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REPORT TO



THE CONGRESS OF THE UNITED STATES

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REVIEW OF

AVAILABILITY OF SELECTED STOCKS
OF THE UNITED STATES ARMY IN EUROPE
FOR REQUIREMENTS OF OTHER COMMANDS

DEPARTMENT OF THE ARMY



BY

THE COMPTROLLER GENERAL
OF THE UNITED STATES

APRIL 1967

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20848

APR 10 1967

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To the President of the Senate and the
Speaker of the House of Representatives

The General Accounting Office has made a review of the availability of selected stocks in Europe to meet the requirements of other commands within the Department of the **Army**. This report presents our findings, conclusions, and recommendation based on this review.

Repair parts and electronic components which exceeded **requirements** in Europe were not redistributed to meet urgent needs in other areas because of weaknesses in the **Army's** inventory reporting **procedures** and practices. Our limited review identified combat vehicle repair parts and electronic components, valued at about \$3.2 million, that could have been used to satisfy urgent requirements in the United States and in the Pacific area. **The** availability of these items, however, had not been reported to the appropriate national inventory control points in the United States, and, in the absence of such information, procurements and repair programs were initiated to meet **known** requirements.

After these items were called to the attention of management officials, assets valued at about \$2.1 million were transferred to other commands, programs for repairs costing about \$100,000 were canceled, and procurements valued at about \$180,000 were deferred. The remaining assets, valued at about \$1.1 million, were scheduled for redistribution subsequent to the completion of our review,

We found that the Army Tank-Automotive Center did not consider the stocks in Europe available for redistribution because (1) contrary to Army regulations, the various commands in Europe had not reported certain excess stocks to the Center, (2) those commands had **not** included the inventory of the Seventh Army in computations to determine the inventory quantities and excesses to be reported to the Center, and (3) the Center had not required the overseas commands to submit depot asset reports for high-dollar-value items and secondary end-items during fiscal year 1965.

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The Army Electronics Command could not consider **certain** excess radio components in Europe available for redistribution to satisfy urgent requirements for these items in the continental United States because the various commands in Europe had not reviewed and evaluated their requirements for these components and therefore did not report the excess stocks to the Electronics Command.

The Department of the Army concurred in our findings but did not concur that certain inventories, referred to as permissive overstockage inventories, should be reported to inventory control points in the United States. Permissive overstockage inventories exceed operating and reserve needs but can be retained by the overseas commands for contingencies. We believe, however, that all existing items considered to be in short supply by the inventory control point, which exceed current operating and reserve requirements of the overseas command should be routinely reported to such inventory control points. Thus, the inventory control point would have current and complete data on extra stockage of items and would be in a position to consider such items in filling urgent requirements of other commands,

We are reporting these matters to the Congress because of the potential for significant improvement in the management and use of stocks.

We are recommending to the Secretary of Defense that the Army's existing system for reporting stock status be revised to include a requirement for reporting to national inventory control points of all stocks of items considered to be in short supply by such inventory control points, which exceed operating and reserve requirements of the overseas commands, including those stocks in the permissive overstockage inventories. Although our review was related to procedures and management controls for selected items being procured by the Army Tank-Automotive Center and the Army Electronics Command, the same procedures and management controls generally apply on an Army-wide basis. Therefore, our observations may be equally applicable to other items in the Army supply system.

B-160632

Copies of this report are being sent to the Director, Bureau of the Budget; the Secretary of Defense; and the Secretary of the Army.

A handwritten signature in black ink, reading "Elmer B. Staats". The signature is written in a cursive style with a large initial 'E'.

Comptroller General
of the United States

REPORT ON REVIEW OF
AVAILABILITY OF SELECTED STOCKS
OF THE UNITED STATES ARMY IN EUROPE
FOR REQUIREMENTS OF OTHER COMMANDS
DEPARTMENT OF THE ARMY

INTRODUCTION

The General Accounting Office has made a review of selected stocks on hand in depots operated by the Seventh United States Army, Europe, and the United States Army Communications Zone, Europe (COMZ), which were in excess of operating and reserve requirements of these commands but in short supply in other Army commands. The items reviewed were (1) those being procured by the Army Tank-Automotive Center (ATAC), Warren, Michigan, and (2) components of the AN/TRC-24 radio set which were procured by the Army Electronics Command (ECOM), Philadelphia, Pennsylvania. Effective February 1, 1967, ATAC was redesignated the Army Tank-Automotive Command.

