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MANAGEMENT ATTENTION IS NEEDED TO IDENTIFY REASONS FOR HIGH VOL--ETC(U)
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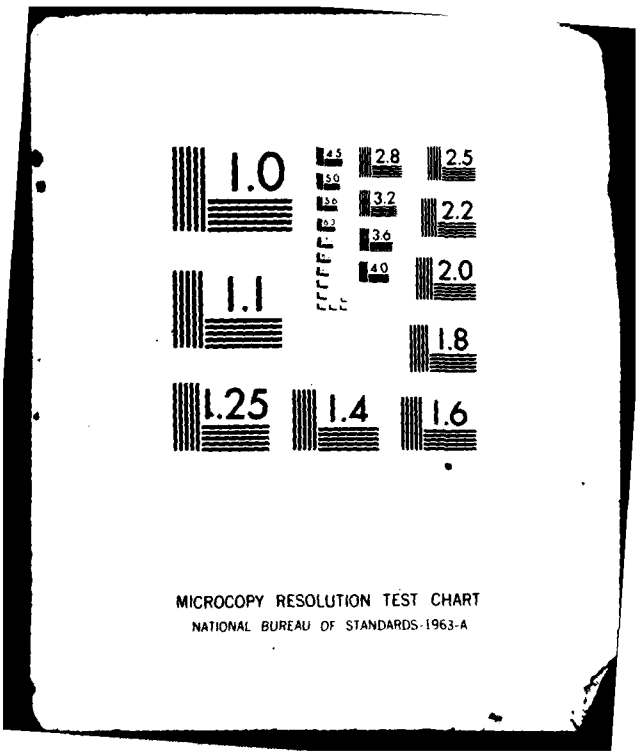
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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

MARCH 26, 1981

B-201670

The Honorable John O. Marsh, Jr.
The Secretary of the Army

Dear Mr. Secretary:

Subject: Management Attention Is Needed To Identify Reasons for High Volume of Serviceable Material Returns to Depots (PLRD-81-12)

We have completed our review of the Department of the Army's management of field returns of serviceable material to Army depots. We found that the Army does not identify the causes for field returns of serviceable excess material. As a result the Army does not have the means to determine appropriate corrective actions.

We started this review because, while reviewing other Army supply activities, we noted that returns of serviceable material from field units were unusually high. Since an earlier Army study had disclosed that about 30 percent of all material requisitioned by Army field units is subsequently returned to depots, we were concerned about the impact of this on depot workload and transportation costs.

To determine the impact on depot operations, we obtained information from the Depot Systems Command and one major depot in Pennsylvania. To identify the reasons for returns, we obtained data from supply activities at the Army Training Center at Fort Dix, New Jersey. We also visited related Army headquarters command elements.

The U.S. Army Materiel Development and Readiness Command (DARCOM), the Army's wholesale inventory manager, has five subordinate commands. The subordinate commands, commonly called inventory control points (ICPs), are responsible for the procurement, storage, issuance, and disposal of material. They respond to material requisitions from the retail user level. At this level, the Army's 40 installations, 16 combat divisions, and 5 corps support commands are authorized stockage of $833 million of inventories.

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As of March 1, 1980, the ICPs managed a wholesale inventory valued at over $4 billion of secondary and Army stock fund material. In fiscal year 1980, the ICPs were appropriated $455.3 million for the procurement of additional secondary material.

When the logistics system is operating effectively, there should be few field returns of serviceable material. However, serviceable field returns have generally been repair parts, components, and assemblies that were excess to the needs of the returning unit. Excess material is normally any quantity on hand greater than that authorized for stockage.

Returns of excess material have been a major concern to the Army for some time. It has taken some actions to resolve the problem:

--Conducted a human engineering laboratory repair parts review to examine all aspects of the repair parts supply system--to identify problems and recommend solutions.

--Revised the career management field to provide a new military occupational specialty for the repair parts clerk at the unit level.

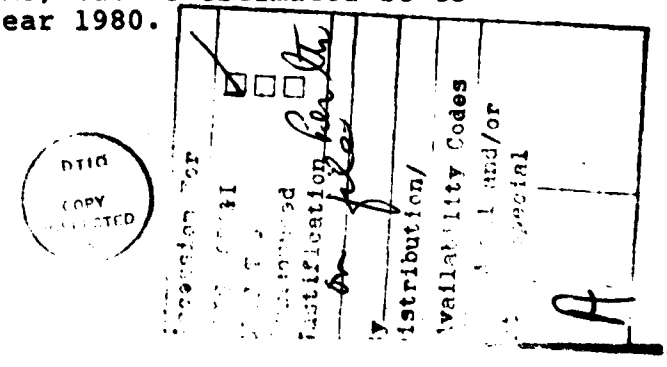
--Revised Army Regulation 710-2--Materiel Management for Using Units, Support Units, and Installations--to make instructions easier to understand.

