

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**FOLLOW-UP AUDIT OF REQUIREMENTS FORECASTS
ON SUPPLY SUPPORT REQUESTS**

Report No. 93-175

September 30, 1993

Department of Defense

Acronyms

AIG-AFU	Assistant Inspector General for Analysis and Followup
ASD(P&L)	Assistant Secretary of Defense (Production and Logistics)
ASO	Aviation Supply Office
DCSC	Defense Construction Supply Center
DESC	Defense Electronics Supply Center
DGSC	Defense General Supply Center
DISC	Defense Industrial Supply Center
DLA	Defense Logistics Agency
DLSC	Defense Logistics Services Center
DUSD(Logistics)	Deputy Under Secretary of Defense (Logistics)
IMM	Integrated Materiel Manager
NSN	national stock number
SPCC	Ships Parts Control Center
SSR	Supply Support Request
TIR	Total Item Record



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

September 30, 1993

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE
(LOGISTICS)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
INSPECTOR GENERAL, DEPARTMENT OF THE ARMY
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on the Follow-up Audit of Requirements Forecasts on Supply
Support Requests (Report No. 93-175)

We are providing this final report for your review and comments. This report describes the reliability and support for requirements forecasts on Supply Support Requests (SSRs) at the submitting activities and the effectiveness of monitoring the SSR Program. The Logistics Support Directorate performed the audit from January 1992 through January 1993.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the Deputy Under Secretary of Defense (Logistics) provide the estimated completion dates for planned actions by November 30, 1993. DoD Directive 7650.3 also requires that comments indicate concurrence or nonconcurrence in each recommendation addressed to you. If you concur, describe the corrective actions taken or planned, the completion dates for actions already taken, and specific reasons for each nonconcurrence. If appropriate, you may propose alternative methods for accomplishing desired improvements.

If you nonconcur with the estimated monetary benefits or any part thereof, you must state the amount you nonconcur with and the basis for your nonconcurrence. Recommendations and potential monetary benefits are subject to mediation in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment. We also ask that your comments indicate concurrence or nonconcurrence with the internal control weaknesses highlighted in Part I.

The courtesies extended to the staff during the audit are appreciated. If you have any questions concerning this audit, please contact Mr. James Helfrich, Program Director, or Mr. Danzel Hickle, Project Manager, in our Columbus office, at (614) 337-8009. Copies of the final report will be distributed to the activities in Appendix E.



Edward R. Jones
Deputy Assistant Inspector General
for Auditing

cc:
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force
Commandant of the Marine Corps

Office of the Inspector General, DoD

Report No. 93-175
Project No. 2LE-0015

September 30, 1993

FOLLOW-UP AUDIT OF REQUIREMENTS FORECASTS ON SUPPLY SUPPORT REQUESTS

EXECUTIVE SUMMARY

Introduction. A Supply Support Request (SSR) is the principal means by which the Military Departments communicate to the Defense Logistics Agency (DLA) their anticipated requirements for spare and repair parts to support new weapon systems and equipment. Wholesale inventory management activities of the Military Departments are the principal submitters of SSRs and the DLA supply centers are the principal recipients of the SSRs. Based on the Military Departments' requirement forecasts, DLA determines how supply support will be provided and whether or how much wholesale inventory will be purchased until normal demand patterns are established. In FYs 1990 and 1991, DLA received 818,489 and 962,469 SSRs, respectively.

Objectives. The audit objective was to follow up on the IG, DoD, Audit Report No. 88-140, "Requirements Forecasts On Supply Support Requests," April 27, 1988, to determine if corrective actions had been taken on the audit recommendations. We also reviewed the reasonableness of SSRs that the Military Departments submitted, the wholesale inventory investment that DLA made in response to the SSRs, and the actual demands that the Military Departments submitted that were related to the SSRs. The audit also evaluated applicable internal controls.

Audit Results. Recommendations from our prior audit were not effectively implemented. The SSR program implemented by the Military Departments and DLA has not improved to any notable extent since our prior audit in 1987. An estimated \$442.9 million of the \$509.1 million of requirements forecasts on SSRs that DLA accepted in FYs 1990 and 1991, were still unnecessary, unreasonable, or unsubstantiated by documentation at the submitting activities; the forecasts were unreliable predictions of future requirements, and the Military Departments and DLA ineffectively monitored the SSR program. As a result, the Military Departments and DLA wasted resources to generate, process, and in some cases validate unnecessary, unreasonable, and unsubstantiated SSR forecasts. Additionally, DLA bought materiel prematurely or unnecessarily to satisfy unfounded requirements.

Internal Controls. The audit identified internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Management did not generally implement controls to detect and correct causes of unreasonable SSR forecasts, compare actual demands with the estimates to identify significant differences and determine their causes, or document and maintain records of how the SSR forecasts were derived. See Part I for details of controls assessed and the Finding in Part II for a discussion on weaknesses found.

Potential Benefits of Audit. Savings will be realized if the SSR program is discontinued as recommended. However, we could not determine the amount with any acceptable degree of reliability (see Appendix C). During the audit, the Army, Navy, Air Force, and DLA personnel were generally responsive to our recommendations and canceled or reduced purchases valued at \$1.5 million related to unreasonable SSR forecasts.

Summary of Recommendations. We recommended that the Deputy Under Secretary of Defense (Logistics) direct the Military Departments to discontinue the submission of SSRs and direct DLA to discontinue accepting, processing and recording SSRs.

Management Comments. The Deputy Under Secretary of Defense (Logistics) concurred with the finding but nonconcurred with the recommendation and offered acceptable alternatives. The Deputy Chief of Staff for Logistics, Department of the Army, and the Deputy Chief of Staff (Logistics), Department of the Air Force, stated that the Deputy Undersecretary of Defense (Logistics) would be providing a DoD coordinated response. The Assistant Secretary of the Navy (Research, Development and Acquisition) concurred with the finding but disagreed with the recommendation. The Comptroller, Defense Logistics Agency, partially concurred with the finding but disagreed with the recommendation. A full discussion of management comments and audit response is in Part II, and the complete texts of management comments are in Part IV of this report. We request that the Deputy Under Secretary of Defense (Logistics) provide estimated completion dates for planned actions by November 30, 1993.

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This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense. 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 Military Departments and Defense agencies use the Supply Support Request (SSR) process to communicate their forecasted requirements for consumable items to the Integrated Materiel Manager (IMM). The principal recipients of the SSRs are IMM at the Defense Logistics Agency (DLA) supply centers. The basic purpose of the SSR is to inform the IMM of the users' projected requirements for retail and wholesale stock and obtain future logistics support for those requirements. For end items that will require initial stocks of materiel to sustain the planned operation of newly fielded end items, the Military Departments send cataloging, technical, and forecasted requirements data to the IMM.

DoD Directive 4140.1, "Materiel Management Policy," DoD Instruction 4140.60, "DoD Materiel Management," DoD Manual 4140.26-M, "Defense Integrated Materiel Management Manual for Consumable Items," and DoD Regulation 4040.1R, "DoD Materiel Management Regulation," prescribe the policy and procedures for the SSR process. DoD Instruction 4140.42, "Determination of Requirements for Spare and Repair Parts Through the Demand Development Period," prescribed the policy and procedures for determination of requirements for the SSR process until it was canceled and replaced by DoD Regulation 4140.1R, in January 1993.

