

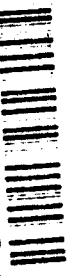


GAO

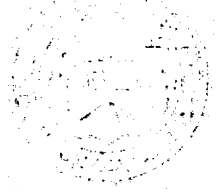
Report to the Acting Secretary of the Navy

# NAVY INVENTORY

## Better Controls Needed Over Planning Program Requirements

AD-A267 419  


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ELECTE  
AUG 3 1993  
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**United States  
General Accounting Office  
Washington, D.C. 20548**

**National Security and  
International Affairs Division**

B-252567

July 1, 1993

Admiral Frank B. Kelso, II  
Acting Secretary of the Navy

Dear Admiral Kelso:

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DTIC QUARTERMASTER DIRECTOR

We have reviewed the Navy's management of nonrecurring requirements for ship and submarine parts, referred to as planned program requirements. Specifically, we examined the adequacy of the Navy's monitoring and internal controls for its planned program requirements. This report highlights several issues that the Navy can address to achieve better oversight of these requirements.

**Background**

The Navy's Ships Parts Control Center is the inventory control point that manages ship and submarine parts. The Navy uses planned program requirements as a basis to purchase and reserve parts for future needs. These requirements generally cannot be forecasted because they represent one-time needs and are not based on historical experience. For example, a planned program requirement may be for material needed for future ship alterations. Funded planned program requirements are considered in the supply demand reviews<sup>1</sup> to determine if procurement or repair of inventory is needed. Unfunded planned program requirements are principally used to prevent disposal of inventory.

As of March 29, 1992, the Ships Parts Control Center had about 400,000 funded planned program requirements, valued at over \$2 billion. During fiscal year 1991, the Center budgeted \$387 million for planned program requirements.

**Results in Brief**

Weaknesses exist in the Ships Parts Control Center's internal controls over and monitoring of planned program requirements. Specifically, the Center's files contained duplicate and unauthorized planned program requirements, as well as inappropriate requirements for which the Center did not budget and did not use to support specific supply actions. In addition, the Center's written guidance for validating these requirements was inadequate. Duplicate and unauthorized requirements could result in the possible procurement of unneeded materials.

<sup>1</sup>Supply demand review is the comparison of inventory levels with the requirements for an item, to determine if a supply action, such as procurement, repair, or disposal, is needed.

Although the planned program requirement system has been used by the Navy for many years, adequate management data was not available to analyze how well it operated. Improved control over and monitoring of the system by the Center could help ensure that the Navy's planned program requirements are valid and satisfied in a timely and efficient manner.

The Center has taken some measures to identify system problems and has reduced the number of planned program requirements in its file. Also, as a result of our work, the Center intends to emphasize this subject in its next management control review cycle.

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## Internal Control Weaknesses

We identified internal control weaknesses involving duplicate and unauthorized planned program requirement records, inappropriate records, and inadequate validation procedures.

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## Duplicate and Unauthorized Planned Program Requirement Records

Our review of the Ships Parts Control Center's planned program requirement file identified over 200 duplicate entries with a total value was about \$912,600, of which \$104,162 was for funded requirements. Center officials agreed that these entries were duplicate and removed them from the file.

Although each requirement should be justified under 1 of 50 authorized project codes, the file contained funded planned program requirements for over \$15 million that were not justified under authorized project codes. Center officials either removed these requirements from the file or justified them under an authorized code.

The Naval Audit Service also reported<sup>2</sup> on duplicate planned program requirements in May 1992. The audit agency concluded that the Ships Parts Control Center had insufficient internal controls in place to identify potentially identical planned program requirements.

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## Inappropriate Planned Program Requirement Records

The Center's planned program requirement file contained over 2,600 records for nuclear components managed by the Naval Sea Systems Command. The Command had assumed that it needed to establish a planned program requirement in order to obtain a stock number for an item. However, we questioned this and the Command and the Center

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<sup>2</sup>Strategic Submarine Support Department Planned Program Requirements, Naval Audit Service, Report Number (057-N-92), May 26, 1992.

deleted the entries because neither activity budgeted for or initiated supply actions based on the requirements. Including these planned program requirements in the Center's file illustrates another internal control weakness in the system.