This review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). For ATAC items, our review covered the period September 30, 1964, through March 31, 1965, and included tests covering items appearing on ATAC's November 1964 out-of-stock listing, which were stocked in Europe as of March 3, 1965. For AN/TRC-24 components, our review covered the period April 1965 through February 1966 and included a review of the European theater requirements for this equipment and of other related data. Our primary emphasis was on examining into matters apparently needing attention, and we made no overall evaluation of the management of stocks by the Seventh Army and COMZ.

BACKGROUND

The United States Army Communications Zone, Europe, and the Seventh Army are major commands of the United States Army, Europe. Units of the Seventh Army receive certain supplies and spare parts support from various field depots in Germany whose stocks are managed by the Seventh Army Inventory Control Center (ICC), Zweibrucken, Germany. Requisitions for items not authorized for stockage by the Seventh Army depots or for items authorized but out of stock are processed through the Seventh Army ICC to the next echelon of supply.

The European theater depot stocks located in France and Germany are managed by the Supply and Maintenance Agency (S&MA), Maison Forte, France, a staff element of Headquarters, COMZ. Theater depot stocks provide resupply support to the Seventh Army and other Army forces in Europe, such as the Berlin Brigade, units of the United States Army Area Command, and the Southern European Task Force, and to selected military advisory groups in Europe and the Middle East.

At the time of our review, S&MA and the Seventh Army ICC were responsible for computing requirements, issuing requisitions to the next highest source of supply, and processing customer orders. S&MA manages major items of equipment such as tanks and other vehicles, secondary items, and repair parts, as well as theater reserve stocks and wartime project stocks; whereas the Seventh Army ICC manages operating stock for secondary items such as engines and transmissions, spare parts, and general supplies exclusive of ammunition, petroleum products, and subsistence items. S&MA orders its replenishment stocks from the inventory control points in the

United States, the General Services Administration, and the various supply centers operated by the Defense Supply Agency.

The dollar value of the inventories of COMZ and the Seventh Army ICC were as follows:

	September 30, <u>1964</u>	March 31, <u>1965</u>
	(millions)	
COMZ	\$1,742	\$1,821
Seventh Army	25	18

As of March 31, 1965, COMZ records showed that \$45 million worth of its stocks was in excess of operating and reserve requirements but was within the authorized retention levels or the permissive overstockage levels, while \$550 million worth of such stocks was in excess of the authorized retention levels.¹ We were advised by S&MA officials that a considerable portion of the excess stocks was equipment which had been phased out of the active Army inventory. The Seventh Army ICC records showed that the \$18 million inventory of stock on hand included \$5.7 million worth of stock in excess of current needs, of which \$4.7 million worth was in the permissive overstockage category.

ATAC, one of the Army national inventory control points (NICPs), is responsible for computing requirements, processing customer orders, and procuring repair parts for combat and combat

¹Stocks in overseas commands are categorized generally as (1) quantities needed to sustain current operations and objectives, (2) reserves to meet various contingencies and possible requirements, (3) extra stockages labeled permissive overstockage, and (4) stockages in excess of the other categories.

support vehicles. ECOM, another NICP, is responsible for supply management of electronics equipment, including AN/TRC-24 radio components.

A list of the principal officials of the Department of Defense and the Department of the Army responsible for administration of activities discussed in this report is shown in appendix I.

FINDING AND RECOMMENDATION

NEED FOR IMPROVEMENT IN CONTROL OVER ASSETS IN OVERSEAS COMMANDS

Repair parts and electronic components which exceeded requirements in Europe were not redistributed to meet urgent needs in other areas because of weaknesses in the Army's inventory reporting procedures and practices. Our limited review identified combat vehicle repair parts and electronic components, valued at about \$3.2 million, that could have been used to satisfy urgent requirements in the United States and in the Pacific area. The availability of these items, however, had not been reported to the appropriate NICPs in the United States, and, in the absence of such information, procurements and repair programs were initiated and redistribution of the available stocks was not made to meet known requirements.

After these items were called to the attention of management officials, assets valued at about \$2.1 million were transferred to other commands, programs for repairs costing about \$100,000 were canceled, and procurements valued at about \$180,000 were deferred. The remaining assets, valued at about \$1.1 million, were scheduled for redistribution subsequent to the completion of our review.

We found that ATAC did not consider the stocks in Europe available for redistribution because (1) contrary to Army regulations, COMZ had not reported certain excess stocks to ATAC, (2) COMZ had not included the Seventh Army inventory in its computations to determine the inventory quantities and excesses to be reported to ATAC, and (3) ATAC had not required the overseas command to submit depot asset reports for high-dollar-value items and secondary end-items during fiscal year 1965.

ECOM did not consider the excess AN/TRC-24 stocks in Europe available for redistribution to satisfy urgent requirements for these items in the continental United States, because COMZ had not reviewed and evaluated its theater requirements for these components and therefore did not report the excess stocks to ECOM.

