

June 1991

ARMY SUPPLY MANAGEMENT

System for Issuing Replacement Clothing to Army Reservists Should Be Changed



**National Security and
International Affairs Division**

B-243614

June 11, 1991

The Honorable Richard B. Cheney
The Secretary of Defense

Dear Mr. Secretary:

We have reviewed the Issue-in-Kind (IIC) system used by the Army Reserve and National Guard to provide replacement clothing to their members. The system is employed in lieu of the monetary allowance used by the active Army. Our objective was to determine whether the Army had implemented adequate controls over its IIC system and whether a monetary allowance system would be more efficient and economical.

Results in Brief

The IIC system lacks adequate internal controls and is consequently subject to waste and abuse. The reserve components have not established criteria to limit how frequently clothing items can be replaced. They do not maintain systems for independently monitoring the issue of clothing. Their procedures do not ensure that old items are turned in when new ones are issued. Moreover, their accounting procedures do not adequately identify replacement clothing costs.

Our review indicates that it would be more economical and efficient to replace the IIC system with a monetary clothing allowance. Considering the expected life of clothing items and the relatively few days a year during which reservists train, we estimate that the Army could save \$6.6 million annually in clothing costs if it were to switch to the allowance. This change would also reduce the administrative work load of unit supply personnel. In addition, the Army could save at least \$1.4 million annually if it discontinued operation of the 53 National Guard clothing issue points and used the active Army's supply system instead.

**Internal Controls Over
the Issue-in-Kind
System Are
Inadequate**

Serious weaknesses exist in internal controls over clothing issues because regulations do not provide for such controls or because the existing control procedures are not being followed. For example, although the Army provides replacement clothing to reservists as needed, it has not established usage criteria or maintained adequate internal controls to ensure that the "need" arises solely from duty requirements, so that waste and abuse do not occur. At the activities we

visited, neither the Reserve nor the Guard monitored the amount of clothing issued to individuals or to units. They did not maintain centralized records so that clothing issues could be audited. Moreover, because their accounting systems did not adequately identify costs, the reserve components did not know the actual cost of providing replacement clothing under the IIK system.

Monetary Allowance Is a Better Alternative

Our comparison of the cost of IIK system with the cost of a monetary allowance system showed that the IIK system costs the National Guard and Army Reserve about \$6.6 million more a year than a monetary allowance system would. The adoption of a monetary allowance system has the potential for generating further savings in the National Guard because it would eliminate the need for the 53 clothing issue points and for the sorting and classification of turned-in clothing for property disposal. Guardsmen could use the Army's clothing sales stores to obtain their clothing. The Guard would no longer need to buy and stock clothing at the state level, would not need personnel to operate clothing issue points, and—since no more clothing would be turned in—would not need to expend funds to have the turned-in clothing sorted and classified for proper disposal. Our estimate of savings from personnel reductions alone is about \$3.2 million.

The savings associated with closing the 53 clothing issue points would be offset to some degree by an increase in the amount paid to the Army and Air Force Exchange Service for operating the Army clothing sales stores. After consideration of a number of factors, we estimate that increase would be about \$1.8 million. Thus, we believe the net savings from closing the Guard's clothing issue points and making increased use of the Exchange Service would be at least \$1.4 million.

Use of the monetary allowance would also be consistent with active Army practice, which places responsibility for personal clothing with the individual soldier rather than with the unit. It would also reduce the potential for waste and abuse that currently exists under the IIK system.

Recommendations

We recommend that you direct the Secretary of the Army to replace the current IIK system with a monetary clothing allowance for reserve components. You should also direct the National Guard to use the Army's existing supply system and discontinue operation of state-level clothing issue points.

Agency Comments and Our Evaluation

In commenting for the Department of Defense on a draft of our report, the Assistant Secretary for Reserve Affairs agreed or partially agreed with our findings. However, he indicated that the Department wanted to study the matter further before deciding whether to test the monetary allowance in selected states. We believe such a study is unnecessary in light of our findings.

Details of our findings and our full evaluation of agency comments are included in appendix I. Appendix II presents the Assistant Secretary's comments in their entirety.

Scope and Methodology

To compare the IIK and monetary allowance systems, we analyzed previous studies and reviewed Department of Defense (DOD) and Army regulations regarding replacement clothing. We visited the 81st Army Reserve Command, the U.S. Property and Fiscal Officers for Virginia and Georgia, and several Army Reserve and National Guard units under these commands.

To gain an understanding of policies and procedures concerning the management of clothing for reserve enlisted soldiers, we reviewed applicable DOD directives and Army regulations. We obtained documents from National Guard clothing issue points and verified them at corresponding units. For the Army Reserve, we obtained documents and interviewed officials from support installations.

To estimate the cost of replacing the current IIK system with a monetary allowance for clothing, we obtained information from personnel centers and finance and accounting offices. We based our computation on available information and our assumptions.

We performed our review from July to November 1990 in accordance with generally accepted government auditing standards.

A list of the activities we visited and contacted is included as appendix III.

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 House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report. A written statement must also be submitted 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 and of the House and Senate Committees on Armed Services; the Secretary of the Army; and the Director, Office of Management and Budget. We will also make copies available to others upon request.

Please contact me at (202) 275-4141 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix IV.

Sincerely yours,

A handwritten signature in black ink that reads "Richard Davis". The signature is written in a cursive style with a large, prominent "R" and "D".

Richard Davis
Director, Army Issues

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Abbreviations

AAFES Army and Air Force Exchange Service
DOD Department of Defense
IIK Issue-in-Kind

Evaluation of the System for Replacing Army Reservists' Clothing

Background

Upon entry into the Army, all enlisted soldiers, both active and reserve, receive an initial set of uniform clothing, including the dress and utility uniforms needed to perform their duties.¹ Under Public Law and Department of Defense (DOD) instructions, enlisted soldiers annually are to receive replacement clothing or a cash allowance to maintain these uniforms.

