

B-133089

~~CONFIDENTIAL~~

UNCLASSIFIED

FILE COPY - COMP. GEN.

te
1
B-133089

**REPORT ON EXAMINATION
OF THE
PROGRAM FOR OFFSHORE PROCUREMENT IN JAPAN
OF FAST-MOVING VEHICULAR SPARE PARTS**

This material contains information affecting the national defense of the United States within the meaning of the espionage laws, Title 18, U.S.C., Secs. 793 and 794, as respectively amended, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.



*Declassified
by: DOS &
DOD*

43

BY

THE COMPTROLLER GENERAL OF THE UNITED STATES

DECEMBER 1958

UNCLASSIFIED

~~CONFIDENTIAL~~

~~744796~~ / 1087973

~~C O N F I D E N T I A L~~

UNCLASSIFIED

**REPORT ON EXAMINATION
OF THE
PROGRAM FOR OFFSHORE PROCUREMENT IN JAPAN
OF FAST-MOVING VEHICULAR SPARE PARTS**

This material contains information affecting the national defense of the United States within the meaning of the espionage laws, Title 18, U.S.C., Secs. 793 and 794, as respectively amended, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.



**BY
THE COMPTROLLER GENERAL OF THE UNITED STATES**

UNCLASSIFIED

~~C O N F I D E N T I A L~~



~~CONFIDENTIAL~~ UNCLASSIFIED

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

B-133089

DEC 3 1958

Dear Mr. Secretary:

Enclosed is our report on our examination of the program for offshore procurement in Japan of fast-moving vehicular spare parts.

The report contains our finding that the program did not achieve its stated objective of procuring quickly and efficiently vehicular spare parts urgently needed by military assistance recipient countries in the area. Requirements for the program were grossly overstated, were increased in an unreasonable manner to arrive at quantities considered necessary to result in economical purchases, and were developed for parts or vehicles not eligible under the program. In addition, more than 1 year elapsed before the first contracts were executed although the procurement was to have been achieved in 120 days.

We have been informed by responsible officials that after our review the procurement program was reduced substantially and the procurement of certain parts was canceled.

Copies of this report are also being transmitted to the Director, Bureau of the Budget; the Secretary of Defense; and the Chairmen of the Senate Committees on Government Operations, Armed Services, Appropriations, and Foreign Relations and of the House Committees on Government Operations, Armed Services, Appropriations, and Foreign Affairs.

Sincerely yours,

A handwritten signature in cursive script, reading "Roger Campbell".

Comptroller General
of the United States

The Honorable
The Secretary of the Army

Enclosure

UNCLASSIFIED

~~CONFIDENTIAL~~

C o n t e n t s

	<u>Page</u>
INTRODUCTION	1
SCOPE OF REVIEW	4
FINDINGS AND RECOMMENDATIONS	5
Failure to meet program objective	5
Requirements overstated and procurements unauthorized	6
Initiation of excess procurement resulted from so-called economical buys	7
Additional corrective action taken	8

~~CONFIDENTIAL~~

UNCLASSIFIED

REPORT ON EXAMINATION
OF THE
PROGRAM FOR OFFSHORE PROCUREMENT IN JAPAN
OF FAST-MOVING VEHICULAR SPARE PARTS

As a part of our review of supply management and inventory control at the United States Army Logistical Depot, Tokorozawa, Japan (USALDJ), we examined the program to supply 6 months' requirements for vehicular spare parts to countries in the Pacific area receiving assistance under the Military Assistance Program (MAP). This examination was made pursuant to the provisions of the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

INTRODUCTION

A team from the office of the Deputy Chief of Staff, Logistics, Department of the Army, visited Pacific area MAP countries in December 1956 and found that the inadequate supply of fast-moving repair parts for World War II-type 1/4-, 3/4-, and 2-1/2-ton general-purpose vehicles was a significant problem. The team was advised that the Military Assistance Advisory Group in each of the countries in the Pacific area responsible for the administration of the military assistance program had developed a list of urgently needed fast-moving parts for these vehicles and that the parts could be procured in Japan with a lead time of 120 days. On this basis a program was approved in January 1957 for procurement in Japan of 6 months' supply of urgently needed fast-moving

~~CONFIDENTIAL~~ UNCLASSIFIED

parts to alleviate the situation. Specific provision was made that the country requirements would be consolidated and screened against available stocks in USALDJ for supply action before initiation of procurement. Also, if quantities on the consolidated list did not represent an economical buy, quantities could be increased with the understanding that quantities excess to MAP consolidated requirements would be used for emergency needs or to fill MAP rebuild program requirements.