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### Planned Program Requirement Validation Procedures

Considerable time can lapse between establishing a requirement and awarding a contract, therefore, it is essential to validate requirements before funds are obligated. Although the Center requires that planned program requirements be validated before starting a procurement action, it does not have adequate written guidelines to describe the basic steps necessary to ensure that the requirements are valid and to continuously ensure their validity before finalizing procurement action.

Center officials recognize that validation must occur before obligating funds and stated that they are developing procedures on this subject to be implemented by mid-1993.

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### Planned Program Requirement Monitoring Ineffective

The Center accumulates little statistical data on planned program requirements. Statistical data would be useful in analyzing the Center's performance to identify potential problem areas. For example, the Center lacked adequate data to routinely monitor its performance in

- successfully matching customer requisitions to planned program requirements,
- identifying on-hand stocks reserved for planned program requirements at the expense of other needs, and
- measuring the extent and effect of slippage in planned program requirement delivery dates.

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### Requisition Matching Data

The Ships Parts Control Center does not accumulate data on the rate that its planned program requirements match corresponding customer requisitions. The Center's system automatically removes these requirements after the required delivery date has passed, without ensuring that the customer had requisitioned the material.

At our request, the Center developed matching data for planned program requirements, which represented about 55 percent of total requirements. Data for the 1-year period, ending July 1992, showed that only about 32 percent of these planned program requirements whose delivery dates

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had passed could be specifically matched to customer requisitions. One possible consequence of not being able to match customer requisitions to the requirements is that the Center cannot ensure that it purchased only needed materials.

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### Reservation of Inventories

The Center can use planned program requirements to protect inventory from routine requisitions to ensure having the items on hand to satisfy intended customers. Our review of the file showed that the Center established over \$580 million of planned program requirements, of which \$140 million protected on-hand assets for provisioning projects.<sup>3</sup> Center officials advised us that anticipation of provisioning requisitions should normally not take precedence over normal requisitions and agreed to research this condition. They found that generally provisioning planned program requirements protected assets for closely monitored programs. However, a review of questionable planned program requirements valued at \$19.5 million indicated that most were invalid or improperly protected on-hand assets. As a result, the Center released over \$12 million in assets for normal requisitions.

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### Required Delivery Date Changes

Required delivery dates and the time needed to purchase and receive items determine when the Center takes action to satisfy a planned program requirement. Moving delivery dates further into the future can cause problems for the Center if procurement action has already been initiated. Sometimes procurements may have to be canceled to prevent purchase of unneeded inventory for requirements that fail to materialize. Review of planned program requirement transactions for a 5-week period showed 17,736 required delivery date changes valued at over \$7 million. Over 95 percent of these date changes extended the dates. Provisioning planned program requirements accounted for about 76 percent of the changes and 85 percent of the value during the 5-week period.

A subsequent review by the Center showed that most delivery date extensions were attributed to program managers' adjustments. Center program managers independently review the program support data, such as changes to ship construction schedules, and make changes to the planned program requirement file. Center officials acknowledge that there is no automated interface between the program support data and planned program requirement files. As a result, the Center cannot readily identify

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<sup>3</sup>Provisioning projects provide the spare and repair parts needed to support a weapons system when it is first put into service.

the effect on procurement and inventory levels caused by program managers' changes. Monitoring these changes could identify premature procurements, as well as reasons for unneeded inventory.

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## Efforts to Improve Planned Program Requirement Management

The Center has been working to identify and address problems with the planned program requirement system. In this regard, Center officials advised us that they have established a review group to identify and correct planned program requirement problems.

As part of its Federal Managers' Financial Integrity Act, the Center conducts vulnerability assessments and risk analysis in 5-year intervals. For its prior 5-year assessment, the Center identified planned program requirements as a low-risk area but determined the requirement process needed more automation. For the current 5-year assessment period ending 1997, the Center will perform a management control review because planned program requirements are now identified as a high-risk area.

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## Recommendations

We recommend that the Secretary of the Navy identify and implement the internal controls and monitoring efforts needed to ensure that

- duplicate, unauthorized, and inappropriate planned program requirements are not entered or maintained in the Ships Parts Control Center's file;
- planned program requirements do not unnecessarily protect inventories from routine requisitions;
- all planned program requirements procured by the Ships Parts Control Center are matched with customers requisitions; and
- all changes made to the Ships Parts Control Center's file as a result of program support data slippage, delays, and deletions are analyzed to determine the impact on procurement and inventory levels.

