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

NOVEMBER 19, 1984

NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-216913

The Honorable John F. Lehman
The Secretary of the Navy

Dear Mr. Secretary:

Subject: Navy Material In Suspended, Not Ready for
Issue, Condition Needs More Management
Attention (GAO/NSIAD-85-23)

Our review of the Navy's management of material in suspended, not ready for issue, status showed that improvements are needed to reduce the amount and age of this material. The value of the Navy material reported in this condition is about \$200 million.

Material is assigned a suspended condition code (J, K, or L) when there is a question regarding its true condition and some additional testing or inspection is required before it can be considered ready for issue. Defense and Navy policy emphasize the importance of removing this material from a suspense category in a timely manner. Stock placed in suspense code J should be reclassified within 90 days and code K material within 10 days. No specific time limit has been set for code L material but both Defense and Navy regulations emphasize that suspensions should not last indefinitely.

We found the policy on reclassifying suspended material in a timely manner was not being followed. Our tests at the Norfolk and Oakland Naval Supply Centers showed that the average suspension time was 21 months. Further analysis at Norfolk indicated that 88 percent of the material had been suspended over 3 months, 60 percent over 1 year, and 28 percent over 2 years.

Lengthy suspension times have adversely affected supply operations because this material has not been considered in filling requisitions and making procurement decisions. Item managers at the inventory control points often did not know the true condition of the suspended material, why the material was suspended, who initiated suspension, or what actions were being taken to reclassify the material. As a result, new procurements had been initiated on at least 25 percent of the 189 Norfolk line items discussed with item managers. Timely reclassification could have precluded the need for some of these procurements.

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We believe one of the major reasons material remains suspended for extended periods of time is inadequate management oversight at the Naval Supply Systems Command, inventory control points, or stockpoints. The existing management information system does not generate summary data on the amount, age, or reasons for suspension of material and the three supply management levels do not monitor the volume and duration of suspensions.

A second major reason for the problems with suspended material is that specific responsibilities for taking action on this material are not clearly defined. Inventory control points believe it is the stockpoints' responsibility and the stockpoints believe it is the inventory control points' responsibility. Consequently, neither level assumes responsibility.

To improve the management of suspended material, we recommend that you:

- Initiate a one-time special project to have inventory control points and stockpoints determine the true condition of suspended material, make issuable all material that is needed, and purge from the supply system all material that cannot economically be made issuable or is no longer needed.
- Modify the management information system used by the Naval Supply Systems Command, inventory control points and stockpoints so that it will receive summary data on the amount, age, and reasons material is suspended. Monitor this data to ensure compliance with Defense and Navy requirements.
- Assess personnel resource allocations for the purpose of establishing a central control group at each inventory control point to provide oversight of suspended material. This group should receive and record discrepancy report data, monitor suspension times and the status of efforts to resolve discrepancies, keep item managers informed of the status of suspended items, and serve as a focus for questions from stockpoints.
- Provide more explicit guidance on who (the inventory control point or stockpoint) is responsible for resolving suspended material discrepancies so the material can be made issuable or disposed of in a timely manner.

In providing official written comments on a draft of this report, the Department of Defense generally agreed with our findings and recommendations. The findings, recommendations, and

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agency comments are discussed in more detail in enclosure I.
The Department's written comments are included as enclosure II.

As you know, 31 U.S.C. § 720 requires the head of a federal agency 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 no later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen of the above committees; the Chairmen, Senate and House Committees on Armed Services; the Secretary of Defense; and the Director, Office of Management and Budget.

Sincerely yours,



Frank C. Conahan
Director

Enclosures - 2

NAVY MATERIAL IN SUSPENDED,
NOT READY FOR ISSUE, CONDITION
NEEDS MORE MANAGEMENT ATTENTION

The Navy's supply management organization comprises three primary levels--system command, inventory control point, and stockpoint. The Naval Supply Systems Command (NAVSUP) at the headquarters level administers the Navy supply system and provides supply management policies and procedures. Inventory control points exercise primary control over supply items by initiating procurements, positioning material, and maintaining Navy-wide inventory data. Stockpoints furnish direct supply support to Navy activities, including ships, shore activities, and overseas bases. They receive, store, and issue material, as well as notify the inventory control points so that inventory levels can be adjusted.

