

July 1988

# INVENTORY MANAGEMENT

## Receipt Confirmation Problems



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United States  
General Accounting Office  
Washington, D.C. 20548

National Security and  
International Affairs Division

B-222859

July 14, 1988

The Honorable Pete Wilson  
United States Senate

The Honorable John Glenn  
Chairman, Committee on  
Governmental Affairs  
United States Senate

In May 1986, we reported to Senator Wilson, then Chairman of the Senate Armed Services Committee Task Force on Department of Defense (DOD) Inventory Management, on the results of our review of inventory management practices within the Army, Navy, Air Force, Marine Corps, and Defense Logistics Agency (DLA) supply systems.<sup>1</sup> We identified a wide range of potentially significant inventory management problems within DOD.

One problem area was receipt confirmation. For example, we reported that although the Navy had a control procedure for monitoring material shipments, it had no assurance that it received all such shipments. Subsequently, we were asked to perform a more detailed review of this area.

The objective of our review was to determine whether internal controls within the services and DLA provided adequate assurance that material that is paid for is actually received. (See appendix I for a detailed description of our objective, scope, and methodology.) In general, we found that the military services and DLA had not implemented adequate procedures to assure themselves that items paid for had been received.

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## Background

Each of the services and DLA has a wholesale supply system that is managed by one or more inventory control points (ICP). At the wholesale level, inventory management is under the direct control of the ICP. Each ICP oversees inventories of supplies kept in wholesale depots. Depots receive material from vendors, store the material, and issue supplies to retail activities, such as Army and Air Force bases.

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<sup>1</sup>Inventory Management: Problems in Accountability and Security of DOD Supply Inventories (GAO/NSIAD-86-106BR, May 23, 1986).

When a vendor ships supplies to a depot, the vendor reports the shipment to the appropriate ICP. When the depot receives the item, it should confirm receipt to the ICP as quickly as possible. Until the depot receives the material, the ICP refers to it as intransit material and records it as a due-in on its supply records and as an order on its contract procurement records. The transaction is tracked on the procurement record as an open contract until the vendor is paid. Upon receipt, material management information systems should post supply and contract data on the ICP's procurement and supply records. The receipt closes the due-in on the supply records, and payment of the vendor's invoice will allow the open contract to be closed on the procurement records.

Among the internal controls that DOD requires the services and DLA to incorporate in their accounting systems is a description of the regular reconciliation processes that will be used to control financial and property resources. Reconciliation of receipt and payment data is an internal control technique that allows managers to assure themselves that materials paid for are received. DOD requires yet another control to ensure proper reporting and accounting of material receipts. For overdue shipments, DOD requires ICPS to follow up with the appropriate depot 45 days after the shipping date reported by the vendor, and the depot must provide a response on the status of the shipment.

Prompt receipt confirmation and follow-up on overdue shipments is particularly important when DOD uses expedited payment methods because under these methods, DOD makes payments before it receives the material. DOD is authorized to pay for material before receipt under two expedited payment methods—fast pay and source acceptance. Under the source acceptance method of expedited payment, DOD makes payments based on government inspection and acceptance of material at vendors' plants rather than upon receipt of the material. Therefore, receipt confirmation is the only basis for assuring that the government either receives what it paid for or recovers payments for items it never receives.

The fast pay method provides for payments, under specified conditions, to contractors when they submit an invoice. Receipt confirmation of material procured under the fast pay method is the topic of a separate GAO report.<sup>2</sup> This report evaluates receipt confirmation of material procured under the source acceptance method.

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<sup>2</sup>Internal Controls: Controls Over Expedited Payments to Defense Suppliers Need Improvement (GAO/NSIAD-88-113, Feb. 29, 1988).

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## Internal Controls Do Not Ensure That Material Paid for Is Received

We analyzed 453 shipments valued at about \$15 million and could not confirm receipts for 87 shipments (19 percent) valued at about \$1 million (7 percent). Generally, we found that systems and internal controls in the military services and DLA did not provide DOD management with adequate assurance that material paid for was received at storage activities.

