery contracts are not closed until the estimated delivery date, which in this case was June 28, 1976.

ASO ordered two shaft assemblies (FSN 1680-310-2123) at a unit price of \$322 from Lockheed California Company on January 12, 1976. One unit was to be shipped to NAS, Alameda, for system stock needs and the other to be shipped direct to an activity at NAS, Cecil Field, to fill a back ordered requisition. The estimated contract delivery date was April 9, 1976. Therefore, the unit ordered direct shipment to the activity at NAS, Cecil Field, was eligible for referral to a Navy stock point until February 24, 1976. Lockheed shipped both units on February 3, 1976. When the unit shipped to NAS, Alameda, for system stock needs was recorded at ASO as available for issue, the computer automatically referred the Cecil Field direct delivery requisition to NAS, Alameda. Thus, the requisition activity at Cecil Field received two units instead of the one unit requisitioned. Also, the requisitioner was only billed for one unit resulting in a lost sale.

ASO ordered two cylinder assemblies (FSN 1650-971-2537) at a unit price of \$1,246, from Gruman Aerospace Corporation on January 23, 1976. One unit was to be shipped to NAS, Norfolk, for system stock and the other to NAS, Whidbey Island, to fill an end use requisition back ordered for direct delivery. The estimated delivery date for both units was May 29, 1976. The back ordered direct delivery requisition from NAS, Whidbey Island, was referred to NAS, Alameda, for shipment from system stock on February 16, 1976. We were advised by ASO's stock control division in June 1976, approximately 4 months after this requisition was filled by referral action, that they had not received a notice of the referral action. As a result of our bringing this to their attention, they were able to divert shipment from the direct delivery unit to system stock.

ASO placed an order on January 20, 1975, with the Lockheed California Company for 24 arresting hood shanks (FSN 1560-575-3734) at a unit price of \$8,389. The estimated delivery date was April 9, 1976. One of the units ordered was to be shipped direct to NAS, North Island, to fill a high-priority end use need. ASO instructed the contractor to expedite shipment to North Island. However, because of the estimated delivery date of April 9, 1976, North Island's requisition was eligible for referral for shipment from depot stock until February 24, 1976. When an asset appeared ready for issue at NAS, Alameda, the ASO computer referred the requisition there. Alameda shipped the unit to North Island on February 3, 1976. Two weeks later NAS, North Island, received another unit by direct shipment from Lockheed. Although NAS, North Island, received two units they were billed only for the one unit requisitioned. Thus an unnecessary shipment was made and ASO lost a sale of \$8,389.

CONCLUSIONS AND RECOMMENDATIONS

The Army and Navy can save tens of millions of dollars annually if (1) the Army would remove invalid demands from its requirements computations which are related to requests for cancellations of requisitions, (2) the Navy would improve its

controls over direct delivery shipments of materiel to fill back ordered requisitions, and (3) both would process requests for cancellations of requisitions promptly and effectively.

Accordingly, we recommend that you direct:

- The Army to (1) provide for automated removal of invalid recurring past demands from requirement computation data bases on the basis of requests for requisition cancellations, (2) require the Army's TACOM to use monthly its special program for detecting unprocessed cancellation requests for direct delivery back orders and to take prompt action to clear the unprocessed requests for cancellation of requisitions, and (3) require the Army's AVSCOM to comply with Defense's criteria for cancellation of procurement or diversion of shipment on requested cancellations of requisitions back ordered for direct delivery.
- The Navy to establish the necessary automated controls over back ordered requisitions scheduled for direct delivery which will prevent shipments from both direct delivery procurements and system stocks.
- Establishment of uniform time standards and management controls over processing of requisition cancellation requests by inventory control points similar to the time standards that exist for processing requisitions.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first requests for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Chairmen, Senate and House Committees on Government Operations, Appropriations, and Armed Services; and the Secretaries of the Army and the Navy.

Sincerely yours,

Robert S. Rothwell

for Fred J. Shafer
Director