SUSPENDED MATERIAL DEFINED

The Department of Defense (DOD) has established specific codes to be used in identifying the availability of material for issue. Using these codes, inventory managers can tell whether stored material is fit for issue, in need of major or minor repair, usable for only a limited time, or unrepairable and ready for disposal. For example, material in condition code A is issuable on demand without qualification, while material in condition code H is not economically repairable and is awaiting disposal. Between these extremes are condition codes J, K, and L material, referred to as suspended and defined as follows:

- Condition code J is assigned to material in storage when there is some doubt as to its true condition and some additional testing or inspection is required before it can be considered for issue.
- Condition code K is assigned to material whose true condition is unknown when returned from customers or users. Similar to J condition material, some additional testing or inspection is required.
- Condition code L is assigned to material received from a supplier or contractor in a seemingly unacceptable quantity or quality. Material is held in this condition pending some resolution or agreement with the supplier.

Because these suspense codes do not indicate an item's true condition, they provide managers little information upon which to base procurement and other supply decisions. DOD and Navy policies, therefore, emphasize the importance of material remaining in these suspended, not ready for issue, condition codes for only short periods of time.

OBJECTIVE, SCOPE, AND METHODOLOGY

Several internal studies during the last several years have addressed the Navy's difficulty in managing suspended stock. Naval Audit Service reviews found that material placed in suspended condition codes tended to remain in these codes for extended periods of time. For example, a July 1979 report noted that J condition material at the Norfolk Naval Supply Center had been suspended for as long as 52 months. In January 1983 Norfolk's Quality Control Branch noted that other than A condition material still was not being effectively managed, with no measurable progress being made at reducing the volume of over-aged material. We conducted this review to determine whether, despite these earlier studies, problems in managing suspended stock still exist.

Our objective was to evaluate the Navy's overall system for managing material in suspended condition codes J, K, and L. More specifically, we wanted to determine the (1) volume of suspended material, (2) length of time suspended, (3) causes of lengthy suspensions, (4) implications of lengthy suspensions on supply decisions, and (5) improvements needed for the Navy to better manage suspended material.

We made our review from December 1983 through July 1984, obtaining the majority of our information from the following activities:

Headquarters Commands

Office of the Assistant Secretary of Defense
(Manpower, Installations, and Logistics),
Washington, D.C.
Naval Material Command, Arlington, Virginia
Naval Supply Systems Command, Arlington, Virginia

Inventory Control Points

Navy Ships Parts Control Center, Mechanicsburg, Pennsylvania
Naval Aviation Supply Office, Philadelphia, Pennsylvania

Stockpoints

Naval Supply Center, Norfolk, Virginia
Naval Supply Center, Oakland, California

To quantify the volume of suspended material recorded on Navy inventory records, we obtained computer listings of stock in suspended condition codes at 28 Navy stockpoints, including the 7 naval supply centers. Information included in our report on the quantity of suspended material was extracted and summarized from these tapes.

We selected Norfolk and Oakland Naval Supply Centers as the Navy stockpoints to determine the age of suspended material because together they accounted for about one-third of the material suspended and because they stocked a wide range of material managed by both Navy inventory control points. We took a randomly based, statistical sample of material suspended in condition codes J, K, and L at each of these two stockpoints to determine how long it had been suspended. Our sample consisted of 296 line items at Norfolk and 203 line items at Oakland. We were able to obtain enough age information on the Norfolk sample to be able to project the results at a 95 percent confidence level, plus or minus 5 percent. However, Oakland could not provide the necessary data on a high enough percentage of our sample to project it with an adequate level of confidence.

We also used these sample items to determine reasons for suspension, whether procurements had been made while the material was suspended, and whether item managers at the inventory control points were aware of the suspensions. We discussed 189 of the 296 Norfolk line items with item managers at the inventory control points. Such information provided the basis for conclusions regarding the management of suspended stock.

Because selected Navy stockpoints also store Defense Logistics Agency (DLA) managed material, we obtained information concerning the average time this material remains in suspended status, DLA's monitoring of suspended material, and DLA supply managers' knowledge of suspensions. This information provided the basis for some comparative analysis. We performed our work at DLA headquarters, Defense Industrial Supply Center, and Defense General Supply Center.

Our review was conducted in accordance with generally accepted government audit standards and random based, statistical sampling techniques. Although the age of the sample items at Norfolk and Oakland cannot be projected to material suspended at all Navy stockpoints, because these two stockpoints had about one-third of the Navy's suspended material and representative amounts of Ships Parts Control Center (SPCC) and Aviation Supply Office (ASO) controlled material, we believe our results are indicative of the extent of over-aged material throughout the Navy's supply structure.

VALUE OF SUSPENDED
MATERIAL IS HIGH

In January 1984, the value of material recorded on Navy inventory records as being suspended in condition codes J, K, and L was approximately \$211 million. The following table shows the value of material stored at the seven naval supply centers and 21 other stockpoints.