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### Army

Internal controls at the Army's Tank-Automotive Command were inadequate to ensure that Army depots actually received material paid for based on acceptance at contractors' plants. We reviewed 121 shipments valued at \$9.1 million, which had been shipped from between 105 days and 2 years earlier but had no record of receipt. We and the Command were unable to determine what happened to 5 of these shipments valued at about \$491,000. Of the remaining 116 shipments, we found that 4 had been cancelled and 112 were received. For these, either the depot did not accurately report the receipt to the ICP, or the ICP did not post the receipt to the inventory record. Additionally, at the Command, we found that automated inventory records did not accurately identify the receipt status of shipments, and item managers did not assign high priority to following up on overdue shipments. Moreover, the ICP did not reconcile financial records that identified intransit material with inventory records to ensure that overdue shipments were researched and recovery initiated for material that the depots had not received.

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### Navy

The Navy Ships Parts Control Center had developed automated control systems, which collectively should ensure that depots receive material paid for on the basis of source acceptance. However, the systems were not always effective.

We reviewed 140 shipments valued at \$893,700 that were listed on the Control Center's supply records as overdue from 1 to 12 months past the date the invoice was paid. We were unable to find out what happened to 48 shipments valued at \$154,000. The Center could not provide additional information on these shipments. In performing our analysis, we found that due to a variety of receipt processing problems at the depot and ICP, 92 material shipments had been received by the storage activities but the due-in had not been cancelled from the Center's supply records. Specific problems at the Center that contributed to the lack of

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assurance that it received material included the following:

- Item managers could not rely on automated contract files to identify potential missing shipments because data were often inaccurate and incomplete.
- Item managers deleted records of due-in material without adequate documentation that depots actually received the material; i.e., managers based deletions on discussions with contractors as opposed to evidence of receipt.
- Payment data were not recorded in comparable detail as receipt data; therefore, records could not be reconciled.

Furthermore, the Ships Parts Control Center had not implemented a receipt follow-up procedure for items shipped but not delivered as DOD guidance requires. Consequently, item managers were not investigating potential missing shipments.

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## Air Force

Internal controls over intransit material at the San Antonio Air Logistics Center were inadequate, and therefore the Center could not be certain that (1) all items it paid for were received and (2) it bought sufficient quantities of items to meet supply requirements.

We reviewed 130 shipments valued at about \$4.5 million that were due-in on the Logistics Center's supply records for 2 months to 1 year past the shipping date. We were unable to determine what happened to 22 shipments valued at about \$330,150. We found that the remaining shipments had been received, but due to a variety of receipt processing problems, depots had not accurately communicated the data to the Center. For example, because shipments lacked adequate documentation and documents contained incorrect data, the Center could not update due-in records. We also found that

- the Center's financial controls did not ensure that it received shipments paid for on a source acceptance basis, since it did not reconcile individual payments and receipts, and
- managers had not performed adequate and timely follow-up on intransit shipments from contractors to ensure that depots had received the shipments.

The Center is aware that the above problems may be impacting its ability to meet its supply requirements. Timely updating of due-in records is important because it affects item managers decisions to buy material.

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The requirements system offsets the requirements computation with on-hand and due-in asset information. Item managers use this system to determine whether it is necessary to buy additional material. If the depot receives the material but the record-keeping is not properly completed, the ICP's asset on-hand balance increases and the due-in remains open on the record. In such a case, the requirements computation process counts the received quantity twice, both as on-hand assets and due-in assets. Therefore, the procurement requirement is understated and the Air Force either does not buy the item or buys less than required.

