

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**ARMY REQUIREMENTS FOR CURRENTLY PROCURED
WHOLESALE INVENTORIES OF REPARABLE ITEMS**

Report No. 93-064

March 12, 1993

Department of Defense

The following acronyms are used in this report.

- AMC.....Army Materiel Command
- AVSCOM.....Aviation Systems Command
- GAO.....General Accounting Office
- ICPs.....inventory control points
- MICOM.....Missile Command
- NSN.....national stock number
- NSNMDR.....National Stock Number Master Data Record
- PWD.....procurement work directive
- RDES.....Requirements Determination and
Execution System



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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March 12, 1993

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND
LOGISTICS)
INSPECTOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on the Army Requirements for Currently
Procured Wholesale Inventories of Repairable Items
(Report No. 93-064)

We are providing this final report for your information and use. It addresses the purchase of repairable items by the Army's inventory control points. This is the last of three reports we will issue on procurement requirements for repairable items. Separate reports were issued to each of the Military Departments. Comments from the Army on a draft of this report were considered in preparing this final report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, we request that the Army provide final comments on the unresolved recommendations and monetary benefits by May 11, 1993. See the "Response Requirements per Recommendations" chart at the end of Finding A for unresolved recommendations and specific requirements for your comments. Recommendations and potential monetary benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence. We also ask that your comments indicate concurrence or nonconcurrence with the internal control weaknesses highlighted in Part I.

The courtesies extended to the audit staff are appreciated. If you have any questions concerning this audit, please contact Mr. James Helfrich, Program Director, or Mr. Joel Chaney, Project Manager, in our Columbus Office at (614) 692-4141 (DSN 850-4141). The distribution of this report is shown in Appendix G.

A handwritten signature in cursive script, appearing to read "E. Jones", is positioned above the typed name.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosure

cc:
Secretary of the Army

Office of the Inspector General, DoD

AUDIT REPORT NO. 93-064
(Project No. OLE-0078.04)

March 12, 1993

**ARMY REQUIREMENTS FOR CURRENTLY PROCURED
WHOLESALE INVENTORIES OF REPARABLE ITEMS**

EXECUTIVE SUMMARY

Introduction. On September 30, 1990, the Army's six inventory control points (ICPs) were in the process of procuring approximately \$2.4 billion of stock for 4,386 reparable line items. These purchases were initiated after item managers and supervisory personnel reviewed requirements computations generated by the Army's automated Requirements Determination and Execution System.

Objectives. The audit objectives were to determine whether quantities of reparable items being purchased were warranted by anticipated requirements and whether internal controls over the determination of those procurement requirements were effective.

Audit Results. Of an estimated \$817.8 million in purchases, the Army ICPs were prematurely or unnecessarily purchasing approximately \$102.1 million (12 percent) of reparable assets. Purchase requests valued at \$41.5 million were curtailed by the ICPs while the audit was in progress. Of the \$41.5 million in purchase reductions, \$10 million was initiated by the ICPs and the remaining \$31.5 million were curtailed in response to our audit.

- The Army ICPs prematurely or unnecessarily initiated purchase requests to acquire materiel for wholesale inventory. As a result, investment in wholesale inventories was excessive (Finding A).

- Item managers at the ICPs could not provide requirements data or rationale to support over 30 percent of the purchases we reviewed. As a result, we could not substantiate the reasonableness of the managers' purchase decisions for those items (Finding B).

Internal Controls. Internal controls were not effective to ensure that the ICPs were purchasing only those quantities of items needed to satisfy requirements. See Findings A and B for details on these material weaknesses and Part I for a description of the controls assessed.

Potential Benefits of Audit. We identified potential monetary benefits of \$72.9 million (see Appendix E).

Summary of Recommendation. We recommended that detailed guidance for computing additive requirements be issued and internal controls over purchase decisions be strengthened.

Management Comment. We received comments from the U.S. Army Deputy Chief of Staff for Logistics. The Army concurred with the recommendations to revise or cancel the Aviation Troop Command policy governing the cancellation or reduction of purchases before contract award, and to direct the ICPs to periodically review item manager compliance with Army document retention policy. Planned actions are responsive to the recommendations. The Army nonconcurred with the recommendation to direct the ICPs to issue detailed guidance for item manager computation of additive requirements and verification of requirements data and factors used to calculate additive requirements. However, actions planned indicate a partial concurrence. The Army nonconcurred with recommendations to direct the ICPs to establish control to implement the DoD policy to reevaluate high value purchases before contract award, and to direct the ICPs to conduct periodic evaluations of the adequacy of supervisory review of purchase decisions. It also nonconcurred with the recommendation to establish an independent quality review program to monitor compliance with requirements determination policy and to measure the overall quality of the ICP purchase decisions. The Army did not specifically comment on the amount of the potential monetary benefits. It requested that we reevaluate the audit estimate based on additional data provided for three of the sampled items and the substantial positive steps that the Army has taken to reduce procurement requirements since the time of the audit.

Audit Response. We request that the Army reconsider its position and provide additional information as specified in the Response Requirements per Recommendations chart in Part II of the report. Comments should be provided by May 11, 1993.

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This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

PART I - INTRODUCTION

Background

The Army has six major inventory control points (ICPs) that manage wholesale secondary items in support of military customers. Secondary items include both consumable items and depot level reparable items. Depot level reparable items are secondary items that are returned to a depot level repair activity when repair of failed items exceed field level maintenance capabilities, or items that are repaired by a depot level activity as part of the overhaul of a higher assembly or end item.

The procurement process at the ICPs generally begins when the automated Requirements Determination and Execution System (RDES) determines that the assets on hand and due in for an item have dropped to or below the item's reorder point. The RDES recommends the purchase of materiel to refill the item's stockage objective. The inventory manager reviews the requirements computation and other relevant data to verify the accuracy of the computation and, when appropriate, initiates a purchase request. Supervisory personnel review the requirements computation for purchases valued at \$75,000 or more. The approved purchase request serves as the authorization for the ICPs to buy the materiel.

Objectives

The objectives of the audit were to determine whether quantities of reparable items being purchased by the Army's ICPs were warranted by anticipated requirements and whether internal management controls over the determination of those procurement requirements were effective.

Scope

We obtained data on active purchases from each of the six Army ICPs. On September 30, 1990, the ICPs had initiated procurements valued at approximately \$2.4 billion for 4,386 reparable line items. Our initial analysis indicated that 1,550 line items, which involved procurements valued at over \$100,000 for each item, accounted for 97 percent of the value of procurements in process. From the universe of 1,550 items, we initially selected a sample of 116 line items, with purchases valued at \$1.3 billion, that were initiated by the Aviation Systems Command (AVSCOM), currently the Aviation Troop Command, and the Missile Command (MICOM).

Of the 116 line items, 17 did not meet the criteria of our review, which caused us to exclude them from further review. Additionally, we adjusted purchase quantities and extended values to eliminate duplicate purchase request records and to correct errors in the records caused by erroneous unit prices. Our final audit sample was 99 line items for purchases valued at \$363.7 million at the two ICPs. We estimated that the Army sample universe, after adjustments, was 1,296 line items with purchases valued at \$817.8 million. The audit sampling plan and results are discussed in Appendix A.

We examined requirements documents related to purchases in process as of September 30, 1990, to evaluate the basis for the procurement decisions. We also evaluated requirements data that were effective at the time of audit to determine whether requirements supported continuation of the procurement. To determine whether the requirements forecasts were reasonable, we reviewed the accuracy of forecast demand rates, the propriety of additives (nondemand based) requirements, and the accuracy of on-hand assets and due-in asset balances. We also selectively reviewed other requirements data and factors that affected the requirements forecast, such as administrative and production lead times, past and future program data, condemnation rates, and repair cycle times.

We did not render an opinion on the reasonableness of purchase for 38 of the 99 sampled items valued at \$162.6 million. For 26 of the 38 items, the purchase decisions were based on operating tempo and environmental factors used to forecast the anticipated surges in requirements during Operation Desert Shield (Desert Shield). For the remaining 12 items, the ICPs could not provide verifiable requirements data as of September 30, 1990.

This economy and efficiency audit was made from August 1990 through February 1992 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary. Activities visited or contacted during the audit are shown in Appendix H.

Internal Controls

The audit identified material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. The audit assessed internal controls over the determination of procurement requirements, which included the adequacy of item manager verification of requirements data supporting purchase decisions

and supervisory review and approval of those purchase decisions. We also assessed internal controls over the retention of requirements data supporting the purchase decisions.

The ICPs' internal controls were not effective to ensure that unnecessary investments in wholesale reparable inventories did not occur and that requirements data supporting purchase decisions was retained. Recommendations A.1., A.2., A.3., A.4., A.5., and B.1. in this report, if implemented, will correct the weaknesses. Monetary benefits associated with each recommendation could not be separately identified. Potential monetary benefits of about \$72.9 million are identified in Appendix E. A copy of the final report will be provided to the senior official responsible for internal controls within the Army.

Prior Audit Coverage

During the last 5 years, the Office of the Inspector General, DoD; the General Accounting Office (GAO); and the Army Audit Agency completed audits related to specific aspects of logistics management functions. Appendix D summarizes the principal audits that addressed management processes and controls over the acquisition of wholesale inventories or addressed the development of requirements data that affected managers' decisions for the acquisition of materiel.

Other Matters of Interest

During the audit, the ICPs canceled or reduced purchases valued at approximately \$41.5 million related to 14 of the sampled items. The ICPs were responsible for purchase reductions valued at \$10 million. The remaining \$31.5 million in reductions occurred after we discussed the erroneous or unjustified requirements with the item manager.

Appendix B identifies excessive purchases and actions taken to curtail those purchases. Appendix C identifies the underlying causes of the excessive purchases.