For active duty soldiers, the Secretary of Defense has directed the payment of an annual cash clothing allowance. DOD annually computes the amount of the allowance based on the cost and expected life of the clothing. After 6 months of active service and for the next 30 months of continuous duty, soldiers receive 70 percent of the computed clothing allowance; afterwards, they are paid the full allowance, which for fiscal year 1990 was \$216 for men and \$241 for women. Soldiers use the allowance to purchase replacement items from the Army military clothing sales stores or commercial vendors.

Soldiers in the Army Reserve and National Guard do not receive yearly clothing allowances. Instead, they maintain uniforms through the Issue-in-Kind (IIC) system, which replaces worn items, clothing that does not fit, or items lost or destroyed through no fault of the individual. For some clothing—generally uniform coats and trousers—the soldier must exchange the old items for new ones. The authority to issue replacement clothing resides with unit commanders but may be delegated to unit supply officers or noncommissioned officers.

The total quantities of replacement items were not readily available, as neither the Army Reserve nor the National Guard maintained central records on the total numbers of individual items issued. According to their fiscal year 1991 budgets, the cost of replacement clothing in fiscal year 1990 was \$4.3 million for the Army Reserve and \$17.8 million for the National Guard.

Reserve and National Guard Systems Operate Differently

Operation of the IIC system in the Army Reserve differs from that of the National Guard. The Army Reserve uses the active Army clothing supply system—that is, soldiers obtain clothing items from the sales stores at Army installations. The cost of clothing for reservists is

¹ Army Reserve and National Guard officers are paid an initial clothing allowance and must buy and maintain their uniforms. They are not authorized replacement clothing through the Issue-in-Kind System.

charged to an open allotment in the Reserve Pay and Allowance appropriation. The Guard, however, operates its own supply depots in each state and territory. At each depot, the Guard maintains clothing issue points that buy, stock, and distribute clothing to units.

Army Reserve

Army reservists request replacement clothing items from their unit supply section. Supply personnel initiate requisition/issue documents and forward them to designated supporting installations.² Generally, an activity at the supporting installation receiving the requisition forwards it to a clothing sales store, picks up the requested clothing, and distributes the items to the requesting unit. Soldiers receive the items during their next duty period. However, if the soldiers have access to an Army clothing sales store at another installation, they may take the requisition document directly to the store, receive the item, and return a copy of the issue document to unit supply. In either case, the clothing sales store forwards the original document to the installation's Finance and Accounting Office, where the cost of the issue is charged to the Reserve appropriation through an open allotment account.

Soldiers are to turn in clothing items to their unit supply, which is to prepare turn-in documents and forward them to a supporting installation. There the clothing is to be screened, and usable items are to be cleaned and stored for later reissue to reserve units. The remainder are to be sent to a Defense Reutilization and Marketing Office for disposal.

National Guard

National Guard soldiers also obtain replacement clothing through unit supply, which initiates requisition/issue documents and forwards them to the state clothing issue point. The clothing issue point fills the requisitions from its stock and distributes the items through an internal delivery system. Unit supply receives the items, stores them until the next duty period, and issues them to its soldiers. Unit commanders may delegate authority to issue replacement clothing to unit supply noncommissioned officers.

Unit supply is to send turned-in items to the Guard's central issue facility, collocated with the clothing issue point, where usable items are to be cleaned and stored and may be transferred to the clothing issue point for reissue. The facility is to send unusable items to disposal points.

²The Army has designated specific installations in each geographical area in the continental United States to provide reserve units with logistical support.

Internal Controls Over the Issue-in-Kind System Are Inadequate

Serious weaknesses exist in internal controls over clothing issues because regulations do not provide for such controls or because the existing control procedures are not being followed. For example, although the Army provides replacement clothing to reservists as needed, it has not established usage criteria or maintained adequate internal controls to ensure that the "need" arises solely from duty requirements, so that waste and abuse do not occur. At the activities we visited, neither the Reserve nor the Guard monitored the amount of clothing issued to individuals or to units. They did not maintain centralized records so that clothing issues could be audited. Moreover, because their accounting systems did not adequately identify costs, the reserve components did not know the actual cost of providing replacement clothing under the IKK system.

Reserve Components Have Not Established Usage Criteria for Replacing Clothing

The IKK system allows soldiers to replace items with unrestricted frequency, as long as the total quantity that they have at any given time does not exceed the total authorized. Neither the Reserve nor the Guard has established usage criteria—that is, they have not applied the life expectancy of each clothing item to limit the amount of replacement clothing an individual may receive over time. This lack of criteria creates the potential for abuse of the system. For example, soldiers may replace their uniforms through the IKK system when the clothing has been damaged or worn through neglect, abuse, or personal use (hunting, for instance).

The Army expects a battle-dress utility uniform to last 8 to 24 months of active duty (full-time) wear.³ Reservists are authorized to wear their uniforms only while training, which generally occurs only 39 days a year. Accordingly, their clothing should last considerably longer than that of active duty soldiers. Each National Guardsman receives four sets of battle-dress utility uniforms, each of which would, on average, only be worn about 10 times per year. Therefore, given the number of days reservists train, these uniforms should last 4.1 to 12.3 years. Yet we found that the Army was issuing large numbers of these items to reservists in the states that we visited. During fiscal year 1989, one state issued over 10,300 utility uniforms to its 8,500 enlisted soldiers, and another state issued 7,700 to its 10,500 soldiers during 10 months of that same year.

³According to Department of Defense instructions, the expected life of hot-weather utility uniforms is 8 months of full-time wear; the temperate-weather uniform is expected to last 24 months.