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## Defense Logistics Agency

DLA controls over receipt confirmation procedures did not ensure that material paid for was actually received. In our review of items paid for under source acceptance contracts, we examined 62 shipments of clothing and textiles items valued at \$332,339. We found that although the depots received most of the shipments, for 12 of the shipments valued at \$45,259, neither the supply center's nor the depot's records reflected the receipts. In analyzing these 62 shipments, we found that although the depots received material for 50 of the shipments, the item managers' records still recorded the material as intransit because of a variety of processing problems. For example, vendor personnel were recording erroneous data on shipping documents, and depot personnel were recording incorrect data on receiving reports that are used to transmit receipt data to the ICP. If receipt data is not accurately reported and processed, established due-in records will not be closed and will remain on the ICP's intransit files.

At the Defense Personnel Support Center's Clothing and Textiles Directorate, we found that although there was a receipt follow-up system in place, documentation showed that the Directorate had infrequently followed up with vendors and depots to clear overdue shipments from the records. In addition, only one person was assigned to follow-up on clothing and textile shipments. The volume of overdue shipments requiring attention averaged between 100 and 200 cases per day. Although DLA policy requires investigation on shipments over \$100, we were told that management did not expect follow-up unless the dollar value of the potential missing shipment exceeded \$10,000. Our analyses showed that the Directorate had not followed up on 4 of the 13 overdue shipments in our sample that exceeded \$10,000.

In commenting on this report, DOD informed us that to correct the problems at the Clothing and Textiles Directorate, DLA increased the number of people assigned to follow-ups on overdue shipments from one to five.

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## DOD's Proposed Receipt Acknowledgement Improvements

We, the service audit groups, and the DOD Inspector General have reported several times on problems the military services and DLA have in material receipt procedures and controls. Because of these problems, the military services and DLA cannot assure themselves that material that is paid for is actually received.

In May 1983, in response to these problems, the Deputy Assistant Secretary of Defense (Logistics and Material Management) asked the Defense Logistics Standard Systems Office to review material receipt reporting procedures and recommend corrective actions. DOD initiated the study to resolve internal control weaknesses identified in previous DOD Inspector General and GAO reports. In December 1985, the Systems Office issued proposed changes to existing standard logistics accounting and requisitioning systems. These changes were supposed to provide policy and standard procedures for material receipt acknowledgement and supply discrepancy reporting processes that (1) would maintain visibility over and improve the control of material due in to the supply system and (2) assure that material paid for on the basis of acceptance at source is received and accounted for on inventory records.

DOD did not implement the proposed changes to the material receipt acknowledgement and supply discrepancy reporting processes because of the services' objections to the procedural complexities and perceived implementation costs. Although there were no estimates of the costs to implement the proposals, DOD cancelled the changes in October 1986.

In January 1988, the Systems Office proposed another change to the standard logistics systems to address the material receipt acknowledgement process. Among other things, this change is supposed to (1) resolve DOD system deficiencies in control over receipts of source acceptance procurements and (2) provide the services and DLA visibility over potential problems in accountability of DOD supply system inventories documented in our 1986 report on inventory management problems in DOD. Implementation of the changes to the material receipt acknowledgement process will probably not occur until 1991, according to DOD officials.

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## Conclusions and Recommendations

We endorse the proposed changes by the Defense Logistics Standard Systems Office to improve receipt confirmation procedures; however, we believe existing systemic problems require immediate attention. Systems and internal controls in the military services and DLA do not provide management with adequate assurance that depots receive material paid for on the basis of acceptance at source. Because of a variety of



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receipt processing problems at depots and ICPs, material shipments, although received by the depots, are not dropped from the ICP's supply records. These shipments remain on the records for months or years as intransit material. Procedures to follow up on intransit material either (1) have not been established or (2) where established, are not being followed or are otherwise not effective. Additionally, supply and financial records are not reconciled to ensure that material paid for was actually received.

We are therefore recommending that the Secretary of Defense require the Secretaries of the Army, Navy, and Air Force, and the Director, DLA, to (1) comply with existing DOD guidance regarding intransit shipments of material to wholesale storage activities, (2) establish or reemphasize routine follow-up procedures on shipments of material that have been paid for but not received, and (3) establish routine reconciliation procedures for their supply and financial records to ensure that material that is paid for is actually received.