A detailed discussion and specific examples of tank-automotive and electronic stocks which were redistributed as a result of our review follow.

Tank-automotive stocks in excess of theater requirements not reported to ATAC

Of the \$1.3 million worth of tank-automotive stocks redistributed on items we reviewed, about \$1.2 million worth exceeded theater requirements and, in some instances, permissive overstockage levels. However, COMZ had not reported the excess stock to ATAC.

Although ATAC had excluded the requirement for the reporting of high-dollar-value items during the last three quarters of fiscal year 1965 (see p. 8), it had specifically requested S&MA to return any excess stock on two items which were urgently required in the continental United States (CONUS). For example, on March 3, 1965, S&MA had 80 serviceable transmissions (including substitutes) excess to its requirements, but it had not reported them to ATAC as excess. We found that the transmissions were primarily for the M48-series tanks which had been phased out of Europe prior to July 1964. Also, we found that 604 transmissions valued at about \$5.9 million had been returned to the United States at that time.

In September 1964, ATAC requested S&MA to return any remaining excess transmissions; in December 1964, ATAC pointed out the urgent need for these transmissions and again requested the return of any **excess** items. The S&MA commodity manager did not, however, take

action in response to these requests until we pointed out that the requirements study showed that there was no need for these transmissions except for a few to support a small number of another type of vehicle.

After we brought this matter to the attention of agency officials in April 1965 and pointed out that the Seventh Army ICC had eight additional excess transmissions, S&MA reevaluated its requirements and stock position. Action was taken by S&MA during April and May 1965 to return 88 transmissions valued at about \$860,000 to ATAC. Five other items with stock valued at about \$350,000, which were similarly in an excess stock position, were redistributed to meet more urgent requirements after we brought the matter of excess stocks to S&MA's attention. Army officials explained that the stocks had not previously been redistributed because of errors or because of efforts being expended on more pressing work.

No system for Seventh Army ICC reporting of stock status to COMZ

We found that COMZ was unaware that some Seventh Army stocks were available for redistribution, because there was no requirement for the Seventh Army to report its stock status to S&MA.

Army regulations prescribe a uniform system for reporting stock status data on designated items of equipment in certain overseas depots. For example, S&MA is required to report its theater stock status on a quarterly basis for selected major end-items and for high-dollar-value repair parts requested by the various inventory control points. However, although Seventh Army was S&MA's largest customer, the then-current regulations did not require Seventh Army to submit similar periodic stock status reports to S&MA. Had this been done, S&MA could have evaluated total theater

requirements and assets on hand for reporting to the inventory control points (ICPs).

As of March 31, 1965, the Seventh Army had \$4.7 million worth of stock on hand in the permissive overstockage category, including \$2.6 million of tank-automotive items. S&MA, however, was not aware of Seventh Army's stock status for these items. After we reported to S&MA that the combined stock on hand for a pressure plate assembly unit exceeded the then-current requirements of the Seventh Army and COMZ by 1,075 units, S&MA initiated action to return 489 units valued at about \$18,000 to ATAC and directed the Seventh Army to return its excess to theater stocks. At the same time, ATAC had 2,275 pressure plate assembly units on back order for other commands, including 944 units for high priority requisitions, and procurements valued at about \$462,000 in process.

In addition, after we advised S&MA officials that the combined stock on hand for a distributor and a generator exceeded the current and reserve requirements of the Seventh Army and S&MA, stock valued at about \$19,000 was redistributed.

Overseas depot asset reports not requested
by ATAC in fiscal year 1965
for other than major end-items

For the last three quarters of fiscal year 1965, ATAC requested the overseas commands to submit depot asset reports only for major items of equipment, which resulted in the exclusion of other high-dollar-value items. Army regulations require that each ICP determine, in accordance with prescribed criteria, the items on which the overseas activities should submit reports. To do this, decks of prepunched cards are furnished by the ICP to each reporting activity, such as S&MA, to obtain such information on the quantity of the items on hand and the quantity due in from the United States. Prior to fiscal year 1965, ATAC required the overseas

commands to report the stock status of about 8,000 high-dollar-value and secondary items in this manner.

On the basis of the number of back orders and the extent of procurement action at ATAC, we believe that most of the items selected for review would have been reportable under the Army criteria which define a high-dollar-value item as one for which the projected dollar demand on CONUS depots during the next year totals \$25,000 or more. In the absence of depot asset reporting, stocks are normally not required to be reported to the ICPs for redistribution until they exceed current requirements, plus permissive overstockage levels of up to 18 months. Thus some stocks that were excess to current requirements but within the permissive overstockage levels of S&MA were not reported to ATAC commodity managers.