Value of Suspended Material By Storage Location
as of January 1984

<u>Locations</u>	<u>Value of material</u>			
	<u>J</u>	<u>K</u>	<u>L</u>	<u>Total</u>
	(000 omitted)			
NSC Norfolk	\$11,862	\$ 4,928	\$ 5,668	\$22,458
NSC Oakland	29,182	4,339	10,398	43,919
NSC San Diego	6,711	1,569	2,211	10,491
NSC Charleston	6,218	62,766	1,113	70,097
NSC Jacksonville	6,215	550	4,293	11,058
NSC Pearl Harbor	322	833	155	1,310
NSC Bremerton	<u>3,054</u>	<u>3</u>	<u>610</u>	<u>3,667</u>
Total NSCs	63,564	74,988	24,448	163,000
21 other stockpoints	<u>20,652</u>	<u>23,358</u>	<u>3,769</u>	<u>47,779</u>
Grand total	<u>\$84,216</u>	<u>\$98,346</u>	<u>\$28,217</u>	<u>\$210,779</u>

About 94 percent (\$198 million) of the above material was Navy owned or managed. Most of the remainder was DLA material stored at Navy locations. SPCC managed about 64 percent of the Navy material, ASO managed about 24 percent, and retail and special project offices (e.g., Strategic Systems Project Office) managed the remaining 12 percent.

SUSPENDED MATERIALS ARE
NOT BEING ACTED UPON IN
A TIMELY MANNER

The length of time material remains in not ready for issue condition codes far exceeds DOD and Navy criteria. DOD has provided guidance on suspended material--definitions and limits on the length of time this material may be held in suspense condition codes. This guidance is found in the Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP) and the Military Standard Requisitioning and Issue Procedures (MILSTRIP). Navy guidance, as set forth in NAVSUP Publication 437, reiterates these definitions and limits. Stock placed in suspense code J should be reclassified within 90 days and stock placed in code K should be reclassified within 10 days. No specific time limit has been set for material put into condition code L, but both DOD and Navy regulations emphasize that such suspensions should not last indefinitely.

Our analysis of the length of time that Navy-managed material remained in suspended condition codes J, K, and L at the two supply centers visited showed average suspension times far exceeded standards. The average age of 342 randomly selected line items was 21 months. Further analysis of the Norfolk sampled items showed that 88 percent of the J, K, and L condition material had been suspended 3 months or more. Of this material, about 60 percent had been suspended over 1 year and 28 percent had been suspended over 2 years. The percentage of material suspended over 1 year was high for each of the condition codes--65 percent for code J, 71 percent for code K, and 49 percent for code L.

SUSPENDED MATERIAL OFTEN NOT CONSIDERED
IN FILLING REQUISITIONS AND MAKING
PROCUREMENT DECISIONS

Material remaining in suspended status for long periods not only impacts adversely on the asset position--as the material is not available for issue--but also denies opportunities for more effective and economical supply decisions. For over half of the items we discussed at ASO and SPCC, item managers had limited information available to them regarding the condition of suspended material. The managers did not know why the items were suspended, who had initiated suspension, or what actions, if any, were being taken to reclassify the material out of the suspended condition code.

The impact of item managers' limited knowledge was most obvious in regard to the lack of consideration being given to suspended material in procurement decisions. Navy item managers advised us that, without additional information, most items listed on inventory records in suspended status must be considered in less than issuable condition. Because of the long times that some of the material had been suspended, it was not practical for us to determine and quantify all procurements made on an item since it had been suspended. However, using available data, we determined that at least 25 percent of the 189 Norfolk sample items discussed with ASO and SPCC item managers had procurements initiated during the time the material was suspended.

For example, an item manager procured 325 electrical kits (NSN 5840-00-920-4283), valued at \$6,013, during January 1983, despite the fact that Norfolk had held 562 such kits in code L for about 1 year. Given the minimal information available to him from the condition code, the item manager informed us that he had little recourse but to act as he did. In another case, two pressure bellows (NSN 2825-01-134-9910) were put in J condition at Norfolk in October 1982. Neither the stockpoint nor the inventory control point could provide data on who had suspended the item or why. In December 1983, however, one more bellows, valued at \$1,460, was purchased by the inventory control point. At the

time of our review, the only bellows available in the Navv supply system were the two suspended units at Norfolk. There were 21 outstanding requirements for the item; however, according to the item manager, the two at Norfolk had not been considered.