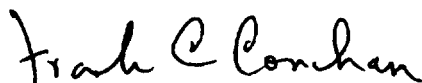
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## Agency Comments

DOD concurred with our findings and recommendations and provided information on actions taken or planned to correct problems and implement our recommendations. (See app. II.)

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As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to interested committees; the Secretary of Defense; the Secretaries of the Army, Navy, and Air Force; the Director, Defense Logistics Agency; and the Director, Office of Management and Budget. We will also make copies available to other parties upon request.



Frank C. Conahan  
Assistant Comptroller General

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## Abbreviations

DLA	Defense Logistics Agency
DOD	Department of Defense
GAO	General Accounting Office
ICP	Inventory control points

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# Objective, Scope, and Methodology

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The objective of our review of receipt confirmation was to determine whether the Army, Navy, Air Force, and DLA systems and internal controls provided management adequate assurance that material paid for on the basis of acceptance at source was received at the depot and that follow-up on overdue shipments was conducted.

We conducted audit work at four DOD ICPS and four storage activities. We interviewed officials and reviewed records to understand the systems used to account for items paid for on a source acceptance basis and the procedures in place to ensure that such items are received and accounted for properly.

When material is accepted at source, the contractor is responsible for shipping it to the destination specified in the contract. Until the material is received at its destination, it is referred to as material intransit. To test the various receipt confirmation and follow-up systems and procedures, we obtained lists of intransit shipments of material from the ICPS or developed such lists from the ICP's records. From these, we selected transactions for items paid for on a source acceptance basis. Each transaction represents a contract that may contain one or more shipments referred to as a contract line item on the services' and DLA's automated records. Our sample transactions usually represented a contract line item, i.e., a single shipment transaction. From a universe of 7,853 shipments valued at about \$183 million, we randomly sampled 453 shipments valued at about \$15 million. For each sample transaction, we reviewed available computer-generated shipment and receipt records at both the ICP and depot, contract files at the ICP, and receiving reports at the depot. We conducted our review between October 1986 and July 1987 in accordance with generally accepted government auditing standards.

# Comments From the Assistant Secretary of Defense (Production and Logistics)



ASSISTANT SECRETARY OF DEFENSE  
WASHINGTON, D.C. 20301-8000

PRODUCTION AND  
LOGISTICS

(L/SD)

JUN 29 1988

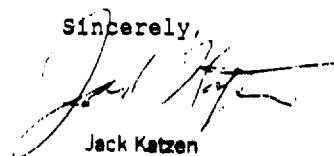
Mr. Frank C. Conahan  
Assistant Comptroller General  
National Security and International  
Affairs Division  
U.S. General Accounting Office  
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) Draft Report, "INVENTORY MANAGEMENT: Receipt Confirmation Problems," dated April 12, 1988 (GAO Code 391581), OSD Case 7599. The DoD concurs with the GAO findings and recommendations.

The DoD recognizes the potential magnitude of the receipt confirmation problem and the need to ensure that all appropriate actions are taken, both in the short term as well as the long term. The DoD is committed to taking corrective actions, as indicated in its detailed comments provided in the enclosure.

Sincerely,



Jack Katzen

Enclosure

GAO DRAFT REPORT DATED APRIL 12, 1988  
(GAO CODE 391581) OSD CASE 7599

"INVENTORY MANAGEMENT: RECEIPT CONFIRMATION  
PROBLEMS"

