

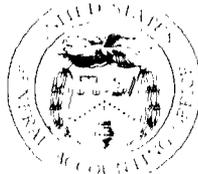
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Fact Sheet for the Chairman,  
Subcommittee on Oversight of  
Government Management, Committee  
on Governmental Affairs, U.S. Senate

November 1991

# DEFENSE INVENTORY

## Information on Fiscal Year 1992 Secondary Item Funding

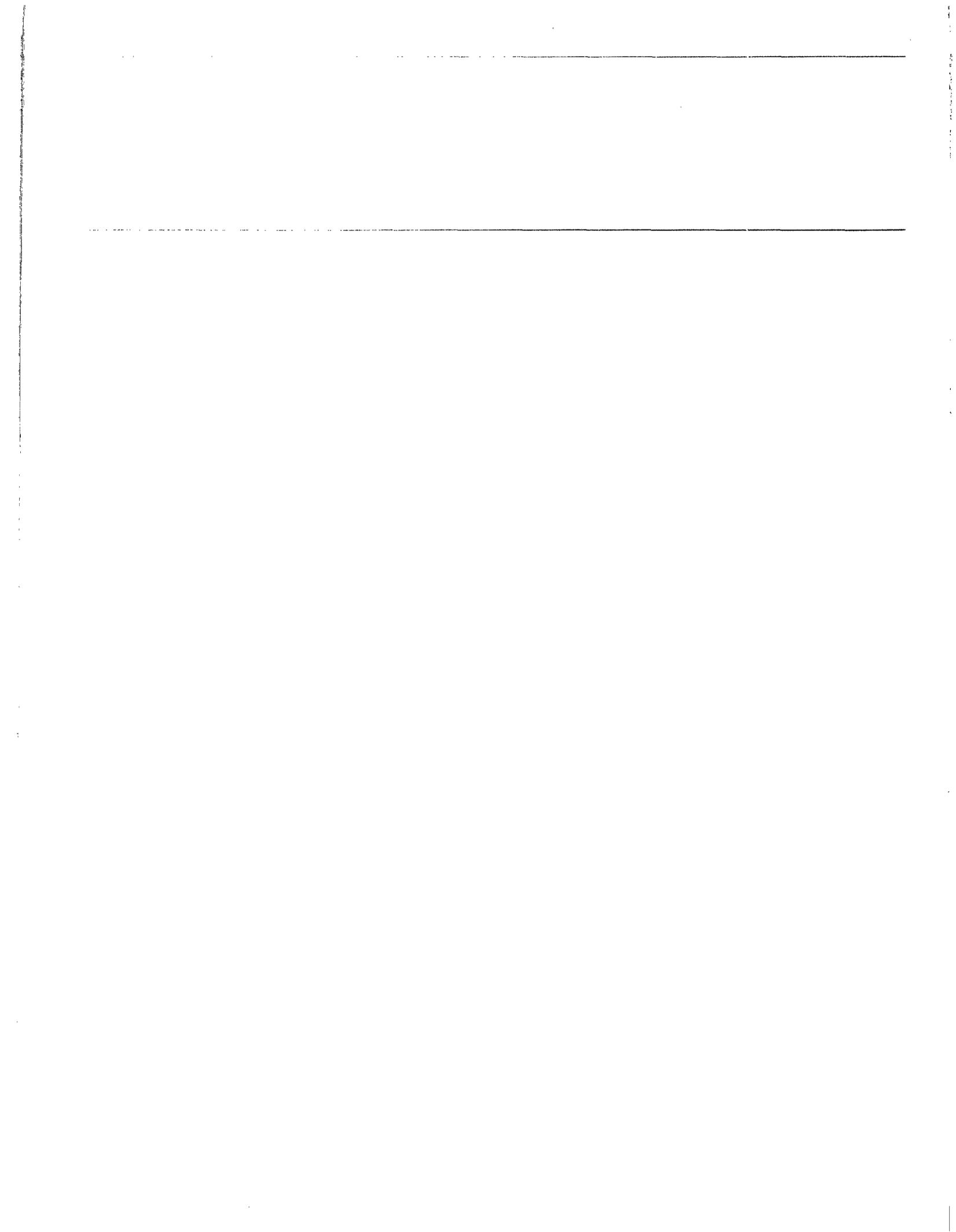


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**National Security and  
International Affairs Division**

B-246025

November 21, 1991

The Honorable Carl Levin  
Chairman, Subcommittee on Oversight  
of Government Management  
Committee on Governmental Affairs  
United States Senate

Dear Mr. Chairman:

As you requested, we are providing you with information on the Department of Defense's (DOD) fiscal year 1992 appropriations request for secondary items.<sup>1</sup>

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**Background**

DOD components (the Army, Navy, Marine Corps, Air Force, and defense agencies) purchase most of their secondary items from DOD stock funds.<sup>2</sup> The stock funds charge for the items they sell and generally do not require congressional appropriations. The charges include surcharges to cover the cost of operating supply centers. DOD components pay for their purchases with appropriated funds. The components also purchase secondary items from the General Services Administration and other sources.