Based on data in the SSR, the IMM records the submitting activity as a user of the item in the Defense Integrated Data System Total Item Record (TIR) file at the Defense Logistics Services Center (DLSC) in Battle Creek, Michigan. DLA provides supply support by purchasing an item either before or after receipt of requisitions. The requirements forecasts on an SSR influence DLA's decision on stocking or buying an item in advance of requisitions. An SSR can contain a retail forecast, which is the quantity expected to be requisitioned to satisfy initial requirements at the retail stock level, and a replenishment forecast, which is the quantity expected to be needed for replacement of stocks used during the first year of operation of the end item being supported. The retail forecast on SSRs has no effect on DLA's wholesale requirement computation unless the forecast exceeds the procurement cycle quantity on either new or established items. When the SSR's retail forecast exceeds the procurement cycle quantity, the difference is used as an additive requirement in DLA's wholesale requirements computations. On the other hand, the replenishment forecast serves as the basis for developing the requirements forecast for new items and is used in determining if the item will be stocked or not. Replenishment forecasts on SSRs for established items are generally disregarded in DLA's requirements computations and procurement decisions. Overall, the replenishment forecast for new items and the essentiality of the items to the operation of the weapon system to be supported are the principal factors that determine whether a DLA supply center will stock or buy additional stock to provide logistics support for the SSR.

Objective

The objective of this audit was to determine if implementing actions had been taken on recommendations in IG, DoD, Audit Report No. 88-140, "Requirements Forecasts on Supply Support Requests," April 27, 1988. We reviewed the reasonableness of SSRs that the Military Departments submitted, the wholesale inventory investment that DLA made in response to the SSRs, and the actual demands that the Military Departments submitted that were related to the SSRs. The audit also evaluated applicable internal controls.

Scope

We reviewed and evaluated the procedures and controls in effect over SSRs at activities of the Army, Navy, Air Force, and DLA, and their implementation of the recommendations in our prior audit report. We concentrated on SSRs with replenishment forecasts because the replenishment forecast serve as the basis for developing DLA's requirements forecasts for new items and determining if new items will be stocked or non-stocked. We limited our statistical sampling of SSRs to those that Navy and Air Force activities submitted because activities of the Navy and Air Force accounted for about 99 percent of the value of replenishment demands submitted on SSRs that DLA accepted in FYs 1990 and 1991.

For our sample, we initially intended to review SSRs that caused DLA to initiate a purchase action. However, DLA could not differentiate purchase actions associated with SSR forecasts from actions generated because of other requirement forecasts and demands. Accordingly, we sampled from the DLA Provisioning Control History File, which was the only available universe of SSRs that DLA had received and processed.

Each of four DLA supply centers (Defense Construction Supply Center [DCSC], Defense Electronics Supply Center [DESC], Defense General Supply Center [DGSC], and Defense Industrial Supply Center [DISC]) maintained a SSR Provisioning Control History File that contained transactions covering about 5 years, up to March 1992. Using the four DLA centers' files, we selected our statistical sample from the SSRs recorded in FY 1990 and FY 1991 (see Appendix A). The SSR history files from DCSC, DESC, DGSC, and DISC had 1.4 million SSRs with replenishment forecasts valued at \$573 million from the Air Force and the Navy, of which 42,430 had replenishment requirement forecasts valued at \$1,000 or more (\$509.1 million total replenishment forecast value).

We statistically selected 600 SSRs from FYs 1990 and 1991 for which DLA advised the submitter that the item requested would be centrally managed, stocked, and issued; managed as an insurance or numeric stockage objective

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item; or managed as a direct delivery item and not stocked. We selected those categories to determine whether the internal control weaknesses reported in the prior audit had been corrected.

We examined available supporting logistics data at the activities that generated the SSRs for statistical samples of 500 SSRs with values at \$1,000 or more and 100 SSRs without replenishment forecast values, and a judgmental sample of 77 SSRs. Specifically, we evaluated the reasonableness of the reliability factors, program data, and formulas that submitters used to forecast their requirements to determine if the forecast was reasonable and in accordance with DoD policy. Additionally, we reviewed other requirements data and factors that affected or should have affected the forecasted requirements in the SSRs, such as failure rates of similar items, changes to programs, and current supply data for the required item.

For items determined to be unreasonable, we evaluated the effect of unreasonable SSR requirements forecasts on purchases of materiel at the four DLA supply centers. We determined whether the SSR replenishment quantity represented a prudent basis for investing in wholesale inventory stock or whether DLA's decision not to purchase materiel based on the SSR requirement forecast could adversely affect the goals of the SSR program.

The Quantitative Methods Division of our Audit Planning and Technical Support Directorate provided assistance in the selection and analysis of the results of our statistical samples. Figures used in this report are based on the unit price from the SSR, unless otherwise indicated.

This economy and efficiency audit was made from January 1992, through January 1993, 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. The organizations visited or contacted during the audit are shown in Appendix D.

Internal Controls

Our review identified material internal management control deficiencies as defined by DoD Directive 5010.38; however, they were not newly identified weaknesses. The weaknesses were reported in our previous audit of SSRs. We evaluated internal controls used to ensure that the Military Departments were submitting SSRs for only those quantities of materiel needed to meet forecasted requirements. Accordingly, we reviewed the policy and procedures to identify and correct the causes for unreasonable forecasts relating to both the generation and use of SSR data.

The then Assistant Secretary of Defense (Production and Logistics) (ASD[P&L]), the Military Departments, and DLA generally had not effectively implemented the recommendations from our prior audit of SSRs, therefore, the

same conditions continued to exist. The recommendation in this report, if implemented, will eliminate the SSR process rather than continue efforts to improve its internal controls. Monetary benefits associated with the internal control deficiencies were not readily identifiable and projectible. Appendix C summarizes the other benefits resulting from this audit.

Prior Audits and Other Reviews

Only one audit in the last 5 years specifically addressed SSRs. IG, DoD, Report No. 88-140, "Requirements Forecasts on Supply Support Requests," April 27, 1988, concluded that forecasted requirements on SSRs often were not well-founded or adequately documented, causing unreasonable investment in wholesale inventory. The report recommended procedures and controls to correct causes for significant variances between forecasted and actual demands; to aid in computing forecasts; to document the basis for forecasts; and to ensure that minimum investments in inventory are procured timely.

The then ASD(P&L), the Military Departments, and DLA generally concurred with the finding and recommendations and stated that appropriate actions would be taken to correct the problems. The Military Departments and DLA issued instructions and added controls to the SSR process, however, those changes were not effective in correcting the problems. The Military Departments and DLA had reported to the Assistant Inspector General for Analysis and Followup (AIG-AFU), DoD, that all appropriate actions had been taken to correct the finding and recommendations reported in the prior audit. Action on the recommendation directed to the ASD(P&L) was still incomplete at the time of this audit.

In May 1990, ASD(P&L) issued the "Provisioning Process Review." The study stated, "Service provisioning deficiencies are perpetuated and exacerbated through the Supply Support Requests (SSR) process." The study identified several problems with SSRs that relate to our audit objectives (see Appendix B).

An ASD(P&L) progress report, "Provisioning Process Improvement," May 1992, did not provide specifics on progress made. The progress report concluded that provisioning process improvement must be made quickly.

