



095868

~~4.14.74~~
~~74-0366~~

REPORT TO THE CONGRESS OF



LM095868

Better Methods Needed For Canceling Orders For Materiel No Longer Required B-162152

Department of Defense

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

~~702069~~ 095868

MAY 21, 1974



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-162152

C1 To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the need for better methods for canceling orders for materiel no longer required by the Department of Defense.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Defense; and the Secretaries of the Army, Navy, and Air Force.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

1
02, 03 > 003...

C o n t e n t s

	<u>Page</u>
DIGEST	1
CHAPTER	
1 INTRODUCTION	5
DOD program	5
Air Force program	6
Validation and reconciliation effectiveness	6
2 SAVINGS BY IMPROVING PROCEDURES FOR VALIDATING UNFILLED ORDERS	8
Need for more frequent and effective validations	8
A continuing problem: certification of unfilled materiel orders as valid without verification	9
Need for more timely materiel order validations	12
Not all eligible materiel orders sub- jected to validation checks	17
Benefits from automatic cancellations	17
Agency comments, GAO evaluation, and recommendations	19
3 SAVINGS OBTAINABLE BY ELIMINATION OF PAST DEMANDS FROM CURRENT REQUIREMENT COMPUTATIONS	22
Navy continues to use demands represent- ing invalid orders	22
Army system did not eliminate demands related to invalid orders	24
Agency comments, GAO evaluation, and recommendations	26
4 MORE STRINGENT CONTROLS NEEDED TO CONTINUALLY REDUCE NUMBER OF INVALID MATERIEL ORDERS	29
Improvements needed in computer system controls	29
Original requirements no longer needed	30

CHAPTER		<u>Page</u>
	Requirements satisfied through other means	31
	Agency comments and GAO's evaluation	34
5	SCOPE OF REVIEW	35
APPENDIX		
I	Letter dated December 4, 1973, from Assistant Secretary of Defense (Installations and Logistics)	37
II	Principal officials of the Departments of Defense, Army, Navy, and Air Force responsible for matters discussed in this report	40

ABBREVIATIONS

DOD	Department of Defense
GAO	General Accounting Office

D I G E S T

WHY THE REVIEW WAS MADE

In 1967 GAO reported to the Congress that outstanding Air Force orders for materiel worth \$471 million could be reduced by about \$103 million if the Air Force more promptly identified and canceled unfilled orders for materiel no longer required.

At about the same time DOD established a uniform policy and standardized procedures for the military services to follow in verifying the continuing need for materiel on old, unfilled orders. The Air Force, with DOD's approval, established its own policy and procedures which provided for more frequently validating unfilled orders.

GAO made this review to evaluate effectiveness of DOD's policy and procedures and the implementing practices of the military services.

FINDINGS AND CONCLUSIONS

The military services could save more than \$100 million annually in transportation and handling costs and in materiel purchases by

- more frequently and effectively validating unfilled materiel orders and
- removing past materiel demands associated with invalid orders from requirement computations. (See p. 8.)

For example, DOD incurred unnecessary transportation and handling costs of about \$15.6 million because invalid orders were either not detected or were detected too late to stop shipment during one quarterly validation performed by the Army and Navy and three monthly validations performed by the Air Force. (See p. 9.)

In addition, approximately \$22 million worth of materiel was purchased unnecessarily because invalid orders identified during these same validations were not eliminated from past demand histories which were used in requirements computations by the Army and the Navy. (See p. 22.)

Since DOD's policy and procedures for verifying continuing need were implemented, the military services have identified and canceled over \$5 billion dollars worth of unfilled orders. (See p. 6.)

However, GAO's analysis of materiel order validations made by the services for a 3-month period indicated that about \$240 million worth of old, invalid materiel orders were either not identified or were identified too late to permit cancellation. (See pp. 8 and 9.)

In addition, \$84 million worth of materiel demands related to invalid orders were not removed from the data bases used to compute requisitioning objectives and buy requirements. (See pp. 23 and 24.)

The causes of these problems were:

- The requisitioning activities routinely certified the continuing validity of unfilled orders without verifying the requirements. (See p. 10.)
- The Army and Navy did not validate unfilled orders often enough to permit timely cancellation of invalid orders, and the services incurred avoidable delays in accomplishing periodic materiel order validations. (See pp. 12 and 14.)
- Not all eligible materiel orders were subjected to validation checks. (See p. 17.)
- When invalid orders are canceled the related demands are not eliminated from the demand history which is used in computing future requirements. (See p. 22.)

The Air Force program of monthly materiel order validation which is initiated by requisitioning activities is more effective than those of the other services. During the three monthly validations the Air Force had a significantly lower ratio of invalid materiel orders to total orders validated and was able to prevent shipment of all but \$600,000 worth of unneeded materiel. The Army and Navy were unable to stop shipment of over \$100 million worth of unneeded materiel during a like period. (See p. 12.)

GAO also found a need for more stringent controls to continually reduce the number of invalid orders. (See p. 29.)

RECOMMENDATIONS

GAO recommended that the Secretary of Defense revise the DOD unfilled materiel order validation and reconciliation program to provide that:

- The military services validate monthly the unfilled materiel orders meeting DOD's age criteria. (See p. 19.)
- The requisitioning activity initiate the materiel order validation process rather than the inventory control point manager. (See p. 19.)
- The requisitioning activities make independent sampling accuracy checks of customer validations of unfilled orders. (See p. 20.)
- The inventory managers automatically cancel unfilled materiel orders 6 months or older with provision for customer reinstatement if a valid need still exists. (See p. 20.)
- The military services eliminate from past demand histories those demands related to invalid materiel orders. (See p. 26.)

GAO also recommended the Secretary of Defense insure that the military services:

- Give priority attention to, and establish firm target dates for, correcting computer program problems which permit duplicate recording of materiel demand data and which do not provide for removing from requirement computation data bases materiel demands related to invalid materiel orders. (See p. 26.)

In addition, GAO recommended that the Secretary of Defense direct the military services to:

- Conduct the reviews necessary to insure that their automated supply system programs produce results which reflect adherence to prescribed policies, procedures, and stocking criteria. (See p. 34.)

--Reemphasize the need for stricter compliance with existing supply procedures. (See p. 34.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

DOD agreed with GAO's findings and generally with its recommendations for improvement. DOD cited a number of actions taken or planned which should, if properly carried out, bring about needed improvements. (See pp. 19, 26, and 34.)

During the course of GAO's review, DOD directed that a one-time automatic cancellation be made of all requisitions 1 year or older with provisions for customer reinstatement if a valid need still existed. This action resulted in cancellation of materiel orders valued at \$45 million. (See pp. 20 and 21.)

The military services in some instances did not concur with GAO's recommendations.

The Navy continues to oppose performing more frequent and timely validation checks on the grounds that it would impose on unacceptable workload on its fleet customers which have little or no automated capabilities. GAO believes the Navy's prompt implementation of our suggestion will substantially reduce the Navy's unneeded shipments of materiel which at the time of our review were valued at about \$50 million annually. (See p. 20.)

The military services did not concur that unfilled orders 6 months or older be automatically canceled. Their rationale was that many critical items of supply have procurement lead times of more than 6 months. However, there is no data available

from which GAO can evaluate the merits or the magnitude of this position. (See pp. 20 and 21.)

The Navy stated it would have to make a major change in its system at Navy inventory control points to provide for removal of invalid demand data. In addition, the Navy stated this project could not be accomplished before July 1975. The Navy has consistently deferred action on this project since 1969. As a result, it has overstated past materiel requirements by hundreds of millions of dollars in projecting future requirements. (See p. 26.)

The Army advised that its system at the installation level did provide for immediate removal of those demands related to unfilled orders which are canceled. The Army also stated it had corrected its computer program which permitted duplicate recording of materiel demand data. GAO agrees the Army program does remove past invalid demands from current requirement computation data bases when the customer or requisitioning activity routinely initiates cancellation of unfilled orders. However, when unfilled orders are canceled as a result of a periodic reconciliation, the related invalid demand is not removed from the data base. (See p. 27.)