PART II - FINDINGS AND RECOMMENDATIONS

A. PREMATURE AND UNNECESSARY PURCHASES OF REPARABLE ITEMS

The Army's ICPs prematurely or unnecessarily initiated purchase requests to acquire wholesale inventory of reparable items and did not promptly reduce in-process purchases in response to indicated reductions in future requirements. These conditions occurred because the ICPs' guidance for computation of additive requirements and verification of additive requirements, before initiating purchases, was inadequate; existing internal controls did not ensure the prompt reduction of purchases when requirements decreased; supervisors did not effectively review item managers' decisions to buy or to continue the purchase of materiel; and existing management controls did not monitor the integrity and effectiveness of the purchase initiation and supervisory approval process. As a result, of the estimated \$817.8 million of materiel that the ICPs were purchasing (contracts not yet awarded on September 30, 1990), we estimated that materiel valued at \$102.1 million (12 percent) exceeded current requirements. The \$102.1 million included \$29.6 million of premature purchases and \$72.5 million of unnecessary purchases.

DISCUSSION OF DETAILS

Background

The Army ICPs' ability to maximize operational readiness while minimizing inventory investment is dependent on their ability to accurately forecast when procurement actions should be initiated and how much materiel should be procured. The ICPs used the RDES to facilitate those determinations. The RDES computes requirements on monthly cycles. The RDES computes materiel requirements objectives by applying logistics policy to supply and historical data such as forecasted demands and procurement lead times. The RDES then compares the computed requirements objectives with current stockage levels for each secondary item and produces supply control studies that recommend specific supply actions, such as buying additional items, reducing purchases on order, or repairing on-hand assets.

The RDES receives data from four major files: the program data file, which contains information on the quantities of weapon systems managed and supported; the National Stock Number Master Data Record (NSNMDR), which contains management data on each item, such as repair survival rates and additive requirements; the demand return disposal file, which contains historical information on the demands and both serviceable and unserviceable returns for each item; and the materiel management decision file,

which contains policy limits that allow the commodity command to establish boundaries within which the requirements objectives are computed.

DoD Instruction 4140.39, "Procurement Cycles and Safety Levels of Supply for Secondary Items," July 17, 1970, provides policy and general computation guidance for calculating procurement cycle and safety level requirements. The instruction does not provide specific DoD guidance related to the computation of procurement cycles and safety levels for repairable items.

DoD Instruction 4140.55, "Procurement Lead Times for Secondary Items," December 9, 1985, establishes policy and prescribes uniform guidelines for defining and developing procurement lead times used in the determination of requirements.

DoD Directive 4140.59, "Determination of Requirements for Secondary Items After the Demand Development Period," June 13, 1988, establishes DoD stockage policies for wholesale level inventories and prescribes procedures for determining a stockage objective quantity. For demand based reparable items, the stockage objective quantity equals the sum of the safety level, production lead time, administrative lead time, and procurement cycle. The stockage objective also includes any protectable war reserve stocks and planned program requirements. The Directive provides that demand based items may be procured when assets on hand and on order are equal to or less than the safety level, lead time, and applicable protectable war reserve and planned program requirements.

Evaluation of Active Purchases

As of September 30, 1990, we estimated that Army ICPs were procuring 1,296 line items managed as reparable items, which involved purchases valued at \$100,000 or more. Procurements in process (contracts not awarded) for the 1,296 items were valued at an estimated \$817.8 million. The majority of the materiel being purchased was needed to support valid requirements. However, we estimated that excessive quantities of materiel, valued at \$102.1 million, were being purchased for 361 line items. We also estimated that of the \$102.1 million in excessive purchases, \$29.6 million was premature and \$72.5 million was unnecessary. Our estimates were based on the evaluation of active purchase requests for 99 sampled line items with purchases in process valued at \$363.7 million. Our statistical sampling plan and the criteria used to determine whether the excessive purchase was premature or unnecessary are discussed in Appendix A. Potential monetary benefits of \$72.9 million were identified, consisting of the \$72.5 million in unnecessary purchases adjusted downward to \$46.7 million for the costs that

would have been incurred to repair unserviceable assets and an additional \$26.2 million related to follow-on purchases that were canceled (see Appendix E).

Premature and unnecessary purchases were in process for 19 of the 99 sampled items for which audit results were used in the statistical projections. Excessive purchases for two other sampled items were initiated after September 1990 and were not part of the sample universe, accordingly, audit results on those items were not used in our statistical projections. The cause for the 21 excessive purchases are discussed in this report.

For 12 of the sampled items, we could not render an opinion on the reasonableness of the ongoing purchases as of September 1990, because the ICPs could not provide verifiable requirements data. However, we obtained data that represented requirements for those items, after September 1990, and concluded that the in-process purchase for one item was excessive. We did not use audit results related to this excessive purchase in our statistical estimates; however, the item is included in our discussion on the causes for 22 excessive purchases.

We did not render an opinion on the reasonableness of ongoing purchases as of September 1990 for 26 of the sampled items, because the purchases were based on unverifiable requirements factors used to forecast increased usage during Desert Shield. The Army Materiel Command (AMC) authorized the ICPs to adjust certain requirements factors in anticipation of increased operations during Desert Shield. Specifically, AMC authorized the ICPs to develop an operating tempo factor, which estimated the increase in operating programs (such as flying hours) during Desert Shield, and to use an environmental factor, which estimated the effect of desert conditions on parts replacement rates. When applied to historic demand rates, the Desert Shield requirement factors caused the RDES to compute a larger requirements objective.

AVSCOM, a component of AMC, directed item managers to manually compute requirements and initiate purchases based on Desert Shield factors. AVSCOM estimated that during Desert Shield, aircraft would operate at 2.5 times the peacetime program rate and that parts replacement rates would be twice the normal rate. We did not render an opinion on the reasonableness of the operating tempo and environmental factors. The factors represented management's judgment of the effect on requirements from operating in the desert environment. The Army had no historical data or studies on which to base the factors. However, we did evaluate the item managers' application of the Desert Shield factors and computation of requirements.

We attributed the premature and unnecessary purchases for the 22 items to erroneous computation and inadequate verification of additive requirements, ineffective controls over the continuation of purchases after requirements decreased, ineffective supervisory oversight of item manager purchase decisions, and ineffective management controls over the procurement approval process. Each is discussed below.

Computation and verification of additive requirements.

Materiel was being prematurely and unnecessarily procured for 7 of the 22 items because item managers did not update additive requirements when requirements decreased, did not accurately compute depot overhaul factors used in the additive requirements computation, and did not effectively verify requirements data that the RDES used to calculate the additive requirement. This occurred because ICPs did not provide specific instructions for the item managers' manual computation of requirements or for updating and validating source data related to additive requirements.

AMC guidance for computing and validating additive requirements is contained in the Commodity Command Standard System Automated Data System Manual, June 5, 1990. This manual directed item managers to validate source data used to compute additive requirements and to keep additive requirements recorded in the NSNMDR current. It did not provide detailed instructions on manually computing additive requirements or verifying the accuracy of requirements factors used by the RDES to compute additive requirements.

MICOM, a component of AMC, issued guidance supplementing the AMC policy. MICOM policy memorandum 5-18, "Establishment of Manual Requirements in NSNMDR Sector/Segment 13/03," April 12, 1988, required section chief approval of manually computed additive requirements before they were input into the NSNMDR. MICOM policy 03-03-01-001, "NSNMDR Data Element Freeze and Manual Requirement Approval," November 22, 1991, established standard forms for documenting the computed requirement and the section chief's approval. These policies did not provide detailed guidance for manually computing the additive requirements or for updating and verifying requirements factors.

For two of the seven items with excessive purchases, item managers did not update the additive requirements when requirements decreased or erroneously computed the additive requirements. Requirements data as of September 1990 did not support the additive requirements recorded in the NSNMDR and did not justify continuation of the purchases. For example, an item manager was prematurely purchasing 58 electronic components (national stock number [NSN] 5999-01-228-8503), valued at \$1.3 million, because additive requirements were not updated when

those requirements changed. During FYs 1989 and 1990, the item manager manually computed additive requirements, input the additive requirements into the NSNMDR, and initiated purchases for 87 electronic components. We were told that the item manager's computed additive requirements were estimates of initial spares to be issued in support of the air-to-air stinger missile system and the standard vehicle mounted launcher. Records were not maintained to evaluate the accuracy of those computations. In May 1990, system computed initial issue requirements were also input into the NSNMDR as additive requirements. This update of initial issue requirements should have but did not cause the item manager to review the aggregate additive requirements recorded in the NSNMDR. An appropriate review would have resulted in a reduction of the aggregate additive requirements and a reduction of the active purchase. While the procured electronic components will be needed to support future fieldings of the system, the purchase was premature as of September 30, 1990.

For the other five items with excessive additive requirements, the depot overhaul factors used in computing the additive requirements were either erroneously computed by the item manager or the item manager did not effectively verify the depot overhaul factors used in the calculation. The depot overhaul factor is used to forecast the quantity of an item required to support the scheduled overhaul program for the next higher assembly. The depot overhaul factor represents the number of items removed and condemned during overhaul of 100 next higher assemblies. For items repaired by an Army depot, the factor is developed by the Army Depot System Command's maintenance overhaul factor reporting system and reported to AMC's Commodity Command Standard System. The Commodity Command Standard System computes the overhaul program requirement using future overhaul program data and the depot overhaul factor and includes the overhaul program requirements in the NSNMDR. However, for items repaired by a commercial repair activity, ICP personnel must determine the factor by reviewing contractor reports and inputting the factor into the Commodity Command Standard System.