Part II - Finding and Recommendations

Supply Support Request Requirements

The SSR program implemented by the Military Departments and DLA has not improved to any notable extent since our prior audit in 1987. Requirements forecasts on SSRs were still unnecessary, unreasonable, or unsubstantiated by documentation at the submitting activities, forecasted demands did not materialize, and the Military Departments and DLA ineffectively monitored the SSR program. The conditions occurred because the recommendations from our prior audit were not effectively implemented to control SSR submission, validation, and inventory acquisition. As a result, the Military Departments and DLA wasted resources to generate, process, and in some cases, validate unnecessary, unreasonable, and unsubstantiated SSR forecasts. Additionally, DLA bought materiel prematurely or unnecessarily to satisfy unfounded requirements.

Background

Each year about 1 million SSR transactions are generated and transmitted to DLA. The SSR process requires the Military Departments to expend resources to develop, transmit, and in some circumstances, validate SSR requirements forecasts. DLA uses resources to evaluate, process, file, and validate SSRs and purchase materiel as it deems appropriate to meet expected requirements.

IG, DoD, Report No. 88-140 reported that forecasted requirements on SSRs often were not well-founded or adequately documented and caused unnecessary or premature investments in inventory. The prior audit report further stated that forecasts are supposed to be for a 12-month period. However, for 72 percent of the major SSRs, with forecasted requirements of \$1,000 or more, valued at \$316.7 million that DLA received from FY 1982 through 1984, 74 percent (\$235 million) of the predicted demand had not materialized by the end of FY 1985 and 64 percent (\$204 million) still had not materialized by March 1987. Additionally, the supply actions that DLA took in response to the forecasts and subsequent actual demands were often not appropriate or timely. The prior audit report stated that DoD was spending about \$6.8 million, of \$37 million of purchases in process at the time, for unnecessary and premature investments in wholesale inventory for SSRs, and that purchases were not initiated on a timely basis to provide supply support by the agreed upon dates.

Policies, procedures, and controls of DoD and the DoD Components were not adequate to ensure that inventory investments at the DLA supply centers were appropriate for new items.

During this current audit, we determined that the recommendations from our prior audit of SSRs were not effectively implemented.

Follow-up Audit Results

The SSR program implemented by the Military Departments and DLA has not improved to any notable extent since our 1987 audit; and it represents a substantial expenditure of resources without appreciable, commensurate benefits. The Military Departments continue to submit about a million SSRs each year to obtain logistics support for hundreds of millions of dollars of materiel based on estimates that are unreasonable or unsubstantiated. Additionally, DLA continues to evaluate and process the SSRs and purchase inventory to provide the requested support, yet demands for the materiel usually do not materialize. The conclusions are based primarily on our statistical sample of 500 SSRs with forecasted replenishment demands submitted to DLA by Navy and Air Force activities. We estimated that \$442.9 million (87 percent) of \$509.1 million of SSR replenishment forecasts accepted by DLA in FYs 1990 and 1991 were unreasonable or unsupported and that 291,400 of 311,562 unvalued SSRs were submitted unnecessarily.

Reasonableness of SSR Forecasts. Of the 500 SSRs with replenishment demands of \$306.2 million that were statistically sampled, 159 had unreasonable forecasted demands valued at \$73.7 million. Based on our sample results, an estimated \$118.2 million (23 percent) of the SSR forecasted replenishment demands of \$509.1 million in our sampled universe was unreasonable. We considered forecasts to be unreasonable if the forecasts did not comply with DoD policy for the determination of requirements for spare and repair parts through the demand development period, and the activity that generated the SSR could not support the total replenishment quantity forecast with either current data or the data originally used to compute the forecasted requirement, recognizing any changes to the factors because of changes to the item's program.

For example, the Navy Aviation Supply Office (ASO) submitted a SSR to DGSC to obtain supply support for the SH-60 helicopter because of a design change. The SSR indicated that the Navy would have a first year replenishment

Supply Support Request Requirements

requirement for 20,000 dial pointers (National Stock Number [NSN] 5355-01-282-1862) valued at \$477,600. A Navy contractor had computed the requirement forecast and submitted the SSR forecast through ASO to DGSC. The Navy had not verified the contractor estimate to ensure that it was reasonable. We reviewed the forecast with responsible Navy personnel and recomputed the requirement forecast using the appropriate planning data for the SH-60 helicopter. The forecast should have been for seven dial pointers valued at \$167. The principal causes for the unreasonable forecasts on the 159 SSRs are shown in Table 1.

Table 1. Causes for Unreasonable SSRs
(Values in \$ Millions)

Cause	<u>Unreasonable SSRs</u>		
	<u>No.</u>	<u>Value</u>	<u>Percent</u>
Forecast period in excess of 12 months *	37	\$11.9	6
Inaccurate factors or math errors	81	29.8	40
Contractor data errors	18	30.1	41
Other	<u>23</u>	<u>1.9</u>	<u>3</u>
Total	<u>159</u>	<u>\$73.7</u>	<u>100</u>

* DoD Manual 4140.26-M and DoD Instruction 4140.42, established the forecast period as 12 months.

Requirements Substantiation. An estimated \$324.7 million (64 percent) of the SSR forecasted replenishment demands of \$509.1 million was not substantiated by adequate documentation. When the activity that generated the SSR could not provide documentation to substantiate the basis for the forecasted requirement, we considered the SSR as unsupported. The activities submitting SSRs did not retain documentation to show how the requirements forecasts and any subsequent revisions were computed for 196 of 500 SSRs with demands valued at \$203.6 million. For example, the Ships Parts Control Center (SPCC) submitted a SSR to DCSC on September 26, 1989, to obtain supply support for a detector, chip gearbox (NSN 2010-01-205-0283). The Navy projected a 1-year replenishment requirement of 80 detectors, valued at about \$105,000 and specified a support date of June 30, 1991. SPCC was not able to provide documentation that supported the forecasted requirement and demands did not materialize for the detectors as forecasted. As of July 20, 1992, a year after the support date, DCSC had received demands for only 10 detectors. Because there

was inadequate documentation and insufficient logistics data, we could not ascertain the reasonableness of the submitted forecasted SSRs. The absence of supporting data hindered or precluded subsequent evaluation and follow up when actual demands did not materialize as forecasted.

After our prior audit, DLA published procedures to analyze the SSR requirements forecast and actual demands received. However, DLA did not develop a system to accomplish the analysis, and responsible personnel at the DLA supply centers said they did not perform the analysis.

Actual Demands for SSR Items. Replenishment demands were not materializing in accordance with the forecasts submitted on the SSRs. Of 500 SSRs sampled, 70 SSRs with forecasted replenishment demands valued at \$27.8 million were 1 year past the required support date. No demands materialized during the first year for 54 of the SSRs with forecasted demands valued at \$27.6 million.

We reported a similar condition in our previous audit report on SSRs. At the end of FY 1985, 74 percent of the predicted demands had not materialized after at least 1 year past the required date. A DLA study of demands showed that more than 90 percent of the items for which SSRs were submitted in FYs 1984 and 1985 did not receive a demand during the first year. The low percentage of actual demands in comparison with the forecasted requirements on the SSRs demonstrated that the Military Departments' forecasts were unreliable.