After considering the rationale advanced by the military services, GAO believes that its recommendations still have merit and recommends additionally that the Secretary of Defense:

--Direct the Navy to provide, on a high-priority basis, for monthly, requisitioner-initiated materiel order validation checks at Navy shored-based activities equipped with the necessary automated capabilities. (See p. 20.)

--Direct the Navy to assign a higher priority to establishing a computer program for removing invalid past demands from current requirement data bases unless it can be demonstrated that benefits to be achieved from completing other high-priority projects clearly outweigh the substantial economic benefits that can be realized by accomplishing this project. He should also direct that the Navy's progress in accomplishing this task be closely monitored. (See p. 26.)

--Have DOD auditors ascertain whether the Army has effectively corrected computer program problems which resulted in duplicate recording of materiel demands and did not provide for removal of invalid past materiel demands from

future requirement projections. (See p. 27.)

--Direct a study to determine the feasibility of providing a program for automatic cancellation of unfilled orders over 6 months old which would exclude orders for items having procurement lead times longer than 6 months provided they are sufficiently small to merit management by exception. (See p. 21.)

MATTERS FOR CONSIDERATION
BY THE CONGRESS

The Appropriations Committees of the Congress and other committees may wish to consider the matters in this report in deciding on requests by the military departments for funds to buy supplies and equipment.

CHAPTER 1

INTRODUCTION

In 1967 GAO reported to the Congress that outstanding Air Force orders for materiel worth \$471 million could be reduced by about \$103 million if the Air Force more promptly identified and canceled unfilled orders for materiel no longer required. At about the same time, the Department of Defense (DOD) established a uniform policy and standardized procedures for the military services to follow in verifying the continuing need for materiel on old, unfilled orders. The Air Force, with DOD's approval, established its own policy and procedures which provided for more frequent validation of unfilled materiel orders.

As of September 30, 1972, inventory control points of the military services had approximately 390,000 old, outstanding orders for materiel valued at about \$1.8 billion. About 75 percent of these orders were over 90 days old, and 30 percent were more than 180 days old.

DOD PROGRAM

In July 1967 DOD established a uniform policy and standardized procedures for verifying the continuing need for materiel on old, unfilled orders. These policies and procedures, as modified in October 1971, are in chapter 7 of DOD 4140.17-M (Military Standard Requisitioning and Issue Procedures).

DOD's policy requires that inventory control points and requisitioning activities validate and reconcile high-priority orders 30 or more days old (except those for Navy fleet units) and low-priority orders 75 or more days old. Inventory control points identify those orders meeting the age criteria and prepare and forward validation request cards to requisitioning activities every 3 months. The cutoff dates are January 31, April 30, July 31, and October 31. The control points mail the cards within 10 days after the cutoff dates, and the requisitioning activities are supposed to acknowledge receipt of the cards immediately.

If the control point receives no acknowledgement, it mails a followup letter with reproduced cards 30 days after the cutoff date. If the control point still receives no

acknowledgement within 60 days after the cutoff date, it cancels the orders (except orders for Navy fleet units).

After receiving the cards from the control point, the requisitioning activity is required to review each item with its customers. The customers are to validate the need for, as well as the quantity and priority of, each requisitioned item. The requisitioning activity is then required to reconcile those items recorded as on order at the inventory control point with its records of outstanding orders, to correct any discrepancies in its records and to notify the inventory control points of corrections to be made in their records.

AIR FORCE PROGRAM

The Air Force tested and implemented new reconciliation and validation procedures in 1968. These procedures provide for a requisitioning-activity initiated monthly reconciliation and validation of high-priority requisitions 30 or more days old and low-priority requisitions 60 or more days old.

The cutoff date at Air Force bases for initiating the validation of unfilled orders is generally 10 days before the beginning of each month. After receiving a computerized list of outstanding materiel orders from the requisitioning activity, the customer has 10 to 15 days, depending on its location, to complete and return the verification data. Starting the 10th of each month, the requisitioning activity identifies those verified requisitions meeting the age criteria and refers them to the appropriate inventory control point for reconciliation. The inventory control point must receive the lists of validated requisitions on or before the 20th of each month.

The inventory control point has 1 day to reconcile these requisitions with its records and either cancel or take other appropriate action for all transactions that cannot be properly matched. The total time for the reconciliation is 30 days, as opposed to 60 days for the Army and Navy.

VALIDATION AND RECONCILIATION EFFECTIVENESS

Since the services implemented DOD's uniform policy and procedures, they have identified and canceled over \$5 billion worth of invalid materiel orders. An additional \$6 billion

worth of orders were identified as invalid too late to stop shipment.

The following table shows the number and value of invalid orders found during 1968-72 validations and the percent of invalid orders to total orders validated.

	Invalid orders		
	<u>Number</u>	<u>Value</u>	<u>Percent</u>
		(millions)	
1968:			
Army	77,680	\$ 356.8	6.4
Navy	102,948	195.6	13.6
Air Force	137,948	330.0	25.4
1969:			
Army	162,152	2,296.0	18.0
Navy	158,560	409.2	17.9
Air Force	147,424	352.4	17.3
1970:			
Army	154,920	3,672.8	20.3
Navy	160,552	404.4	23.8
Air Force	260,800	531.6	18.8
1971:			
Army	121,100	1,161.6	20.6
Navy	132,808	342.0	28.3
Air Force	147,000	223.2	8.8
1972:			
Army	95,248	444.0	16.8
Navy	105,860	243.6	27.4
Air Force	176,481	355.6	11.0

CHAPTER 2

SAVINGS BY IMPROVING PROCEDURES

FOR VALIDATING UNFILLED ORDERS

The military services could save more than \$100 million annually in transportation and handling costs and in materiel purchases by (1) more frequently and effectively validating unfilled materiel orders and (2) removing past materiel demands associated with invalid orders from requirement computations.

For example, we estimate that DOD incurred unnecessary transportation and handling costs of about \$15.6 million because invalid orders were either not detected or were detected too late to stop shipment, during one periodic validation performed by the Army and Navy and three monthly validations performed by the Air Force. (See p. 9.)

In addition, we estimate that approximately \$22 million worth of materiel was purchased unnecessarily because invalid orders identified during these same validations were not eliminated from past demand histories which were used in requirements computations by the Army and the Navy. (See ch. 3.)

NEED FOR MORE FREQUENT AND EFFECTIVE VALIDATIONS

On the basis of our statistical tests, we estimate that invalid orders for materiel valued at about \$137.3 million were not detected during the Army and Navy quarterly validation and the Air Force's three monthly validations included in our review. Additionally, DOD statistics show that it was too late to stop over 16,000 shipments of materiel valued at \$102.6 million which the services had determined were no longer needed.

DOD Instruction 7510.4 provides that a rate of 3.5 percent be added to the billing or inventory standard price of materiel transferred to cover packing, handling, and crating. The instruction also provides that an additional 3 percent is to be added to cover transportation costs.

By applying this 6.5 percent, we estimate that unnecessary handling and transportation costs of \$15.6 million were incurred on the approximately \$240 million in undetected invalid orders and those detected too late to stop shipment.

The following table shows the results of validation checks for the reconciliations we reviewed and our findings on their effectiveness. These results show that the number of invalid materiel orders was approximately double that identified by the services. The principal cause for the services' failure to identify these additional invalid orders is explained in the section of this report on certification. (See p. 9.)

	Materiel order validations		Orders found to be invalid		Invalid orders for which shipment could not be stopped		Our projection of undetected invalid orders		Percent of invalid materiel orders found by services and us to total orders validated
	Number	Value	Number	Value	Number	Value	Number	Value	
	(millions)		(millions)		(millions)		(millions)		
Army	137,600	\$1,000	19,143	\$163.5	8,909	\$ 89.1	37,152	\$ 35.0	40.9
Navy	99,300	219	27,212	65.1	6,377	12.9	27,563	56.3	53.3
Air Force	^a 454,000	1,200	45,098	92.4	827	.6	86,260	46.0	28.9
Total	<u>690,000</u>	<u>\$2,419</u>	<u>91,453</u>	<u>\$321.0</u>	<u>16,113</u>	<u>\$102.6</u>	<u>150,975</u>	<u>\$137.3</u>	34.0

^a Cumulative results of three monthly validation checks comparable to the quarterly checks made by the Army and Navy.