DEPARTMENT OF DEFENSE COMMENTS

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FINDINGS

**FINDING A: DoD Wholesale Supply System.** The GAO explained each of the Services and the Defense Logistics Agency (DLA) has a wholesale supply system that is managed by one or more inventory control points. The GAO noted that, when a vendor ships supplies to a depot, the vendor reports the shipment to the appropriate inventory control point. When the depot receives the item, the depot should communicate confirmation of the receipt to the inventory control point as quickly as possible. The GAO further explained that, among the internal controls the DoD requires the Services and the DLA to incorporate in their accounting systems, is a description of the regular reconciliation processes used in controlling financial and property resources. The GAO described the reconciliation of receipt and payment data as an internal control technique allowing managers to assure themselves they have received what they paid for. The GAO noted that the DoD also requires another control to ensure proper reporting and accounting of material receipts--i.e., on overdue shipments, the inventory control points are required to follow-up with the appropriate depot. The GAO concluded that receipt confirmation is the only basis for assuring that the Government either receives what it paid for or recovers payments for items it never receives. The GAO further concluded that prompt receipt confirmation and follow-up on overdue shipment is particularly important when the DoD uses expedited payment methods, because under these methods the DoD makes payments before it receives the material. (pp. 2-4/ GAO Draft Report)

**DoD RESPONSE:** Concur. The DoD agrees that prompt receipt confirmation and follow-up on overdue shipments are important, particularly when the contractor/vendor has been paid for the material under source-inspection procedures. Procedures and controls are in place for prompt receipt, storing and reporting at wholesale depots. Proposed MILSTRAP procedures (Joint Proposed MILS Change Letter 4 (MILSTRAP) and 4 (MILSTRIP), Expanded Materiel Receipt Acknowledgment Requirements, currently

Now on pp. 1-2.

ENCLOSURE

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in staffing, will extend receipt confirmation procedures down to the retail level (estimated implementation - 1991).

**FINDING B: Internal Controls Do Not Ensure That Material Paid For is Received.** The GAO analyzed 453 Army, Navy, Air Force and Defense Logistics Agency shipments valued at about \$15 million and reported it could not confirm receipts of 87 shipments (19 percent) valued at about \$1 million (7 percent). The GAO generally found that the systems and internal controls in the Military Services and the DLA did not provide DoD management with adequate assurance that material paid for is received at storage activities. The GAO concluded that the DoD may be paying for material it never received. (p. 4/GAO Draft Report)

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**DoD RESPONSE:** Concur. The DoD must ensure that all material paid for is received. An agent of the Government must accept material prior to payment being made under source acceptance procedures. The Government is assured, therefore, that the vendor actually provided the material and that the material conformed to contractual requirements before payment was made. The subsequent receipt confirmation by the stock point documents successful transportation of the source-accepted, Government-owned material from the vendor plant to the storage facility. Specific actions by the Army, Navy, Air Force and DLA relative to this finding are described below:

- The Army acknowledges that improvements are needed in source acceptance and receipt procedures. The Army's research established that incorrect documentation was submitted, errors were introduced into the automated systems accounting for this material, and that follow-up is extremely difficult as a result of these errors. As a result, the Army will emphasize to the Army Materiel Command the need for improvement in the pre-positioned material receipt process. This will be accomplished by July 15, 1988.
- The Navy has had difficulties in obtaining receipt data and in reconciling receipts with payments. Because of this, since the GAO audit was initiated, the Navy has invested significant resources in improving receipt reporting and in reconciling receipts with expenditures. Specifically, a programmatic enhancement has been designed to incorporate data from the due files of the Inventory Control Point (ICP) into the due files of the stockpoint to increase the likelihood that the stockpoint will correctly identify and report the receipt. This enhancement is scheduled for release in fiscal year 1988. The Ships Parts Control Center (SPCC) has also dedicated personnel to the task of researching transactions, which fail to match payments, and is correcting data disparities between its due, contract, and financial files. The SPCC has also implemented

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procedures to research its Transaction History File (THF) to identify and correct erroneously reported receipts. This file records all transactions at the ICP but is currently accessible only by stock number. This limitation prohibits research on a transaction basis. A programmatic enhancement has been designed and is scheduled for release this fiscal year that will enable SPCC to access the THF by document number, and thereby enhance research efforts. These initiatives have improved the Navy's reporting and reconciliation abilities and have resulted in reduced Material-In-Transit (MIT) values. Complete resolution of the Navy problems described by GAO will not occur until redesigned ICP programs are completed and deployed in the 1990/91 timeframe.