Unvalued SSRs. The Navy and the Air Force frequently submitted unnecessary SSRs and DLA's acceptance of them did not prompt the DLA centers to initiate any positive action to provide logistics support for the SSRs. Based on our sample results, an estimated 291,400 of the 311,562 unvalued SSRs were submitted unnecessarily. The SSRs generally represented unwarranted expenditure of resources in preparing, submitting, and processing SSRs. In FYs 1990 and 1991, the four DLA centers received and accepted 311,562 SSRs from Navy and Air Force activities that did not have identifiable replenishment demand values because the SSRs did not contain a unit price or a specific replenishment demand quantity.

We statistically sampled 100 of the 311,562 SSRs and found that 42 SSRs did not contain forecasts of specific quantities of items for which supply support was being requested by a specific date. The 42 SSRs were submitted to register the Military Departments (primarily, the Navy) as a user of an item in the TIR file at DLSC for the Federal Catalog System. Most of the SSRs should not have been submitted to DLA because in 67 percent of the cases (28 SSRs), the Military Department submitting the SSR was already recorded as a user of the item in the catalog system. We estimated that 67,187 of the 311,562 SSRs were submitted only to register the Navy and Air Force as users of items; and that for 42,234 of those SSRs, the Navy and Air Force were already registered users, so the SSRs were submitted unnecessarily.

Supply Support Request Requirements

For the other 58 statistically sampled SSRs that contained forecasts of demand quantities but no unit price, their submission did not cause the DLA centers to take specific action to provide logistics support. We estimated that 244,375 of the 311,562 unvalued SSRs would not have caused the DLA centers to initiate action to provide logistics support. For 53 of the 58 SSRs, the items for which support was being requested were established items and the SSRs did not cause the DLA automated requirements determination system to consider the SSR forecast and precipitate buys to satisfy the SSR forecasts, because the SSR forecasts were relatively insignificant in comparison with historical demands for the items.

For four of the remaining five SSRs from the 58 unvalued SSRs, the essentiality of the items for which support was being requested was too low to warrant wholesale procurement and stockage by the DLA centers before an actual demand was submitted. For the one remaining SSR, the DLA center had sufficient stock on hand to satisfy the forecasted requirement, and therefore, they initiated no specific action to provide logistics support.

Monitoring the SSR Program. The Military Departments and DLA had not established systems or controls to monitor the effectiveness of the SSR program. Their accounting systems did not identify and report the cost of processing transactions relating to SSRs or the amount of funds being spent to buy inventory to satisfy the SSR forecasted requirements. The Military Departments and DLA were not analyzing and comparing the actual demands with the SSR forecasts to assess the reliability of forecasts and effectiveness of investments. A comparison would have allowed the Military Departments to improve the SSR process, as appropriate. The Military Department activities submitting the SSRs did not have data that would facilitate such an analysis.

Validated Supply Support Requests. To optimize investments in inventory, DLA required the supply centers to validate SSR forecasted requirements of \$5,000 or more before materiel was bought to satisfy the requirements. DLA canceled or reduced 2,727 requirements forecasts by about \$169 million (48 percent) of the \$349 million validated during the 4 years following our last audit of SSRs. We judgmentally sampled 77 SSRs that DLA centers validated in FYs 1991 and 1992 to determine the reliability of the validated requirements and the amount of materiel that the centers bought in response to the validated requirements. The 77 SSRs were from Army, Navy, and Air Force activities and had a total replenishment forecast requirements value of \$9.9 million before validation and \$6.6 million after validation by the submitting activities. Our review of the \$6.6 million validated requirements disclosed that \$2.0 million was unreasonable and \$1.6 million was not supported by adequate data. DLA initiated action to purchase \$2.1 million of

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materiel for 37 of the 77 SSRs. Of the \$2.1 million, \$1.5 million was to support unreasonable (\$.8 million) and unsubstantiated (\$.7 million) "validated" requirements (see Table 2).

Table 2. Summary of Review of Validated SSRs

	<u>Validated</u>		<u>Purchased</u>		<u>Not Purchased</u>	
	<u>Number</u>	<u>Value</u> (Million)	<u>Number</u>	<u>Value</u> (Million)	<u>Number</u>	<u>Value</u> ¹ (Million)
Reasonable	33	\$3.0 ²	13	\$.6 ²	20	\$2.4
Unreasonable	28	2.0	18	.8	10	1.2
Unsubstantiated	<u>16</u>	<u>1.6</u>	<u>6</u>	<u>.7</u>	<u>10</u>	<u>.9</u>
Total	<u>77</u>	<u>\$6.6</u>	<u>37</u>	<u>\$2.1</u>	<u>40</u>	<u>\$4.5</u>

¹ Includes SSR forecasts valued at \$1.6 million where partial SSR forecast quantities were purchased.

² Includes SSR forecasts valued at \$.2 million which represent the reasonable portion of SSRs classified as unreasonable.

We concluded that the validation process did not provide reliable data on which to base inventory investments, an identical conclusion to one that was reached in our prior audit.

We did not include the results of our review of the judgmental sample in our statistical projections. However, we brought some procurement actions relating to the judgmental sample to the attention of Army, Navy, Air Force, and DLA personnel because of unreasonable or unsubstantiated SSR requirements forecasts. They were generally responsive to our findings. Their response resulted in the cancellation or reduction of 12 procurement actions totaling \$849,971, based on purchase request or contract price. (In addition to the cancellation or reduction of procurement actions relating to the judgmental sample items, DLA also canceled or reduced 43 other purchase actions totaling \$678,035, based on purchase request or contract price, for SSRs relating to one of the end items in the judgmental sample because they were unreasonable.)

Purchasing Materiel for SSR Forecasts. The DLA supply centers were not investing large amounts to buy inventory to support SSRs compared to the amounts of forecasted demands on the SSR. The value of the investments appeared to diminish substantially from those made at the time of our prior audit. During our last audit, DLA's four supply centers had purchases in progress valued at \$37 million to provide supply support for SSRs and in FY 1987, DLA invested about \$58 million for initial procurement of items entering the wholesale supply system through SSRs.

DLA could not provide us with the total amount of inventory purchased for SSRs in FYs 1990 and 1991 because its accounting system changed after our

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prior audit and management no longer had oversight of total purchases for SSRs. Personnel at the four DLA centers told us they purchased about \$17 million of inventory for SSR forecasts from augmentation funding in FYs 1990 and 1991. DLA did not purchase inventory for 471 of the 500 SSRs that we statistically sampled. DLA bought about \$700,000 of inventory to support the remaining 29 SSRs with replenishment forecasts valued at \$3.8 million. The low incidence and value of purchases in comparison with the forecasted replenishment requirements, valued at \$306.2 million for the 500 SSRs sampled, strongly indicated that DLA was not buying much inventory because of SSR forecasts.

DLA's low investment in inventory was apparent for the SSRs that the DLA supply centers validated. Our judgmental sample of 77 SSRs with validated requirements valued at \$6.6 million disclosed that DLA was buying \$2.1 million of inventory to support the 77 SSRs. DLA was purchasing only 32 percent of the validated requirement, although the DLA requirements system had determined for the 77 SSRs, that purchases were necessary. Based on our sample results, we believe that DLA's investment in inventory for SSRs has declined in comparison with FY 1987. However, a change in investment amounts did not eliminate the purchase of excessive inventory. In 1986, we reported that excessive materiel was being bought and our current audit indicates that excessive materiel is still being bought because the forecasted requirements have not materialized.