A CONTINUING PROBLEM: CERTIFICATION OF UNFILLED MATERIEL ORDERS AS VALID WITHOUT VERIFICATION

In January 1969 Navy auditors reported that, during a periodic validation between the Navy Aviation Supply Office and the requisitioning activities, a continuing need was erroneously certified for an estimated \$50 million worth of materiel. The Navy auditors stated that requisitioning activities were routinely certifying the continuing validity of unfilled orders without checking to see if customer requirements still existed.

DOD auditors reported in May 1969 that Army and Air Force activities in Europe could have saved millions of dollars during fiscal year 1969 by strengthening requirements for requisitioning activities to validate the need for materiel on order.

In October 1971 DOD amended its validation procedures to emphasize the importance of indepth checks of the continuing need for materiel on order. The amended procedures stated that prefuntory reviews or routine responses that all materiel on order is still required are a waste of time. Also in October 1971 the Navy Supply Systems Command sent notices to all of its ships and shore stations which emphasized the adverse impact of invalid materiel orders on fleet operating funds and which stressed the importance of effectively validating materiel orders with the requisitioning activities.

Despite this emphasis, requisitioning activities frequently cited a continuing need for materiel on order without determining whether requirements still existed. The 250 customers we visited simply compared the document numbers of materiel orders referred for validation with the document numbers of open orders for materiel. If the numbers matched, the customers routinely cited a continuing need without reviewing supporting documents, such as equipment log books, outstanding work orders, unit allowance lists, and records showing current authorized stock levels and inventory positions.

Supply personnel at some of the customer units told us that it would be helpful if higher command levels gave them written instructions on the steps required to accurately validate materiel orders and if supply teams from higher command, during their periodic visits, briefed them on the mechanics of validating materiel orders.

The following examples show the need for, and benefits to be obtained from, strengthening procedures and controls for verifying the continuing need for materiel on order.

- The Marine Corps Air Station, Cherry Point, North Carolina, cited a continuing need for three high-priority orders for a total of six analog indicators valued at \$182,700 which had been ordered by the 2d Marine Air Wing. At the time a continuing need was certified, eight of these indicators were on hand, none were due out to customers, and the authorized stock level was three units.

The air wing could not explain the original requirement for the indicators or why it had certified a continuing need. Following our inquiries, the air wing canceled the order for four indicators valued at \$121,800. It did not cancel the remaining order for two indicators valued at \$60,900 because they had already been shipped.

--The Norfolk Naval Aeronautical Rework Facility, Virginia, cited a continuing need for 10 servo valves valued at \$11,500 for which it had earlier placed high-priority orders. At that time the servo valves were needed to repair inoperable equipment on A6A aircraft. At the time a continuing need was cited, no inoperable units were awaiting repair and the stock position was 10 due ins, no due outs, and no authorized stock level. Maintenance personnel told us that, after ordering the servo valves, a substitute item had been modified to satisfy the requirements. After our inquiry, the orders for the 10 servo valves were canceled.

--The U.S. Army Base Command, Okinawa, certified the continuing validity of a high-priority order for 19 rebuilt diesel engines. The command had ordered the engines for 5-ton trucks which the command's Directorate of Maintenance Operations was rebuilding. The old engines were removed from the trucks and sent to a depot repair facility in Texas for overhaul. At the time a continuing need was cited we found that the 19 engines exceeded program requirements.

At the same command, a requirement for 420 engines had been established for a rebuild program for 5-ton trucks. Requirements were later reduced by 43 trucks, but no attempt was made to cancel the excess engines. We were told that the excess engines would not be canceled because they could be used to fill future program requirements. No additional engines were needed for another 7 months, and all the engines were being airlifted from the continental United States.

We compared sea and air cargo rates for the 43 engines, which weighed about 73 tons, and found that \$60,000 could have been saved had the mode of transportation been changed when the program was cut back

or later as a result of materiel order validations. We also found 31 serviceable and 13 unserviceable engines, worth a total of about \$204,000, in storage which were not on the command's inventory records. After we brought this to the command's attention, it updated the inventory records.

--Bergstrom Air Force Base, Texas, cited a continuing need for nine humidity controls totaling \$1,005 which had been ordered earlier on a high-priority basis. We could find no evidence that a requirement existed at the time of validation. Instead, we found that this item had been ordered in error. The item that was really needed was a steel button plug with a unit price of 5 cents. The correct part number, but the wrong Federal stock number, was entered on the requisition. As a result of our inquiry, the base canceled the order for the nine humidity controls.

NEED FOR MORE TIMELY MATERIEL ORDER VALIDATIONS

Statistics compiled by DOD since fiscal year 1968 show that the Army and Navy are obtaining and shipping hundreds of millions of dollars worth of unneeded materiel annually because they do not validate materiel orders often enough to permit cancellation of invalid orders. These statistics also show that the Air Force, which makes more frequent and timely validations, is not experiencing problems of a similar magnitude. For example, the Army and Navy were unable to cancel or stop shipment of over \$100 million worth of materiel on orders identified as invalid during the periodic reconciliation that we reviewed, whereas the Air Force was able to cancel or stop shipment of all but \$600,000 worth of materiel during a similar period.

Since 1970 DOD has tried to get the Army and Navy to adopt the Air Force program for validating materiel orders once a month. After some initial reluctance, the Army agreed to phase in the Air Force program beginning with its inventory command and requisitioning activities in Europe. Since this program was implemented in Europe in May 1971, the average quarterly value of unneeded materiel shipments has dropped from about \$123 million to about \$50 million. The current plan for Army-wide adoption of the Air Force program is tied in to the phased installation of a new,

standard, computerized supply management system now being developed and scheduled for complete installation by December 1974. In the interim, the Army has directed its major requisitioning activities to locally validate and reconcile unfilled orders with their customers once a month.

The Navy initially opposed adoption of the Air Force program on the grounds that it would impose an unacceptable workload on its fleet customers which had little or no automated capabilities. The Navy later declined to even make a limited test of the Air Force program at its nonfleet requisitioning activities on the basis that they had substantially more unfilled materiel orders eligible for validations and fewer automated capabilities than Air Force requisitioning activities.

Although it would be impractical for fleet customers, while on extended operational deployments, to make more frequent materiel order validations, the Navy's major nonfleet requisitioning activities could make monthly, customer-initiated validations. Contrary to the Navy's allegation, the Air Force has consistently had more unfilled materiel orders eligible for validations, as shown below.

Average Monthly Number of Unfilled Orders
Eligible for Validations

	<u>1971</u>	<u>1972</u>	<u>1973</u>
Air Force	146,000	150,000	183,000
Navy	117,000	96,000	86,000

Moreover, the Navy's 21 major requisitioning activities have larger and more advanced computer hardware for supply management than do Air Force bases. These activities account for 76 percent of the Navy's total requisitions, and 74 percent of their issues are to nonfleet units. The computer hardware these requisitioning activities use has a record storage capacity of up to 410,000 units and a random access disc file of all open requisitions which can be programmed to provide a monthly list of unfilled orders eligible for validations, as well as the other data needed for monthly validations. Sufficient computer time is available at these activities to make monthly validations, and one of these activities is already making local validations once a week.

In contrast, Air Force requisitioning activities have a record storage capacity of only 32,000 units. At the bases visited, the amount of computer time devoted to monthly validations was only about 3-1/2 hours.

At all the Army and Navy requisitioning activities and customers visited, substantial delays occurred in validating the reconciliations included in our review. These delays could have been avoided or reduced by having the requisitioning activities and customers, rather than the inventory managers, initiate the validations and by strengthening requirements for requisitioning activities and customers to complete validations as quickly as possible. In a number of instances, unneeded materiel was shipped because of delays in validations. Examples follow.