Although how a uniform becomes worn cannot be determined from supply records, we did identify clothing items that were being issued more frequently than would appear to be warranted by 39 days of wear annually, considering the items' life expectancy. In one instance, a soldier received four pairs of combat boots within 14 months, yet the life expectancy of combat boots is 18 months of full-time wear. Another soldier in the same unit was issued 16 pairs of utility trousers and 16 utility coats during a 7-month period, yet these items should last for 24 months of active wear.

No Independent Check on Issues to Individuals or Units

Neither the Army Reserve nor the Guard maintains an effective system for independently monitoring or reviewing the issue of clothing to individuals or to units. Unit supply procedures require that the unit maintain a copy of the issue document and that issues be posted to the individual soldier's clothing record. However, unless the unit's files are audited or reviewed by persons outside the unit, the Army has no assurance that the issues have been properly made. Specifically, the review should compare issue documents from an independently maintained file with issue documents in unit clothing files.

In the Army Reserve, there is no provision for maintaining an independent file of issue documents or for externally reviewing unit issue records. The situation is somewhat different in the National Guard, which requires the state's Property and Fiscal Officer to maintain a file of clothing-issue documents, to forward a copy to the unit's next higher headquarters, and to review the unit's files. However, we found that the Property and Fiscal Officers in the states we visited no longer maintained files that would enable them to independently review a unit's clothing issues, and they had no plans for such reviews. The Property and Fiscal Officers did forward copies of clothing-issue documents to headquarters units, but those units generally did not maintain such files or conduct clothing-issue reviews in their subordinate units.

Without independent review, the IIC system is subject to waste and abuse. Unit supply personnel could order clothing for persons no longer with the unit, destroy the unit's copy of the issue document, and dispose of the clothing items as they wished.

**Procedures Do Not Ensure
That Old Items Are
Exchanged for New Ones**

Although the IIK system requires that an item of clothing be turned in when a like item is issued, neither of the reserve components has controls to ensure that this exchange occurs. Neither component has procedures or requirements for activities above the unit level to reconcile clothing-issue documents with turn-in documents. For example, turn-in documents from National Guard units go to the classification section at the state supply depot, not to the clothing issue point.

At the unit level, procedures require that supply personnel prepare a turn-in document, send it along with the clothing item to the appropriate property disposal activity, and place a copy of the document in the individual's clothing file. However, we found that supply personnel sometimes held the turned-in items until a quantity had been accumulated and then prepared a single turn-in document for all the items. This practice results in lost visibility over the exchange transaction. For example, one unit we visited in September 1990 had not prepared any turn-in documents for the fiscal year but had issued 137 utility uniforms, 23 field jackets, and numerous other clothing items. In another unit we found that a soldier had been issued seven new utility uniforms, but there was no record to show whether he had turned in the four he already had.

**Inadequate Accounting
Procedures Preclude the
Identification of
Replacement Clothing
Costs**

The accounting procedures used by the Guard and Reserve do not adequately differentiate between replacement clothing and the initial issue for enlistees with prior service. In addition to replacement clothing, reserve component units also provide initial issue items to new members with prior service. These members might have retained some or none of the required clothing they obtained during their prior service periods. The unit must provide whatever is needed to complete the member's authorized issue. However, the cost of this issue is mingled with the cost of replacement clothing. As a result, the Reserve Components do not know what it costs to provide replacement clothing under the IIK system.

The National Guard charges all clothing bought for issue through its clothing issue points to one account, regardless of whether it is for initial issue or replacement clothing. The Army Reserve's accounting system provides separate accounts for initial issue and replacement clothing, but these accounts are not being properly charged. The accuracy of the charges depends on practices at the various supporting installations' finance and accounting offices, as these offices make the actual charges to the Reserves' open allotment. However, these charges are not always made to the appropriate account. For example, the finance and accounting office at one installation we visited was charging

all the costs of clothing for reservists to one account, without differentiating between replacement and initial issues.

Monetary Allowance Is a Better Alternative to the IIK System

Considering the estimated costs of the IIK system and the internal control problem inherent in operating it, use of a monetary allowance for replacement clothing would be an efficient and cost-effective alternative. Introduction of a monetary allowance would (1) reduce the risk of waste and abuse, (2) reduce the work load of supply personnel, and (3) save the Army about \$6.6 million annually in personal clothing costs. The savings would be increased by at least \$1.4 million if the National Guard used the Army's existing clothing supply system and discontinued operation of its 53 clothing issue points. Use of a monetary allowance would also be consistent with active Army practice, which places responsibility for personal clothing with the individual soldier rather than with the unit.

Changing to a Monetary Allowance Could Create Significant Savings

To determine whether potential savings would be available through adopting a monetary clothing allowance for the reserve components, we compared the cost of replacement clothing with the cost of a monetary allowance. We used the components' estimates of replacement clothing costs, and we asserted criteria for paying the allowance and the amount to be paid as follows:

- Only soldiers who have been with a unit over 3 years would be paid the allowance. This criterion is based on the expected life of clothing items, which for all items exceeds 3 years if only duty days are considered. It is also consistent with active Army practice, which begins payment of the allowance after 6 months (about 180 days).
- Reservists would be paid at 25 percent of the basic active-duty rate. This percentage is somewhat liberal, since the reservist's duty days are only about 16 percent of an active-duty soldier's.

Using these criteria, we estimated that the Army could save about \$6.6 million annually by adopting a monetary clothing allowance. The computation is shown in table I.1.