For fiscal year 1991, DOD provided information in its Stock Fund Overview report on the amounts and types of commodities each DOD component expected to buy from the stock funds. DOD also identified in this report sales between stock funds, sales to DOD components, commodities to be purchased, and the appropriations to be used for the purchases. For fiscal year 1992, DOD replaced the Stock Fund Overview with the Defense Business Operations Fund Overview and eliminated most of the information provided in its previous report.

The latest overview report identified expected sales to DOD components but did not break out the amounts and types of commodities each component expected to buy from the stock funds. It also did not identify the appropriations that would fund purchases of secondary inventories. The DOD components provided budget justification documents to Congress to

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<sup>1</sup>Secondary items include spare and repair parts, fuel, food, clothing, and medical and dental supplies.

<sup>2</sup>DOD stock funds are revolving funds that operate as business enterprises and finance their operations primarily by revenue from sales to customers.

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support their separate appropriations requests. However, the documents did not always identify funding for projected secondary item purchases. Also, the budget information was contained in several documents, and no single document provided information that would identify DOD's total budget for secondary item purchases.

To address concerns regarding insufficient data on inventory purchases in DOD's budget, the Senate amended its version of the National Defense Authorization Act<sup>3</sup> for Fiscal Years 1992 and 1993 to require DOD to maintain records on its annual inventory budgets. The records are to include the amounts (1) proposed for inventory purchases by appropriation account and (2) obligated for inventory purchases during the preceding year by appropriation account.

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## Results in Brief

In March 1991, DOD estimated in its Inventory Reduction Plan Progress Report that its stock funds would obligate \$25 billion in fiscal year 1992 to purchase secondary items and operate supply centers. DOD also estimated in its Defense Business Operations Fund Overview that its stock funds would sell about \$23.1 billion in secondary items to DOD components in fiscal year 1992.

Our analyses of budget justification documents and the March 1991 Defense Business Operations Fund Overview identified that DOD requested \$21 billion in fiscal year 1992 appropriations: \$2.4 billion to its stock funds to procure and repair Army and Air Force items at the depot level and purchase Air Force war reserves<sup>4</sup> and \$18.6 billion to DOD components to purchase secondary items.

Of the \$18.6 billion requested for DOD components, \$16.6 billion would be used to purchase secondary items from DOD stock funds. The \$16.6 billion request was less than the \$23.1 billion estimate because (1) DOD budget documents did not always identify funds requested for secondary items and (2) stock fund sales included sales between stock funds, which do not affect the need for appropriations.

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<sup>3</sup>Amendment 1022 to S. 1507, 102nd Cong., 1991.

<sup>4</sup>War reserves provide a level of supplies above the peacetime inventory that is required to sustain increased wartime consumption until resupply commences.

## DOD's Estimate of Stock Fund Obligations

In its March 1991 Inventory Reduction Plan Progress Report, DOD estimated that its stock funds would obligate \$25 billion in fiscal year 1992 to purchase secondary items and operate supply centers. Of the \$25 billion, \$16.9 billion would be used to procure secondary items, \$4.5 billion to purchase fuel, and \$3.6 billion to cover the cost of operating supply centers (including military and civilian personnel costs), as shown in table 1.

**Table 1: Stock Fund Obligations for Fiscal Year 1992**

Dollars in billions

Stock fund	Secondary items	Fuel	Operating costs	Total <sup>a</sup>
Army	\$3.2	\$0.0	\$0.6	<b>\$3.8</b>
Navy	3.1	0.0	0.9	<b>4.0</b>
Air Force	5.0	0.0	1.1	<b>6.0</b>
Defense	5.5	4.5	1.0	<b>11.1</b>
<b>Total<sup>a</sup></b>	<b>\$16.9</b>	<b>\$4.5</b>	<b>\$3.6</b>	<b>\$25.0</b>

<sup>a</sup>Totals may not add due to rounding.

Source: Office of the DOD Comptroller and Logistics Management Institute.

## DOD's Request for Secondary Items

Our review of budget justification documents and the March 1991 Defense Business Operations Fund Overview report identified that DOD requested at least \$21 billion in appropriations for secondary items in fiscal year 1992. Because the budget documents did not always identify the intended use of the requested funds, additional amounts for secondary items might have been requested but not identified as such in the budget documents.