Item managers either manually computed an erroneous overhaul program requirement or did not verify the overhaul factors that the Commodity Command Standard System used to compute the overhaul requirements. For example, MICOM was unnecessarily purchasing 50 eyepiece assemblies (NSN 6650-01-272-3706), valued at \$85,000, because the item manager computed and input excessive overhaul requirements into the NSNMDR. The item manager used an invalid depot overhaul factor of 50 per 100 optical sights to compute the overhaul requirement. Our review, which included discussions with the overhaul activity, indicated that while 35 to 50 eyepiece assemblies may be removed during overhaul of 100 optical sights, few of the assemblies would be condemned. We

concluded that the depot overhaul factor used in the item manager's computation should not have exceeded the provisioning estimate of 2 per 100 optical sights.

In another case, AVSCOM was purchasing 418 housing assemblies (NSN 1615-01-235-5845) in excess of current requirements because the item manager did not verify the system computed depot overhaul factor. The housing assembly is a reparable item used during overhaul of an AH-64 aircraft main rotor heads. The Commodity Command Standard System used a depot overhaul factor of 120 housing assemblies per 100 main head assemblies to forecast overhaul requirements for the housing assembly. The depot overhaul factor was excessive. The McDonnell Douglas Aircraft Company overhauls the AH-64 aircraft head assemblies and repairs the housing assemblies under a maintenance contract with AVSCOM. Overhaul and repair information from McDonnell Douglas Aircraft Company indicated a depot overhaul factor of 6 per 100 main head assemblies was appropriate. In November 1991, the AVSCOM item manager initiated action to reduce the active purchase by 375 housing assemblies, valued at \$1.7 million.

Excessive purchases caused by erroneous or invalid additive requirements were addressed in Army Audit Agency Report No. S089-9, "Audit of Secondary Item Management, Army Missile Command, Redstone Arsenal, Alabama," March 17, 1989, and Inspector General, DoD, Audit Report No. 91-106, "Military Department Requirements For Currently Procured Inventories For Consumable Items," June 18, 1991 (see Appendix D). The Army's actions to improve management controls over the accuracy of additive requirements have not mitigated the condition. We believe that greater management oversight is needed.

Continuation of purchases after requirements decreased. For 6 of the 22 items with excessive purchases, requirements decreased after the purchase request was initiated, but the Army ICPs did not take prompt action to reduce or cancel the purchase. In December 1989, the Assistant Secretary of Defense (Production and Logistics) issued a memorandum, "Contract Terminations of Secondary Items No Longer Needed." The memorandum stated,

It is DoD policy to reduce or cancel orders (purchase requests) prior to contract award and to consider reducing or terminating contracts after award when changes in mission, consumption factors, etc., make all or a part of the material ordered unneeded. The ICPs should establish procedures to manage, monitor, and audit termination actions within the activity. The procedures should provide for appropriate records to ensure accountability of termination

decisions and the coordination of termination actions across functions. Termination decisions should be reached and implemented in a timely manner.

In September 1990, neither of the Army ICPs had established a formal program to reevaluate purchase quantities before contract award as required by DoD policy. The ICPs relied on RDES to identify potential excessive purchases. The RDES was programmed to compare forecast requirements and applicable assets and to generate a notice recommending that the item manager reduce potentially excessive purchases. The RDES process effectively recognized potentially excessive purchases resulting from fluctuations in demand rates and revisions of additive requirements that were entered into the NSNMDR. However, the RDES identified few of the excessive purchases, because it cannot recognize excessive purchases caused by inaccurate requirements data or erroneous additive requirements. These conditions can be detected only by effective item manager review and supervisory oversight.

The ICPs' reliance on the RDES did not satisfy the intent of the DoD termination policy. Additionally, some item manager decisions were inadequate because they did not promptly verify requirements data used in the RDES computation and did not take action to reduce purchases when requirements decreased.

For example, in November 1989, an item manager initiated a purchase for 144 afocal covers (NSN 5855-01-306-5050) valued at \$1.4 million. Later, war reserve requirements for the item were canceled and safety level requirements for the item decreased. The RDES recommended reduction of the purchase in March 1990 and each month thereafter. The item manager deferred the purchase reduction based on the need for additional research and indicated that war reserve requirements may be reinstated. After confirming that the cancellation of war reserve requirements was appropriate, we recommended that the purchase be reduced. In March 1991, MICOM reduced the purchase quantity by 134 afocal covers, valued at \$1.3 million.

In another case, the item manager deferred the recommended purchase reduction and input invalid additive requirements to preclude the RDES from generating a repeat cutback notice. In 1990, the item manager initiated a purchase for 294 compressor rotors (NSN 2835-01-309-8778) valued at \$4.4 million to support Desert Shield requirements. The item manager's manual purchase computation was erroneous. On September 26, 1990, the RDES generated a notice recommending that the item manager reduce the purchase. The item manager adjusted the RDES computation to account for the Desert Shield surge and environmental factors and determined that the purchase exceeded requirements by 258 rotors.

However, rather than reducing the purchase quantity, the item manager input additive requirements for 258 rotors to balance requirements and assets. A contract for the 294 rotors was awarded in January 1991. Although the item manager deleted the invalid requirements in September 1991, no action was taken to reduce the contract.

AVSCOM policy memorandum 27, "Processing Procurement Work Directive (PWD) Cancellation," January 14, 1992, inappropriately restricts the reduction of purchases before contract award. It specifies that cancellation of outstanding PWDs will be held to a minimum. Regarding purchases for which contracts have not been awarded, the guidance specifies that PWDs will not be canceled and quantities will not be reduced if the supply control study, after validation of the data, is forecasting a need to procure the item through the apportionment year. This is inappropriate because the quantity being bought could represent as much as 24 months of stock in excess of the requirements objective. Further, the guidance provides that if the PWD is being processed by procurement, concurrence is to be obtained from the applicable procurement contracting officer. Requiring concurrence of the procurement contracting officers is also inappropriate because of the natural reluctance of the procurement contracting officers to cancel an action they have invested time and effort to accomplish. Inspector General, DoD, Audit Report No. 91-106 reported that provisions of the AMC supplement to the Federal Acquisition Regulation, which provided for the contracting functions' coapproval of procurement reductions, was inappropriate. AMC deleted the policy from the AMC Federal Acquisition Regulation Supplement in January 1990.

Supervisory approval of item manager purchase decisions.

The principal cause for 9 of the 22 excessive purchases was that supervisory oversight of item manager purchase decisions was not effective. Supervisors did not discern that item managers had not complied with existing guidance for verification of requirements data and computation of purchase quantities. Additionally, many of the sampled purchases were not reviewed and approved by the management level specified in Army policy.

The supervisory review did not detect when item managers used erroneous or unverified requirements data (such as program data, recurring demand rates, and unserviceable return rates) to compute the purchase quantity or require item managers to obtain additional information to verify the accuracy of the requirements data. In addition, the supervisory review did not detect or challenge the erroneous additive requirements discussed on page 8 and the continuation of unneeded purchases discussed on page 10. Appendix C identifies the items with excessive purchases and the underlying causes of excessive purchases. We concluded that the ICPs need to reemphasize item manager and supervisory

responsibilities for verification of requirements before initiating purchases and to strengthen management controls over the supervisory review and approval process.

Army Regulation 710-1, "Centralized Inventory Management of the Army Supply System," February 1, 1988, established Army policy for management oversight of purchase decisions. The Regulation prescribed supervisory review and approval levels based on the extended dollar value of the purchase. In April 1990, AMC increased the dollar thresholds for each approval level. The management review level increased as the dollar value of the purchase increased. AMC authorized item managers to approve purchases for less than \$75,000. It required the following supervisory approval for all purchases valued at \$75,000 or more.

Supervisory Approval Levels

Section chief	\$ 75,000 to \$ 149,999
Branch chief	150,000 to 399,999
Division chief	400,000 to 749,000
Director of materiel management (or deputy)	750,000 to 1,999,999
Director of logistics center (or higher)	2,000,000 to 5,000,000
Commander (or deputy)	over \$5,000,000

The quality of purchase decisions was generally better when the purchase requests were reviewed and approved by the appropriate management level. However, purchase requests were not always approved by the appropriate supervisory level. On September 30, 1990, 162 purchase requests were in process for the 99 sampled items for which contracts had not been awarded. The 162 purchase requests required supervisory approval. AVSCOM and MICOM item managers provided documents evidencing supervisory review and approval for 101 of the 162 purchase requests we reviewed. Of the 101 purchase requests, 54 AVSCOM and 2 MICOM were not approved at the management level (typically director of materiel management or higher) specified in AMC guidance. The item managers' inability to provide requirements documents and evidence of supervisory approval is discussed in greater detail later in this report.

In February 1992, AMC directed that procurement of items having annual demands valued at more than \$25,000 be approved by no lower than the colonel or grade GM-15 level, typically a director

level. The objective of the new guidance was to interject senior level perspective on whether procurements reflect Army force structure planning and consider materiel returned from Operation Desert Storm (Desert Storm). AMC indicated that this policy was a temporary measure (relief from this stringent approval policy would be granted as soon as possible). We did not evaluate the ICPs' implementation of the revised guidance.

Management oversight and control. Neither AVSCOM nor MICOM had established a management control program comparable to the Navy and Air Force's independent quality review programs.

The Navy and Air Force established programs for the review of purchase decisions by an organizational element that is independent of the supervisory approval or chain of command and that reported to either the director of materiel management or the commander of the ICP. The programs provided for review of all high value purchases and a randomly selected sample of low value purchases. The objectives of the program were to measure compliance with the Military Departments' policies and procedures, to ensure credibility of automated requirements data, and to identify training deficiencies. More importantly, the programs provided the ICP commander a measure of the quality of purchase decisions and a basis to evaluate the overall effectiveness of the supervisory approval process. We believe that in addition to strengthening the supervisory review process, AVSCOM and MICOM should establish other management controls similar to the Navy and Air Force's.