Appendix I
Evaluation of the System for Replacing Army
Reservists' Clothing

Table I.1: Comparison of Replacement Clothing Costs Under the IIK System With the Cost of a Monetary Allowance for Clothing (Fiscal Year 1990 Data)

Dollars in millions		
Description	Army Reserve	National Guard
Estimated number of enlisted personnel with 3 years or more of service since initial clothing was issued		
Men	61,000	198,000
Women	15,000	10,000
Standard replacement allowance (fiscal year 1990) (25 percent of \$216.00 and \$241.20)		
Men at \$54.00	\$3.294	\$10.692
Women at \$60.30	0.905	0.603
Total	\$4.199	\$11.295
Estimated replacement IIK cost (fiscal year 1990)	\$4.295	\$17.757
Estimated cost savings	\$0.096	\$6.462
Total cost savings	\$6.558	

The adoption of a monetary allowance has the potential to generate further savings in the National Guard because it could eliminate the need for the 53 clothing issue points and for the classification of used clothing. Guardsmen could use the Army's existing system to obtain their clothing—the same system currently used by Army Reservists—in which soldiers would purchase items from the Army clothing sales stores. The Guard would no longer need to buy and stock clothing at the state level, would not need personnel to operate clothing issue points, and—since no more clothing would be turned in—would not need personnel to sort and classify clothing for property disposal. Since each depot employs about two persons for these purposes at an average annual salary of about \$22,000, we estimate that personnel reductions alone could save about \$3.2 million annually.⁴

Although adoption of a monetary allowance system would save money, it could increase the amount that the Army pays the Army and Air Force Exchange Service (AAFES). The Exchange Service operates Army clothing sales stores, which sell both government-issue and commercial items. The Army pays the Exchange Service a percentage of the stores' operating costs, the exact percentage depending upon the ratio of government-issue sales to commercial item sales. If Guardsmen begin buying uniform clothing from the clothing sales stores, the percentage

⁴Because the clothing issue point is part of the overall state supply depot, it is difficult to identify all costs associated with the IIK system.

that the Army pays to the Exchange Service could increase. Any increased costs would depend on many factors, such as the actual amount spent by Guardsmen for Defense Personnel Supply Center items, total sales and operating costs for the military clothing sales stores, and the total amount of commercial-item sales.

Officials of the agency that administers the Army's agreement with the Exchange Service said that, because all these factors vary, it would be difficult to reliably compute the increase that would result from sales to the National Guard. However, we used the 1990 cost figures to estimate the amount of increase. We assumed that (1) a monetary allowance as described in this report was in effect, (2) National Guardsmen spent the entire allowance for replacement clothing in AAFES stores, (3) the National Guard obtained all clothing for initial issue to prior service personnel from AAFES, and (4) commercial sales and AAFES operating costs remained constant. Adding the National Guard's purchase of military clothing would have increased the Army's payment to AAFES from \$20.3 to \$22.1 million, an increase of \$1.8 million. By subtracting this increase from the \$3.2 million in potential savings associated with closing the 53 National Guard clothing points, we estimated a net savings of \$1.4 million could accrue annually.

Reserve and Guard Believe the IIK System Offers Some Advantages

In past comparisons of the IIK system with a clothing monetary allowance, both the National Guard and the Army Reserve have cited advantages of the IIK system. The Guard, however, has been the stronger advocate of IIK. In 1987 the Office of the Chief of Army Reserve stated that the Reserve favored converting from IIK to a monetary allowance and recommended that DOD amend its instructions to accomplish the change. The National Guard objected, however, stating that, while a monetary allowance could be cost-effective for the Army Reserves, "Funding differences and a currently in place clothing issue and management system which supports the Army National Guard soldier make it more cost effective for the Guard to retain the current Issue-in-Kind system."

In stating its position on this issue, the Guard offered the following points:

- The IIK system is more responsive to the needs of the soldier, especially in remote areas where there is no nearby clothing sales store.
- IIK is the system that will be used in time of war.

- The IIC system ensures the soldier has the personal clothing necessary for his wartime mission.
- At any equitable percentage of the active Army monetary allowance, the IIC system is less costly. In the calculations provided by the Guard to support this claim, it assumed that all Guardsmen except first year personnel would receive the allowance; it overstated the number of enlisted personnel by failing to exclude about 21,000 active duty Guardsmen who already received a clothing allowance, and it included an 18-percent management fee to the Exchange Service for operating clothing sales stores. The Army no longer pays such a fee but reimburses the Exchange Service for operating expenses as described in the previous section.

In an August 1990 information paper, the Office of the Chief of Army Reserves also noted advantages and some disadvantages of the IIC system. The paper stated that IIC provided greater budget flexibility than a monetary allowance and that the cost of a monetary clothing allowance was higher than the quantifiable cost of IIC. The latter point was based on calculations that included an allowance for all enlisted personnel, including first year enlistees. The paper also stated, however, that there was a strong perception by personnel in the field that the IIC system was being abused, for instance, that soldiers were wearing uniform items to hunt or work in. It also noted that a monetary allowance system could reduce the potential for waste and abuse, provide incentive for the soldier to maintain his or her uniforms, and reduce the administrative burden on unit personnel.

Agency Comments and Our Evaluation

In commenting on a draft of this report for the Department of Defense, the Assistant Secretary of Defense (Reserve Affairs) concurred or partially concurred with our findings and recommendations. He cited specific actions planned to strengthen internal controls over the issuance of replacement clothing to members of reserve components. We endorse these efforts as positive interim measures until a permanent change can be made in the manner in which clothing issues are handled.

The Assistant Secretary said that the Secretary of the Army will designate 15 states and 15 Army Reserve Commands to participate in a study to determine whether to test a monetary clothing allowance system. We do not agree with this decision. It is our position that such a study is unnecessary because, even if all the control deficiencies we identified were corrected, the fact remains that the monetary allowance system offers the opportunity to reduce the Army's cost of issuing replacement

clothing. We believe that if the Army insists on testing the monetary system prior to implementation, such a test should be started immediately in selected states. As test results become available, problems—if any—could be resolved and the test expanded until the monetary allowance system is established as the primary method of doing business.