--Reviewed the maintenance float policies and procedures for possible reduction of the amount of items in the maintenance float.

Despite Army efforts, a significant amount of serviceable material continues to be returned and the causes for it have not been determined.

SIGNIFICANCE OF MATERIAL RETURNS

Every material return to the wholesale level represents an expenditure of resources in terms of work force to process and handle the item and transportation costs from the depot to the retail level and return. Depot Systems Command officials said the cost for processing items returned from October 1979 through June 1980 was about $7.5 million. We could not readily identify transportation cost for returned items, but we estimated it to be at least $10 million for fiscal year 1980.



Data provided by DARCOM disclosed that the value of material being returned is significant and has increased during the past 3 years. Material returned to the five ICPs for the past 3 years is shown in the following table.

	Fiscal year		
	1978	1979	1980 (note a)
Army Command	(millions)		
Missile Materiel Readiness Command	$ 24.7	$ 33.4	$ 42.7
Tank-Automotive Materiel Readiness Command	37.0	32.3	66.4
Armament Materiel Readiness Command	35.7	39.3	42.5
Communication and Electronics Materiel Readiness Command	23.2	29.5	31.5
Troop Support and Aviation Materiel Readiness Command	70.6	58.4	64.6
Total	$191.2	$192.9	$247.7

a/Includes some estimates which were based on prior returns.

Returns of unserviceable material for repairs is to be expected. However, many items returned do not require repair. Data provided by the Communications and Electronics Materiel Readiness Command disclosed that, for the 9-month period ending June 30, 1980, over $16.6 million of serviceable stock fund items were returned. This equated to 17 percent of the total demand for these type items during that period. During about the same period, serviceable stock fund material returned to all the ICPs amounted to over $115 million.

We support the practice of field units returning excess serviceable stocks to the wholesale system. Such stock are used by wholesale inventory managers to satisfy requirements, thus reducing procurements and repair costs. Also, in response to a recommendation in our May 1980 report, 1/ 100

1/"The Army Can Save Millions Annually by Properly nsidering Serviceable Returns In Its Requirements Computation" (LCD-80-64, May 15, 1980).

percent of these returns are now being applied to offset forecasted requirements. Actions taken as a result of that report resulted in estimated annual savings of $46 million. While we support the return of serviceable stocks, we believe the Army should be able to determine the reasons the field units have so much excess material requiring return to the wholesale level.

Impact on depot operations

Depot Systems Command officials estimated that, from October 1979 through June 1980, about 4 percent of the total line items processed were returned items. They estimated the depots' processing costs for these returns at $7.5 million. In the opinion of those officials, returned items--serviceable and those needing repair--have not significantly affected depot operations.

Transportation costs

Material is returned almost exclusively by commercial transportation. At the retail level, we found that the units or installations paid transportation cost if the returned items were stock fund material, and the returning activity received credit. If both situations did not exist, then the receiving depot paid the transportation cost.

Also at the retail level, the transportation cost for returned items was paid with operation and maintenance, Army funds. Because these type funds were used to pay all transportation, the cost for returned items could not be readily identified. A similar situation existed at the depot level.

While not specifically identifiable, transportation costs for material returns can be estimated by applying Department of Defense's standard factor (.065) for packing, crating, and transportation to the acquisition value. Applying this factor to the serviceable returns estimated for fiscal year 1980 would result in about $10 million in transportation costs.

Effective October 1, 1980, the Army changed its procedures for paying transportation costs for stock fund material. Under the new procedure, the Army's stock fund will assume all transportation costs--both initial issues and returns. At the end of the year, the Army will determine the total transportation costs relative to stock fund sales and compute a factor

for transportation. For the next fiscal year, the standard price for stock fund material will be adjusted by this factor to cover costs of transportation. The surcharge will be adjusted each succeeding year.

The Army plans to monitor the effects of this change on the volume of requisitions and returns and expects an increase in returns. The rationale for this is that activities will have less incentive to hold material excess to needs if they do not have to pay the transportation costs.

Returns can also be expected to increase because of recent Army actions concerning retention of stocks at the retail level. For example, in November 1980, the Army eliminated the 3-year retention level for critically managed items. The Army is also seeking Defense's approval to reduce the retention level of non-critically managed items from 3 years to 1 year.

REASONS FOR MANY RETURNS NOT KNOWN

Prior Defense reports have recognized the need to identify causes for material being returned to the wholesale level. One such report in February 1976 noted that:

> "Showing percent [of returns] by cause will, over a period of time, provide managers with a guide or average which will enable them to concentrate on causes that are becoming excessive."