--We asked supply officials at the Norfolk Naval Air Station, Virginia, why they were not validating materiel orders for the current periodic reconciliation with the Navy Aviation Supply Office. They informed us that they were not participating in this validation because they had not received reconciliation request cards from the supply office. The cards were supposed to have been received 25 days earlier than our query. A duplicate set of cards was supposed to have been received 2 days before our query, if receipt of the original set was not acknowledged. It had not been received.

At our suggestion, the air station contacted the supply office and was told that the cards had been forwarded on the proper date. As a result of our inquiry, the air station received a duplicate set of cards and notified the supply office of the results 25 days later.

This validation required 70 days from the prescribed cutoff date to receipt of the cards by the supply office. However, the actual time required from the air station's receipt of the cards was 25 days. Thus, a delay of 45 days could have been avoided had the validation been initiated at the air station rather than at the Supply Office.

As a result of this validation, which was made at our request, \$500,000 worth of unneeded materiel was canceled. However, because the validation was not timely, some unneeded materiel had been shipped. For example, an air station customer responded that a 24-month old order for materiel valued at \$8,000 was no longer valid. The customer received the materiel 1 day before the Supply Office was notified of the results of the validation.

--Local procedures call for the Marine Corps Air Station, Cherry Point, to initiate periodic reconciliations and validations with its customers about 2 weeks before the inventory manager's cutoff date so that the air station can complete its validation within about 25 days of that date. For the validation we evaluated, the air station established a mandatory response date 23 days after the cutoff. The air station met this response date, even though its customers did not complete their validations until 91 days after initiation of the local validation and 80 days after the cutoff date for the validation. Because the air station responded to the Supply Office about 54 days before it completed its validations, a continuing need was incorrectly cited for many orders.

For example, the air station cited a continuing need for a 3-month old, high-priority order for materiel valued at \$254 which was ordered by a customer of the air station. Later the customer, as part of the local validation, advised the air station that it no longer needed the materiel. However, it was too late to stop shipment and the customer received the materiel 15 days later. Supply officials at the air station said that 30 days was ample time for completing the validation and that the lengthy time required for this validation was due to the low priority given to it by the customers in the Marine Corps.

These officials further advised us that they were drafting revised procedures for local reconciliations and validations which would provide for automatic cancellation of a customer's order if the customer did not complete his validations and advise the air station of the results within 30 days of the cutoff date established for the periodic validations.

--The Jacksonville Naval Air Station, Florida, received requests from the Navy Aviation Supply Office to reconcile and validate about 1,100 unfilled materiel orders. These orders were forwarded to the appropriate customers for validation 6 days later and all but 60 were validated within 20 days after they were referred to the customers.

However, the air station did not respond to the Supply Office until it had received all the customer responses, which was 16 days later. As a result, cancellation was delayed on orders identified as invalid, and unnecessary shipments occurred. For example, \$417 worth of aluminum tubing was shipped to a customer by commercial air freight at a cost of \$40, 8 days after the customer had notified the air station that the materiel was no longer needed.

At the Army requisitioning activities we visited, validations were sometimes delayed by over 30 days because of the late receipt of validation requests from inventory managers. These delays, some of which resulted in unneeded materiel shipments, could have been avoided if the requisitioning activities and customers had initiated the validations.

NOT ALL ELIGIBLE MATERIEL ORDERS
SUBJECTED TO VALIDATION CHECKS

The Navy, unlike the Army and Air Force, did not validate unfilled high-priority materiel orders 30 to 74 days old during the periodic validation check we reviewed. DOD granted the Navy an apparent one-time waiver on this requirement in 1969 on the basis that such validations would substantially increase the validation workload of fleet customers without substantially increasing the savings through cancellation.

We could find no support for the Navy's basis for excluding these orders from its periodic validations. As previously mentioned, 21 major Navy nonfleet requisitioning activities handle the vast majority of the Navy's validation workload. At 4 of these activities, we tested the validity of about 4,600 of the unfilled orders (about 20 percent of the Navy's total) and found that 23 percent were invalid. We estimated that, by effectively validating these types of orders, the Navy could have increased the dollar value of its cancellations by \$3.3 million for one reconciliation period.

In view of the potential savings from validating these orders, we believe that the Navy should not be granted a waiver unless the cost of the increased validation workload would substantially offset the benefits.

BENEFITS FROM AUTOMATIC CANCELLATIONS

The longer an order remains outstanding, the greater the chances are that the original requirement for the materiel will cease to exist or that the need will be satisfied through other means. Because of this and because of its large volume of unfilled orders over 6 months old, the Navy's Aviation Supply Office in 1970 implemented procedures for automatically canceling unfilled orders 6 or more months old. The Supply Office, as part of its periodic validations, automatically sends cancellation notices to requisitioning activities for such orders. If these activities still need the materiel they simply write "reinstate" on the cancellation notices and return them to the Supply Office which puts the orders back in the computer in their former priority and age sequence.

Since 1971 the Navy's Supply Office has automatically canceled over \$100 million worth of materiel and has reinstated over \$50 million worth of canceled orders.

The Army, beginning with its first periodic validation in 1972, directed its requisitioning activities to automatically cancel unfilled orders 6 or more months old. The Army's procedures for automatic cancellations differed from the Navy's in that customers could not reinstate their orders. If they still needed materiel, they had to submit new orders.

During the reconciliation we reviewed, only one of the seven Army requisitioning activities included in our review automatically canceled unfilled orders. The remaining activities subjected these orders to their normal validations. After that validation, we tested the continuing validity of unfilled orders 6 or more months old at the seven requisitioning activities and found that a significant percentage were invalid. For example, about 56 percent of the unfilled orders 6 or more months old at the Army Materiel Command, Europe, were invalid. After we brought this to the command's attention, it conducted a special one-time program to verify the continuing need for such orders. As a result, it canceled or redistributed materiel valued at \$9 million.

One of the Army requisitioning activities visited had its own local program for automatically canceling high-priority orders over 59 days old and routine orders over 179 days old. However, this program had not been run in a long time. After our inquiry, this activity ran the program and canceled \$611,000 worth of unneeded materiel.

At two of the Air Force bases visited, an estimated 37 percent of the unfilled orders 6 or more months old were no longer valid. Air Force procedures do not provide for automatic cancellations.

The percentage of unfilled orders over 6 months old which were invalid ranged from 37 to 79. In view of this, we believe the inventory managers of all the military services should institute a program for automatically canceling orders over 6 months old.

This, in our opinion, would eliminate much of the unnecessary procurement, transportation, and handling charges

associated with orders identified as being invalid during the periodic validation too late to stop either the procurement action or shipment. It also could have a favorable psychological impact in that the decisionmaker at the customer or requisitioning activity would be more apt to review the stock position before indicating a need for reinstatement. Further, if the reinstatement process is a simple one such as the process of the Navy Aviation Office, the additional cost and effort should be minimal.

AGENCY COMMENTS, GAO EVALUATION,
AND RECOMMENDATIONS

We brought our findings and proposals for corrective action to the attention of the Secretary of Defense in September 1973. At the Secretary's request, the Assistant Secretary of Defense (Installations and Logistics) commented on our findings and proposals by letter dated December 4, 1973. (See app. I.) He stated that DOD agreed with our two principal proposals that DOD's materiel order validation program be revised to require the Army and Navy to monthly validate unfilled materiel orders meeting DOD's age criteria (except for ships and other deployed units) and that the validation process be initiated at the requisitioning activity level rather than at the inventory manager level (as the Air Force is already doing).

The Assistant Secretary stated further that overseas Army activities are now performing monthly, requisitioner-initiated validation checks of unfilled orders and that Army-wide expansion of this procedure would be achieved concurrent with the Army's implementation of a new standard system for wholesale and retail supply management, which is in process and expected to be completed by March 1975. In the interim the Army has directed its major installations in the continental United States to locally reconcile and validate unfilled orders with their customers once a month.