- The Air Force reconciliation procedures have been established, however, the internal controls at the Air Logistics Centers (ALCs) are not fully developed to ensure that the item management specialists comply with these procedures. The ALCs will be directed by the Air Force Logistics Command (AFLC) to develop a self-inspection check list, within their operational instructions, to ensure compliance with the procedures.
- The previously utilized DLA receipt follow-up system and procedures did not adequately ensure that DLA received material paid for. As part of the correction of this deficiency, a new automated tracking/controlling/reporting system called Project ACTION has been implemented at all DLA Centers. This system provides the Centers with a uniform and coordinated set of operating procedures; fixes resolution responsibility among and within Directorates; identifies and records resolution actions when taken; tracks the individual actions through the required multi-directorate resolution process; and ensures that appropriate follow-up or resolution actions are taken and accomplished within the established acceptable time frames.

**FINDING C: Army Receipt Confirmation Controls.** The GAO reviewed 121 Army Tank-Automotive Command shipments valued at \$9.1 million, which had been shipped from between 105 days and 2 years earlier and had no record of receipt. The GAO reported that neither it nor the Command were able to determine what happened to five of these shipments valued at about \$491,000. Of the remaining 116, the GAO found the following:

- four have been cancelled and 112 were received; and
- for the 112, the depot did not accurately report the receipt to the inventory control point or the inventory control point did not pass the receipt to the inventory (supply) record.



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Now on p. 3.

The GAO also found that the Command automated inventory records did not accurately identify the receipt status of shipments, item managers did not assign high priority to following up on overdue shipments, and the inventory control point did not reconcile financial records identifying in transit material with inventory records to ensure that overdue shipments were researched and any recovery initiated. The GAO concluded that the internal controls at the Army Tank-Automotive Command were inadequate to ensure Army depots actually received material paid for, based on acceptances at contractor plants. (p. 5/GAO Draft Report)

**DoD RESPONSE:** Concur. While the Army does have internal controls and procedures to identify overdue shipments, initiate follow-ups, and reconcile files, the DoD acknowledges that more needs to be done in the Army to follow up aggressively on overdue shipments from contractors that are source accepted. The Army will task the Army Materiel Command by July 15, 1988 to make this an area of special interest during quarterly inventory control effectiveness reviews.

**FINDING D: Navy Receipt Confirmation Controls.** The GAO reviewed 140 Navy Ship Parts Center shipments valued at \$893,700 shown on the Center supply records as overdue from 1 to 12 months from the date the invoice was paid. The GAO was unable to find out what happened to 48 shipments valued at \$154,000. The GAO found that, due to a variety of receipt processing problems at the depot and the inventory control point, 92 material shipments had been received by the storage activities, but the due-in was not cancelled from the Center supply records. The GAO concluded that the following specific Center problems contributed to the lack of assurance material was received;

- automated control file/data were often inaccurate and incomplete;
- due-in material records were deleted without adequate documentation that material was actually received;
- payment data were not recorded in the same detail as receipt data so records could not be reconciled; and
- a receipt follow-up procedure (for items shipped but not delivered) had not been implemented so there is no investigation being conducted of potential missing shipments.

The GAO also concluded that, although the Navy Ships Parts Control Center developed automated receipt/acceptance control systems, they were not always effective. (pp. 6-7/GAO Draft Report)

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**DoD RESPONSE:** Concur. To correct the shortcomings in portions of its accounting systems, the Navy has invested approximately \$2 million in FY 1987 and FY 1988, to improve accounting, reporting and follow-up capabilities in current systems (as discussed in the DoD response to Finding B). Redesignated ICP and Stock Point Information Systems will be deployed in the early 1990s. The DLA is simultaneously undergoing systems redesign that will provide Navy activities with the appropriate payment detail needed to further facilitate matching with receipt data. Extensive manual efforts in reconciling receipts with expenditures and in following up on overdue receipts will continue until redesigned systems are in place.