As an example, S&MA had 1,146 units, or about an 8-month supply, of a hydrovac unit assembly in excess of its current requirements; however, the stocks were well within the 18-month permissive overstockage level of 2,637 units. At the same time, ATAC had open requisitions for 132 units and outstanding purchase requests for 1,182 units. As a result of our review, S&MA initiated action to redistribute 356 units, estimated to cost \$9,700, to partially fill ATAC requirements.

ATAC advised us that overseas depot asset reports had not been requested on high-dollar and secondary items in fiscal year 1965 because of proposed changes to the Army regulations on asset reporting. In reviewing the proposed revision to the regulations, we noted that the only significant change was the establishment of the Major Item Data Agency in Chambersburg, Pennsylvania, as a central point between the ICPs and the overseas commands for reporting purposes.

In February 1965, however, ATAC converted to a new automatic data processing system. Prior to the conversion, ATAC had its system programmed for automatically producing prepunched decks of cards for the Overseas Stock Status Report; however, the new system required reprogramming in order to obtain similar data. At the time of our review, ATAC anticipated that overseas depot asset reporting would be reinstated when prepunched decks became available for reporting purposes in the third quarter of fiscal year 1966. In March 1966, ATAC reinstated the overseas depot asset reporting for high-dollar items and selected secondary items.

Although ATAC made interim efforts to obtain data on availability of stocks in Europe by (1) special liaison team visits, (2) requests for special supply studies, and (3) initiation of project "Recoup" in March 1965 to recover stock for some 2,900 line-items nationally out of stock at ATAC, these measures did not adequately provide the comprehensive data obtained through the means of a formal asset report.

For instance, in December 1964, ATAC requested COMZ to review the stock status of 55 items in critical back-order position at ATAC and to advise ATAC of those quantities which could be made available for redistribution. S&MA offered stock for 35 of the 55 items; however, significant quantities of stock on hand for 3 items excess to operating and reserve requirements were not reported to ATAC because they were within the permissive overstockage levels. ATAC had indicated a critical need for those items, but S&MA did not offer ATAC any stock for two of the items and later withdrew its offer to supply 480 pressure plate assemblies. After we brought this matter to its attention, S&MA initiated action to return stocks valued at about \$18,000 to ATAC. (See p. 8.)

In January 1965, the Army Materiel Command advised the overseas commands that the ICPs, including ATAC, had developed a list of nationally out-of-stock secondary items which accounted for a large percentage of open requisitions and stated that the list would be furnished to the overseas commands to ascertain if excess stocks were available. In March 1965, ATAC's list of about 2,900 items that were out of stock was furnished to S&MA, and, in May 1965, a combined listing of ATAC's items and those of the other ICPs was furnished to S&MA.

S&MA established guidelines whereby only stocks in excess of total theater requirements, including the permissive overstockage levels, would be considered for redistribution. However, after we advised S&MA and Seventh Army officials in April 1965 of our findings, S&MA officials revised the criteria so that its commodity managers would consider offering stocks that were within the retention levels. Seventh Army officials also established guidelines to offer stocks within the permissive overstockage levels.

S&MA reviewed the critical item list in May and offered ATAC about \$220,000 worth of stock. In some cases the stocks offered represented a drawdown of retention stocks, as well as stocks in excess of total theater requirements. At the conclusion of our field work in Europe in early June 1965, S&MA was in the process of evaluating the need for retaining portions of \$1,060,000 worth of stocks offered by the Seventh Army Inventory Control Center.

AN/TRC-24 radio components
excess to actual requirements

Our review indicated that COMZ inappropriately retained, **AN/TRC-24** radio components valued at about \$2.5 million because it had not properly reviewed and evaluated theater reserve requirements for these components and therefore had not reported its excess stocks. The Army Electronics Command (ECOM) queried CQMZ in October 1964 regarding the availability of excess AN/TRC-24 radio components in Europe to meet urgent requirements for this equipment in CONUS. United States Army, Europe (USAREUR) replied, on the basis of data which was not then current, that no excess AN/TRC-24 radio equipment existed within the European theater,

Prior to examining COMZ records, we were informed by officials of Headquarters, USAREUR, in April 1965 that requirements existed in Europe for all assigned AN/TRC-24 equipment. We found, however, that the computations of theater requirements for AN/TRC-24 components were overstated not only in May and June 1965 at the time of our review but also in October 1964 when ECOM requested information on any **excess** components. These overstatements occurred because COMZ did not adjust requirements to reflect decreases when the AN/TRC-24 radio sets were replaced by other radio sets.