We believe that the action taken and planned by the Army should result in the early detection and cancellation of invalid materiel orders and substantially reduce the volume of unneeded materiel shipments.

The Assistant Secretary also commented that the Navy continued to oppose adoption of the proposed materiel order validation procedures for the same reasons cited on

page 14. However, he said that he had requested the Navy to develop, and to submit to him by the end of January 1974, a proposed plan for having its major shore-based activities apply the monthly requisitioner-initiated validation concept.

Because the Navy continues to be opposed to performing more frequent and timely validation checks, it may not give adequate priority to implementing the proposed procedure for validating unfilled materiel orders.

We believe that the Navy's prompt implementation of the proposed procedure is important to substantially reduce the Navy's unneeded shipments of materiel, which at the time of our review were valued at about \$50 million annually. We therefore recommend that the Secretary of Defense direct the Navy to implement on a high-priority basis the proposed procedure for monthly, requisitioner-initiated materiel order validation checks at those Navy shore-based activities which have the necessary automated capabilities.

The Assistant Secretary agreed with our proposal that the services require requisitioning activities to make independent sampling accuracy checks of customer validations. The Office of the Assistant Secretary subsequently informed us that the appropriate procedures for implementing this proposal would be explored as a part of a continuing joint DOD/service study group review of materiel order validation procedures which was scheduled to start at the requisitioner level in March 1974.

We believe that if this action is properly pursued and implemented it will substantially increase invalid order cancellations. We will review the effectiveness of action taken in future supply management reviews.

The Office of the Assistant Secretary further informed us that the Navy had agreed that its future periodic validity checks of unfilled materiel orders would include high-priority orders 30 to 74 days old. This action should, if properly carried out, result in substantial economic benefits.

The Assistant Secretary informed us that the military services did not concur with our proposal that unfilled materiel orders 6 months or older be automatically canceled at the inventory manager level with provisions for customer

reinstatement if a valid need still exists. He said that the principal argument against automatic cancellation is that many critical items of supply have longer procurement leadtimes than 6 months. He said that, during the course of our review, DOD had directed the military services and the Defense Supply Agency to make a one-time automatic cancellation of all requisitions 1 year or older with provisions for customer reinstatement if a valid need still existed. He said that this action resulted in cancellation of orders for materiel valued at \$45 million. According to him, because of the successful results of this action, the automatic cancellation of unfilled orders 1 year or older would be made a periodic DOD-wide requirement. He said that DOD would continue to work toward lowering the age threshold for automatic cancellations of outstanding materiel orders.

There is no data available from which we can evaluate the merits or the magnitude of the critical items having procurement leadtimes longer than 6 months. We recommend that DOD study such items to determine whether they are sufficiently small to merit management on an exception basis. If so, additional millions of dollars could be saved on those orders which would be appropriate for automatic cancellation after 6 months.

CHAPTER 3

SAVINGS OBTAINABLE BY ELIMINATION OF PAST

DEMANDS FROM CURRENT REQUIREMENT COMPUTATIONS

We estimate that about \$22 million worth of materiel was purchased unnecessarily because invalid orders identified in the validations of outstanding orders which we reviewed were not eliminated from demand history files.

The services use demand history files for estimating budgets, computing materiel buy-and-repair requirements, and deciding on asset redistribution. Inaccurate files can result in overstated stock levels, unnecessary buys and repairs, unneeded shipments and redistribution, and disposal of excess inventories. Navy inventory managers and Army requisitioning activities were not eliminating from their files demands associated with invalid orders identified by periodic validations.

NAVY CONTINUES TO USE DEMANDS REPRESENTING INVALID ORDERS

In January 1969 Navy auditors reported that the standard computerized supply management system in use at the Aviation Supply Office and other Navy inventory management points did not contain a routine program for removing demands associated with invalid orders from materiel demand history files. The auditors estimated that the Supply Office's past demands were overstated by \$160 million annually.

The Navy Supply Systems Command concurred in the need to properly adjust demand forecasts for prior invalid materiel orders. However, the command felt that the auditors' overstatement estimate was inflated because it did not consider that not all demands are recurring and that not all recurring demands associated with unfilled orders for materiel no longer needed are invalid. For example, if an unfilled order is canceled because a recurring requirement is satisfied by repairs or cannibalization at the using activity, the original need is still valid and the demand should be recognized as a valid recurring demand. On the other hand, the demand should not be recognized if it is associated with an unfilled order for materiel no longer needed because of a reduction in stock level. The command said that it could not correct the problem the auditors noted before January 1971 because of other priority work.

As a result of one of its periodic validations, the Navy canceled, or identified as invalid but could not cancel, \$65 million worth of ordered materiel. The Aviation Supply Office made most of the cancellations. Because this office and the other Navy inventory control managers continue to use the same standard, computerized, supply management system, they still were not eliminating those demands related to invalid orders from their past demand histories.

Navy statistics indicate that about 80 percent of all Navy demands are recurring. Using this percentage, we estimated that about \$52 million of the total invalid orders (\$65 million) represented recurring demands.

Our tests of validations at selected Navy requisitioning activities showed that about 66 percent of the orders representing recurring demands were identified as invalid because of reductions in stock levels which occurred after the orders originated. Therefore, the demands related to these orders no longer represented valid recurring demands and should have been eliminated from the demand history files. Applying this to the \$52 million, we estimate that the Navy's recurring demands were overstated by about \$34 million.

On the basis of the Navy's dollar ratio of annual materiel purchases and repairs to annual recurring demands--which is about 30 cents to a dollar--we estimate that this overstatement resulted in unnecessary materiel buys and repairs totaling about \$10 million.

The following example illustrates the impact of invalid demands on buy requirements.

--The 2d Marine Wing, Cherry Point, ordered 10 safety lock pins to replenish its stocks. No system stocks were available, so this order was referred to the Aviation Supply Office for action when stocks became available. The recurring demand for 10 units was entered in the Supply Office's demand history file.

As a result of the validations conducted about 6 months later, the air wing requested that the order be canceled because the ordered quantity exceeded the authorized stock level. The order was canceled but the recurring demand for 10 units was not removed from the demand history file.

About 8 months after the wing placed the order, the Supply Office computed a system stock replenishment buy of 240 units of this item with a total value of \$8,244 on the basis of the past 12 months' demand history. A purchase order in this amount was issued. Using the same requirement factors as the Supply Office used and excluding the 10 invalid demands, we computed a buy requirement of 236 units valued at \$8,106, or a difference of 4 units valued at about \$138.

ARMY SYSTEM DID NOT ELIMINATE
DEMANDS RELATED TO INVALID ORDERS

The audited Army requisitioning and customer activities included 4 of the 33 Army installations equipped with a standard computerized supply management system known as the Base Operating Information System. This system did not have a program for removing from demand history files those recurring demands related to invalid orders identified by periodic validations.

We estimate that the accumulated demands of the 33 Army requisitioners were overstated by about \$50 million because they did not eliminate invalid demands related to orders canceled as a result of one of the periodic validations. Also, on the basis of our tests, the correlation between reductions in demand and reductions in requisitioning objectives indicate that the \$50 million overstatement would result in overprocurement of materiel valued at about \$12 million.

The following example demonstrates the effect of including invalid demands in computing the quantity of an item to buy.

--The Fort Sill, Oklahoma, post supply department computed a requisition objective¹ for 199 vehicle repair part kits totaling about \$609 on the basis of past recurring demands of 651 units for a 12-month period. We found that the 651 recurring demands included 157

¹Quantity needed to bring assets up to authorized stock level.

demands related to unfilled materiel orders which customers had canceled during an earlier validation because the on-order quantities exceeded authorized stock levels. Had the 157 invalid demands been excluded from the computation, the requisitioning objective would have been 151 units, or a difference of 48 units valued at about \$147.