RECOMMENDATIONS, MANAGEMENT COMMENTS, AND AUDIT RESPONSE

We recommend that the Commander, Army Materiel Command:

1. Direct the inventory control points to issue detailed guidance for item manager computation of additive requirements and for verification of requirements data and factors used to calculate additive requirements before initiating purchases; and require supervisory review and approval of the additive requirements, at management levels based on the value of the additive requirements, before additive requirements are entered into the National Stock Number Master Data Record.

Army comments. Although the Army nonconcurred, actions planned indicate partial concurrence with the recommendation. The Army stated that the Commodity Command Standard System (CCSS) Operating Instructions should not contain detailed guidance on manually computing additive requirements. However, the Army indicated that the ICPs will be tasked to develop local guidance for the manual computation of programmed requirements by March 1, 1993. The Army disagreed with the recommendation for supervisory review and approval of additive requirements before the

requirements are entered in NSNMDR, stating that existing policy requires supervisory review of supply control studies; therefore, the recommended review would be duplicative.

Audit response. We consider the issuance of local guidance as an acceptable alternative action. We request copies of the local guidance to ensure that it contains detailed guidance for verification of significant requirements data, such as depot overhaul factors, used to compute additive requirements. We would agree that in some cases the recommended supervisory approval is satisfied by the supervisor's review and approval of higher value purchase decisions. However, we continue to believe that more intensive supervisory oversight of additive requirements is warranted. The examples on page 8 illustrate that supervisors were not effectively reviewing additive requirements during their review and approval of supply control studies. The example on page 11 illustrates that item managers can enter invalid additive requirements which are not subject to supervisory review. Entry of the invalid requirements precluded the RDES from identifying and recommending the reduction of the excessive purchase. In these cases, supervisory review of the supply control study was circumvented. We request that the Army reconsider its position and provide a response to this final report.

2. Direct the inventory control points to establish controls to implement the DoD policy to reevaluate high value purchases before contract award and terminate purchases that are no longer needed.

Army comments. The Army nonconcurred with the recommendation stating that existing policy requires the ICPs to reevaluate purchases before contract award. It further stated that the CCSS identifies items in a purchase cutback position, item managers are required to review all system recommended cutbacks, and supervisory personnel are required to approve the item manager cutback decisions.

Audit response. We consider the Army's comments to be nonresponsive. We believe that existing procedures are not sufficient. In many instances, requirements data recorded in the CCSS were inaccurate and the CCSS processes would not recommend cutback of the purchases until the data were corrected. In other cases, invalid data were entered in the system to preclude the system from recommending cutback. We continue to believe that a thorough reevaluation of requirements before contract award on high value purchases represents a significant and needed internal control over ICP purchases. We request that the Army reconsider its position and provide a response to this final report.

3. Direct the Aviation Troop Command to revise or cancel policy memorandum 27 on canceling or reducing purchases before contract award to comply with the intent of the DoD policy.

Army comments. The Army concurred with the recommendation. Revised policy was issued on November 30, 1992.

Audit response. Actions taken by the Army satisfy the intent of the audit recommendation.

4. Direct the inventory control points to conduct periodic evaluations of the adequacy of supervisory review of item manager purchase decisions and use those evaluations in assessing supervisory performance.

Army comments. The Army nonconcurred with the recommendation, stating that all procurements over \$25,000 require a colonel or grade GM-15 manager approval and that performance standards of managers require that their employees manage their items effectively.

Audit response. We consider the Army's comments to be nonresponsive because the Army did not address the point of our recommendation, periodic evaluation of the adequacy of supervisory review. We could agree with the Army that reviews of higher value purchases by higher level personnel usually result in more effective reviews and more reasonable buy decisions. However, our review disclosed that 9 of 14 excessive purchases, for which we obtained evidence of supervisory review, were not approved by the appropriate management level. Purchases for the other five items were not reasonable even though they were approved by the appropriate personnel. Accordingly, we request that the Army reconsider its position and provide a response to this final report.

5. Direct the inventory control points to establish an independent quality review program with reporting of results to the director of materiel management. The program should provide for evaluation of high value purchases and a random sample of low value purchases to monitor item manager and supervisory compliance with requirements determination policy and to measure the overall quality of the inventory control points' purchase decisions.

Army comments. The Army nonconcurred with the recommendation, stating that each ICP has an internal review organization which conducts compliance reviews. High value purchases are being reviewed by senior supervisory personnel which satisfies the "spirit" of the recommendation. It further

stated that the AMC Total Quality Management (TQM) Program does not advocate quality review programs. Rather its thrust is to improve the process and eliminate unnecessary layering.

Audit response. We consider the Army's comments to be nonresponsive. The internal review organizations do not have continuing programs that review ICP purchases to evaluate the overall quality of the purchase decisions. More importantly, the Army did not indicate whether those organizations would be directed to establish a continuing program to review purchase decisions. We believe that such programs are a significant and needed internal control. We recognize the objectives of the AMC TQM Program; however, we believe that such programs do not obviate the need for internal controls. Further, the effectiveness of the TQM Program can not be evaluated unless such reviews are performed. As discussed above, we concluded that supervisory review was not effective at detecting and preventing excessive purchases. Therefore, we request that the Army reconsider its position and provide a response to this final report.

OTHER MANAGEMENT COMMENTS

Potential Monetary Benefits. The Army requested that we review the potential monetary benefits based on:

- additional information provided by the MICOM indicating that purchases for three items were not excessive.
- substantial positive steps that the Army has taken to reduce procurement requirements for spare and repair parts.

Audit Response. We have considered the additional information provided by MICOM related to three of the items that we classified as excessive. We revised the audit results and statistical projections based on the information provided for one of the three items (NSN 5999-01-228-8503). However, the revision did not impact the value of the estimated monetary benefits. We classified the purchase of the laser range finder (NSN 1270-01-143-9546) as unnecessary and used it to estimate monetary benefits. This purchase was canceled after we questioned additive requirements for the item. We classified the purchases for NSNs 5999-01-228-8503 and 1440-01-148-8541 as premature; and we did not use the audit results for premature purchases to estimate potential monetary benefits. The following information is provided to clarify the audit conclusions on each of the three items.

NSN 1270-01-143-9546, Laser Range Finder. In July 1990, the item manager initiated the sampled purchase for 44 range finders valued at \$2,857,800 to support both demand

based and programmed (additive) requirements. At that time, an additional 209 range finders were due-in on prior contracts. In September 1990, the RDES recommended cancellation of the sampled purchase. In November 1990, the item manager deferred this recommended cancellation and a subsequent recommended purchase reduction. The division chief approved the deferral.

In February 1991, we questioned the additive requirement for 64 range finders that the item manager recorded in the NSNMDR in April 1990. The item manager could not provide requirements data supporting the additive requirement at the time the requirements were recorded in the NSNMDR, at the time the purchase was initiated, or at the time the recommended purchase cancellation was deferred. The item manager agreed to delete the additive requirement and reevaluate requirements for the range finder. In April 1991, the item manager canceled the sampled purchase. We concluded that supervisory reviews of the additive requirements and of the RDES recommended purchase reduction were ineffective because those reviews did not detect the erroneous requirements.

NSN 5999-01-228-8503, Electronic Component. The Army's comments indicated that the item manager adjusted requirements because there was no direct support (DS level) maintenance capability. The item manager increased the authorized stockage list/prescribed load list (ASL/PLL) initial issue requirements and wholesale inventory requirements based on the increased replenishment demands that were expected to occur without DS level maintenance.

The item manager's computation did not recognize that DS level maintenance was scheduled to start in October 1992 and that when DS level maintenance was in place both ASL/PLL requirements and wholesale requirements would decrease.

We revised the audit results for the electronic component based on additional information provided by MICOM. We calculated the peak requirements for the electronic component, which occurred before the start-up of DS level maintenance. Our calculations were based on the revised maintenance factors discussed in the Army's comments, and the approved fielding schedule of September 30, 1990. We concluded that the quantity of electronic components being purchased in excess of that peak requirement was premature. We recognized that the assets would be needed to support future fieldings of the weapon system.

NSN 1440-01-148-8541, Resolver Assembly. The resolver assembly is used only during depot overhaul of the M65 telescopic sight unit. In January 1989, MICOM initiated a purchase for 96 assemblies. The purchase was primarily in support of safety

level requirements for the assembly (75 assemblies or approximately 80 months of supply). In March 1990, the purchase was reduced to 50 assemblies valued at \$113,000 (sampled purchase).

On September 28, 1990, the RDES recommended reduction of the purchase by 38 assemblies. The safety level requirement for the assembly had been eliminated. The item manager reviewed the RDES computation and concluded that 37 assemblies were in excess of requirements. However, the item manager deferred the purchase reduction because the RDES forecast outyear requirements for the assembly and because the procurement directorate indicated that the purchase would have to be canceled and the administrative time for processing the purchase would be lost. In February 1992, the RDES again recommended reduction of the purchase. The contract for the purchase had not been awarded and the item manager reduced the purchase by 10 assemblies. We concluded that the item manager should have taken more aggressive action to reduce the excessive purchase.

We have considered the Army's comments concerning substantial positive steps it has taken to reduce procurement requirements. Those steps could affect the magnitude of future purchases and monetary benefits, but we have no basis on which to estimate the effect.

RESPONSE REQUIREMENTS PER RECOMMENDATIONS

<u>Number</u>	<u>Addressee</u>	<u>Response To Final Report Should Cover:</u>				<u>Related Issues</u> ^{1/}
		<u>Concur/ Nonconcur</u>	<u>Proposed Action</u>	<u>Completion Date</u>		
A.1.	AMC ^{2/}	X	X	X	IC, M	
A.2.	AMC	X	X	X	IC, M	
A.3.	AMC	N/R ^{3/}	N/R	N/R	IC, M	
A.4.	AMC	X	X	X	IC, M	
A.5.	AMC	X	X	X	IC, M	

^{1/} IC - material internal control weakness, M - monetary benefits.