After we brought the overstatements to the attention of CQMZ officials, they made a recomputation and found about \$2.5 million worth of the AN/TRC-24 components to be in excess of requirements. In February 1966, we found that CQMZ had (1) retained components valued at \$596,000 for an exchange repair program within Seventh Army, (2) returned items worth about \$798,000 to ECOM, and (3) scheduled about \$1.1million in components for future return to ECOM. COMZ also canceled requisitions totaling \$92,000 for a quantity of one AN/TRC-24 component.

We were informed in June 1966 by officials of the Supply Management Division, Deputy Chief of Staff for Logistics, Department of the Army, that (1) all responsibility for computing theater reserves had been transferred to the CONUS commodity commands of the Army Materiel Command and (2) all theater reserves in Europe for major and secondary items and repair parts would be recomputed.

The recomputation of theater reserve requirements, if properly carried out, should disclose any excesses in other items similar to the excesses which we found on AN/TRC-24 components.

Agency comments and our evaluation

On April 15, 1966, we brought the matters relating to the tank-automotive stocks to the attention of the Secretary of the Army and proposed that (1) Headquarters, United States Army, Europe, develop and establish a system for the reporting of stock status by the Seventh Army Inventory Control Center to the Supply and Maintenance Agency, COMZ, to enable the latter to develop an overall theater inventory and excess position and (2) the Commanding General of the Supply and Maintenance Agency reemphasize to his commodity managers the need for prompt reporting of excess assets to United States inventory control points. During September and October 1966, we brought the matter concerning AN/TRC-24 radio components to the attention of officials of the Department of the Army. They agreed that this was another example of excess components which should have been reported to the United States ICPs.

The Department of the Army, by letter dated June 24, 1966 (copy included as app. II), informed us that the Army substantially agreed with the findings relating to the tank-automotive items. The Army concurred in our proposals and advised us of the actions which had been initiated or taken.

With respect to the reporting of excess quantities, the Army expressed reservations, however, concerning the possible use by the Army Tank-Automotive Center of inventory under the control of the Seventh Army Inventory Control Center for redistribution to satisfy the requirements of other commands. In summary, the Army contended that:

Extra stocks held by the Seventh Army and other tactical forces on the basis of permissive overstockage¹ usually should not be reported to the United States control points as available for redistribution to satisfy other requirements. A stock status reporting system on permissive overstockage should be used solely within a major command to facilitate intracommand redistribution of stocks and to provide current data which would enable redistribution only on an exception basis of items urgently required worldwide,

In some cases where there was known overstockage, these assets were redistributed to other commands. We found that some of the redistributed items were from permissive overstockage inventories. At least two of these items were on back order and needed in the Far East.

In our opinion, all existing stocks of items considered to be in short supply by the inventory control point, which exceed current operating and reserve requirements, should be routinely reported to such inventory control points. We recognize that any redistribution would be subject to the approval of the overseas command involved. We recognize also that time and distance factors require consideration before redistribution decisions are made; nevertheless, we believe that the national inventory control points

¹Generally, up to 12 months' normal usage of an item in addition to all operating and reserve requirements is the permissive overstockage for tactical forces below theater level.

need current and complete data on extra stockage of items worldwide in order to make the appropriate choice between available alternatives such as procurement, rebuild, or redistribution to fill urgent requirements expeditiously.

Although our review related primarily to items being procured by the Army Tank-Automotive Center, other ICPs generally operate within the same Army procedures which do not require the reporting to ICPs of complete data on inventory levels. Therefore, our observations relating to tank-automotive items may be equally applicable to other items in the Army supply system,

Conclusions

In order that excess stocks may be considered by inventory control points for redistribution to meet urgent needs in other areas, periodic reporting of these stocks by overseas commands is essential. Such reporting will provide the ICPs with current and complete information on all excess stocks so that the appropriate choice between available alternatives such as procurement, rebuild, or redistribution of excess stock to fill requirements expeditiously can be made. In the cases reviewed, the responsiveness of the Army supply system to help meet worldwide Army requirements for existing stocks was reduced because:

1. The COMZ Supply and Maintenance Agency did not properly report excess assets to supply control points in the United States.
2. Stock status reporting was lacking between the Seventh Army and the COMZ Supply and Maintenance Agency.
3. The Army Tank-Automotive Center did not provide for adequate reporting of overseas depot assets during fiscal year 1965.
4. COMZ did not properly review, evaluate, and report theater reserve requirements for AN/TRC-24 radio components,

Recommendation

We recommend that the Secretary of Defense require that the Army's existing stock status reporting system be revised to include a requirement for periodic reporting to national inventory control points of all inventory stocks of items considered to be in short supply by such inventory control points, which exceed current operating and reserve requirements of the overseas command, including those in permissive overstockage inventories.,

In view of the corrective actions taken or promised on our proposals, we are making no additional recommendations at this time. In future audit work, we will inquire into the implementation of the corrective actions.