We also found cases where items were on backorder at the same time stockpoint records showed the items in storage in condition code J, K, or L. While neither we nor the Navy know the true condition of the suspended material, in several cases evidence suggested that the suspended items were usable. For example, the Navy had 25 units of preformed packing (NSN-5330-00-027-3593), valued at \$538, on backorder, having determined that no A condition material was available in the supply system. Norfolk inventory records showed two units of packing had been in condition code J for 3 years, only because it needed some minor cleaning and repackaging, according to the inspection report. Had the duration of this suspension been monitored and the true condition been resolved within a reasonable time, these units could have been used to fill some of the backorders.

The above examples demonstrate not only how inadequate management oversight of suspended stock can deny access to usable stock, but also how it can prevent the Navy supply system from being as efficient and economical as it could be. Under the current system, item managers lack sufficient information about suspended material to give adequate consideration to its potential use. With limited information, little consideration can be given to suspended material for filling requisitions and making procurement decisions, as item managers must disregard the material.

BETTER MANAGEMENT OVERSIGHT
AND MORE CLEARLY DEFINED
RESPONSIBILITIES NEEDED

The Navy does not provide adequate oversight of suspended material at NAVSUP, inventory control points, or stockpoints because they lack good monitoring and management information systems. In addition, specific responsibilities for taking action on suspended material are not clearly defined. In our opinion, these are the principal reasons suspended material remains in condition codes J, K, and L long past the limits prescribed by DOD and Navy regulations.

DOD provides guidance on the need for the services to determine the true condition of material in suspended condition codes and to ensure the necessary action is taken to resolve discrepancies in a timely manner. However, the services have to prescribe the levels of responsibility and establish the necessary monitoring to ensure compliance. Navy policy and procedures, as set forth in NAVSUP Publication 437, reiterate DOD guidance regarding definitions and time standards; but other management aspects are not spelled out. For example, monitoring requirements are not

given nor are the specific tasks required of the stockpoints and the inventory control points clearly defined with regard to timely reclassification of suspended material.

Neither NAVSUP, inventory control point, nor stockpoint regulations provide clear guidance which differentiate responsibility for ensuring that material remains in suspended condition codes for only short periods. As a result, inventory control points and stockpoints contend that resolving discrepancies on suspended material is the other's responsibility. Staff managers at the Navy inventory control points told us that the stockpoints are responsible for taking the necessary actions to reclassify suspended stock because they have physical possession of the material. For example, in a June 1983 letter SPCC told Norfolk that it is the stockpoints' responsibility to resolve discrepancies for material suspended in J or K condition. Managers at both Norfolk and Oakland, however, told us that inventory control points must direct disposition of J, K, and L condition material. Discussions with key personnel at both the stockpoint and inventory control point levels suggested some confusion regarding responsibilities.

Prolonged stock suspensions also occur because monitoring and information systems that would keep supply managers better informed are inadequate. Consequently, managers cannot maintain adequate oversight of the material and thus cannot recognize and resolve suspension problems when they arise. Officials at NAVSUP, inventory control points, and selected stockpoints told us they do not monitor the age of suspended stock, even though Navy and DOD policies imply that this be done in order to keep within prescribed time limits. For example, we were told that NAVSUP does not regularly receive data on the quantity, value, or length of time suspended material is in condition codes J, K, and L. Without such data, it can not adequately monitor this material.

Although Navy stockpoints have some data on individual items, no summary data on the quantity or age of suspended material is compiled or monitored. According to regulations, stockpoints are required to retain (pending resolution of the suspension) documents prepared as a result of the technical inspection of suspended material. These inspection reports are to contain certain essential management information such as the material discrepancies noted, the date of suspension, and the activity that initiated the suspension.

However, we found that neither Norfolk nor Oakland was routinely maintaining these inspection reports nor was the data from these reports recorded and monitored. At Norfolk, only 58 percent of the Navy items in our sample had a completed inspection report on file. At Oakland, inspection reports were available on only 35 percent of our sample items. Without these reports, stockpoint officials said they could not tell us why

selected material had been suspended or who had directed suspension, nor could they easily address how long the item had been suspended. In addition, they were limited in their ability to answer inquiries regarding the specific condition of the material without requesting another inspection.

Copies of these inspection reports are not routinely forwarded to the Navy inventory control points nor are there any uniform NAVSUP procedures or regulations to guide stockpoints or inventory control points on this matter. SPCC had required these reports at one point in time; however, it discontinued the requirement for such data in 1979. During a field visit to Norfolk in December 1983, SPCC indicated that this requirement would be reinstated; however, at the time of our review this had not been done. We could find no evidence that ASO had ever required this information.

At the Navy inventory control points, the oversight or visibility of suspended material is not centralized and, therefore, seems to be the responsibility of the individual item managers. However, as discussed earlier, in many cases item managers were not aware of the reason for suspension nor were they aware of any efforts to resolve the material discrepancy.