^{2/} Army Materiel Command.

^{3/} No further response required.

B. INADEQUATE RETENTION OF DATA SUPPORTING PURCHASE DECISIONS

Item managers at AVSCOM and MICOM could not provide requirements data supporting over 30 percent of the purchase requests related to the sampled items. This internal control weakness occurred because item managers did not comply with Army guidance for retention of requirements documents and supervisory personnel did not enforce that guidance. The lack of requirements documents made it difficult for item managers and supervisory personnel to provide the rationale for purchase decisions. Because of this lack of data, we were also unable to draw conclusions and advise management as to the adequacy of the supervisory review and approval of item manager purchase decisions on the affected items.

DISCUSSION OF DETAILS

Background

The 1983 GAO "Standards for Internal Controls in the Federal Government," required that the basis for transactions, such as a purchase request, be clearly documented and that the documentation be available for examination by persons responsible for verifying the transaction.

Army Regulation 25-400-2, "The Modern Army Recordkeeping System," October 15, 1986, directs that the documentation supporting purchase decisions be retained for 3 years. The Regulation's list of supporting documents includes the supply control study forms, procurement directive data, supply control analyses, consolidated requirements sheets, cancellation notices, and demands and issues.

AVSCOM Aircraft Systems Division Standard Operating Procedure 24, "Item Jacket File Maintenance," requires that supply control study history be retained in the jacket files for 12 months. The guidance specifies that older studies, which authorized procurement actions, be retained in the jacket file until the procurement action is completed.

Evaluation of document retention practices. Item managers at AVSCOM and MICOM did not comply with Army guidance for the retention of requirements documents. As of September 1990, item managers at AVSCOM and MICOM had initiated 162 purchase requests for the 99 sampled items for which contracts had not been awarded. Item managers did not retain requirements data supporting 53 (32 percent) of the 162 purchase requests.

Requirements data were incomplete for another 32 purchases (19 percent). In addition, for 61 (38 percent) of the 162 purchase requests, documentation evidencing the appropriate supervisory approval was not available. The following table summarizes the document retention practices at the two Army ICPs.

	<u>AVSCOM</u>	<u>MICOM</u>	<u>Total</u>
Sample Items	65	34	99
Purchase Requests	103	59	162
Purchase requests for which requirements documents were not available for review	29	24	53
Purchase requests for which data were incomplete	26	6	32
Purchase requests for which evidence of supervisory approval at the specified management level was not available for review	34	27	61

RECOMMENDATION FOR CORRECTIVE ACTION

We recommend that the Commander, Army Materiel Command, direct the inventory control points to periodically review, retain documentation, and report to the Army Materiel Command on item manager compliance with Army Regulation 25-400-2.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

Army Comments. The Army concurred with the audit recommendation. By March 1, 1993, AMC will issue guidance emphasizing compliance with Army Regulation 25-400-2.

Audit response. The actions proposed by the Army should satisfy the intent of the audit recommendation. The Army's comments, however, did not indicate whether that guidance would require the ICPs to periodically review and report whether improvements in item manager compliance are achieved. We consider the proposed action to be responsive provided that the AMC guidance includes a requirement for monitoring and reporting whether the desired improvement is achieved. Subsequent to receiving the Army comments, AMC advised us that the planned date for issuing guidance is April 30, 1993.

PART III - ADDITIONAL INFORMATION

APPENDIX A - Statistical Sampling Plan and Results

APPENDIX B - Summary of Items Sampled Involving Excessive Purchases

APPENDIX C - Underlying Causes of Excessive Purchases

APPENDIX D - Prior Audit Coverage

APPENDIX E - Summary of Potential Benefits Resulting from Audit

APPENDIX F - Activities Visited or Contacted

APPENDIX G - Report Distribution

APPENDIX A. STATISTICAL SAMPLING PLAN AND RESULTS

Procurements in process were recorded in computer files at the Army's ICPs. AMC was requested to arrange for the Army ICPs to extract data from the files and provide us computer tapes identifying all procurement actions that had been initiated, but for which a contract had not been awarded as of September 30, 1990. At that time the ICPs procured reparable items using both appropriated funds and stock funds; therefore, we extracted procurement actions for items funded by the Army procurement appropriations and the Army stock fund that were assigned a reparability code indicating that the item was a reparable item at the depot level. The data we were provided showed that on September 30, 1990, the Army ICPs had procurements in process for 4,386 reparable items, valued at approximately \$2.4 billion.

We limited our review to a sample universe of 1,550 line items involving active purchase requests, valued at \$2.3 billion. Our analysis of the procurements in process indicated that the 1,550 items, with individual procurements valued at \$100,000 or more, represented approximately 35 percent of the items being procured but accounted for approximately 97 percent of the value of the procurements. In addition, the Army's inventory management policies generally required greater management intensity for those high value items, assigned more experienced inventory management personnel to those items, and required supervisory approval of the procurements at higher management levels.

We used a multistage sampling plan that incorporated stratified sampling methodologies. Our initial sample was 116 items at the two ICPs selected, with purchase requests valued at \$1.3 billion. We adjusted the sample universe to 1,296 items involving purchases valued at \$817.8 million to reflect corrections of the quantity or unit price assigned to a purchase, to recognize quantity reductions that were in process when we obtained the sample universe, to recognize contracts that were awarded before the processing date, and to exclude items that were procured with appropriated funds but managed using consumable item management techniques. For example, the sample value for four items was overstated by \$929 million due to errors in quantity or unit price. Adjustments to our initial sample of 116 items resulted in a final audit sample of 99 items involving purchases valued at \$363.7 million. The sample results were projected with a 95-percent confidence level and a sampling precision of plus and minus 2 percent for dollars.

We estimated that materiel valued at \$102.1 million exceeded authorized stockage objectives. Of the \$102.1 million, we estimated that \$29.6 million was for premature purchases and \$72.5 million was for unnecessary purchases. We classified

APPENDIX A. STATISTICAL SAMPLING PLAN AND RESULTS (Cont'd)

procurement of items as premature if the quantity exceeded the stockage objective by more than 12 months of forecast requirements. The value of the premature purchase, however, was the value of materiel in excess of the stockage objective up to 5 years of forecast requirements. We classified procurements in excess of 5 years as unnecessary.

The audit tests were designed to evaluate the active purchases as of September 30, 1990, and to render an opinion on the reasonableness of the quantities being procured at that time in relation to stockage policies and objectives. The estimates in this report have been adjusted downward to fully recognize the reduction of excessive purchases that the ICPs effected on their own after October 1990, but before our audit field work commenced. The ICPs' actions resulted primarily from item manager or supervisory review of requirements data after the purchase was initiated. These ICP actions reduced the audit projection of excessive purchases by about \$12.7 million.

The items reviewed and excessive purchases used in the statistical projections are summarized below for each ICP.

Summary of Items Reviewed and Excessive Purchases by ICP

<u>ICP</u>	<u>Items Reviewed</u>		<u>Excessive Purchases</u>	
	<u>Number of Items</u>	<u>Extended Value (Million)</u>	<u>Number of Items</u>	<u>Extended Value (Million)</u>
AVSCOM	65	\$291.94	12	\$21.14
MICOM	34	71.76	7	8.46
Total	99	\$363.70	19	\$29.60

APPENDIX B. SUMMARY OF ITEMS SAMPLED INVOLVING EXCESSIVE PURCHASES

NSN	Excessive Purchase		ICP Reduction		Reduction	
	Quantity	Value	Quantity	Value	Quantity	Value
6610001152405	1,873	\$ 6,388,803			76	\$ 3,602,959 1/
1650012794703	124	5,878,513			53	1,123,547 1/
1615011101491	164	2,490,398				
1560011589656	439	2,573,988				
2835013098778	294	4,442,928				
1615012355845	547	2,490,899	129	\$ 587,434	375	1,707,656 2/
2840012006973	42	1,132,392			42	1,132,392 1/
1560001264435	200	1,154,566			54	313,846 1/
1730007603367	21	556,735	12	318,135		
2935009749848	200	1,069,862			200	1,069,862 1/
6115011823027	54	665,214				
1615011130263	18	939,528				
5180012350916	56	104,328				
3040012912244	92	211,692	92	211,692		
AVSCOM Total		\$30,099,846		\$1,117,261		\$ 8,950,262
1270011429546	44	2,857,800			44	\$ 2,857,800
1670012915113	9	1,983,915	9	\$1,983,915		
1240012166331	5	783,590	5	783,590		
1240012172353	487	24,571,585			487	24,571,585 3/
5999012288503	74	1,303,025				
5855013065050	144	1,359,648			134	1,265,228
6650012723706	50	85,000				
1440011488541	37	83,620			10	22,600 1/
MICOM Total		\$33,028,183		\$2,767,505		\$28,717,213
Overall Total		\$63,128,029		\$3,884,766		\$37,667,475

- 1/ Reduction initiated by ICP.
- 2/ Reduction of the sampled purchase by a quantity of 125 units valued at \$569,218 and cancellation of a follow-on purchase for 250 units valued at \$1,697,000.
- 3/ Cancellation of excessive follow-on purchases.

APPENDIX C. UNDERLYING CAUSES OF EXCESSIVE PURCHASES

<u>NSN</u>	<u>Causes(s)</u>
6610-00-115-2405	Requirements decreased after the purchase was initiated, but the purchase was not reduced.
1615-01-279-4703	Erroneous demand rate used in Desert Shield requirements computation ^{1/}
1615-01-110-1491	Erroneous additive requirement - depot overhaul factor ^{1/}
1560-01-158-9656	Erroneous additive requirement
2835-01-309-8778	Requirements decreased after the purchase was initiated, but the purchase was not reduced.
1615-01-235-5845	Erroneous additive requirement - depot overhaul factor ^{1/}
2840-01-200-6973	Excessive Desert Shield purchase ^{2/}
1560-00-126-4435	Erroneous additive requirement - depot overhaul factor ^{1/}
1730-00-760-3367	Requirements decreased after the purchase was initiated, but the purchase was not reduced. ^{1/}
2935-00-974-9848	Excessive Desert Shield purchase ^{3/}
6115-01-182-3027	Erroneous demand rate and survival rate used in Desert Shield requirements computation
1615-01-113-0263	Erroneous additive requirement - depot overhaul factor
5180-01-235-0916	Erroneous demand rate was used in computation - nonrecurring demands included in demand rate.