**FINDING E: Air Force Receipt Confirmation Controls.** The GAO reviewed 130 San Antonio Air Logistics Center shipments valued at about \$4.5 million, which were due-in on the Center supply records for 2 months to 1 year past the shipping date. The GAO was unable to determine what happened to 22 shipments valued at about \$330,150. The GAO found the following:

- the remaining shipments had been received, but the data has not been accurately communicated to the Center;
- the Center financial controls did not ensure shipments paid for on a source acceptance basis were actually received; and
- adequate and timely follow-up on in transit shipments from contractors had not been performed.

The GAO concluded that the internal controls at the San Antonio Air Logistics Center were inadequate and, therefore, the Center may have paid for items never received and may not have bought sufficient quantities of items to meet supply requirements. (The GAO noted that the Center is aware that the cited problems may be impacting its ability to meet its supply requirements.) (pp. 6-7/GAO Draft Report)

**DoD RESPONSE:** Concur. In early May 1988, a review was initiated by the AFLC to determine the reason for the audit findings. Corrective actions will be implemented as required. Reconciliation procedures for the Air Force are currently in place and are covered in AFLCR 70-11 and AFM 67-1, Vol III, Part 3. The AFLC will reemphasize the importance of these follow-up procedures to the ALCs via correspondence to be released not later than June 1988.

**FINDING F: Defense Logistics Agency Receipt Confirmation Controls; Prior Report.** The GAO noted that in a recent report on the DoD Fast Pay Program (OSD Case 7482), it had identified a similar problem at the Defense Logistics Agency (DLA). While reviewing items paid for under DLA source acceptance

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contracting, the GAO had found that, although the depots received most of the shipments, for 12 shipments in its review sample (valued at \$45,259), neither the supply center nor the depot records reflected the receipts. At the Defense Personnel Support Center Clothing and Textiles Directorate, the GAO had found that, notwithstanding there was a receipt follow-up system in place, documentation showed that the Directorate infrequently conducted follow-up with vendors and depots to clear overdue shipments from the records and only one person was assigned to follow-up, although the volume of overdue shipments requiring attention averaged between 100 and 200 cases per day. In its prior report the GAO concluded that the DLA controls over receipt confirmation procedures did not ensure that material paid for was actually received. (pp. 9-19/GAO Draft Report)

**DOD RESPONSE:** Concur. The problem does not, however, amount to 19 percent of the DLA line item shipments nor 14 percent of the DLA dollar value of shipments. More accurate statistics maintained by the DLA indicate that approximately 2.3 percent of the DLA's line item shipments and 2.9 percent of the DLA dollar value of shipments result in questionable receipt situations.

The previously utilized DLA receipt follow-up system did not adequately ensure that the DLA received the materiel it paid for. To correct this deficiency, Project ACTION has been implemented at all DLA Centers (as mentioned previously in the DoD Response to Finding B).

As an additional initiative to correct the problems identified by the GAO study conducted at the Defense Personnel Support Center, Clothing and Textiles Directorate, the number of people assigned to conduct follow-ups on overdue shipments has increased from one to five. An increase in the resources committed to conducting follow-ups, as well as the implementation of Project ACTION, has facilitated the recent decrease in the lines and dollar value of the aging (>180 days old) outstanding Clothing and Textile "intransit" materiel (60 percent and 12 percent, respectively).