DLA MANAGEMENT OF SUSPENDED STOCK

During our review, we found that the DLA material at Navy stockpoints had been suspended much shorter times than Navy managed material. For example, 25 percent of the DLA material at Norfolk had been suspended over 1 year as opposed to the Navy's 60 percent. While the DLA time is well in excess of DOD standards, it is a marked improvement over the Navy time.

A principal reason for the shorter times is that DLA has a monitoring system. In contrast to the Navy's limited oversight, the DLA inventory control points we visited had systems for monitoring the status of suspended items and keeping item managers informed.

DLA requires that stockpoints (including Navy stockpoints) submit copies of inspection reports for all suspended stock to a central control group at the appropriate inventory control point. The group distributes each inspection report to a specific office for action and provides an information copy to the item manager. The central control group also maintains computerized data that is used to monitor the time suspended, the reason for suspension, and who is working to resolve the problem. Summary data is provided to the applicable item manager and to inventory control point management. As a result, item managers at one DLA inventory control point we visited were aware of the reason for suspension and of current efforts at resolution for 80 percent of the 69 sample items discussed.

The material discrepancy documents prepared as a result of the technical inspection of the suspended material are monitored individually with the central control point:

- Determining the appropriate action office based on the reason for suspension (quality deficiency, procurement problem, etc.).
- Responding to stockpoint inquiries and follow-ups.
- Maintaining suspense records on each item's status and progress toward resolution.
- Preparing monthly reports highlighting the number of unresolved suspensions, the length of time required to resolve cases closed during the period, and the rate of success in meeting established deadlines for suspension reclassification.

This system relieves the individual item managers from such time-consuming duties while providing central management and oversight of suspended stock, greater visibility of suspense age, and a single voice to the stockpoints. We believe such requirements for central control of discrepant material from time of suspension through resolution contributes greatly to the shorter times that DLA material is suspended and increases item managers' awareness of the material. Making suspended stock fit for issue, in turn, lessens the need for procurements and satisfies user requirements on a more timely basis.

CONCLUSIONS AND RECOMMENDATIONS

Inadequate management oversight and unclearly delineated responsibilities for the inventory control points and stockpoints have resulted in millions of dollars of Navy material being suspended in codes J, K, and L for excessive periods of time. Although DOD and Navy supply policies set time limits to ensure that material will not remain suspended for long periods, neither NAVSUP, inventory control points, nor stockpoints monitor the duration of suspensions in order to ensure compliance with these policies.

Moreover, Navy inventory managers are not routinely provided the data necessary for effective oversight of the material under their management. They do not receive information on the true condition of the suspended stock or on the status of actions being taken to resolve the discrepancy. Without such information, adequate consideration cannot be given to potential use of the suspended material in filling requisitions and making procurement decisions. Potentially good material remains in nonissuable suspended condition for long periods. However, neither we nor the Navy precisely quantified how much of the approximately \$200 million in suspended stock was actually usable. Such a determination will require a special project by the Navy.

Adequate Navy management oversight of suspended material would have highlighted noncompliance with established time frames and keyed the necessity for better delineation of responsibility. However, management at various levels of Navy supply had not placed proper emphasis on the prolonged suspension problem.

DLA procedures and practices more clearly delineate the responsibilities and insure better monitoring of suspended material. Although DLA's management of suspended stock is not without its problems too, its stronger performance highlights the potential for improvements to the Navy's management of suspended material.

To improve the management of suspended material, we recommend that the Secretary of the Navy direct the Commander of NAVSUP to:

- Initiate a one-time special project to have inventory control points and stockpoints determine the true condition of suspended material, make issuable all material that is needed, and purge from the supply system all material that cannot economically be made issuable or is no longer needed.
- Modify the management information system used by NAVSUP, inventory control points, and stockpoints so that it will receive summary data on the amount, age, and reasons for suspension of material in condition codes J, K, and L. Monitor this data to ensure compliance with DOD and Navy requirements.
- Direct that each inventory control point assess personnel resource allocations for the purpose of establishing a central control group for oversight of suspended material. This group should receive and record discrepancy report data, monitor suspension times and the status of efforts to resolve discrepancies, keep item managers informed on the status of suspended items, and serve as a focus for questions from stockpoints.
- Provide more explicit guidance on who (the inventory control point or stockpoint) is responsible for resolving suspended material discrepancies so the material can be made issuable or disposed of in a timely manner.