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PRINCIPAL OFFICIALS OF
THE DEPARTMENT OF DEFENSE
AND THE DEPARTMENT OF THE ARMY
RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>DEPARTMENT OF DEFENSE</u>		
SECRETARY OF DEFENSE :		
Robert S. McNamara	Jan. 1961	Present
DEPUTY SECRETARY OF DEFENSE:		
Cyrus R. Vance	Jan, 1964	Present
ASSISTANT SECRETARY OF DEFENSE (INSTALLA- TIONS AND LOGISTICS):		
Paul R. Ignatius	Dec. 1964	Present
Thomas D. Morris	Jan. 1961	Dec. 1964
<u>DEPARTMENT OF THE ARMY</u>		
SECRETARY OF THE ARMY:		
Stanley R. Resor	July 1965	Present
Stephen Ailes	Jan. 1964	July 1965
UNDER SECRETARY OF THE ARMY:		
David E. McGiffert	July 1965	Present
Stanley R. Resor	Mar. 1965	July 1965
Vacant	Dec. 1964	Mar. 1965
Paul R. Ignatius	Mar. 1964	Dec. 1965
ASSISTANT SECRETARY OF THE ARMY (INSTAL- LATIONS AND LOGISTICS) :		
Dr. Robert A. Brooks	Oct. 1965	Present
Daniel M. Luevano	July 1964	Oct. 1965

PRINCIPAL OFFICIALS OF
THE DEPARTMENT OF DEFENSE
AND **THE** DEPARTMENT OF THE *ARMY*
RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT (continued)

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>DEPARTMENT OF THE <i>ARMY</i></u> (continued)		
CHIEF OF STAFF, UNITED STATES <i>ARMY</i> : Gen. Harold K. Johnson	July 1964	Present
DEPUTY CHIEF <i>OF</i> STAFF FOR LOGISTICS: Lt. Gen. Lawrence J. Lincoln, Jr.	Aug. 1964	Present
COMMANDING GENERAL, UNITED STATES <i>ARMY</i> MATERIEL COMMAND: Gen. Frank S. Besson, Jr.	July 1962	Present



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON, D.C. 20310

24 JUN 1966

Mr. R. W. Gutmann
Associate Director
Defense Accounting and Auditing Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Gutmann:

This is in response to your letter of April 15, 1966, to the Secretary of Defense, requesting comments on your draft report titled "Review of Availability of Army Stocks in Europe for Requirements of the Army Tank-Automotive Center". (OSD Case #2441)

The inclosed statement provides the Department of the Army position on your report. This reply is made on behalf of the Secretary of Defense.

A. Tyler Port

Deputy Assistant Secretary of the Army
(Installations and Logistics)

1 Incl
Army
Position Statement

DEPARTMENT OF THE ARMY POSITION

ON

GAO Draft Report, Dated April 1966

"Review of Availability of Army Stocks in Europe
for Requirements of the Army Tank-Automotive Center"

(OSD Case #2441)

I. POSITION SUMMARIES**A. GAO Position Summary**

The stocks in Europe managed by the Supply and Maintenance Agency (S&MA) of the U.S. Army Communications Zone, Europe (USACOMZEUR), and the Seventh Army Inventory Control Center (formerly the Seventh Army Stock Control Center) were not considered by the Army Tank-Automotive Center (ATAC) as available for redistribution to satisfy some urgent requirements of other commands. This occurred because (1) the S&MA, USACOMZEUR, did not report certain excess stocks to the ATAC as required by Army regulations; (2) the S&MA, USACOMZEUR, did not include the inventory of the Seventh Army Inventory Control Center in its computations to determine the inventory quantities and excesses to be reported to the ATAC; and (3) the ATAC did not require the oversea command to submit depot asset reports for high dollar value items and secondary end items during last three quarters of FY 1965. When this was called to the attention of Army officials, about \$1.3 million worth of stocks in Europe that were excess to current operating and reserve requirements were redistributed to meet urgent requirements of other commands, including Vietnam. In addition, approved overseas rebuild programs estimated to cost about \$100,000 in Fiscal Years 1966 and 1967 were cancelled, and, in the United States, procurement in process amounting to about \$42,000 and planned procurement of \$47,000 were cancelled. Since ATAC reinstated the overseas depot asset reporting for high dollar and selected secondary items in March 1966, no recommendation is made with respect to this point. However, it is recommended that (1) Headquarters, United States Army, Europe (USAREUR), develop and establish a stock status reporting system from the Seventh Army Inventory Control Center to the S&MA, USACOMZEUR, to enable the latter to develop an overall theater inventory and excess position, and (2) the Commanding General, S&MA, USACOMZEUR, re-emphasize to his commodity managers the need for prompt reporting of excess assets to United States supply control points.