See footnotes at end of appendix.

APPENDIX C. UNDERLYING CAUSES OF EXCESSIVE PURCHASES (cont'd)

<u>NSN</u>	<u>Causes(s)</u>
3040-01-291-2244	Erroneously computed Desert Shield requirement
1270-01-142-9546	Requirements decreased after the purchase was initiated, but the purchase was not reduced.
1670-01-291-5113	Erroneous unserviceable return rate was used in computation. ^{1/}
1240-01-216-6331	Erroneous demand and unserviceable return rates were used in the requirements computation. ^{1/}
1240-01-217-2353	Erroneous program data were used in the requirements computation.
5999-01-228-8503	Additive requirement was not adjusted when requirements decreased.
5855-01-306-5050	Requirements decreased after the purchase was initiated, but the purchase was not reduced.
6650-01-272-3706	Erroneous additive requirement - depot overhaul factor
1440-01-148-8541	Requirements decreased after the purchase was initiated, but the purchase was not reduced promptly. The item manager reduced the purchase in February 1992.

1/ The item manager reduced the excessive purchase.

2/ Requirements documents were not available to determine how the item manager originally computed the purchase quantity.

3/ Requirements documents were not available and item manager reduced the excessive purchase.

APPENDIX D. PRIOR AUDIT COVERAGE

Army Audit Agency Report No. MW89-7, "Requirements Determination and Execution System, Army Armament, Munitions, and Chemical Command," December 30, 1988, reported that extended requirements were used to justify unneeded buys, procurement lead times were frequently inaccurate and unsupported, and program change factors were inaccurate. The audit agency recommended that the Armament, Munitions, and Chemical Command issue instructions and guidance to item managers for verification of the inaccurate requirements data and require greater supervisory oversight of item managers. The Armament, Munitions, and Chemical Command generally agreed with the findings and implemented the recommended actions.

Army Audit Agency Report No. S089-9, "Audit of Secondary Item Supply Management, Army Missile Command Redstone Arsenal, Alabama," March 17, 1989, reported that both unsupported manually generated requirements and unsupported extended requirements were entered into the automated supply management system to prevent the system from recommending the reduction of planned purchases. The audit agency recommended that the MICOM review all manually generated and extended requirements and delete those that could not be supported, and when cost-effective, cancel purchases.

The MICOM generally agreed with the findings and recommendation. MICOM instructed item managers to review the manually generated and extended requirements and remove invalid requirements. MICOM issued guidance on the use of manually generated and extended requirements.

GAO Report No. NSIAD-89-196 (OSD Case No. 8011), "Military Logistics: Buying Army Spares Too Soon Creates Excess Stocks and Increases Costs," August 1989, reported that Tank-Automotive Command and MICOM regularly initiated purchases of procurement appropriation-funded spares in advance of the reorder point and for quantities in excess of authorized requirement. GAO also reported deficiencies in the internal control system at the Tank-Automotive Command. GAO recommended that AMC reinforce the need to comply with Army Regulation 710-1 relative to premature and excessive purchases, AMC perform periodic management reviews to confirm that Army buying commands comply with procedures for canceling or reducing unnecessary purchases and for supervisory review and approval of item manager decisions, and the buying commands issue consolidated guidance and emphasize it for retention of requirements documents supporting repair, procurement, and cutback decisions. The Army concurred with the findings and recommendations and specified actions that had been or would be taken to implement the recommendations.

APPENDIX D. PRIOR AUDIT COVERAGE (cont'd)

Inspector General, DoD, Report No. 90-010, "Summary Report on the Audits of Contract Terminations," November 21, 1989, summarized the results and status of actions the Military Departments took to implement the recommendations for the following three audits on contract terminations: Report No. 89-063, "Contract Terminations at Army Inventory Control Points," March 29, 1989; Report No. 88-153, "Contract Terminations at the Navy Aviation Supply Office," May 23, 1988; and GAO Report No. NSIAD-87-141 (OSD Case No. 7242), "Military Procurement: Air Force Should Terminate More Contracts for On-Order Excess Spare Parts," August 12, 1987. Report No. 90-010 concluded that the Military Departments' ICPs made uneconomical termination decisions. The main reason for the uneconomical decisions was the lack of policies and procedures on how to make decisions. The report recommended that DoD establish specific policies and procedures related to contract terminations. On December 13, 1989, the Assistant Secretary of Defense (Production and Logistics) issued guidance for termination of contracts when secondary items are no longer needed.

GAO Report No. NSIAD-90-68 (OSD Case No. 8219), "Army Inventory: Growth in Inventories that Exceed Requirements," March 1990, reported that inventories in excess of current requirements at AVSCOM had grown, in part, because demand forecasts often did not materialize and the data base that computed requirements contained erroneous information. GAO also reported that timely and aggressive actions could have reduced the procurement of unneeded items. GAO recommended that AMC reemphasize to item managers the need to be more responsive to changes in forecast demands and to update and correct the data base that computes requirements and that AMC establish an aggressive, systematic approach to cancel or reduce planned procurements when items are not needed to meet current requirements. The Army concurred with the findings and recommendations and reported specific actions that AMC had taken or would take to implement the recommendations.

GAO Report No. NSIAD-91-176 (OSD Case No. 8645), "Defense Inventory: Shortcomings in Requirements Determination Processes," May 1991, summarized deficiencies in DoD's inventory requirements determination processes for secondary items that were identified in 97 reports issued by the GAO; the Office of the Inspector General, DoD; Army Audit Agency; Naval Audit Service; and Air Force Audit Agency during the last 6 years. GAO reported that DoD and the Services generally agreed with the findings and recommendations contained in the 97 reports and have

APPENDIX D. PRIOR AUDIT COVERAGE (cont'd)

taken many actions to remedy the deficiencies. GAO reported that DoD developed and implemented an inventory reduction plan that management officials believe addresses the problems in the requirements determination processes. The plan is producing good initial results.

Inspector General, DoD, Report No. 91-106, "Military Department Requirements For Currently Procured Wholesale Inventories For Consumable Items," June 28, 1991, reported that Army ICPs prematurely or unnecessarily initiated purchases and did not promptly curtail excessive purchases. We recommended that the Army provide specific instructions for verification of requirements and supervisory approval of purchase decisions; direct implementation of statistically based quality control tests of purchase decisions; revise policies that impede the reduction of purchases when requirements decline; expand oversight of ICPs' operation; and modify automated systems that report, accumulate, and retain demand data. The Army generally concurred with the findings and recommendations.

GAO Report No. NSIAD-91-272 (OSD Case No. 8793), "Low Returns of Repairable Assets are Costing the Army Millions," September 1991, reported that the Army was purchasing additional assets and reducing the quantity of assets scheduled for repair because returns were not meeting the minimum goal of 85 percent. GAO showed that the return rate goal was based on computations of historical rates without a detailed analysis of what the rate should be. Additionally, ICPs were purchasing assets that would not have been bought if returns had been at the 85 percent goal. GAO recommended that the Secretary of the Army direct the Commander, AMC, to adopt techniques similar to those used by MICOM to improve return rates, include in the Army's calculation of return rates only those items with assets that are routinely issued and returned, and report the shortfall in the return rate for repairable items as a material weakness in the Army's next assessment of internal controls. The Army generally agreed with the recommendations and the Secretary of the Army agreed to take the recommended actions.

Inspector General, DoD, Report No. 92-001, "Demand Data for Secondary Items," October 8, 1991, reported that controls over the classification and recording of demand data were inadequate, that the classification of demands as recurring or nonrecurring was inaccurate, and that the Military Departments and Defense Logistics Agency were inconsistent in their use of demand and return data to forecast requirements. We recommended that procedures and controls be established or revised to ensure that demand data are properly classified and reported and that the

APPENDIX D. PRIOR AUDIT COVERAGE (cont'd)

Assistant Secretary of Defense (Production and Logistics) provide additional guidance on the use of nonrecurring demand data and requisition cancellation requests in forecasting requirements.

Inspector General, DoD, Report No. 92-027, "Quick-Reaction Report on the Army's Adjustment of Wholesale Inventory Levels After Operation Desert Storm," December 27, 1991, reported that additional cutbacks in purchases, initiated in support of Desert Storm could have been made because logistical requirements for stocks were not adequately adjusted to exclude Desert Storm demands and to allow wholesale inventories to deflate to levels appropriate to support peacetime operating forces. We recommended that the Army Chief of Staff (Logistics) establish specific guidance on the exclusion of Desert Storm demands from the computation of forecast peacetime requirements objectives and obtain feedback from the ICPs on implementation of the guidance, and direct the ICPs to recalculate forecast requirements using the new guidance. The Deputy Chief of Staff generally agreed with the recommendations and initiated actions to implement the recommendations.