Summary

The SSR program was inefficient and ineffective. The continuing high level of unreasonable and unsupported demand forecasts on SSRs, unnecessary SSRs, ineffective monitoring of SSRs, the diminishing investment in inventory for SSRs by DLA, and the lack of resulting demands for SSR items leads us to conclude that little risk but substantial savings could result from discontinuing the SSR program. The Military Departments and DLA have not invested the resources in the quality, control, and oversight of the SSR program to ensure its efficiency or effectiveness. The Military Departments assume no investment risk from submitting unreasonable or unsubstantiated demand forecasts on SSRs, because they pay for supply support only if they actually requisition materiel; which usually does not occur. Accordingly, the Military Departments have little to lose if SSRs to DLA are discontinued. On the other hand, the Military Departments spend considerable resources to develop, submit, process, and file nearly 1 million SSRs a year and DLA invests resources in processing, validating, and purchasing inventory to support new items based on SSR forecasts. Outlays could be avoided by terminating the SSR program. If the Military Departments believe they need supply support for new items from DLA, as an alternative action they could submit funded requisitions to DLA, which on the basis of historical demand for SSR items, should cost DoD, as a whole, a lot less than the current SSR program.

Recommendations, Management Comments, and Audit Response

We recommend that the Deputy Under Secretary of Defense (Logistics):

- 1. Direct the Military Departments to discontinue the submission of Supply Support Requests to the Defense Logistics Agency and**
- 2. Direct the Defense Logistics Agency to discontinue accepting, processing, and recordkeeping of Supply Support Requests.**

Management Comments. The Deputy Under Secretary of Defense (Logistics) (DUSD [Logistics]) concurred with the finding but nonconcurred with our recommendations. He stated that elimination of the SSR process would leave a significant void in the support process. As alternatives to our recommendations, the DUSD (Logistics) proposed to adopt the Department of the Army's SSR process; develop a tracking system to monitor SSRs; continue validation of SSRs prior to procurements over \$5,000; and include review, analysis, and monitoring capability in the DoD Standard System being developed. Additionally, he stated that the IMMs would be directed to accept only the retail requirement into the requirements determination system.

Although not addressed, the Army and the Air Force responded to the draft report, stating that the DUSD (Logistics) would be providing a DoD coordinated response. The Navy and DLA also responded and did not concur with the recommendations.

The Navy generally agreed with the finding but took exception to our statement of no notable improvement in the SSR process since the prior audit and that recommendations resulting from the prior audit of SSRs were not implemented. The Navy nonconcurred with our recommendations, stating that discontinuing the entire process without any other procedure would severely affect logistics support and, therefore, readiness. Additionally, the Navy stated that the SSR process is used for other functions besides forecasting requirements to the IMM. They stated the SSR is used to get a national stock number assigned, to register a user, to record peculiar information about the item, and to ensure that users are advised of any changes for or occurring on the item. The Navy strongly urged that a common remedial course of action be developed through discussion among the DUSD (Logistics), Services, DLA, and the DoDIG.

The DLA partially concurred with the finding but nonconcurred with the recommendation, stating that elimination of the SSR process would leave a major void in the support process. Additionally, DLA stated that the SSR process has other functions besides communicating requirements forecasts to the IMM. DLA stated that the SSR is also used as a request to get a national stock number assigned. DLA suggested that DLA and the Services jointly discuss options with the IG, DoD. Copies of managements' comments are in Part IV of this report.

Supply Support Request Requirements

Audit Response. We consider the DUSD (Logistics) comments and proposed alternative actions to be responsive to the finding and intent of Recommendations 1. and 2. We believe that the proposals from the DUSD (Logistics), when implemented, could provide adequate internal control over SSRs.

We agree with the Navy and DLA that the SSR process is used to do more than advise the IMM of forecasted requirements, but we believe the other functions could also be performed in other processes if the SSR process were eliminated. We believe that the DUSD (Logistics) proposal represents remedial action that will overcome the objections made against our recommendations yet achieves the intent of our recommendations.

We request that the DUSD (Logistics) provide the estimated dates for completion of the corrective actions proposed in a response to this final report.

Part III - Additional Information

Appendix A. Statistical Sampling Plan and Results

Four DLA supply centers provided computer tapes of their Provisioning Control History File as of April 1992. The files contained SSR data up to 5 years after submission and DLA acceptance. We identified 1.6 million SSRs with a replenishment value of \$578 million that the Military Departments submitted in FYs 1990 and 1991 and for which DLA had made a final decision to accept and provide future supply support. The supply support related to items that were centrally managed, stocked, and issued; managed as insurance or numeric stock objective items; or managed as not stocked, direct delivery, centrally purchased items. We concentrated on SSRs with a forecasted replenishment demand value of \$1,000 or more and SSRs with zero extended replenishment demand value. We used stratified attribute sampling to select two statistical samples of SSRs. One sample was of 500 SSRs with replenishment demands valued at \$306.2 million from 42,340 SSRs valued at \$1,000 or more with a total value of \$509.1 million. Our second statistical sample was a simple random sample of 100 SSRs from a universe of 311,562 SSRs with zero extended replenishment demand value. Both samples related to SSRs that two Navy and two Air Force inventory control points had submitted.

We also judgmentally sampled 77 SSRs with replenishment forecasts valued at \$9.9 million that DLA supply centers had validated at \$6.6 million in FYs 1991 and 1992. We did not project the results of this sample.

The results of the statistical samples were projected to the universe using ratio estimates methods for random and stratified sampling procedures. The sample results for dollars precision measures are presented in Tables 1., 2., and 3., with the estimates. Each estimated value has a 90-percent confidence level.

Appendix A. Statistical Sampling Plan and Results

Table 1. Projections on Reliability for Sample of 500 SSRs with Replenishment Forecasts *

<u>Audit Opinion</u>	<u>Value</u> (Million)	<u>Percent</u>	<u>Relative Precision</u> (Percent)
Reasonable	\$ 66.2	13	± 41.7
Unreasonable	118.2	23	± 17.4
Unsupported	<u>324.7</u>	64	± 14.7
Total	<u>\$509.1</u>		

* See page 18 for confidence statement.

Table 2. Projections on Sample of 100 Unvalued SSRs Submitted to Register Users in TIR *

<u>Military Department</u>	<u>Number Submitted</u>	<u>Already Registered</u>	
		<u>Number</u>	<u>Percent</u>
Navy	57,605	37,443	65
Air Force	<u>9,582</u>	<u>4,791</u>	50
Total	<u>67,187</u>	<u>42,234</u>	63

Relative Precision: (±) 19.3 percent for the number submitted and (±) 25.3 percent for the number already registered.

* See page 18 for confidence statement.

Table 3. Projections on Actions to Provide Logistics Support on Sample of 100 Unvalued SSRs *

<u>Military Department</u>	<u>Would not have caused DLA to initiate action to provide logistics support</u>	
	<u>Number</u>	<u>Percent</u>
Navy	14,401	6
Air Force	<u>229,974</u>	94
Total	<u>244,375</u>	

Relative Precision (±) 5.3 percent

* See page 18 for confidence statement.