AGENCY COMMENTS AND OUR EVALUATION

On November 8, 1984, DOD provided its official written comments on a draft of this report. (See enclosure II.) DOD generally agreed with our findings and recommendations and outlined a series of Navy actions and milestones for improving the management of suspended material. These actions cover, among

other things, all of our recommendations and include (1) determining the true condition of the suspended material, (2) instituting a monthly report to NAVSUP on the number and dollar value of items in suspended condition and those items transferred to a true condition code, (3) establishing central control of suspended material at the inventory control points, and (4) issuing new instructions on policies and procedures for managing suspended material. By September 30, 1985, the Navy expects to provide an assessment of actions taken to reduce the amount of suspended material and implement new management information and control procedures.

Although agreeing with the intent of our recommendation to establish a central control group at each inventory control point to provide oversight of suspended material, DOD stated that other methods of obtaining this control may be more cost beneficial. For example, it may be better to designate an individual within each item management branch to monitor that branch's suspended material and report regularly to higher inventory control point management. DOD further stated that our approach and others will be assessed as part of the Navy's plan of action. We have no objection to the Navy plan since the primary purpose of our recommendation is to achieve oversight of suspended material and not to mandate the exact organizational structure.



SS

MANPOWER,
INSTALLATIONS
AND LOGISTICS

THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

8 NOV 1984

Mr. Frank C. Conahan
Director, National Security and
International Affairs Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Conahan:

This is in response to the General Accounting Office (GAO) Draft Report dated September 14, 1984, entitled "Navy Material in Suspended, Not Ready For Issue, Condition Needs More Management Attention" (GAO Code No. 943574, OSD Case No. 6609).

There are no factual inaccuracies in the Draft Report and the Department of Defense generally concurs in the findings and recommendations. Detailed comments are set forth in the enclosure hereto.

The opportunity to comment on this report in draft form is appreciated.

Sincerely,


Jerry L. Calhoun
ACTG Assistant Secretary of Defense
(Manpower, Installations & Logistics)

Enclosure
As stated

GAO note: Page references have been changed to correspond to pages in the final report.

DEPARTMENT OF DEFENSE RESPONSE

to

GAO DRAFT REPORT - DATED SEPTEMBER 14, 1984
(GAO CODE No. 943574) - OSD CASE No. 6609

"NAVY MATERIAL IN SUSPENDED, NOT READY FOR ISSUE,
CONDITION NEEDS MORE MANAGEMENT ATTENTION"

FINDINGS

0 FINDING A: Better Management Oversight Needed At NAVSUP, Inventory Control Points And Stockpoints. GAO noted that the Navy supply management organization comprises three primary levels: (1) the Naval Supply Systems Command (NAVSUP), which provides supply management policy and procedures, (2) inventory control points, which exercise primary control over supply items, and (3) stockpoints, which furnish direct supply support to Navy activities. GAO found that Navy material is assigned a suspended condition code when there is a question regarding its true condition, or pending some resolution or agreement with the supplier. GAO also found that NAVSUP does not regularly receive data on the quantity, value or length of time material is in a suspended condition. According to the GAO, while Navy stockpoints have some data on individual items, no summary data on the quantity or age of suspended material is compiled or monitored. Although stockpoints are required to document technical inspections of suspended material, GAO found that neither of the two stockpoints reviewed (Norfolk and Oakland) routinely did so, nor did they routinely forward these inspection reports to the inventory control points. GAO concluded that there is a lack of uniform procedures or regulations from NAVSUP to guide stockpoints or inventory control points. GAO also concluded that NAVSUP, the inventory control points and stockpoints lack good monitoring and management information systems, resulting in prolonged stock suspensions. GAO further concluded that adequate Navy management oversight of suspended material would have highlighted the necessity for better delineation of responsibility. [See pp. 4, 9, 10, 11, and 13.]

DoD Response. Concur. DoD agrees that the Navy lacks policy and procedural guidance for controlling suspended material and further, the Navy's information management system provides insufficient information to monitor these items. The Navy will analyze GAO findings, gather additional information from its stockpoints and ICPs regarding suspended material, and implement uniform policy and procedures to preclude recurrence of the situation described in this finding. This is addressed in the Plan of Action and Milestones (POA&M) attached, specifically, Action Items 7, 9, and 10.

FINDING B: Value of Suspended Material is High. GAO found that in January 1984, the value of material recorded on Navy inventory records as being in suspended condition was approximately \$211 million. GAO also found that about 94 percent of the suspended material was Navy owned or managed and most of the remainder was Defense Logistics Agency (DLA) material stored at Navy locations. [See pp. 1, 6, and 7.]