Using data included in two earlier Defense reports, the 1976 report attempted to identify primary reasons for returns. While the intent may have been good, we believe the analysis did not present meaningful data for managers to use in determining the reasons that units have excess stocks requiring returns. For example, two major categories listed were (1) "turn-in of items for stock fund credit" and (2) "unaccounted for returns." Using the data from the two earlier reports, the 1976 report showed that a total of 56 percent were returned for credit and 21 percent of returns were unaccounted for. That report recognized the procedural weaknesses in identifying causes by noting that "no accurate reason or cause could be pinpointed" for the returns included in these two categories.

Our review disclosed that the Army still has no procedures for accumulating data to accurately reflect the reasons for material returns.

We contacted using units at Fort Dix, New Jersey. Installation supply personnel gave us general reasons for the returns:

--Items become excess to installation supply when authorized stockage levels are revised.

--Items become excess to installation supply authorized stockage levels due to returns by using units. Reasons cited for unit turn-ins were unit deactivation or transfer, changes in unit mission, changes in unit authorized stockage level, discrepant shipments to units, and unit equipment authorization changes.

To determine specific reasons for unit turn-ins, we selected from installation supply records 17 turn-in transactions to trace to the using unit. The transactions were returns of serviceable items from 12 different using units located at Fort Dix. Personnel at the using units stated that they were unable to provide documentation to show the reasons for any of those returns. Therefore, they could not determine (1) the causes of excess material, (2) the necessary corrective action which will produce the greatest benefit, nor (3) the effectiveness of any corrective action.

CONCLUSIONS AND RECOMMENDATIONS

Millions of dollars of serviceable items are returned annually from field units to the wholesale depots. Although depot officials believe that returns have not adversely affected depot operations, the cost for handling and moving these items amounts into the millions annually.

The Army has expressed concern over the volume of returns, but has not identified the reasons for material being excess and, thereby, requiring its return. Under the Army's supply practices and procedures, data needed to quantify the causes for returns are not accumulated and maintained.

Without knowing why excesses are being generated, effective corrective action cannot be taken. We recommend, therefore, that you (1) establish a pilot program at one or more Army installations to identify and quantify the reasons for excess material and field returns and (2) provide this information to Army managers so that corrective action can be taken.

GENCY COMMENTS

Officials of the Army's Office of the Deputy Chief of taff, Logistics, stated that material excesses and serviceable ield returns are a concern to the Army and that action should e taken to improve the situation. They stated that since 1976, arious improvements have been made in developing data bases hich could be used to accumulate and maintain information for nalysis. They also stated that they will plan a pilot program o be initiated at an installation-level supply activity to gather nformation on the cause/quantity relationship of excess material nd serviceable field returns. They believe that such a program ould enable the Army to assess the current situation and note hanges made since 1976. These officials stated, however, that he pilot program would have to be considered in light of ther current programs or actions in process.

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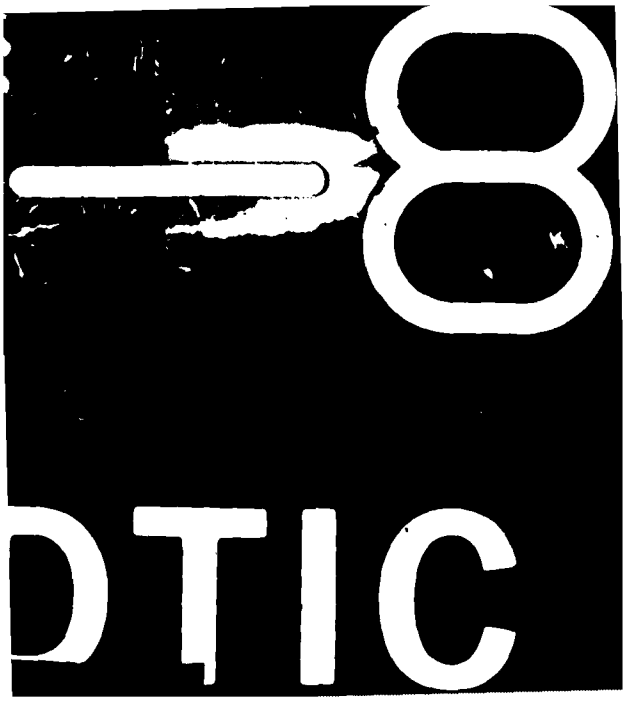
As you know, section 236 of the Legislative Reorganiza- ion Act of 1970 requires the head of a Federal agency to sub- it a written statement on actions taken on our recommendations o the Senate Committee on Governmental Affairs and the House ommittee on Government Operations not later than 60 days after he date of the report and to the House and Senate Committees n Appropriations with the agency's first request for appropri- tions made more than 60 days after the date of the report.

We are sending copies of this report to the Director, ffice of Management and Budget, and to the Chairmen of the ppropriate congressional committees.

Sincerely yours,

Donald J. Horan

Donald J. Horan
Director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