Moreover, accumulated recurring demands and requisitioning objectives at the 33 installations were further overstated by the duplicate recording of recurring demands. This happens when one or more customers' orders are cross-referenced¹ to requisitioning activities' stock replenishment orders. When the stock replenishment orders are canceled as a result of validations, the cross-referenced customer orders are canceled also. However, the related demands are not removed from the demand history files. Subsequently, in many cases the customers resubmit new orders since they did not initiate the cancellation. This results in a duplicate recording of demands. Since the automatic supply system at these installations was not programed to identify and cancel duplicate demands, these were erroneously included in the requirements determination. For example:

--During one of the periodic validations, the post supply department at Fort Riley canceled two stock replenishment orders for a total of eight repair kits with a unit price of \$20.05. These orders were canceled because they were not included in the list of unfilled orders submitted by the appropriate inventory managers for validation. The Base Operating Information System transaction canceling these 2 orders also canceled 10 cross-referenced customers' orders for a total of 130 repair kits valued at about \$2,607. Post supply officials told us that the affected customers would receive cancellation notices and probably would resubmit new orders. The resubmission of new orders would result in duplicate recording of demands.

¹Individual customers' orders which are designated to be filled when materiel is received from specific stock replenishment orders. Although the customer orders are cross-referenced to specific stock replenishment orders, the demands are recorded separately.

AGENCY COMMENTS, GAO EVALUATION, AND
RECOMMENDATIONS

The Assistant Secretary said that DOD concurred with our proposal that the military services give priority attention to, and establish firm target dates for, correcting computer program problems which permit duplicate recording of materiel demand data and which do not provide for removing from requirement computation data bases materiel demands related to invalid materiel orders. (See app. I). He commented further that DOD had initiated action with the military services for uniform removal of canceled demands from the demand data base and that a comprehensive DOD instruction on demand forecasting containing this provision is being prepared for publication. The Office of the Assistant Secretary further informed us that the subject instruction would be issued during the first quarter of 1974.

DOD's establishment of uniform policy and standard procedures for the services' removal of canceled demands from past demand history files is a step in the right direction and should result in substantial economies when effectively implemented by the services.

The Office of the Assistant Secretary also told us that the Navy had informed DOD that it would have to make a major change to its standard automated supply management system at Navy inventory control points to provide for removal of invalid demand data. The Navy advised DOD that a priority would be assigned to this effort but that due to other priority work, this project could not be accomplished before July 1975.

The Navy has not shown a great deal of enthusiasm for establishing a computer program routine for removing invalid past demands from current requirement data bases. In this respect the Navy has consistently deferred action on this project since 1969 on the basis of having higher priority work. As a result, the Navy since 1969 has overstated past materiel requirements by hundreds of millions of dollars in projecting future requirements. We, therefore, recommend that the Secretary of Defense direct the Navy to assign a higher priority to accomplishing this task unless it can be demonstrated convincingly that the benefits to be achieved from completing other allegedly higher priority projects clearly outweigh the substantial economic benefits that can

be realized by accomplishing this project. We further recommend that the Department of Defense monitor the Navy's progress in establishing a computer program routine for removing past invalid demands from data bases used to compute buy requirements.

The Office of the Assistant Secretary also advised us the Army took exception to our finding that its standard automated supply management system at the Army installation level did not provide for removing from demand history files those demands related to invalid orders identified by periodic validation checks. The Army advised DOD that, contrary to our findings, its automated system at the installation (retail) level did provide for immediate removal of those demands related to unfilled materiel orders which are canceled from accumulated demand data bases. The Army further advised DOD that it had corrected the computer program problem which permitted duplicate recording of materiel demand data.

With regard to the Army's response that its automated system at the installation level did provide for removal of past invalid materiel demands from current requirement computation data bases, we found that the Army does have a computer program for removing past invalid demands from current requirement computation data bases when the customer or requisitioning activity routinely initiates cancellation of unfilled orders. To that extent we concur in the Army's comment. However, as pointed out on page 24, when unfilled orders are canceled as a result of the periodic reconciliation, the computer program does not remove the related demand from the data base because a different transaction code is prescribed for such cancellations. The different transaction code has been prescribed to permit accumulation of data pertaining to cancellation of unfilled orders as a result of the periodic reconciliations.

We therefore recommend that DOD, as a part of its planned 1974 interservice audit of the effectiveness of the materiel validation process at the user (installation level) (see p. 34), ascertain whether the Army has corrected the computer program problems cited in this report which resulted in the duplicate recording of materiel demands. In addition we recommend that, if the Army has not implemented a monthly requisitioner-up validation procedure for its units in the United States, that as a part of its 1974 interservice audit,

DOD ascertain whether the Army has provided in its periodic backorder reconciliation procedures for removal of invalid past materiel demands from current requirement computation data bases.

CHAPTER 4

MORE STRINGENT CONTROLS NEEDED TO CONTINUALLY

REDUCE NUMBER OF INVALID MATERIEL ORDERS

Supply practices and controls at the requisitioning activities should be improved to reduce the number of invalid orders. The early detection and cancellation of these orders would significantly reduce the large volume of unneeded materiel shipments and the workload associated with periodic validation checks of old, unfilled orders.

Our tests showed that large numbers of unfilled materiel orders were not valid because (1) computer programs did not include needed controls, (2) the original requirements no longer existed, or (3) the requirements had been satisfied through other means.

IMPROVEMENTS NEEDED IN COMPUTER SYSTEM CONTROLS

The computer at the U.S. Army Materiel Command, Europe, was not programed to automatically cancel stock replenishment orders for materiel exceeding the command's authorized stock levels. It canceled only ordered materiel exceeding the command's stock retention levels. Stock retention levels are used to determine at what point it is more economical to retain, redistribute, or dispose of onhand stocks exceeding foreseeable requirements. They are not supposed to be used to justify outstanding orders for materiel which exceeds authorized stock levels.

After we brought this matter to the attention of command officials, the program was corrected. During the following 31 days, 4,900 stock replenishment orders were canceled, which saved \$3.6 million.

At Army requisitioning and customer activities equipped with a standard computerized supply system known as the Division Logistics System, we found several instances in which ordered materiel exceeded the activities' requisitioning objectives. Supply personnel told us that they could not readily determine when ordered materiel exceeded requisitioning objectives because the computer was programed to identify only that which exceeded stock retention levels.

(These levels are more than twice as large as requisitioning objectives.) For example:

- The 701st Maintenance Battalion, Fort Riley, had on order 13 radiators with a unit price of \$153. The ordered quantity exceeded the latest requisitioning objective (updated monthly) by three units valued at \$459, but the order was not canceled because the excess quantity was three units less than the stock retention level.

Supply officials of the battalion agreed that ordered quantities exceeding requisitioning objectives should be canceled. Subsequently, the computer system at this activity was reprogramed to identify such quantities once a month.

ORIGINAL REQUIREMENTS NO LONGER NEEDED

Several unfilled materiel orders were no longer valid because the customer either (1) no longer used the equipment for which it had ordered repair parts or (2) ordered parts to repair inoperable equipment without canceling previous orders for equipment replacement. Examples follow.

- The 502d Military Intelligence Battalion, 8th Army, Korea, ordered 20 camera adapter lenses valued at \$158.60. Although the battalion later decided to no longer use the camera for which it ordered the lenses, it did not cancel the order. Moreover, during one of the subsequent order validation periods, the battalion advised the 8th Army Korea Support Command that it had a continuing need for the lenses. As a result of our inquiries, this order was canceled.
- The 18th Field Maintenance Squadron, a customer of Kadena Air Base, Okinawa, submitted a high-priority order for a motor repair kit assembly valued at \$96.19. The assembly was needed to replace a leaking hydraulic system on an aircraft weapon lift device.

This item was not in stock at the base, so the order was passed to the appropriate inventory manager in the continental United States. The maintenance squadron subsequently determined that the defective weapon

lift, as well as a number of other such lifts, exceeded its needs. About 2 months after the orders were placed, these weapon lifts were turned over to base supply for redistribution or disposal. Although the assembly was no longer needed, the order was not canceled and a continuing need was erroneously certified during the next order validation period.