Some of the comments provided by the Assistant Secretary indicated a misunderstanding of some of the points made in our report. For example, we reported that total quantities of replacement items issued were not available. The comments asserted that the finding was based on work done in two states and limited telephone contacts. Actually, the finding was based on analysis of the accounting systems and supply procedures of both the National Guard and the Army Reserve and was verified by contacts with their headquarters personnel. The finding applies to the entire Guard and Reserve, not to individual states.

The Assistant Secretary indicated that what we found was “noncompliance with a regulation rather than an absence of control.” From our standpoint, internal controls are not confined to the written procedures but rather include what is actually occurring and the extent to which written procedures are enforced.

Concerning our finding that there is no independent check on issues to individuals and procedures to ensure that unserviceable items are exchanged for new ones, the Assistant Secretary said that Army Regulation 700-84 provided for adequate internal controls, although the control procedures might not be followed. This is essentially true for the National Guard, as noted in our report. But the response ignores the fact that such controls are not provided in the system used by the Army Reserve.

In commenting on our estimate of savings, the Assistant Secretary agreed that adoption of a monetary clothing allowance could generate savings if the clothing issue points were closed. We would like to make it clear that the \$6.6 million potential annual savings cited in our cost comparison is not contingent on closing the clothing issue points. We estimated that if the clothing issue points were closed, the Army could save at least an additional \$1.4 million annually after considering increased payments to the Exchange Service for providing this service.

In contrasting the differences between how the Guard and Reserves handle replacement clothing, we discussed how usable clothing is turned in and later reissued and how unusable items are sent to disposal. The

Appendix I
Evaluation of the System for Replacing Army
Reservists' Clothing

Assistant Secretary concurred with our presentation of the facts and emphasized the savings that result from the return of serviceable items. He said the Iowa National Guard alone had saved over \$199,000 in fiscal year 1990 through the recovery and reuse of serviceable clothing. In this connection, we want to make it clear that our estimate of the savings that would result from adoption of a monetary clothing allowance would not be affected by the value of returned clothing. Clothing returned to the system during the fiscal year would have reduced the amount of clothing purchased by the National Guard. The 1990 IIG cost cited in our report and used as the basis for our computation of potential savings is the cost of new clothing purchased for issue. It is in addition to whatever serviceable items were returned to the system.

DOD's comments are included as appendix II.

Comments From the Department of Defense

Note: GAO's comment supplementing those in the report text appears at the end of this appendix.



ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

APR 5 1991

RESERVE AFFAIRS

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

Dear Mr. Conahan:

Enclosed is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "ARMY SUPPLY MANAGEMENT: System for Issuing Replacement Clothing to Army Reserve Components Should Be Changed," dated January 30, 1991, (GAO Code 393396) OSD Case 8599. The DoD partially concurs with the majority of GAO's findings and recommendations.

Army Regulation 700-84 was not mentioned by the GAO. It is the DoD view that that regulation satisfies the appropriate type of policy guidance to the field in the area of clothing issue management. Since the report was based on visits to two states, and extrapolated its conclusions, it is possible that the other states may or may not be following the Army Regulation. It is also important to note that it is incumbent on each component to ensure compliance through its own inspection system, and the GAO did not comment on that point.

The DoD partially agrees that the recommendation replacing the current Issue-In-Kind system with a monetary clothing allowance for Reserve components may generate some savings. The National Guard Bureau and the Army Reserve will do the following:

- Not later than 30 June 1991, publish appropriate guidance on usage criteria, and accounting and control procedures in accordance with Army Regulation 700-84;
- Stress the importance of compliance with the regulation at all future Commander conferences and Logistics workshops; and,
- Highlight the Clothing Issue-In-Kind system during all future Internal Control Programs.

In addition, during the fourth quarter of Fiscal Year 1991, the Secretary of the Army will select at least 15 states and 15 Army Reserve Commands to participate in a study to determine whether or not to test a monetary clothing allowance for their Reserve units. The study will be completed by the end of

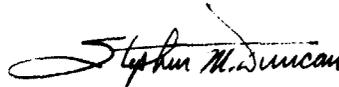
Appendix II
Comments From the Department of Defense

the first quarter of Fiscal Year 1992. The Office of the Assistant Secretary of Defense for Reserve Affairs will evaluate the results of the study and make the determination as to whether a test of the monetary allowance system is warranted.

The DoD also partially agrees with the recommendation that the National Guard be directed to (1) use the existing Army supply system and (2) discontinue operation of state-level clothing issue points. Although the National Guard maintains that there are significant savings associated with the Issue-In-Kind system over the existing Army supply system, the Army will study the use of a monetary clothing allowance. If the study indicates that it is feasible, the Army will test and possibly phase in, over a three-year period, a monetary clothing allowance in lieu of the current Army Reserve/Army National Guard replacement clothing issue system. If the study and test supports full implementation of the monetary clothing allowance, the operation of state-level clothing issue points would be discontinued.

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

Sincerely,



Stephen M. Duncan

Enclosure:
As stated

GAO DRAFT REPORT - DATED JANUARY 30, 1991
(GAO CODE 393396) OSD CASE 8599

"ARMY SUPPLY MANAGEMENT: SYSTEM FOR ISSUING REPLACEMENT CLOTHING
TO ARMY RESERVE COMPONENTS SHOULD BE CHANGED"

DEPARTMENT OF DEFENSE COMMENTS

* * * * *
FINDINGS

- o **FINDING A: System for Issuing Replacement Clothing to Army Reserve Components.** The GAO explained that, upon entry into the Army, all enlisted soldiers--both active and Reserve--receive an initial set of uniform clothing, including the dress and utility uniforms needed to perform their duties. The GAO noted that the Secretary of Defense had directed the payment of a cash clothing allowance to active duty soldiers--\$248 per soldier for FY 1991.