Of the \$21 billion, DOD requested \$2.4 billion for its stock funds:

- \$2 billion for Army and Air Force procurement and repair of secondary items at the depot level and
- \$0.4 billion for Air Force war reserves.

DOD also requested \$18.6 billion to purchase secondary items:

- \$16.6 billion from DOD stock funds,
- \$0.5 billion from the General Services Administration, and
- \$1.4 billion from other sources.<sup>5</sup>

<sup>5</sup>Figures do not add to total due to rounding.

Table 2 breaks out the \$16.6 billion request by component and appropriation account.

**Table 2: DOD's Fiscal Year 1992  
Appropriations Request for Secondary  
Item Purchases From DOD Stock Funds**

Dollars in millions				
Component	Operation and maintenance	Procurement	Military personnel	Total
Army	\$4,214	\$0	\$74	<b>\$4,288</b>
Navy	4,785	1,491	68	<b>6,344</b>
Marine Corps	365	82	34	<b>481</b>
Air Force	4,699	582	25	<b>5,306</b>
Defense agencies	213	0	0	<b>213</b>
<b>Total</b>	<b>\$14,276</b>	<b>\$2,155</b>	<b>\$201</b>	<b>\$16,632</b>

Source: Military components' budget justification documents and Office of the DOD Comptroller.

The operation and maintenance funds include \$3.7 billion for fuel and \$0.5 billion for subsistence. The remaining \$10.1 billion would be used for other secondary items such as spare and repair parts and medical and dental supplies. The procurement funds would be used for procuring initial repair parts for new and modified principal items<sup>6</sup> and replenishment spares to support such special programs as Navy executive mission helicopters<sup>7</sup> and Air Force classified programs. The military personnel funds would be used to purchase initial issue clothing.

The March 1991 Defense Business Operations Fund Overview identified \$23.1 billion in estimated stock fund sales to DOD components for fiscal year 1992. However, we were able to identify only \$16.6 billion in appropriations from DOD components' budget justification documents for the purchase of secondary items from DOD stock funds.

The \$16.6 billion represented requests for secondary items from the DOD components' operation and maintenance, procurement, and military personnel appropriation accounts. Other appropriation accounts may have also included funding for secondary items. For example, the January 1990 Stock Fund Overview estimated that Air Force research and development appropriations would fund \$167.8 million in purchases from the Air Force stock fund in fiscal year 1991. However, DOD's research and development budget justification document for fiscal year 1992 listed

<sup>6</sup>Principal items include weapons, munitions, major aircraft and ships subsystems, missile systems, combat and tactical vehicles, and propulsion systems.

<sup>7</sup>Executive mission helicopters provide a transportation and evacuation capability for the President, heads of state, and other visiting dignitaries.

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225 Air Force programs under seven different budget activities but did not specifically identify funding for secondary items. A DOD official agreed that not all appropriations requests identify funding for secondary items.

In addition to the \$23.1 billion in sales to DOD components, the stock funds expect to sell \$14.9 billion to other revolving fund entities such as industrial funds. A DOD official said that the \$23.1 billion in estimated stock fund sales also included sales between stock funds, which do not affect the need for appropriations. The amount of those sales was not available.

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## Scope and Methodology

We obtained information on secondary item funding from the Office of the Secretary of Defense; the Departments of the Army, the Navy, and the Air Force; the Defense Logistics Agency; and the Logistics Management Institute. We interviewed officials responsible for overseeing the budget formulation and reviewed applicable policies, procedures, and related documents. To verify information provided by DOD, we researched and analyzed data in fiscal year 1992 budget justifications and data books of the military services and defense agencies and the Defense Business Operations Fund Overview for the fiscal years 1992 and 1993 biennial budget. When budget documents were not complete or available, we obtained data from DOD components.

We conducted our work between April and October 1991 in accordance with generally accepted government auditing standards. We did not obtain written agency comments on this fact sheet. However, we discussed the contents of this fact sheet with DOD officials. The officials agreed with our findings as presented.

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Unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 30 days from its issue date. At that time, we will send copies to the Secretary of Defense and the Chairmen, House and Senate Committees on Appropriations and Armed Services, Senate Committee on Governmental Affairs, and House Committee on Government Operations. We will also make copies available to others on request.

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Please contact me on (202) 275-8412 if you or your staff have any questions concerning this fact sheet. The information for this fact sheet was developed by Uldis Adamsons, Assistant Director, Louis Modliszewski, Evaluator-in-Charge, and Raymond Denmark, Evaluator, National Security and International Affairs Division, Washington, D.C.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Donna Heivilin". The signature is fluid and cursive, with a large initial "D" and "H".

Donna M. Heivilin  
Director, Logistics Issues

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