- The 35th Supply and Services Battalion, a customer of the Army Materiel Command, Europe, ordered a control assembly turn signal valued at \$32 to replace an inoperable signal which had a defective component. When the order was placed the component could not be requested separately. Four months later, the battalion ordered the component but did not cancel the order for the new signal. As a result of our inquiries the battalion said it would cancel that order.

REQUIREMENTS SATISFIED THROUGH OTHER MEANS

Ordered materiel often was not canceled when the need for the materiel was satisfied by (1) local repair of inoperable items, (2) excess items turned in by other onbase customers, and (3) routine stock replenishment.

Local repairs of inoperable items

At most of the requisitioning and customer activities visited, supply practices and controls did not provide for canceling ordered replacement equipment when the need had been satisfied through local repairs of inoperable equipment. For example:

- For 5 months, the Army Base Command, Okinawa, supply operations directorate submitted several routine replenishment orders for 47 engines valued at \$155,100. These engines were ordered as replacements for inoperable engines removed from 2-1/2 ton, multifuel trucks. When these engines were ordered, the command's maintenance operations directorate was regularly overhauling the inoperable engines.

The orders for the replacement engines were generated by the command's computerized, monthly, automatic stock replenishment program. As a safeguard against

computer errors, the supply operations directorate is supposed to manually review all computer-generated replenishment orders for high-value items, such as these engines. We were told that this had not been done and that the replenishment program was apparently not considering the scheduled receipt of large numbers of repaired engines as it should have. As a result of our inquiries, the order was canceled.

Excess stock turned in by other customers

We found several instances in which unfilled orders for materiel were no longer valid because the needed stocks had been obtained from excess stock turned in by other customers. For example:

--A customer of the post supply department at Fort Sill submitted a low-priority order for two cylinders valued at \$430 for installation on a vehicle. Post supply did not stock the cylinders because of insufficient past recurring usage, so the order was passed to the appropriate Army inventory manager. The inventory manager backlogged the order for future supply action because of a lack of system stocks. After placing this order, the customer obtained the needed cylinders from excess stock turned in by another activity at Fort Sill. Despite the low priority of this order and the fact that it was for a nonstocked item, neither the customer nor post supply canceled the order when it became invalid or during a subsequent validation check.

Routine stock replenishment

At the audited Army and Navy requisitioning activities, high-priority customer orders which are referred to inventory control points for action are generally not canceled when the needed materiel is obtained from stock replenishment at the local supply level.

Army

The Base Operating Information System is a standard computerized supply system used at 33 major Army installations in the continental United States. The operating manual

for this system states that high-priority customer orders referred to inventory control points for action will be canceled when the orders are filled at the local supply level from routine stock replenishment.

However, at the audited Army installations equipped with this system, this was not done. The local image of the customer's unfilled order was wiped out by the computer, but the inventory control point to which the orders had been referred was not told of this action. When the local supply activity received high-priority materiel from the inventory control point, it turned the materiel directly over to the customer without checking to see if an outstanding order still existed.

After we advised the officials at the audited installations of this matter, they asked the Army's Computer Systems Command to take corrective action. This command has overall programing responsibility for the Base Operating Information System.

Navy

Navy supply activities are not supposed to issue stock locally to fill high-priority customer orders previously passed to Navy inventory control points for supply action until they receive materiel release authorizations from the inventory control points. In a number of instances supply activities made such issues without authorizations and without cancellations of the orders. For example:

--The Naval Aeronautical Rework Facility of the Marine Corps Air Station, Cherry Point, submitted a high-priority order for 11 armature generators valued at \$9,075. The Air Station's supply department could not fill the order at the time and passed it to the Aviation Supply Office. The supply office backlogged the order for future supply action pending the availability of replenishment stocks.

The Air Station's supply department filled the customer's high-priority order about 3 months later without having authorization from the supply office and without notifying that activity so that the customer's orders could be canceled. We informed officials of the supply department that the onhand and ordered quantities for this item exceeded the authorized stock level by

18 units. They told us that they could not cancel the order because the supply office had told them that shipping action was imminent.

AGENCY COMMENTS AND GAO's EVALUATION

The Assistant Secretary of Defense (Installations and Logistics) said that DOD agreed with our recommendation that the military services be directed to (1) conduct the reviews necessary to insure that their automated supply system programs produce results which reflect adherence to prescribed policies, procedures, and stocking criteria, and (2) re-emphasize the need for stricter compliance with existing supply procedures. (See app. I.) He further commented that DOD had requested the office of the Deputy Assistant Secretary of Defense (Audit) to schedule a DOD-wide inter-service audit of the materiel obligations validation system, with emphasis on the effectiveness of the validation process at the user/organization level. He said that this work is now in process with a report to be issued in the first quarter of 1974. He said also that DOD would continue to review the current supply systems and procedures of the military services and would initiate actions needed to improve the effectiveness of the materiel order validation program.

We believe these actions, if effectively pursued, should improve the materiel order validation process and increase emphasis on stricter supply discipline. We will evaluate the effectiveness of these actions as a part of our continuing supply management reviews.

CHAPTER 5

SCOPE OF REVIEW

We examined the effectiveness of DOD's policies and procedures and the implementing practices of the Army, Navy, and Air Force for identifying and canceling unfilled orders for materiel no longer needed.

We made a statistical analysis of transactions selected at random from about 33,000 old materiel orders. These materiel orders were representative of the unfilled orders validated by the Army and Navy for the quarter ended January 31, 1972, and by the Air Force for the three monthly validations ended April 1972. The volume of unfilled orders does not vary significantly from quarter to quarter; therefore the periods selected for review were representative of other like periods in the year and provide an adequate foundation for savings we projected. The inventory control points, requisitioning activities, and using units we visited had reconciled and validated these orders.

We did our fieldwork at each of the military services' inventory control points which had the largest number of old, unfilled orders and at 16 requisitioning activities which had relatively large volumes of transactions with these control points. In addition, we visited approximately 250 customers of the requisitioning activities to verify the continuing need for the materiel on order.

At the following locations we reviewed unit document registers, equipment repair logs, requisition status files, authorized stock levels, and applicable computer programs and management information lists.

Army

Inventory control point:

U.S. Army Tank-Automotive Command, Warren, Michigan

Requisitioners:

Fort Sill, Oklahoma
Fort Hood, Texas
Fort Riley, Kansas
Fort Bragg, North Carolina
U.S. Army Base Command, Okinawa
Eighth Army Depot Command, Korea
U.S. Army Materiel Command, Europe¹

Navy

Inventory control point:

U.S. Navy Aviation Supply Office, Philadelphia, Pennsylvania

Requisitioners:

Naval Air Station, Jacksonville, Florida
Naval Air Station, Pensacola, Florida
Naval Air Station, Norfolk, Virginia
Marine Corps Air Station, Cherry Point, North Carolina

Air Force

Inventory control point:

San Antonio Air Materiel Area, San Antonio, Texas

Requisitioners:

Bergstrom Air Force Base, Texas
Randolph Air Force Base, Texas
Little Rock Air Force Base, Arkansas
Ramstein Air Base, Germany
Kadena Air Base, Okinawa

¹Current title is U.S. Army Materiel Management Agency, Europe.



SS

INSTALLATIONS AND LOGISTICS

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

4 DEC 1973

Mr. Henry W. Connor
Associate Director, Logistics
and Communications Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Connor:

On behalf of the Secretary of Defense we are replying to your Draft Report (Code 82219), "Better Methods Needed for Identifying and Cancelling Orders for Materiel No Longer Needed," dated September 12, 1973 (OSD Case #3704).

The draft report recommends two fundamental changes to the current Department of Defense (DoD) system for conducting the materiel order validation process. These are (a) monthly validation in lieu of quarterly validations and (b) customer/requisitioner activity initiation of the validation of outstanding materiel orders in lieu of the current Inventory Control Point initiation of the validation process. We agree in concept with the two proposals and have been moving in this direction during the past few years.