B. Army Position Summary

The Army concurs in the findings, conclusions and recommendations, with certain reservations regarding the use of the inventory under the control of the Seventh Army Inventory Control Center by the ATAC for redistribution to satisfy requirements on a world-wide basis. Appropriate comments regarding the latter are presented in paragraphs 11, IV and V below. The pertinent corrective actions taken, associated with the two recommendations presented by GAO, are detailed in paragraph V below.

II. BACKGROUND FOR ARMY POSITION

During the period of the GAO review, the ATAC was heavily engaged in the preparation for and the implementation of The Army Supply and Maintenance System (TASAMS). This program involved a major realignment of supply functions within the Army CONUS wholesale supply distribution system, and resulted in additional workloads being absorbed by the ATAC and other Army National Inventory Control Points (NICPs). Substantially, the ATAC assumed the stock control functions for all tank-automotive items stored by the CONUS depot system. As a result, the ATAC became the sole point where all requisitions for tank-automotive items are submitted by all CONUS installations and overseas demands. Accordingly, there were during this period numerous operational problems related to the implementation of TASAMS that required immediate resolution. It is noted, however, that during the period of the GAO review over \$180 million worth of supply requirements for secondary items were satisfied by the ATAC on a world-wide basis.

The present Army policy concerning retention of stocks in oversea commands at theater level provides for permissive overstockage not to exceed 18 months supply at the normal peacetime rate of consumption. For stocks below theater level, permissive overstockage not to exceed 12 months expected usage is authorized. Supply managers, however, are authorized and encouraged to establish lower retention limits where judgment indicates that a lower limit would result in supply economy or would better serve the interests of the Government. All materiel on hand which exceeds authorized retention limits must be offered promptly for redistribution or declared excess, as appropriate. The objective of permissive overstockage is to keep stocks in place for which there is a foreseeable need within a reasonable time frame, and thereby avoid added costs that are incurred through redistribution and resupply actions. Conversely, the use of these assets as needed to satisfy urgent readiness requirements is also recognized.

III. ARMY POSITION ON GAO FINDINGS

The Army substantially agrees with the findings presented in the draft GAO report. Inasmuch as practically all of the stocks redistributed as a result of the GAO review were unreported excesses by the S&MA, USACOMZEUR,

the principal cause for the situation found is the failure to report excess stocks as required by Army regulations. In this regard, it is noted that stocks retained on the basis of permissive overstockage policies are not considered as excess, and subject to excess reporting and disposition procedures. It is also apparent that if the ATAC has requested overseas depot assets be reported for critical and intensively managed secondary items during the last three quarters of FY 1965 the existence of most of the excess stocks would have been known and more timely redistribution accomplished. The lack of a stock status reporting system within USAREUR, whereby the Seventh Army Inventory Control Center stocks would indirectly be considered by the ATAC for possible distribution to satisfy world-wide requirements, is also acknowledged. Some advantages are visualized through the establishment of such a reporting system, primarily for use within USAREUR, providing it can be accomplished at reasonable cost with current resources and capabilities. Accordingly, the Army has some reservations concerning the availability and redistribution of stocks in the hands of tactical forces below theater level, which are within authorized retention levels.

The findings as presented in the draft GAO report do not reveal that, in accordance with USAREUR Regulation 725-50, Seventh Army automatically evacuates serviceable excess property within its supply points to appropriate USACOMZEUR depots as this excess property is generated. Further, these findings do not show that the Seventh Army Inventory Control Center reviews all stocks on a monthly basis, recomputes requisitioning objectives for all authorized stockage and determines permissive overstockage quantities that should be retained within the maximum limit established by the DA. In the latter case, items having diminishing demand history may be evacuated down to two times the requisitioning objective if it appears this amount will satisfy requirements for a reasonable period of time. It is noted that, although S&MA, USACOMZEUR, was remiss in reporting some excess stocks, this activity was forwarding approximately 4500 excess reports to CONUS monthly, and initiating follow-up actions as applicable in order to secure timely disposition instructions. Furthermore, the S&MA, USACOMZEUR, was submitting quarterly overseas depot stock status reports to CONUS for many secondary items as specifically requested by other NICPs in CONUS.