DoD Response. Concur. In November 1984, the Navy plans to institute a monthly report from Naval Supply Centers (NSCs) to NAVSUP which will state the number and dollar value of items held in suspended condition and the number and dollar value of items transferred from suspended condition to a true condition code.

0 FINDING C: Suspended Materials Are Not Being Acted Upon In A Timely Manner. GAO found that DoD and Navy regulations provide that material in suspense condition codes should be reclassified within certain time periods, code J within 90 days, code K within 10 days and, although no specific time has been set for code L material, DoD and Navy regulations emphasize that suspensions should not last indefinitely. GAO also found that the length of time material remains in a suspended condition far exceeds DoD and Navy criteria and that the policy on reclassifying suspended material in a timely manner was not being followed. GAO tests at the Norfolk and Oakland Naval Supply Centers showed that the average suspension time was 21 months. GAO concluded that, although the age of its sample items taken at Norfolk and Oakland cannot be projected to all Navy stockpoints, the results are indicative of the extent of overaged material throughout the Navy supply structure. GAO concluded that potentially good material remains in nonissuable suspended condition for long periods, adversely impacting on the effectiveness and economy of supply operations. GAO further concluded that adequate Navy management oversight of suspended material would have highlighted noncompliance with established time frames. [See pp. 1, 7, and 13.]

DoD Response. Concur. DoD agrees that suspended condition material is held in suspense an inordinate amount of time in the Navy. This is due mainly to the lack of clear Navy policy and procedures. Although establishment of specific time limits for "L" condition material is unlikely due to the various reasons materiel is in "L" condition, the Navy will institute a monitoring procedure to periodically review this material and attempt to expedite resolution of the legal problem. DoD concurs also that the problem revealed by GAO at NSCs may exist also at other Navy stockpoints; therefore, the Navy will review the situation at other selected activities. This is addressed in the Navy POA&M, Action Item 5.

0 FINDING D: Suspended Material Often Not Considered In Filling Requisitions And Making Procurement Decisions. GAO found that material in non-ready-for-issue status must be disregarded by

item managers in making supply decisions. GAO also found that item managers had limited information on the condition of many suspended items, and therefore most of these items must be considered in less than issuable condition. GAO further found that, although it was impractical for it to determine and quantify all procurements made on an item since it was suspended because of the long suspension times, at least 25 percent of 189 Norfolk sample items had procurements initiated during the time the material was suspended. GAO concluded that, under the current system, item managers lack sufficient information about suspended material to give adequate consideration to its potential use for filling requisitions and making procurement decisions. [See pp. 8, 9, and 12.]

DoD Response. Concur. The reason suspended material is not considered in requisition processing or procurement decisions is because the Inventory Manager (IM) does not know if suspended items can be returned to ready for issue condition or if so, what time and effort is required. Because of this uncertainty, suspended material is not used to fill requisitions or reduce buy quantities.

0 FINDING E: Specific Responsibilities For Taking Action On Suspended Material Are Not Clearly Defined. GAO found that neither the NAVSUP, the inventory control point, nor the stockpoint regulations provide clear guidance which delineates responsibility for ensuring that suspended material remains in that condition for only short periods of time. GAO also found, in discussions with key personnel at both the stockpoint and inventory control point levels, some confusion regarding responsibilities. Although the Navy policy and procedures reiterate DoD guidance regarding definitions and time standards, GAO found that other management aspects are not spelled out, e.g., monitoring requirements, specific tasks required of the stockpoints, and timely reclassification of suspended material. GAO concluded that inadequate management oversight and unclearly delineated responsibilities for the inventory control points and stockpoints have resulted in millions of dollars of Navy material being suspended for excessive periods of time. [See pp. 10 and 12.]

DoD Response. Concur. There is a lack of clear guidance on responsibility for suspended material management. The Navy will address this in policy and procedure instructions for suspended material. This matter is addressed in the response to recommendation 4 and in the Navy POA&M, Action Items 6, 7, 9 and 10.

0 FINDING F: DLA Management Of Suspended Stock. GAO found that DLA material at Navy stockpoints had been suspended for much shorter periods than Navy managed material. GAO noted that while the time of DLA items is well in excess of DoD standards, it is a marked improvement over the Navy time. GAO found that DLA requires that stockpoints submit copies of inspection reports for

all suspended stock to a central control group at the appropriate DLA inventory control point. Further, GAO found that the group: (1) distributes each inspection report to an action office and provides an information copy to the item manager, (2) maintains computerized data used to monitor the time suspended, reason for suspension and who is working to resolve the problem, and (3) provides summary data to the item managers and inventory control point management. GAO concluded that DLA procedures and practices more clearly delineate responsibilities and insure better monitoring of suspended material. GAO further concluded that such requirements for central control from time of suspension through resolution contributes greatly to the shorter times that DLA material is suspended and increases the item manager's awareness of the material. [See pp. 11 to 13.]