APPENDIX E. SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

<u>Recommendation Reference</u>	<u>Description of Benefits</u>	<u>Amount and/or Type of Benefit</u>
A.1. through A.5.	<u>Economy and Efficiency</u> Avoid unnecessary purchase of wholesale inventory by the Army ICPs.	Funds put to better use of \$72.9 million, consisting of about \$46.7 million ^{1/} of appropriated funds for reparable items pertaining to the sample universe, and \$26.2 million ^{2/} related to purchases that were not part of the sample universe that were canceled.
B.	<u>Internal Controls</u> Improve guidance for and supervisory oversight of item manager purchases. Ensure that item managers retain the requirements documents to support their decisions to initiate or curtail purchases.	Nonmonetary

^{1/} The potential monetary benefits do not include an estimate for avoiding holding costs related to the premature purchases because those costs were not readily determinable. The \$46.7 million represents the value of unnecessary purchases of \$72.5 million, adjusted for the costs that would be incurred to repair unserviceable assets. When excessive quantities of new assets are available in inventory, unserviceable assets need not be repaired. Thus the cost of repairing unserviceable assets can be avoided.

^{2/} The \$26.2 million represents the value of follow-on purchases for NSNs 1615-01-235-5845 and 1240-01-217-2353 that were canceled (see Appendix B, footnotes 2 and 3).

APPENDIX F. ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics),
Supply Management Policy, Washington, DC

Department of the Army

Army Materiel Command, Alexandria, VA
Aviation Systems Command, St. Louis, MO
Missile Command, Redstone Arsenal, Huntsville, AL
Corpus Christi Army Depot, Corpus Christi, TX
Sacramento Army Depot, Sacramento, CA
Red River Army Depot, Texarkana, TX
Anniston Army Depot, Anniston, AL
Letterkenny Army Depot, Chambersburg, PA
Headquarters, Ft. Rucker, AL
Headquarters, Ft. Hood, TX
Headquarters, Ft. Campbell, KY
Headquarters, Ft. Bragg, NC
Logistics Control Activity, Presidio of San Francisco, CA
102d Army Reserve Aircraft Support Facility Command,
Olathe, KS

Department of the Navy

Naval Air Engineering Center, Lakehurst, NJ

Other DoD Activities

Defense Plant Representative Office, Hughes Aircraft Co.,
Long Beach, CA
Defense Plant Representative Office, McDonnell Douglas,
Mesa, AZ
Defense Plant Representative Office, McDonnell Douglas,
Huntington Beach, CA
Defense Plant Representative Office, General Dynamics, Pomona, CA
Defense Plant Representative Office, Boeing Helicopter,
Philadelphia, PA

Other Government Activities

General Accounting Office, Washington, DC
Coast Guard Aircraft Repair and Supply Center, Elizabeth City, NJ

APPENDIX F. ACTIVITIES VISITED OR CONTACTED (cont'd)

Contractors

Hughes Aircraft Co., Long Beach, CA
McDonnell Douglas Helicopter Co., Mesa, AZ
General Dynamics, Air Defense Systems Division,
Rancho Cucamonga, CA
Sikorsky Helicopter, Shelton, CT
Sikorsky Services, Inc., Troy, AL
McDonnell Douglas, Electronic Systems, Monrovia, CA
Dyncorp, Ft. Rucker, AL

APPENDIX G. REPORT DISTRIBUTION

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Public Affairs)
Comptroller of the Department of Defense

Department of the Army

Secretary of the Army
Inspector General, Department of the Army

Department of the Navy

Auditor General, Naval Audit Service

Department of the Air Force

Air Force Audit Agency

Defense Agencies

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, Defense Logistics Studies Information Exchange
Office of the Inspector General, Defense Intelligence Agency
Inspector General, National Security Agency

Non-DoD Activities

Office of Management and Budget
U.S. General Accounting Office
National Security and International Affairs Division,
Technical Information Center
National Security and International Affairs Division,
Defense and NASA Management Issues
National Security and International Affairs Division,
Military Operations and Capabilities Issues

APPENDIX G. REPORT DISTRIBUTION (cont'd)

**Chairman and Ranking Minority Member of Each of the Following
Congressional Committees and Subcommittees:**

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations

PART IV - MANAGEMENT COMMENTS

Department of the Army

MANAGEMENT COMMENTS: DEPARTMENT OF THE ARMY



DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS
WASHINGTON, DC 20310-0500



15 JAN 1993

DALO-SMP

MEMORANDUM THRU

DEPUTY CHIEF OF STAFF FOR LOGISTICS *185/19/93*

~~DIRECTOR OF THE ARMY STAFF~~ *185/19/93* GEORGE R. MONTGOMERY, LTC, GS, AD/LS *1/12/93*

ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS, LOGISTICS, AND ENVIRONMENT)

FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (AUDITING)

SUBJECT: Audit Report on the Army Requirements for Currently Procured Wholesale Inventories of Reparable Items (Project No. OLE-0078.04)--INFORMATION MEMORANDUM

1. This is in response to HQDA IG request of 24 Nov 92 (Tab A) which responds to your memorandum of 18 Nov 92 (enclosure to Tab A).
2. In general terms, the 1990 audit identified procurement of materiel that exceeded the Army's requirements and deficiencies in the internal controls used to evaluate procurement decisions. Since the Sep 90 timeframe of the audit, concerted policy initiatives, executed as part of the DOD Inventory Reduction Plan, have resulted in improvements in almost every measure of inventory effectiveness. Specifically, the Army has accomplished the following:
 - a. Improved the percentage of inventory stratifying to active levels.
 - b. Reduced the dollar value of procurement due-in beyond the requirements objective.
 - c. Reduced the requirements objective by 26 percent.

These accomplishments indicate that the Army has made significant improvements in reducing unnecessary and premature procurements of reparable items.

3. Responses to your findings and recommendations are provided at Tab B.
4. The audit identified potential monetary benefits of \$72.9 million if the recommendations were implemented. Sample data for excessively purchased items was provided as a basis for the

MANAGEMENT COMMENTS: DEPARTMENT OF THE ARMY (cont'd)

DALO-SMP

SUBJECT: Audit Report on the Army Requirements for Currently Procured Wholesale Inventories of Repairable Items (Project No. OLE-0078.04)--INFORMATION MEMORANDUM

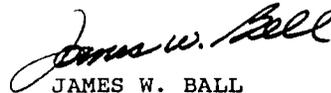
savings. It is recommended that the DODIG's potential monetary benefits be reviewed based upon the following:

a. The Missile Command maintains that quantities identified as excess for three of the items (cited during the audit) were required. In Apr 91, status on one of the items changed and the procurement action was cancelled in total for that item. Additional data provided by the Missile Command (Tab C) is forwarded for reconsideration of the monetary benefits.

b. The Army has taken substantial positive steps to reduce procurement requirements for spare/repair parts as part of the DMRD 987--DOD Inventory Reduction Plan. The Army's monetary success in controlling acquisition costs and reducing inventory for secondary items supports the directed savings for DMRD 987.

5. The Army is fully aware of the criticality of procuring the correct quantities to support current requirements. The total Army inventory management objective is to purchase and retain only that materiel we require in order to provide "just enough--just on time."

3 Encls



JAMES W. BALL
Major General, GS
Director of Supply
and Maintenance

CF:

CDR, AMC, ATTN: AMCLG-MR/AMCIR-A
SAIG-PA

OASA (SAILE-LOG) - Concur, Mr. Croom/697-5727 (conference)

AMC (AMCLG-M) - Concur, COL Bryant/274-9803 (datafax)

AMC (AMCIR-A) - Concur, Mr. Kurzer/274-9023 (telephone)

Mrs. Finnicum/52209

MANAGEMENT COMMENTS: DEPARTMENT OF THE ARMY (cont'd)

ARMY REPLY
DOD Inspector General Report
Army Requirements for Currently Procured
Wholesale Inventories of Repairable Items
Project No. OLE-0078.04

FINDING A. The Army's ICPs prematurely or unnecessarily initiated purchase requests to acquire wholesale inventory of repairable items and did not promptly reduce in-process purchases in response to indicated reductions in future requirements. These conditions occurred because the ICPs' guidance for computation of additive requirements and verification of additive requirements, before initiating purchases, was inadequate; existing internal controls did not ensure the prompt reduction of purchases when requirements decreased; supervisors did not effectively review item managers' decisions to buy or to continue the purchase of materiel; and existing management controls did not monitor the integrity and effectiveness of the purchase initiation and supervisory approval process. As a result, of the estimated \$817.8 million of materiel that the ICPs were purchasing (contracts not yet awarded on September 30, 1990), we estimated that materiel valued at \$103.3 million (13 percent) exceeded current requirements. The \$103.3 million included \$30.8 million of premature purchases and \$72.5 million of unnecessary purchases.

ARMY COMMENT: The Army concurs with the finding as it relates to the Sep 90 timeframe. AMC has since made tremendous progress in reducing unnecessary purchases of materiel. Although the findings are accurate for FY 90, they are not reflective of the current situation.

RECOMMENDATION 1. Recommend that the Commander, Army Materiel Command direct the ICPs to issue detailed guidance for item manager computation of additive requirements and for verification of requirements data and factors used to calculate additive requirements before initiating purchases; and require supervisory review and approval of the additive requirements, at management levels based on the value of the additive requirements, before additive requirements are entered into the National Stock Number Master Data Record.

ARMY COMMENT: Nonconcur. The CCSS ADSM should not contain detailed guidance on manually computing additive requirements. This manual is specifically developed for identifying the automated systems procedures. Since the automated system already computes additive requirements, item managers are not encouraged to manually compute these requirements. On the occasion that this may be necessary, AMC concurs that ICPs be directed to issue detailed guidance. MSCs will be tasked to develop local guidance for manual computation of programmed requirements by 1 Mar 93. Nonconcur with the recommendation to require supervisory approval of programmed requirements based upon their dollar value.

MANAGEMENT COMMENTS: DEPARTMENT OF THE ARMY (cont'd)

Current policy contained in Paragraph 4-1, AR 710-1 requires review of supply control studies, including demand rates, by supervisors. This review is generally being accomplished at the commands contacted. Since review of supply control study recommendations entails validation of requirements, an additional review, looking only at programmed requirements would be duplicative.