We further recommend that the Secretary of the Navy prepare procedures for validating planned program requirements prior to taking procurement action.

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## Agency Comments

The Department of Defense (DOD) agreed with our findings and recommendations and outlined specific corrective actions taken and planned by the Navy's Ships Parts Control Center to address the recommendations. (See app I.)

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## Scope and Methodology

We reviewed the Ships Parts Control Center's policies, procedures, and internal controls over planned program requirements. We obtained copies of the Center's automated planned program requirement file as of March 29 and May 3, 1992. We also obtained a file of all changes to the planned program requirement file for March 30 through May 2, 1992. Using this data, we reviewed both the planned program requirement file and the changes. We conducted interviews with Center personnel responsible for the management of planned program requirements. In this report, we considered the numerous Naval Audit Service and DOD Inspector General reports issued on this subject, as well as our previous report<sup>4</sup> on inventory growth of Navy secondary items.

We conducted our work from February through October 1992 in accordance with generally accepted government auditing standards. Center officials provided comments during our briefings with the Commanding Officer on August 25 and December 17, 1992, and we briefed DOD officials on January 6, 1993.

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The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this letter and to the Senate and House Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this letter.

We are sending copies of this report to the Chairmen, Senate Committee on Governmental Affairs, House Committee on Government Operations, Senate and House Committees on Appropriations, and Senate and House Committees on Armed Services; and the Director, Office of Management and Budget. Copies will also be made available to others on request.

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<sup>4</sup>Defense Inventory: Growth in Ship and Submarine Parts (GAO/NSIAD-90-111, Mar. 1990).

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Please contact me at (202) 512-8412 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in cursive script that reads "Donna Heivilin".

Donna M. Heivilin, Director  
Defense Management and NASA Issues

# Comments From the Department of Defense



PRODUCTION AND  
LOGISTICS

(L/MRM)

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, DC 20301-8000

MAY 21 1993

Mr. Frank C. Conahan  
Assistant Comptroller General  
National Security and International  
Affairs Division  
U.S. General Accounting Office  
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, entitled--"NAVY INVENTORY: Better Controls Needed Over Nonrecurring Requirements," dated April 9, 1993 (GAO Code 398105), OSD Case 9364. The Department concurs with the report findings and recommendations.

The DoD agrees there is a need to ensure that internal controls and monitoring of planned program requirements to ensure that (1) duplicate, unauthorized requirements are not entered or maintained in files, (2) the requirements are not used to protect inventory from routine requisitions, and (3) that the requirements are matched with customer requisitions. The DoD also agrees that changes to program support data files should be analyzed to determine impact on procurement and inventory levels and that procedures are needed to validate the program requirements prior to taking procurement action. The Navy has undertaken actions to implement each of the GAO recommendations.

The detailed DoD comments on the report findings and recommendations are provided in the enclosure. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

David J. Berteau  
Principal Deputy

Enclosure

Appendix I  
Comments From the Department of Defense

GAO DRAFT REPORT - DATED APRIL 9, 1993  
(GAO CODE 398105) OSD CASE 9364

"NAVY INVENTORY: BETTER CONTROLS NEEDED  
OVER NONRECURRING REQUIREMENTS"

DEPARTMENT OF DEFENSE COMMENTS

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FINDINGS

- **FINDING A: The Navy Management of Nonrecurring Requirements.**  
The GAO observed that the Navy Ships Parts Control Center is the inventory control point that manages ship and submarine parts. The GAO explained that the Navy uses planned program requirements as a basis to purchase and reserve parts for future needs that can be predicted. The GAO concluded, however, that those requirements generally cannot be forecasted using the Navy standard supply management procedures because the requirements represent one-time needs and are not based on historical experience. (pp. 1-2/GAO Draft Report)

**DOD RESPONSE:** Concur. Planned program requirements are used for future nonrecurring requirements that cannot be accommodated by Navy standard replenishment forecasting techniques. There are, however, Navy standard systems used to forecast certain categories of nonrecurring requirements, such as provisioning and outfitting.