As you are aware, the Air Force has been operating a monthly customer/requisitioning activity initiated materiel order validation system. In January 1972, we requested the Army and the Military Standard Requisitioning and Issue Procedures (MILSTRIP) System Administrator to review the Air Force system, with a view toward development of a standard system similar to the Air Force system. The Army has completed its review and has recently decided to adopt the Air Force concept. Actually, the Army is already operating a monthly requisitioner-up validation procedure for its direct supply support activities in Europe and the Pacific. Army-wide implementation is, however, dependent upon implementation of a standard system for wholesale and retail supply management, which is in process, and the acquisition of necessary Automatic Data Processing Equipment (ADPE) support.

The Navy nonconcur in the recommendations, citing increased volume of manual workload at the requisitioner level and the requirement for system redesign which would require increased ADPE and personnel resources to develop and operate the new system. We recognize the Navy's concern for the nonautomated requisitioner and the fleet units. Accordingly, we are requesting the Navy to develop a proposed plan for applying the monthly customer/requisitioner-up validation concept to the shore-based activities which are responsible for the majority of the requisitions and have adequate ADPE capability. In addition, it is suggested that the Navy plan may include a test of the new system at one or more of the larger requisitioning activities.

With respect to the recommendations that the inventory managers automatically cancel unfilled orders six months or more old, all of the Military Services and the Defense Supply Agency (DSA) nonconcur. The principal arguments against automatic cancellation are that many critical items of supply have longer lead times than six months, automatic cancellation would impact on existing fiscal obligations, and the resubmitted requisition, following validation, would lose its ranking on the backorder file of the supplier.

In connection with the above, on May 7, 1973, we directed the Military Services and DSA to make a one-time cancellation of all requisitions 360 days old, with reinstatement provision. We also stated that we were considering a policy that all backorders for stocked items that are over six months old would be cancelled by the supplier, and the requisitioner so advised. Provision was included for reinstatement of the requisition if, after a review at the requisitioner level, it was determined that the requirement was still valid. This proposal was essentially the same as your recommendation, and we received the same nonconcurrences from the Services and DSA. In view, however, of the successful results of the cancellation of 360-days-old backorders in which an additional \$45 million was cancelled, we will continue to work toward lowering the age threshold for automatic cancellations of outstanding backorders.

With respect to the recommendation that the Services eliminate from past demand histories demands related to invalid/cancelled materiel orders, we have already taken action on this matter. As to the other recommendations concerning the need for independent quality control checks of customer validation actions and the general recommendations addressed to the Secretary of Defense, we are in agreement.

As you know, we have been aware that the backorder validation process could be improved, and during the past 18 months have taken actions to increase the effectiveness and payoff of the process as follows:

a. As indicated above, we requested the Military Services/DSA to make a special validation of all backorders over 360 days old and effect cancellation by the supply source. The result of this action was an additional \$45 million cancelled. This will be made a periodic DoD-wide requirement.

b. We sponsored a joint Services/DSA MILSTRIP study group to review the effectiveness of the current validation program and procedures. The review has been completed, and the team report included various recommendations for improving the current validation system. Action on these recommendations has been taken or is underway. For example, beginning with the next cycle, AUTODIN will be used to speed movement of validation documents, and customer response time has been reduced from 60 to 45 days.

c. We requested the Deputy Assistant Secretary of Defense (Audit) to schedule a DoD-wide interservice audit of the materiel obligations validation system, with emphasis on the effectiveness of the validation process at the user/organization level. The field work is now in process with a report to be issued in the first quarter of Calendar Year 1974.

d. We have initiated action with the Military Services/DSA for removal of cancelled demands from the demand data base, and a comprehensive DoD Instruction on demand forecasting, containing this provision, is in process.

We shall continue to review our current systems and procedures and to initiate actions to improve the effectiveness of the materiel order validation program. The efforts undertaken by the General Accounting Office in this area and the opportunity to comment on the draft report are appreciated.

Sincerely,



ARTHUR I. MENDOLIA
Assistant Secretary of Defense
(Installations & Logistics)

APPENDIX II

PRINCIPAL OFFICIALS OF THE DEPARTMENTS
OF DEFENSE, ARMY, NAVY, AND AIR FORCE
RESPONSIBLE FOR MATTERS DISCUSSED IN THIS REPORT

<u>Tenure of office</u>	
<u>From</u>	<u>To</u>

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE:

James R. Schlesinger	June 1973	Present
William P. Clements, Jr. (acting)	Apr. 1973	June 1973
Elliot L. Richardson	Jan. 1973	Apr. 1973
Melvin R. Laird	Jan. 1969	Jan. 1973

DEPUTY SECRETARY OF DEFENSE:

William P. Clements, Jr.	Feb. 1973	Present
Kenneth Rush	Feb. 1972	Jan. 1973
David Packard	Jan. 1969	Jan. 1972

ASSISTANT SECRETARY OF DEFENSE
(INSTALLATIONS AND LOGISTICS):

Arthur T. Mendolia	Apr. 1973	PRESENT
Hugh McCullough (acting)	Jan. 1973	Apr. 1973
Barry J. Shillito	Feb. 1969	Jan. 1973

DEPARTMENT OF THE ARMY

SECRETARY OF THE ARMY:

Howard H. Calloway	May 1973	Present
Robert F. Froehlke	July 1971	May 1973
Stanley R. Resor	July 1965	June 1971

ASSISTANT SECRETARY OF THE ARMY
(INSTALLATIONS AND LOGISTICS):

Vincent P. Huggard (acting)	Apr. 1973	Present
Dudley C. Mecum	Oct. 1971	Apr. 1973
J. Ronald Fox	June 1969	Sept. 1971

Tenure of officeFrom ToDEPARTMENT OF THE ARMY (continued)

COMMANDING GENERAL, ARMY MATERIEL

COMMAND:

Gen. H. A. Miley, Jr.	Nov. 1970	Present
Gen. F. J. Chesarek	Mar. 1969	Oct. 1970

DEPARTMENT OF THE NAVY

SECRETARY OF THE NAVY:

John W. Warner	May 1972	Present
John H. Chafee	Jan. 1969	Apr. 1972

ASSISTANT SECRETARY OF THE NAVY
(INSTALLATIONS AND LOGISTICS):

Jack L. Bowers	June 1973	Present
Charles L. Ill	July 1971	May 1973
Frank Sanders	Feb. 1969	July 1971

COMMANDER, NAVAL SUPPLY SYSTEMS

COMMAND:

Rear Adm. W. R. Dowd, Jr.	Jan. 1973	Present
Rear Adm. K. R. Wheeler	July 1970	Jan. 1973
Rear Adm. Bernhard H. Bieri, Jr.	Aug. 1967	June 1970

DEPARTMENT OF THE AIR FORCE

SECRETARY OF THE AIR FORCE:

John L. McLucas	July 1973	Present
Dr. Robert C. Seamans, Jr.	Feb. 1969	May 1973

ASSISTANT SECRETARY OF THE AIR
FORCE (INSTALLATIONS AND
LOGISTICS)

Richard J. Keegan (acting)	Aug. 1973	Present
Lewis E. Turner (acting)	Oct. 1972	Aug. 1973
Philip N. Whittaker	May 1969	Sept. 1972

COMMANDER, AIR FORCE LOGISTICS

COMMAND:

Gen. Jack J. Catton	Sept. 1972	Present
Gen. Jack G. Merrell	Mar. 1968	Sept. 1972

Copies of this report are available at a cost of \$1 from the U.S. General Accounting Office, Room 4522, 441 G Street, N.W., Washington, D.C. 20548. Orders should be accompanied by a check or money order. Please do not send cash.

When ordering a GAO report please use the B-Number, Date and Title, if available, to expedite filling your order.

Copies of GAO reports are provided without charge to Members of Congress, congressional committee staff members, Government officials, news media, college libraries, faculty members and students.

AN EQUAL OPPORTUNITY EMPLOYER

UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300

POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE



THIRD CLASS