RECOMMENDATION 2. Recommend that the Commander, Army Materiel Command direct the ICPs to establish controls to implement the DOD policy to reevaluate high value purchases before contract award and terminate purchases that are no longer needed.

ARMY COMMENT: Nonconcur. There is a policy already in place directing ICPs to reevaluate purchases before award. CCSS identified those items in procurement cutback positions. The Commander, Army Materiel Command, directed that each ICP review all cutbacks. Item manager decision to deny the cutback recommendation made by CCSS requires Colonel/GM-15 level approval.

RECOMMENDATION 3. Recommend that the Commander, Army Materiel Command direct the Aviation Troop Command to revise or cancel policy memorandum 27 on cancelling or reducing purchases before contract award to comply with the intent of the DOD policy.

ARMY COMMENT: Concur. ATCOM has revised this policy memorandum. A copy of the superseding policy memorandum, dated 30 Nov 92, is provided as an enclosure to Tab B.

RECOMMENDATION 4. Recommend that the Commander, Army Materiel Command direct the ICPs to conduct periodic evaluations of the adequacy of supervisory review of item manager purchase decisions and use those evaluations in assessing supervisory performance.

ARMY COMMENT: Nonconcur. All procurements over \$25,000 require Colonel/GM-15 level approval. In addition, the performance standards of managers at the ICPs require that their employees manage their items effectively. This includes reviews of Dues-In Beyond the Requirements Objective, Stock Availability, etc.

RECOMMENDATION 5. Recommend that the Commander, Army Materiel Command direct the ICPs to establish an independent quality review program with reporting of results to the director of materiel management. The program should provide for evaluation of high value purchases and a random sample of low value purchases to monitor item manager and supervisory compliance with requirements determination policy and to measure the overall quality of the ICPs purchase decision.

ARMY COMMENT: Nonconcur. Each ICP has an Internal Review Organization which conducts compliance reviews. The Air Force

MANAGEMENT COMMENTS: DEPARTMENT OF THE ARMY (cont'd)

and Navy took extreme measures because of their inactive inventory positions. The Army's inventory has been 75 percent active with high stock availability and readiness rates. This indicates the Army has been effectively managing its inventory. As previously stated, high value purchases are being reviewed and evaluated by senior supervisory employees which complies with the spirit of the IG recommendation to ensure compliance with the requirements determination policy. Furthermore, the Army Materiel Command has a strong Total Quality Management (TQM) Program. TQM empowers the item manager to do a quality job. TQM does not advocate quality review programs. AMC's thrust is to improve the process and eliminate unnecessary layering.

FINDING B. INADEQUATE RETENTION OF DATA SUPPORTING PURCHASE DECISIONS. Item managers at AVSCOM and MICOM could not provide requirements data supporting over 30 percent of the purchase requests related to the sampled items. This internal control weakness occurred because item managers did not comply with Army guidance for retention of requirements documents and supervisory personnel did not enforce that guidance. The lack of requirements documents made it difficult for item managers and supervisory personnel to provide the rationale for purchase decisions, increased the audit effort required to evaluate purchases and to determine the underlying cause of some excessive purchases, and precluded a thorough evaluation of supervisory review and approval of item manager purchase decisions.

ARMY COMMENT: Concur. AMC agrees that the inventory control points should issue detailed guidance for item manager computations of additive requirements and for verification of requirements data factors used to calculate additive requirements.

RECOMMENDATION 1. Recommend that the Commander, Army Materiel Command direct the ICPs to periodically review, retain documentation, and report to the Army Materiel Command on item manager compliance with AR 25-400-2.

ARMY COMMENT: Concur. AMC will release guidance emphasizing the need for item manager compliance with the provisions of AR 25-400-2, "The Modern Army Recordkeeping System," not later than 1 Mar 93.

MANAGEMENT COMMENTS: DEPARTMENT OF THE ARMY (cont'd)

AMSAT-I-SFSR

30 NOV 1992

MEMORANDUM FOR AMSAT-I-SA
AMSAT-I-ST

SUBJECT: Policy Memorandum Number 46 - Cutback Policy

1. This memorandum is applicable to Aircraft Systems and Troop Systems Divisions within the Directorate for Material Management.
2. In keeping within the guidelines of the Army's Inventory Reduction Plan (IRP) and HQ AMC demands to cutback or terminate all committed and obligated requirements above the Requirement Objective (RO), the following policy will apply for requirements that are recommended for cutback as a result of the Supply Control Study Process.
3. All committed requirements that are recommended for cutback will be cancelled. Before actual cancellation occurs, ensure that the requirement is still in the committed status.
4. Obligated Requirements:
 - a. If no termination costs apply, cancel.
 - b. If termination costs apply and contract cutback is under \$50,000.00, do not cancel, retain and place in EXTRO.
 - c. If termination costs apply, contract cutback is \$50,000.00 to \$100,000.00, and assets will become applicable within 12 months, retain and place in EXTRO.
 - d. If termination costs apply, contract cutback is \$50,000 to \$100,000.00, assets will become applicable within 13-24 months, and termination costs are 51% or more, do not cancel, retain and place in EXTRO. If termination costs are 50% or less, cancel.
 - e. If termination costs apply, contract cutback is over \$100,000.00 to \$999,999.99, and assets will become applicable within 12 months, retain and place in EXTRO.
 - f. If termination costs apply, contract cutback is over \$100,000.00 to \$999,999.99, assets will become applicable within 13-24 months, and termination cost is 65% or more, do not cancel, retain and place in EXTRO. If termination costs are 64% or less, cancel.

End. B

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MANAGEMENT COMMENTS: DEPARTMENT OF THE ARMY (cont'd)

AMSAT-I-SFSR

Subject: Policy Memorandum Number 46 - Cutback Policy

g. If termination costs apply, contract cutback is \$1,000,000.00 or more, and assets will become applicable within 12 months, retain and place in EXTRO.

h. If termination costs apply, contract cutback is \$1,000,000.00 or over, assets will become applicable within 12-24 months, and termination costs are 75% or less, cancel.

5. This policy will remain in effect until otherwise modified by the Director or Deputy Director of Materiel Management.

6. Point of contact for this action is Leroy Rogers, AMSAT-I-SFSR, ext. 3018.

15
BRUCE R. GARDNER
Colonel, AV
Director of Materiel Management

CF:
AMSAT-I-SB
AMSAT-I-SD
AMSAT-A-Z

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MANAGEMENT COMMENTS: DEPARTMENT OF THE ARMY (cont'd)

COMMAND COMMENTS

**DODIG Draft Report, Army Requirements for
Currently Procured Wholesale Inventories of
Reparable Items, Project OLE-0078**

MICOM takes exception with three of the eight items listed as excessive purchases listed in Appendix B of the report. The command position on each of the three items is discussed below:

1. NSN 1270-01-143-9546 -- Range Finder -
Target PRON No. W11E0411D1

The initial procurement was made on this item on July 10, 1990, for a quantity of 44 each for the National Guard. It was anticipated that increased requirements would materialize due to Automatic Laser Instrumentation Measuring System testing of Laser Range Finder Designator which normally always has increased requirements. Several active Army Units received updated Modified Tables of Organization and Equipment (MTOE's) authorizing additional Ground/Vehicular Laser Locator Designators (G/V11D's). Several National Guard Units were fielded short and they had to be brought up to the authorized strength. There has been a total cancellation of requirements, as of April 19, 1991, for a quantity of 44 each.

2. NSN 5999-01-2288503 -- Electronic Component

The DODIG audited the 30 Sep 90 Supply Control Study for the subject item. The audit found excessive purchases due to erroneous additive requirements loaded in NSNMDR sector/segment 13/03, for out-year programmed requirements of 117.

These requirements were input because data base entries in the Provisioning Master Record (PMR) reflected that 80 percent of the maintenance of the Air-to-Air STINGER (ATAS) Electronic Component would be accomplished at Direct Support (DS) level when, in fact, there was no DS level repair capability. This required the item manager to make an adjustment to requirements that would reflect projected replenishment requirements. Management approval was given to load the adjusted replenishment requirements in the NSNMDR 13/03 based on the replenishment requirements developed from a 98 percent depot level maintenance task distribution.

Etc 2

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MANAGEMENT COMMENTS: DEPARTMENT OF THE ARMY (cont'd)

Since the DODIG audit, the maintenance task distribution has been updated in the Provisioning Master Record (PMR) to 98 percent depot repair, which allows the study process to more accurately reflect replenishment requirements. In addition, because there is no repair capability at the direct support level, Maintenance Engineering recommended this item be added to the Authorized Stockage List/ Prescribed Load List (ASL/PLL) initial issue requirements. These initial issue requirements are also loaded in NSNMDR 13/03. No cutbacks to procurement have been made as a result of this update, and the latest study projects a buy in August 1993.

3. NSN 1440-01-148-8541 -- Resolver Assembly

This item is required to support all configurations of the M65 Telescopic Sight Unit (TSU) including C-NITE which was being fielded at the time. The TSUs are supported solely through repair and therefore the availability of this item is critical to maintaining readiness. Operation DESERT SHIELD had just begun and we were in process of gearing up for war. The supply stockage of Laser Augmented Airborne TOW (LAAT) TSUs had been drained as a result of deploying units with Multiple Integrated Laser Engagement System (MILES) (training) TSUs but which required the LAAT (tactical) version. The cutback recommendation at the September 1991 cutoff point was for a quantity of only 18 each. Due to the uncertainty associated with war and the importance of this item to maintaining COBRA readiness, it appeared unwise at the time to cutback this procurement. In addition, the Acquisition Center indicated that the entire procurement would have to be cancelled or left as is (contract was under negotiations and reduction would necessitate starting process over). Currently, there is a requirement of 40 each on this item and this requirement still exists.

AUDIT TEAM MEMBERS

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