DoD Response. Concur

RECOMMENDATIONS

RECOMMENDATION 1: GAO recommended that the Secretary of the Navy direct the Commander of NAVSUP to initiate a one-time special project to have inventory control points and stockpoints determine the true condition of suspended material, make issuable all material that is needed, and purge from the supply system all material that cannot economically be made issuable or is no longer needed [See pp. 2 and 13.]

DoD Response. Concur. The Navy (Naval Supply Systems Command (NAVSUP)) has developed a Plan of Action and Milestone (POA&M), Action Items 2 and 4, to reconcile stockpoint and Inventory Control Point (ICP) records of suspended material and take action to determine the true material condition.

RECOMMENDATION 2: GAO recommended that the Secretary of the Navy direct the Commander of NAVSUP to modify the management information system used by NAVSUP, inventory control points, and stockpoints so that it will receive summary data on the amount, age, and reasons for suspension of material in condition codes J, K, and L and monitor this data to ensure compliance with DoD and Navy requirements. [See pp. 2 and 13.]

DoD Response. Concur. The form and extent of the required changes to the Uniform Automatic Data Processing System - Stock Point (UADPS-SP) and Uniform Inventory Control Points (UICP) will be determined and the changes implemented. This is addressed in the Navy POA&M, Action Items 7 and 10.

RECOMMENDATION 3: GAO recommended that the Secretary of the Navy direct the Commander of NAVSUP to direct that each inventory control point assess personnel resource allocations for the purpose of establishing a central control group for oversight of suspended material. This group should receive and record discrepancy report data, monitor suspension times and the status

of efforts to resolve discrepancies, keep item managers informed on the status of suspended items, and serve as a focus for questions from stockpoints. [See pp. 2 and 13.]

DoD Response. Partially concur. DoD agrees with the intent of the GAO recommendation and central control of suspended material will be established. However, within the Navy other methods of obtaining this control may be more cost beneficial than the GAO recommended central control group. For example, it may be better to designate an individual within each ICP item management branch to monitor that branch's suspended material and report regularly to higher ICP management. The GAO recommended approach and others will be assessed as part of the Navy POA&M (see Action Item 7).

RECOMMENDATION 4: GAO recommended that the Secretary of the Navy direct the Commander of NAVSUP to provide more explicit guidance on who (the inventory control point or stockpoint) is responsible for resolving suspended material discrepancies so the material can be made issuable or disposed of in a timely manner. [See pp. 2 and 13.]

DoD Response. Concur. Responsibility for resolving suspended material discrepancies is a major item in the POA&M. The lack of clear policy and procedures is the prime reason for the buildup of suspended material at the stockpoints. In the POA&M, NAVSUP has addressed development and implementation of policy and procedural instructions for managing suspended material (see Action Items 9 and 10).

PLAN OF ACTION AND MILESTONES
TO
REVIEW NAVY'S MANAGEMENT OF SUSPENDED MATERIAL

<u>ACTION</u>	<u>DATE</u>
1. Review GAO Draft Audit Report 943574 (OSD Case #6609); prepare response; establish ad hoc NAVSUP action team	Completed
2. Task ICPs and Stockpoints to begin review and reconciliation of suspended material records	10/20/84
3. Review existing DoD/Navy policies and procedures for suspended material	10/31/84
4. ICPs/Stockpoints complete initial review of suspended material records and begin monthly reporting to NAVSUP	11/30/84
5. NAVSUP team visit an NSC, an NAS and an ICP to review suspended material stocks and local control procedures	12/20/84
6. Define problem in detail, i.e., determine where there are specific gaps in policy or procedures, disruptions in the flow of information, vague management responsibilities, etc., and determine ICP or Stockpoint responsibilities	1/20/85
7. Determine course of action to resolve the problem and quantify resources required, including the need and cost of ADP program changes. Also pursue the GAO recommended central control group and other alternatives as appropriate. Determine source of resources, if required	4/15/85
8. Provide tasking to develop new ADP information system and material control programs	5/15/85
9. Issue new instructions on policy and procedures for managing suspended material	7/01/85
10. Implement new procedures (NOTE: If ADP program changes are required, full implementation will be dependent on availability of the new ADP programs; incremental implementation may be required.) and provide date for full implementation	8/01/85

11. Provide DoD and GAO an assessment of action taken to reduce the amount of suspended material and implement new management information and control procedures

9/30/85