The stocks managed by the Seventh Army Inventory Control Center are confined to peacetime operating requirements, and permissive overstockage not to exceed expected usage for a period of 12 months is authorized. These stocks are not considered part of the wholesale supply distribution system, nor subject to redistribution at the discretion of CONUS NICPs because they belong to Seventh U.S. Army which is a tactical force having assigned military missions. As a general rule, stocks issued to and owned by tactical forces should not be considered as available for redistribution to satisfy world-wide requirements unless reported as excess in accordance with existing Army regulations. Conversely, because of intimate knowledge of current operational requirements and geographic factors, some redistribution of stocks in the hands of tactical forces that are within established retention levels can and should be redistributed by major commands to satisfy requirements within the command.

IV. ARMY POSITION ON GAO CONCLUSIONS

The Army generally concurs in the conclusions presented in the draft GAO report. It is agreed that the responsiveness of the Army supply system to help meet world-wide requirements was reduced somewhat because of (1) failure of the ATAC to provide for adequate reporting of overseas depot assets, and (2) the failure of the S&MA, USACOMZEUR, to properly report some excess assets to the ATAC. In view of the present USAREUR procedures to expedite the flow of excess stocks from Seventh Army supply points to USACOMZEUR depots, the lack of a stock status reporting system between the Seventh Army Inventory Control Center and the S&MA, USACOMZEUR, is not considered to be a significant factor in this case. It is the Army contention that stocks issued to and owned by tactical forces, and within authorized stockage levels, should not be considered in determining the overall theater assets position which in turn is subject to redistribution at the discretion of CONUS NICPs to meet world-wide requirements. However, it is agreed that such a stock status reporting system should be utilized within USAREUR to facilitate redistribution of stocks within that command, and to provide current data regarding controlled and selected intensively managed items which are candidates for redistribution on an exception basis to meet urgent world-wide requirements.

V. ARMY POSITION ON GAO RECOMMENDATIONS

The Army concurs in the recommendation that Headquarters, USAREUR, develop and establish a stock status reporting system from the Seventh Army Inventory Control Center to the S&MA, USACOMZEUR, to enable the latter to develop an overall theater inventory and excess position. The Army contends, however, that the Seventh Army Inventory Control Center reports should be limited to retention level stocks (permissive overstockage) and that quantities reported not be included in the overseas depot assets report (AR 711-80) as available for redistribution at the discretion of CONUS NICPs. The proposed procedure will minimize reporting costs since reporting and disposition of excess stocks are already provided for under a separate system, and since stocks within established requisitioning objectives are not normally candidates available for redistribution. Accordingly, the reporting of retention level stocks by the Seventh Army Inventory Control Center will allow the S&MA, USACOMZEUR, to evaluate the total theater requirements and assets, and identify potential excesses which are candidates for redistribution within USAREUR. The routine reporting of these assets by the S&MA, USACOMZEUR, to CONUS NICPs is not considered appropriate because (1) these stocks are under the control of a tactical force and not within the wholesale supply distribution system, and (2) the time and distance factors involved precludes effective and reliable use of this data by CONUS NICPs. In regard to this recommendation, both the Seventh Army Inventory Control Center and the S&MA, USACOMZEUR, have initiated planning for a stock status reporting system. The ADPE of the Seventh Army Inventory Control Center and the S&MA, USACOMZEUR, are not compatible; however, both commands are now in the process of reprogramming their computers to compensate for limited capacity and inadequacies. These

factors will influence the type reporting system developed. Estimated time completion is October 1964.

The Army also concurs in the recommendation that the Commanding General, S&MA, USACOMZEUR, re-emphasize to his commodity managers the need for prompt reporting of excess assets to United States supply control points. USACOMZEUR has placed special emphasis on the prompt identification and reporting of all excess stocks, and this emphasis is being stressed by the Commanding General of the S&MA, USACOMZEUR. In addition, the Inventory Management Branch, Supply Management Division, S&MA, USACOMZEUR, has been given the responsibility to continuously monitor the actions of the commodity managers and provide the required degree of control to prevent recurrence of the conditions noted during the GAO review.

In addition to the foregoing actions, AR 710-50 was published by the DA on 19 January 1966 concerning the return of critical and intensively managed secondary items. A stated purpose of this regulation is the "use through redistribution, world-wide assets in long supply (including potential excess) to fill priority requisitions of critical and intensively managed secondary items, pending receipt of stocks from production or rebuild". Substantially, this regulation requires all NICPs to publish an essential items list identifying select critical and intensively managed items for return within established time standards. Procedures not only require the timely return of excess items, but encourages CONUS installations and oversea commands to return any items on the essential items listings that can be released from authorized stockage levels.