The GAO found, however, that for the soldiers in the Army Reserve and National Guard the uniforms are maintained through the Issue-in-Kind system instead of clothing allowances. The GAO reported that the total quantities of replacement items and accurate costs were not available, as neither the Army Reserve nor the National Guard maintain records on the total number of individual items issued. (pp. 2-3/GAO Draft Report)

DOD RESPONSE: Partially concur. The GAO based the finding on work conducted in only the United States Property and Fiscal Offices in Virginia and Georgia, and some limited telephone contact with a few other states. Although the limited sampling is not statistically significant, the Department of Defense agrees it does indicate that more than two states are probably not in compliance with the provisions of paragraph 16-5e(2), Army Regulation 700-84. That regulation states, "The individual issue and turn-in file will be used by United States Property and Fiscal Officer representatives during internal reviews of property records. The Property and Fiscal Officer representatives will use the documents in the individual issue and turn-in file as source documents for establishing a detailed record of issues to individuals." The described process provides for an adequate system of internal controls. To reinforce compliance with the Regulation, the Secretary of the Army and Chief, National Guard Bureau, will issue a directive to their National Guard and Reserve units in each of the states, that full compliance with paragraph 16e(2) of Army Regulation 700-84 is mandatory. The directive will be issued no later than the third quarter of FY 1991. Additional oversight will also be implemented during future inspections to ensure compliance.

ENCLOSURE

Now on p. 8.

- o **FINDING B: Reserve and National Guard Systems Operate Differently.** The GAO concluded that the operation of the Issue-in-Kind system in the Army Reserve differs from that of the National Guard. The GAO found that the Army Reserve uses the active Army clothing supply system and charges the clothing to an open allotment in the Reserve Pay and Allowance Appropriation. The GAO further found that the Army Reserve soldiers turn in clothing items to their unit supply, which prepares turn-in documents and forwards them to a supporting installation for later reissue to Reserve units. The GAO noted that the unusable clothing is sent to a Defense Reutilization and Marketing Office for disposal.

The GAO found that, on the other hand, National Guard soldiers obtain replacement clothing through their own supply depots in each state and territory. The GAO learned that the unit supply sends turn-in items to the Guard's central issue facility. The GAO observed that usable turn-in clothing is transferred to the central issue facility (which is co-located with the clothing issue point) for reissue. The GAO noted that the unserviceable items are forwarded to disposal. (pp. 4-5/GAO Draft Report)

DOD RESPONSE: Concur. It is standard practice to return serviceable items to the central issue point. That method can produce considerable savings. For example, during Fiscal Year 1990, the savings from the recovery and reuse of serviceable Organizational Clothing and Individual Equipment items amounted to \$199,696.36 in the Iowa National Guard alone. Although similar savings have not yet been quantified throughout the entire Army National Guard, the evidence indicates that the practice affords considerable savings.

- o **FINDING C: Reserve Components Have Not Established Usage Criteria For Replacing Clothing.** The GAO observed that the public law authorizing the replacement of clothing requires the quantities and kinds of clothing to be prescribed annually. The GAO found, however, that the Issue-in-Kind system specifies neither items nor quantities. The GAO found that, instead, the Issue-in-Kind system allows soldiers to replace items with unrestricted frequency--as long as the total quantity that they have at any given time does not exceed the total authorized. The GAO found further that neither the Reserve nor the Guard has established usage criteria--i.e., application of the life expectancy of each clothing item to limit replacement clothing an individual can draw over time. The GAO concluded that the lack of criteria creates the potential for abuse of the system. The GAO stated that certain clothing items were being issued more frequently than would appear to be warranted by 39 days of wear annually--considering the life expectancy of the items. (pp. 6-8/GAO Draft Report)

Now on pp. 8 and 9.

Now on pp. 10 and 11.

DOD RESPONSE: Partially concur. The Department of Defense generally agrees that a usage criteria should be established for serviceable Organizational Clothing and Individual Equipment items. The Department points out, however, that paragraph 15-8a of Army Regulation 700-84 does provide a management control system to prevent individuals from replacing items with unrestricted frequency, as long as the total quantity on hand does not exceed the total authorized. It is the DOD view, however, that the finding should indicate that the GAO found noncompliance with a regulation, rather than an absence of controls. The Secretary of the Army and Chief, National Guard Bureau, will issue a directive during the third quarter of Fiscal Year 1991, which will establish usage criteria and reemphasize the importance of compliance with Army Regulation 700-84. Additionally, future inspections will follow up on compliance with the directive.

- o **FINDING D: No Independent Check on Issues To Individuals or Units.** The GAO concluded that neither the Army Reserve nor the National Guard has established an effective system for independently monitoring or reviewing the issue of clothing to individuals or to units. The GAO pointed out that unit supply procedures require that the unit maintain a copy of the issue document, and that issues be posted to the individual soldier's clothing record. The GAO observed, however, that unless the unit files are audited or reviewed by persons outside the unit, the Army has no assurance that the issues were properly made.