Appendix B. Supply Support Request Process Problems and Recommendations From the Assistant Secretary of Defense (Production and Logistics) Study of Provisioning Process

The following is a list of findings from the May 1990 study on the SSR process.

- o A central data base of all SSRs to affect control, status, and analysis was nonexistent.

- o The availability of SSR management data for decisionmaking in the acquisition process was limited.

- o A fixed SSR format inhibits the submitters' ability to make quick changes to accommodate new requirements.

- o The SSR system cannot effectively process changes that have occurred in the requirements for logistics support.

- o Historically, in the first 2 years of stockage, the demand usage for SSR items was low.

The study recommended that the SSR process:

- o expand application of new data technologies to SSRs,

- o develop a plan defining requirements for future provisioning data access and exchange, and

- o assess the potential to eliminate the need for SSR transactions.

Appendix C. Summary of Potential Benefits Resulting from Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1. and 2.	Internal Control. Avoid the development, submission, processing and recordkeeping of SSRs and avoid unnecessary investment in wholesale inventory.	Undeterminable. We could not estimate with precision the cost to the Military Departments and DLA to generate, process, and oversee SSRs or the cost that DLA could avoid by not acquiring inventory to satisfy invalid SSRs. Funds put to better use of \$1.5 million were achieved during the audit because of DLA's canceled or reduced procurement actions.

Appendix D. Organizations Visited or Contacted

Office of the Secretary of Defense

Deputy Under Secretary of Defense (Logistics), Washington, DC
Office of the Assistant Secretary of Defense (Production and Logistics),
Washington, DC

Department of the Army

Headquarters, Deputy Chief of Staff for Logistics, Washington, DC
Headquarters, Army Materiel Command, Alexandria, VA
Army Armament, Munitions, and Chemical Command, Rock Island, IL
Aviation Systems Command, St. Louis, MO
Tank-Automotive Command, Warren, MI
Nuclear, Biological and Chemical Defense System, Aberdeen Proving Grounds,
Aberdeen, MD

Department of the Navy

Headquarters, Naval Sea Systems Command, Arlington, VA
Naval Supply Systems Command, Washington, DC
Navy Aviation Supply Office, Philadelphia, PA
Ships Parts Control Center, Mechanicsburg, PA
Navy Publishing and Printing Management Office, Washington, DC

U.S. Marine Corps

Marine Corps Logistics Base, Albany, GA

Department of the Air Force

Headquarters, Supply and Fuels Policy Division, Washington, DC
Headquarters, Air Force Materiel Command, Wright Patterson Air Force Base,
Dayton, OH
Ogden Air Logistics Center, Hill Air Force Base, Ogden, UT
Oklahoma City Air Logistics Center, Tinker Air Force Base, Oklahoma City, OK
Sacramento Air Logistics Center, McClellan Air Force Base, Sacramento, CA
San Antonio Air Logistics Center, Kelly Air Force Base, San Antonio, TX
Warner Robins Air Logistics Center, Robins Air Force Base, Warner Robins, GA

Defense Logistics Agency

Headquarters, Defense Logistics Agency, Alexandria, VA
Defense Construction Supply Center, Columbus, OH
Defense Electronics Supply Center, Dayton, OH
Defense General Supply Center, Richmond, VA
Defense Industrial Supply Center, Philadelphia, PA
Defense Logistics Services Center, Battle Creek, MI
Defense Operations Research Office, Richmond, VA
Defense Systems Automation Center, Columbus, OH

Contractors

McDonnell Douglas, St. Louis, MO

Appendix E. Report Distribution

Office of the Secretary of Defense

Deputy Under Secretary of Defense (Logistics)
Assistant to the Secretary of Defense for Public Affairs
Comptroller of the Department of Defense

Department of the Army

Secretary of the Army
Inspector General

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Air Force Audit Agency

Defense Agencies

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

Non-Defense Federal Organizations

Office of Management and Budget
Office of Federal Procurement Policy
U.S. General Accounting Office, National Security and International Affairs Division,
Technical Information Center
U.S. General Accounting Office, National Security and International Affairs Division,
Defense and National Aviation and Space Administration Management Issues
U.S. General Accounting Office, National Security and International Affairs Division,
Military Operations and Capabilities Issues

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

Deputy Under Secretary of Defense (Logistics) Comments



OFFICE OF THE UNDER SECRETARY OF DEFENSE

WASHINGTON, DC 20301-3000

ACQUISITION

August 31, 1993

(L/MRM)

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

THROUGH: CHIEF, CAIR, PI / *RW 1 Sept 93*

SUBJECT: Audit of Supply Support Requests

This is the Department of Defense response to the DODIG draft audit report, "Follow-up Review of Requirements Forecasts on Supply Support Requests," dated June 15, 1993 (Project No. 2LE-0015). The DoD concurs with the findings in the audit; however, pursuant to our meetings with your representatives, we have developed the following alternatives: (1) adopt the Department of the Army's supply support request process; (2) develop a tracking system to monitor the supply support requests; (3) continue validation of the forecasts prior to initiation of procurement actions when the dollar value exceeds \$5,000; and, (4) identify the requirement for a Data Review, Analysis and Monitoring Aid (DRAMA)-like capability to the Joint Logistics Systems Center.

The detailed DoD comments to the draft audit report recommendations are provided in the attachment. The DoD appreciates the opportunity to comment on the DODIG draft audit report.

James R. Klugh
James R. Klugh

Deputy Under Secretary (Logistics)

Attachment

DODIG DRAFT AUDIT REPORT - DATED JUNE 15, 1993
PROJECT NO. 2LE-0015

"DRAFT AUDIT REPORT ON THE FOLLOW-UP REVIEW ON REQUIREMENTS FORECASTS
ON SUPPLY SUPPORT REQUESTS"

* * * * *

DODIG RECOMMENDATIONS

RECOMMENDATION 1: The DoDIG recommends that the Assistant Secretary of Defense (Production and Logistics) direct the Military Departments to discontinue the submission of Supply Support Requests to the Defense Logistics Agency.

DOD RESPONSE TO THE DRAFT REPORT RECOMMENDATION: Nonconcur. While the Department of Defense agrees with the audit findings, it nonconcur with the recommendation because the elimination of the supply support request process would leave a significant void in the support process. First, the supply support requests process has a cataloging function that is required. It is used to request National Stock Number assignment and to register the activity as a user. Second, the supply support request is the means for the Military Departments and Defense Agencies to communicate their forecasted requirements for consumable items with the integrated materiel manager. The DoD has alternative recommendations that it would like to offer:

1. The Deputy Under Secretary of Defense (Logistics) will direct the Department of the Air Force and the Department of the Navy to adopt the Department of the Army's supply support request process. Requirements will be computed by fiscal year to specific fielding schedules and in accordance with the development of specific retail allowances. Once completed, the Military Departments will only forward the retail requirements to the integrated materiel manager. In addition, insurance items will only be provided and procured, if required, at the end of the production schedule.

2. The Deputy Under Secretary of Defense (Logistics) will direct the Military Departments and Defense Agencies to develop a tracking system to monitor the supply support request process. This system will measure the effectiveness of the supply support requests.