- **FINDING B: Duplicate and Unauthorized Planned Program Requirement Records.** The GAO found over 200 duplicate entries in the planned program requirement file. The GAO indicated the Ships Parts Control Center agreed that the entries--valued at about \$912,600--were duplicate and removed the entries from the file. The GAO also found that the planned program file contained over \$15 million in funded planned program requirements for project codes that were not authorized. The GAO indicated that the Ships Parts Control Center either removed the requirements from the file or justified the requirements under an authorized code. (p. 3/GAO Draft Report)

**DOD RESPONSE:** Concur. It should be noted that the problem regarding the \$15 million in funded planned program requirements with unauthorized project codes was concurrently identified by an ongoing Navy Total Quality Management Process Action Team at the Ships Parts Control Center.

ENCLOSURE

Now on p. 1.

Now on p. 2.

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Comments From the Department of Defense

- **FINDING C: Inappropriate Planned Program Requirements Records.**

The GAO indicated that, when the GAO questioned the Navy concerning the need for 2,600 records for nuclear components managed by the Naval Sea Systems Command, the Command and the Ships Parts Control Center deleted the entries because neither activity budgeted for or initiated supply actions based on the requirements. The GAO concluded that including the planned program requirements in the Ships Parts Control Center file represents an internal control weakness in the system. (p. 4/GAO Draft Report)

**DOD RESPONSE:** Concur. The Ships Parts Control Center is developing the policy for future review and file maintenance actions on a routine periodic basis. (See the DoD response to Recommendation 1.)

- **FINDING D: Planned Program Requirement Validation Procedures.**

The GAO reported the Ships Parts Control Center requires that the planned program requirements be validated before starting a procurement action. The GAO found, however, that the Ships Parts Control Center did not have adequate written guidelines to describe the basic steps necessary to ensure that the requirements are valid and to ensure validity on a continuous basis before finalizing procurement action. The GAO concluded that, because considerable time can lapse between establishing a requirement and awarding a contract, it is essential to validate requirements before funds are obligated. (p. 4/GAO Draft Report)

**DOD RESPONSE:** Concur. On March 31, 1993, the Ships Parts Control Center implemented the use of a check-off sheet for all procurement requests, including planned program requirements. (See the DoD response to Recommendation 5.)

- **FINDING E: Requisition Matching Data.** The GAO reported the Ships Parts Control Center does not accumulate data on the rate that the planned program requirements match corresponding customer requisitions. The CIO found the data for the one-year period ended July 1992, showed that only about 32 percent of the planned program requirements, whose delivery dates had passed, could be specifically matched to customer requisitions. The GAO concluded that a possible consequence of not being able to match customer requisitions to the requirements is that the Ships Parts Control Center cannot ensure only needed materials were purchased. (pp. 4-5/GAO Draft Report)

Now on pp. 2 and 3.

Now on p. 3

Now on pp. 3 and 4.

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**DOD RESPONSE:** Concur. The Navy Ships Parts Control Center goal is to achieve a 100 percent match between planned program requirements and customer requisitions. (See the DoD response to Recommendation 3.)

- **FINDING F: Reservation of Inventories.** The GAO reported that the Ships Parts Control Center can use the planned program requirements to protect inventory from routine requisitions to ensure having the items on hand to satisfy intended customers. The GAO analysis of the file showed that the Center established over \$580 million of planned program requirements of which \$140 million protected on-hand assets for provisioning projects. The GAO further reported that, according to Center officials, anticipation of provisioning requisitions should normally not take precedence over normal requisitions. The GAO reported that the questionable planned program requirements--valued at \$19.5 million--were mostly invalid or improperly protected on-hand assets, and as a result, the Center released over \$12 million in assets for normal requisitions. (pp. 5-6/ GAO Draft Report)

**DOD RESPONSE:** Concur. The Ships Parts Control Center is developing procedures to prevent planned program requirements from unnecessarily protecting inventories from routine requisitions. (See the DoD response to Recommendation 2.)

- **FINDING G: Required Delivery Date Changes.** The GAO reported that required delivery dates and the time needed to purchase and receive items determine when the Center takes action to satisfy a planned program requirement. The GAO concluded that moving delivery dates further into the future can cause problems for the Center if procurement action has already been initiated. The GAO found that most delivery date extensions were attributable to adjustments by program managers. The GAO also found that there is no automated interface between the program support data and the planned program requirement files. The GAO further concluded that, as a result, the Ships Parts Control Center cannot readily identify the effect on procurement and inventory levels caused by program manager changes. In addition, the GAO concluded that monitoring the changes could identify premature procurements--as well as reasons for unneeded inventory. (pp. 6-7/GAO Draft Report)

**DOD RESPONSE:** Concur. The Ships Parts Control Center is pursuing an automated link of program support data and the planned program requirements file. (See the DoD response to Recommendation 4.)