The GAO found that, in the Army Reserve, there is no provision for maintenance of an independent file of issue documents or for external review of unit issue records. The GAO observed that the situation is somewhat different in the National Guard, which requires the State Property and Fiscal Officer to (1) maintain a file of clothing-issue documents, (2) forward a copy to the unit's next higher headquarters, and (3) review the unit files. The GAO found that the Property and Fiscal Officers in the States it visited no longer maintained files that would enable them to review a unit's clothing issues independently -- and, further, that the headquarters had no plans for such reviews. The GAO noted that, while Property and Fiscal Officers did forward copies of clothing-issue documents to headquarters units, the headquarters units generally did not maintain such files, or conduct clothing-issue reviews in their subordinate units. The GAO concluded that, without an independent review, the Issue-in-Kind system is subject to waste and abuse. (p. 6, pp. 8-9/GAO Draft Report)

DOD RESPONSE: Partially concur. The Department generally agrees there is indication that some United States Property and Fiscal Offices are not complying with paragraph 16-5f of Army Regulation 700-84. It is the DOD position, however, that the regulation promulgates adequate procedures to validate issues of clothing to

Now on p. 11.

individuals and units. To ensure future compliance with Army Regulation 700-84 by all United States Property and Fiscal Offices, the Secretary of the Army and Chief, National Guard Bureau, will issue a directive. That directive will be issued during the third quarter of Fiscal Year 1991, and will emphasize the importance of compliance with the regulation. In addition, compliance with the new directive and the regulation will be emphasized in future inspections and reviews.

- o **FINDING E: Procedures Do Not Ensure That Unserviceable Items Are Exchanged for New Ones.** The GAO noted that the Issue-in-Kind system requires an item of clothing be turned in when a like item is issued. The GAO found, however, that neither of the Reserve components has controls or requirements for activities above the unit level to reconcile clothing-issue documents with turn-in documents. For example, the GAO observed that turn-in documents from National Guard units go to the classification section at the state supply depot, not to the clothing issue point.

At the Guard unit level, the GAO found that procedures require supply personnel to: (1) prepare a turn-in document, (2) send it along with the clothing item to the appropriate property disposal activity, and (3) place a copy of the document in the individual's clothing file. The GAO noted that supply personnel sometimes hold the items turned in until a quantity has accumulated, and then prepare a single turn-in document for all the items. The GAO concluded that that practice results in the loss of visibility over the exchange transaction. (pp. 8-9/GAO Draft Report)

DOD RESPONSE: Partially concur. The finding indicates that United States Property and Fiscal Offices in Virginia and Georgia are not following the procedures in Army Regulation 700-84. The Department does not, however, agree that the procedures presently contained in the regulation are inadequate to control the exchange of unserviceable items for new ones. To ensure total compliance with all provisions of Army Regulation 700-84, the Secretary of the Army and the Chief, National Guard Bureau, will issue a directive during the third quarter of FY 1991 emphasizing the regulation and the fact that compliance will be verified during future reviews and inspections.

- o **FINDING F: Inadequate Accounting Procedures Preclude Identification of Replacement Clothing Costs.** The GAO found that the accounting procedures used by the Guard and Reserve do not adequately differentiate between replacement clothing and the initial issue for enlistees with prior service. In addition to replacement clothing, the GAO observed that Reserve component units also provide initial issue items to new members with prior service. The GAO concluded that, as a result, the Reserve compo-

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nents do not know what it costs to provide replacement clothing under the Issue-In-Kind system.

The GAO found that the National Guard charges all clothing bought for issue through its clothing issue points to one account--regardless of whether it is for initial issue or replacement clothing. The GAO also found that the Army Reserve accounting system provides separate accounts for initial issue and replacement clothing, but that those items are not being properly charged to the appropriate account. (pp. 10-11/GAO Draft Report)

DOD RESPONSE: Partially concur. This finding is based on work conducted in only two states and limited telephone contact with a small number of United States Property and Fiscal Offices in a few other states. It is the DOD view that the finding should indicate noncompliance with existing procedures, not the total lack of procedures. The Department agrees with the GAO that noncompliance with the procedures specified in Army Regulation 700-84 jeopardizes the accuracy of the identification of replacement clothing costs. To ensure total compliance with all provisions of Army Regulation 700-84, the Secretary of the Army and the Chief, National Guard Bureau, will issue a directive during the third quarter of Fiscal Year 1991, emphasizing the regulation and the fact that compliance will be verified during future reviews and inspections.

- o **FINDING G: Changing to Monetary Allowance Could Create Significant Savings.** The GAO compared the cost of replacement clothing with the cost of a monetary allowance. The GAO concluded that a monetary allowance for replacement clothing would be an efficient and cost-effective alternative. The GAO estimated that the Army could save \$8 million annually by adopting a monetary clothing allowance. In addition, the GAO calculated that the adoption of a monetary allowance may also generate another savings of \$4.5 million in the National Guard, as it would eliminate the need for the 54 clothing issue points and for classification of used clothing. The GAO acknowledged that, although the adoption of a monetary allowance system would save money for the Reserve components, the monetary allowance plan could cause some increase in the amount that the Army pays the Army and Air Force Exchange Service. (pp. 11-15/GAO Draft Report)

DOD RESPONSE: Partially concur. The Department generally agrees that the adoption of a monetary clothing allowance could generate savings, if the 54 Clothing Issue Points were closed. The Department asserts, however, that most of the potential savings would be lost in transferring the function to the Army Military Clothing Sales Stores. According to a Memorandum Of Understanding between the Department of the Army and the Army and Air Force Exchange Service, the Army pays the Exchange an operating fee of \$.18 per dollar of sale of Defense Personnel

Now on pp. 12 and 13.

See comment.

Now on pp. 13-15.

Support Center procured clothing items. As a result, at the current strength the cost would be higher than the current combined salaries of all Wage Grade 6 Clothing Issue Point employees.