ATTACHMENT

RECOMMENDATION 2: The DoDIG recommends that the Assistant Secretary of Defense (Production and Logistics) direct the Defense Logistics Agency to discontinue accepting, processing, and recordkeeping of Supply Support Requests.

DOD RESPONSE TO THE DRAFT REPORT RECOMMENDATION: Nonconcur. The Integrated Materiel Manager (IMM) will be directed to accept only the retail requirements into his requirements determination system. In addition, the integrated materiel manager will only include the quantities identified on the supply support request. Procurement for the item will be initiated a leadtime from the support date identified on the support request.

The (IMM) will be directed to continue validation of the supply support request forecasts prior to initiation of procurement action when the dollar value exceeds \$5000.

Finally, the DoD supports the Defense Logistics Agency's development of the Data Review, Analysis, and Monitoring Aid. This artificial intelligence platform provides the integrated materiel manager with a data base browsing capability. This capability provides the means to review, analyze and monitor data elements that are presently external to the integrated materiel manager. The prototype was sufficiently developed as a proof-of-concept. With access to Military Departments and contractor information, the integrated materiel manager will significantly enhance the existing supply support request process. At present, the Data Review, Analysis and Monitoring Aid utilizes data from the Logistic Support Analysis Records. It has the capability to track this data, recognizing changes to significant data elements, providing the user with the pertinent data concerning any changes, recording user decisions, and maintaining an audit trail of the data and the decisions. The DoD will identify the requirement to have this kind of capability included in the DoD Standard System being developed by the Joint Logistics Systems Center.

Department of the Army Comments



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



10 AUG 1993

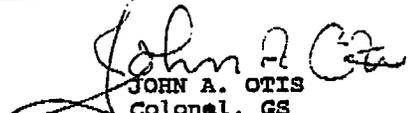
DALO-SMP

MEMORANDUM FOR *Assistant Inspector General (Auditing), DAD*
~~INSPECTOR GENERAL, SAIG-PA~~

SUBJECT: Draft Audit Report on the Follow-up Review of Requirements Forecasts on Supply Support Requests (Project No. 2LE-0015)

1. Reference memorandum, DAIG, SAIG-PA, 28 June 93, subject as above.
2. The above draft audit recommends that SSRs be discontinued. SSRs are the vehicle for providing Army requirements to DLA. This recommendation will impact Army readiness if adopted. The cancellation of supply support requests is being reviewed by component representatives and the Office of the Secretary of Defense (OSD). At this time the Army is working to develop an OSD/Service position. We have participated in the Provisioning Implementation Coordination Team (PICT), which is developing a joint Service recommendation to the audit.
3. The Army has provided OSD with standard operating and processing procedures used by the NICPs to determine SSR submittal and guidance to answer recommendation of this audit. There is no further requirement from OSD at this time.
4. POC for this action is Ms. Diane Lee, DALO-SMP, x46760.

FOR THE DEPUTY CHIEF OF STAFF FOR LOGISTICS:


JOHN A. OTIS
Colonel, GS
Chief, Supply Policy
Division

CF:
DALO-RMP
OASD(P&L)

Department of the Navy Comments



THE ASSISTANT SECRETARY OF THE NAVY
(Research, Development and Acquisition)
WASHINGTON, D.C. 20350-1000

20 August 1993

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR
GENERAL FOR AUDITING

Subj: DODIG DRAFT AUDIT REPORT ON THE FOLLOW-UP REVIEW OF
REQUIREMENTS FORECASTS ON SUPPLY SUPPORT REQUESTS
(PROJECT NO. 2LE-0015)

Ref: (a) DODIG memo of 15 Jun 93

Encl: (1) DON Comments

1. In reply to your memorandum of June 15, 1993, we have reviewed the subject report. We concur with the basic finding that the Supply Support Request (SSR) process has not worked well. However, we do not agree that there have been no notable improvements in the process since your 1988 audit. Navy has made improvements to the system, notably in the requirements forecasting process. Also, we do not concur with the recommendation to discontinue submission of SSRs to the Defense Logistics Agency (DLA). The process has a number of valid uses. It should be improved rather than ended. We recommend the Services, DLA, and ASD (P&L) meet to develop corrective actions.

2. Navy detailed comments are in enclosure (1).

A handwritten signature in black ink, reading "Edward C. Whitman", is positioned above the printed name.

Edward C. Whitman

Copy to:
NAVINGEN
NAVCOMPT (NCB-53)

DEPARTMENT OF THE NAVY RESPONSE
TO
DODIG DRAFT REPORT OF 15 JUNE 1993
ON
FOLLOW-UP REVIEW OF REQUIREMENTS FORECASTS ON SUPPLY
SUPPORT REQUESTS
(PROJECT NO. 2LE-0015)

Summary of Finding

The Supply Support Request (SSR) program implemented by the Military Departments and the Defense Logistics Agency (DLA) had not improved to any notable extent since our prior audit in 1987. Requirements forecasts on SSRs were still unnecessary, unreasonable, or unsubstantiated by documentation at the submitting activities, forecasted demands did not materialize, and the Military Departments and DLA ineffectively monitored the SSR program. The conditions occurred because the recommendations from our prior audit were generally not implemented to control SSR submission, validation, and inventory acquisition. As a result, the Military Departments and DLA wasted resources to generate, process, and in some cases, validate unnecessary, unreasonable, and unsubstantiated SSR forecasts. Additionally, DLA bought materiel prematurely or unnecessarily to satisfy unfounded requirements.

DON Comment

Concur in part. The Navy generally agrees with the findings addressed in this audit. The SSR process as a means of adequately portraying future requirements is neither efficient nor for the most part effective. This is mainly due to the inflexibility of the process and its cumbersome means of updating data as a result of the dynamics of fielding a new weapon system. The requirements forecasted on the SSR are computed at a specific period in time based upon data available at that time. Changing factors such as program data, population, fielding dates, affect the initially computed requirement; and the delta in the requirement is not easily transmitted to the managing activity.

However, the Navy takes exception with the finding that there has been no notable improvement in the process since the prior audit in 1988, and that the recommendations resulting from that audit were not implemented. The Navy did rely heavily on the implementation of Resystemization, Navy's systems modernization effort, to resolve many of the shortcomings of our existing processes. With the cancellation of the Resystemization effort, alternatives to improving the current systems were developed and implemented. These initiatives required longer time frames to develop and implement, but the Navy has taken the appropriate corrective action. We have changed our requirements computation, retained documentation supporting the requirement, and have substantially reduced SSRs submitted with no requirements.

Recommendations

We recommend that the Assistant Secretary of Defense (Production and Logistics):

- a. Direct the Military Departments to discontinue the submission of SSRs to DLA.
- b. Direct DLA to discontinue accepting, processing, and record keeping of SSRs.

DON Comment

Do not concur. The Navy does not support the termination of the SSR process. Although the requirements forecast is a significant part of the SSR, it is only one of the primary reasons for this transaction; and its total elimination would leave a major void in the support process. The Services submit SSRs to obtain national stock numbers, to record peculiar management information, to register as a user of an already established item, to record items in the Weapon System Support Program, and to ensure they are advised of any changes proposed for or occurring on a specific item. We agree that the requirements forecasting process needs to be significantly improved; however, discontinuing the entire process without any other procedure in place would severely affect the logistics support and therefore the readiness of our operating forces.