Now on p. 4.

Now on pp. 4 and 5.

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Now on p. 5.

- **FINDING H: Efforts to Improve Planned Program Requirement Management.** The GAO indicated that the Ships Parts Control Center has been working to identify and address problems with the planned program requirements system. The GAO found, for example, that as part of its Federal Managers' Financial Integrity Act, the Ships Parts Control Center conducts vulnerability assessments and risk analysis in 5-year intervals. (p. 7/GAO Draft Report)

**DOD RESPONSE:** Concur.

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**RECOMMENDATIONS**

Now on p. 5.

- **RECOMMENDATION 1.** The GAO recommended that the Secretary of the Navy identify and implement the internal controls and monitoring efforts needed to ensure that duplicate, unauthorized, and inappropriate planned program requirements are not entered or maintained in the Ships Parts Control Center file. (p. 7/GAO Draft Report)

**DOD RESPONSE:** Concur. The Navy Ships Parts Control Center has completed actions to review and delete duplicate, unauthorized, and inappropriate planned program requirements. The Center will develop and implement a process to perform future review and file clean-up actions on a routine, periodic basis. The review process policy will be in place by September 30, 1993.

Now on p. 5.

- **RECOMMENDATION 2.** The GAO recommended that the Secretary of the Navy identify and implement the internal controls and monitoring efforts needed to ensure that the planned program requirements do not unnecessarily protect inventories from routine requisitions. (p. 8/GAO Draft Report)

**DOD RESPONSE:** Concur. The Ships Parts Control Center is developing procedures and controls to prevent planned program requirements from unnecessarily protecting inventories from routine requisitions. The estimated completion date is September 30, 1993.

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Now on p. 5.

- **RECOMMENDATION 3.** The GAO recommended that the Secretary of the Navy identify and implement the internal controls and monitoring efforts needed to ensure that all planned program requirements procured by the Ships Parts Control Center are matched with customer requisitions. (p. 8/GAO Draft Report)

**DOD RESPONSE:** Concur. The goal of the Ships Parts Control Center is to achieve a 100 percent match between planned program requirements and customer requisitions. The Ships Parts Control Center is developing a prototype process to measure the effectiveness in matching planned program requirements to customer requisitions and, also, to identify problem areas. It is expected that the prototype process will be developed by late June to early July 1993. Any systemic solutions that require functional enhancements to the current Inventory Control Point programs will be forwarded to the Joint Logistics Systems Center for inclusion in the appropriate Department of Defense standard systems.

Now on p. 5.

- **RECOMMENDATION 4.** The GAO recommended that the Secretary of the Navy identify and implement the internal controls and monitoring efforts needed to ensure that all changes made to the Ships Parts Control Center file--as a result of program support data slippage, delays, and deletions--are analyzed to determine the impact on procurement and inventory levels. (p. 8/GAO Draft Report)

**DOD RESPONSE:** Concur. Existing Inventory Control Point systems, such as Supply Demand Review and Stratification, automatically determine the impact of changes to planned program requirements and recommend adjustments to procurement requirements. The Ships Parts Control Center is also pursuing an automated link of program support data, such as ships construction and modernization data bases, with the program support data parts system. The initial assessment is expected to be completed by July 30, 1993. Additional tools to monitor changes at the system and equipment levels and audit trail capability are expected to be in place by September 30, 1993. Any systemic solutions that require functional enhancements to the current Inventory Control Point programs will be forwarded to the Joint Logistics Systems Center for inclusion in the appropriate Department of Defense standard systems.

Now on p. 5.

- **RECOMMENDATION 5.** The GAO recommended that the Secretary of the Navy prepare procedures to be followed in validating the planned program requirements prior to taking procurement action. (p. 8/GAO Draft Report)

**DOD RESPONSE:** Concur. On March 31, 1993, the Ships Parts Control Center implemented the use of a check-off sheet for all procurement requests, including Planned Program Requirements. Procurement requests over \$100,000 must have a supervisor signature on the check-off sheet. By May 30, 1993, procedures will be implemented to validate planned program requirements over \$200,000 immediately, prior to contract award. These dollar thresholds will be monitored, evaluated, and adjusted as appropriate to improve the process.

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# Major Contributors to This Report

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