- o **FINDING H: Reserve Components Believe the Issue in Kind System Offers Some Advantages.** The GAO stated that, in past comparisons of the Issue-in-Kind system with a clothing monetary allowance, both the National Guard and the Army Reserve have cited advantages of the system. According to the GAO, the Guard has been the stronger advocate of the Issue-in-Kind system. The GAO found that, in 1987, the Office of the Chief, Army Reserve, stated that the Reserves favored converting from the Issue-In-Kind system to a monetary allowance and recommended that the Department of Defense amend its instructions to accomplish the change. The GAO further found, however, that the National Guard objected to the change and stated that, while a monetary allowance may be cost effective for the Army Reserve, funding differences and a currently in place clothing issue and management system that supports the Army National Guard soldier make it more cost effective for the Guard to retain the current Issue-in-Kind system. The GAO reported that the Guard continues to defend its position with the same arguments, as follows:

- the Issue-in-Kind system is more responsive to the needs of the soldier, especially in remote areas where there is no nearby clothing sales store;
- the Issue-in-Kind is the system that will be used in time of war; and
- the Issue-in-Kind system is less costly than an equitable percentage of the active Army monetary allowance.

Regarding the issue of cost, the GAO disagreed with the National Guard position--since the Army underestimated the number of enlisted personnel and the Army now reimburses the Exchange Service for operating expenses, rather than paying an 18 percent management fee. The GAO also referenced an August 1990 paper prepared by the Office of the Chief, Army Reserve, which discussed the advantages of the Issue-in-Kind system, and some disadvantages. The GAO pointed out that the Army Reserve paper noted that a monetary allowance system could: (1) reduce the potential for waste and abuse, (2) provide incentive for the soldier to maintain his/her uniforms, and (3) reduce the administrative burden on unit personnel. (pp. 15-16/GAO Draft Report)

DOD RESPONSE: Concur.

Now on pp. 15-16.

* * * * *

RECOMMENDATIONS

- o **RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense direct the Secretary of the Army to replace the current Issue-in-Kind system with a monetary clothing allowance for Reserve components. (p. 18/GAO Draft Report)

DOD RESPONSE: Partially concur. The Secretary of Defense will direct the Secretary of the Army and the Chief, National Guard Bureau, to study the National Guard and Army Reserve units in at least 15 states for a period of 90 days. Based on an evaluation of that study by the Office of the Assistant Secretary of Defense for Reserve Affairs, the test of a monetary clothing allowance for these Reserve components may be indicated. During the fourth quarter of fiscal year 1991, the Secretary of the Army will select at least 15 states to participate in the test. The evaluation of the study and possible implementation of a monetary clothing allowance test by the Assistant Secretary of Defense for Reserve Affairs will be completed by the end of the second quarter in fiscal year 1992. The Office of the Assistant Secretary of Defense for Reserve Affairs and the Department of the Army will monitor the tests. Based on evaluation of the test results, the Office of the Assistant Secretary of Defense for Reserve Affairs will request that the Army expand, modify, or terminate the monetary clothing allowance program. If operationally feasible and cost effective, the DOD proposes to phase in the monetary clothing allowance over a three year period.

- o **RECOMMENDATION 2:** The GAO recommended that the Secretary of Defense direct the National Guard to (1) use the existing Army supply system and (2) discontinue operation of state-level clothing issue points. (p. 18/GAO Draft Report)

DOD RESPONSE: Partially concur. The Secretary of Defense will direct the Secretary of the Army to study, possibly test, and possibly phase in over a three year period, the use of a monetary clothing allowance in lieu of the existing Army Reserve/Army National Guard replacement clothing issue system. If the test supports full implementation of the monetary clothing allowance, the operation of state-level clothing issue points will be discontinued, no later than September 30, 1994.

Now on p. 2.

Now on p. 2.

Appendix II
Comments From the Department of Defense

The following is GAO's comment on the Department of Defense's letter dated April 5, 1991.

GAO Comment

We have revised our estimate of potential savings to reflect updated information (fiscal year 1990 data in lieu of fiscal year 1989 data).

Activities GAO Visited or Contacted

Activities GAO Visited

Department of Defense	Office of the Assistant Secretary of Defense, Reserve Affairs
	Office of the Assistant Secretary of Defense, Force Management and Personnel

Department of the Army

Department of the Army
Headquarters

Deputy Chief of Staff, Logistics

Office of the Chief of Army Reserve

Field Activities

Headquarters, Second U.S. Army, Fort Gillem, Georgia

Headquarters, 81st Army Reserve Command, East Point, Georgia

335th Signal Command, East Point, Georgia

Headquarters and Headquarters Company, 81st Army Reserve Command, East Point, Georgia

Finance and Accounting Office, Fort McPherson, Georgia

Troop Support Agency, Fort Lee, Virginia

Headquarters and Headquarters Company, 300th Support Group, Fort Lee, Virginia

Fort Lee, Virginia (Support Installation)

- Army Reserve Component Directorate
 - Finance and Accounting Office
 - Army Military Clothing Sales Store
-

Army National Guard

National Guard Bureau

Logistics Division

Personnel Division

Comptroller Division

Office of Technician Personnel

Virginia National Guard

U.S. Property and Fiscal Officer for Virginia, Richmond, Virginia

Headquarters and Headquarters Battery, 1st Battalion, 111th Field Artillery, Norfolk, Virginia

Headquarters and Headquarters Battery, 3rd Battalion, 111th Air Defense Artillery, Portsmouth, Virginia

“C” Battery, 1-111th Field Artillery, Newport News, Virginia

Georgia National Guard

U.S. Property and Fiscal Officer for Georgia, Atlanta, Georgia

Headquarters, Troop Command, Decatur, Georgia

Headquarters and Headquarters Detachment, 170th Military Police Battalion, Atlanta, Georgia

Pennsylvania National Guard

728th Maintenance Battalion at Fort A.P. Hill, Virginia

**Activities GAO
Contacted**

U.S. Army Accounting and Finance Center, Fort Benjamin Harrison, Indianapolis, Indiana

U.S. Army Information Systems Command, Army Reserve Personnel Center, St. Louis, Missouri

Fort Stewart, Georgia (Support Installation)

- Army Reserve Component Directorate
- Finance and Accounting Office
- Army Military Clothing Sales Store

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