We strongly encourage a group discussion among the Services, DLA, OSD (P&L), and DODIG to develop a common remedial course of action for the remaining shortcomings of the SSR process and its dependant data processing routines. The Joint Logistics Systems Center should also be a participant in the process, as the development of standard DoD systems is their area of prime responsibility.

Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, D.C. 20330

17 AUG 1993

MEMORANDUM FOR ASSISTANT INSPECTION GENERAL FOR AUDIT FOLLOWUP
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

sub 2/17
SUBJECT: DoD(IG) Draft Report on the Followup Review of
Requirements Forecasts on Supply Support Request,
(Project No. 2LE-0015) - ACTION MEMORANDUM

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force comments on subject report.

The Office of the Under Secretary of Defense, Acquisition and Technology, Materiel and Resource Management Policy (OUSD [A&T] L/ MRM) held a meeting with the DoD (IG) and Service representatives on 5 Aug 93. At the meeting it was determined an OUSD response to the DoD (IG) would be more appropriate than each Service providing an individual response. Therefore, Ms Mary Horvath from OUSD will provide a DoD coordinated response by 16 Aug 93.

Our action officer for this case is Jerome Yates, (703) 697-2369.

Handwritten signature of Allen W. Beckett in cursive.

ALLEN W. BECKETT
Sr Analyst, Sup/Fuels Pol Div
Directorate of Supply
DCS/Logistics

Defense Logistics Agency Comments

FOI

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on the Follow-up Review of
Requirements Forecasts on Supply Support Requests,
Project No. 2LE-0015

This is in response to your 15 June 1993 request.

2 Encl

JACQUELINE G. BRYANT
Chief, Internal Review Office
Office of Comptroller

MFR:

Response is due to the IS on 16 Aug 93.
Controlled by suspense CI-06.

ACTION OFFICER: Anthony E. Broadnax, FOI, x49607

TYPE OF REPORT: AUDIT

DATE OF POSITION: 1 Sep 93

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO. Draft Report on the Follow-up of Requirements Forecasts on Supply Support Requests (Project No. 2LE-0015)

FINDING: The Supply Support Request (SSR) program implemented by the Military Departments and DLA had not improved to any notable extent since our prior audit in 1987. Requirements forecasts on SSRs were still unnecessary, unreasonable, or unsubstantiated by documentation at the submitting activities, forecasted demands did not materialize, and the Military Departments and DLA ineffectively monitored the SSR program. The conditions occurred because the recommendations from our prior audit were generally not implemented to control SSR submission, validation, and inventory acquisition. As a result, the Military Departments and DLA wasted resources to generate, process, and in some cases, validate unnecessary, unreasonable, and unsubstantiated SSR forecasts. Additionally, DLA bought materiel prematurely or unnecessarily to satisfy unfounded requirements.

DLA COMMENTS: Partially concur with the findings of this audit which state that the SSR process has problems. Better communication between the Military Departments and DLA is necessary. The SSR is the means for the Military Departments and Agencies to communicate to the Integrated Materiel Manager (IMM) their forecasted requirements for consumable items. However, if the item in question is identified by a Contractor and Government Entity (CAGE) Code and Part Number, and not by a National Stock Number (NSN), the SSR is also used as a request for cataloging action to assign the NSN. The elimination of the SSR process leaves a major void in the support process.

SSR monitoring suggested in this audit and the previous audits would not improve the process itself, but would further support the findings, since it requests comparisons be made two or more years after the inventory investment is made.

Forecasting is not an accurate science, and since most weapon systems are produced in relatively low densities, and with cutting edge technologies, failure rates are at best approximate.

Since the previous audit, DLA took the following significant actions:

1. As depicted in this audit, DLA Supply Centers requested the Military Services to validate SSR forecasts prior to initiation of procurement action when the dollar value exceeded \$5,000. These validations resulted in substantial investment savings.

2. In order to play a more active role in the process, DLA began development of the Data Review, Analysis, and Monitoring Aid (DRAMA). This Artificial Intelligence platform provides DLA with a data base browsing capability. As the name implies, DRAMA provides DLA with the means to review, analyze, and monitor data elements that are presently external to DLA. The prototype was sufficiently developed as a proof-of-concept. With access to Military Department and Contractor information, DLA is able to significantly enhance the existing SSR process. At present, DRAMA uses data from the Logistic Support Analysis Records (LSAR). DRAMA is currently capable of tracking LSAR-type data, recognizing changes to significant data elements, providing the user with the pertinent data concerning any changes, recording user decisions, and maintaining an audit trail of the data and the decisions. The existing prototype screens the following type of data: date the parts are required, number of systems fielded, deletions of the part and/or its next higher assembly from the configuration, Military Department forecasts, corresponding Contractor forecasts, etc. Although DRAMA is presently a stand alone platform, it generates transactions capable of updating the DLA materiel Management system (SAMMS). It can be enhanced to interface with any Military Department or Contractor systems. Finalization of DRAMA has been stalled in the last few years by budget cutbacks. It is presently unfunded since it has not been included in the DoD standard system scheduled for near-term deployment. Its functional requirements and concept are being included in the Corporate Information Management (CIM) target standard system.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

(X) NONCONCUR

ACTION OFFICER: John Ferguson/ MMSLR/ DSN:28-46197, 8/12/93

PSE REVIEW/APPROVAL: James J. Grady, Jr., Deputy Executive
Director, Supply Management, MMS, x44735, 8/16/93

COORDINATION: Anthony Broadnax, FOI, x49607, 8/18/93

Oliver Coleman, FOI, x47433, 8/18/93

DLA APPROVAL: Helen T. McCoy

TYPE OF REPORT: AUDIT DATE OF POSITION: 1 Sep 93

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO. Draft Report on the Follow-up of
Requirements Forecasts on Supply Support
Requests (Project No. 2LE-0015)

RECOMMENDATION 2: We recommend the Assistant Secretary of
Defense (Production and Logistics) direct the Defense Logistics Agency
to discontinue accepting, processing, and recordkeeping of Supply
Support Requests.

DLA COMMENTS: Nonconcur. The elimination of the SSR process leaves a
major void in the support process. The SSR is the means for the
Military Departments and Agencies to communicate their forecasted
requirements for consumable items to the Integrated Materiel Manager
(IMM). However, if the item in question is identified by a Contractor
and Government Entity (CAGE) Code and Part Number, and not by a National
Stock Number (NSN), the SSR is also used as a request for cataloging
action to assign the NSN. The corresponding recommendation, therefore,
implies that the Military Departments submit to DLA funded part-numbered
requisitions. Considering that the turn around time in this instance
will be, at the minimum, the Procurement Leadtime, the possibility of
weapon system downtime (non-availability) may be significantly
increased.

We suggest that DLA and the Military Departments jointly discuss options
with the DoDIG at your earliest convenience.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:
(X) Nonconcur.

ACTION OFFICER: John Ferguson, MMSLR, x46197, 8/12/93

PSE REVIEW/APPROVAL: James J. Grady, Jr., Deputy Executive
Director, Supply Management, MMS, x44735, 8/16/93

COORDINATION: Anthony E. Broadnax, FOI, x49607, 8/18/93
Oliver Coleman, FOI, 47433, 8/18/93

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