**FINDING G: DoD Proposed Receipt Acknowledgment Improvements.**

The GAO noted that it, the DoD Inspector General and the Service audit groups have reported on problems the Military Services and the DLA have in material receipt procedures and controls. The GAO further noted that, in May 1983, in response to these problems, the Deputy Assistant Secretary of Defense (Logistics and Material Management) asked the Defense Logistics Standards System Office to review material receipt reporting procedures and recommend corrective actions. The GAO reported that, in December 1985, the Systems Office issued proposed changes to existing standard logistics accounting and requisitioning systems. The GAO found that the DoD did not implement the

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proposed material receipt acknowledgment and supply discrepancy reporting system because of Service objections to the procedural complexities and perceived implementation costs. The GAO observed, however, that in January 1988, the Systems Office proposed another change designed to (1) resolve DoD system deficiencies in control over receipts of sources acceptance procurements and (2) provide the Services and the DLA visibility over potential problems in DoD supply system inventory accountability. According to the GAO, implementation of the material receipt acknowledgment process will probably not occur until 1988 or 1990. Although endorsing the proposed changes, the GAO concluded that the existing systemic problems require immediate attention.

**DoD RESPONSE:** Concur. The Joint Proposed Change Letter (MILSTRAP and MILSTRIP), Expanded Materiel Receipt Acknowledgment Requirements, will help to resolve systemic receipt control problems in the retail receiving process. The proposed change letter is still being staffed with the Services/Agencies so the implementation date for the revised procedures is not yet known. Because of the impact on all Service/Agency procedures, the implementation date of the procedures may be even later than the GAO estimate (current estimate is 1991). The Office of the Secretary of Defense (OSD) will work with the Services/Agencies to ensure that adequate receiving procedures are in place in the intervening period.

**RECOMMENDATIONS**

**RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense require the Secretaries of the Army, Navy and Air Force, and the Director, Defense Logistics Agency, to comply with existing DoD guidance regarding in transit shipments of material to wholesale storage activities. (p. 13, GAO Draft Report)

**DoD RESPONSE:** Concur. As stated in the various responses to the findings of this draft report, the Services and the DLA are not only seeking to comply fully with current DoD guidance in this area but are also actively seeking, and have in some instances implemented, improved procedures and systems to assure that no shipments of material to wholesale activities are lost in transit as follows:

- The Navy has instituted an intensive effort to overcome the deficiencies noted by the GAO. The Navy intention is to establish a set of interim procedures to assure that adequate follow-up and reconciliation processes occur in the interim period until the 1990-1991 time period when revised Navy systems will be implemented containing automated procedures to accomplish the necessary reconciliation and follow-up actions.
- Reconciliation procedures are currently established for the Air Force; however, the AFLC will reemphasize the importance of these follow-up procedures to the Air Logistics Centers through appropriate correspondence to be released by June 1988.
- Project ACTION has been implemented at all DLA Centers to provide Centers with a uniform and coordinated set of operating procedures; fix resolution responsibility among and within Directorates; identifies and records resolution actions when taken; tracks the individual actions through the required multi-directorate resolution process; and ensures the appropriate follow-up or resolution actions are taken and accomplished with in the established acceptable time frames.
- See also the DoD Response to Finding B.

**RECOMMENDATION 2:** The GAO recommended that the Secretary of Defense require the Secretaries of the Army, Navy and Air Force and the Director, Defense Logistics Agency, to establish or reemphasize routine follow-up procedures on shipments of material that have been paid for but not received. (p. 13/ GAO Draft Report)

Now on p. 7.

Now on p. 7.

Appendix II  
Comments From the Assistant Secretary of  
Defense (Production and Logistics)

**DoD RESPONSE:** Concur. As indicated in the DoD responses to the GAO Findings and to Recommendation 1, the DoD is taking positive action to ensure that all materiel receipt processes including follow-ups are in place to validate that all materiel paid for is received.

**RECOMMENDATION 3:** The GAO recommended that the Secretary of Defense require the Secretaries of the Army, Navy and Air Force, and the Director, Defense Logistics Agency, to establish routine reconciliation procedures for their supply and financial records to ensure material that is paid for is actually received. (p. 13/GAO Draft Report)

**DoD RESPONSE:** Concur. Routine reconciliation of supply and financial records is a necessary element of the overall receiving process. The OSD will issue a policy statement, within the next 90 days, emphasizing the importance of this reconciliation process to the Services and the DLA. (See also the DoD Response to Recommendation 1.)

Now on p. 7.

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