By April 5, 1957, lists of 6 months' requirement had been received from all countries except Korea. The United States military advisors in Korea indicated that the Korean Army would not participate in the program because adequate spare parts were already included in the approved and funded military assistance programs for which supply action had been already initiated. As a matter of fact, outstanding Korean Army requisitions for vehicular spare parts were at that time being reviewed and cancellations amounting to \$4.4 million had been made because of lack of valid requirements. However, a decision was made by Headquarters, Armed Forces, Far East,¹ that Korea would participate but that, instead of supplying 6 months' requirements of urgently needed fast-moving spare parts for the Korean Army, those spare parts already planned for supply through offshore procurement under the approved fiscal year 1957 Korean program would be procured as a part of the special spare parts program.

¹This Headquarters was deactivated in July 1957 when the Pacific Area Military Command was reorganized.

The special spare parts procurement program was approved in September 1957 in an amount of \$4.5 million. Active procurement in Japan was started late in calendar year 1957, and by February 24, 1958, it was reported that contracts totaling \$572,080 had been awarded and items totaling \$2,179,209 were awaiting procurement action at that time. The Department of the Army has informed us that as a result of screening actions, subsequent to our review, only \$1 million in spare parts will be actually supplied--\$300 thousand from USALDJ excesses and \$700 thousand from offshore procurement.

~~CONFIDENTIAL~~

UNCLASSIFIED

SCOPE OF REVIEW

We examined the basis upon which requirements for the consolidated offshore procurement of 6 months' supply of fast-moving vehicular spare parts were established by reviewing selected items requisitioned to fill spare parts requirements for Korea, the largest single country participant in the program. We tested selected items included in all country listings to ascertain that the items were in fact fast-moving spare parts and were for the vehicles authorized for support under the program. We also reviewed the reasonableness of quantities purchased in excess of consolidated requirements to assure an economical procurement. Our findings have been brought to the attention of the Assistant Secretary of Defense for International Security Affairs, the Assistant Secretary of the Army (Logistics), and local commanders, and their comments have been incorporated in this report when appropriate.

UNCLASSIFIED

~~CONFIDENTIAL~~

FINDINGS AND RECOMMENDATIONS

FAILURE TO MEET PROGRAM OBJECTIVE

The basic objective of the special procurement program, to procure vehicular spare parts in 120 days, was not met. Spare parts for World War II-type vehicles which were reported to be urgently needed by MAP countries in December 1956 had not been procured and delivered more than 1 year later.

The original determination that spare parts were urgently needed by the MAP countries was made in December 1956. The decision to procure these parts in Japan was based on the premise that the parts could be purchased with an approximate lead time of 120 days. However, as indicated by the following table, this objective was not met.

Status of program, March 1958

Line items canceled from country requirements	173
Line items shipped from depot stocks	325
Line items on contract	132
Line items not yet contracted for	<u>440</u>

Total line items at inception of program 1,070

Recommendation and agency action

Since there was a likelihood that normal supply action would have resulted in delivery of these parts to the MAP countries in the intervening period and a current program for rebuilding MAP vehicles in Japan might also alleviate the critical parts shortage in MAP countries in the Far East, we suggested that Defense reexamine its requirements for these spare parts.

After this matter and our other findings were brought to the attention of Headquarters, Eighth United States Army, we were

informed that procurement cancellations amounting to \$854,418 had been effected and that further screening would be undertaken and procurement would be canceled as required. We were informed also that all new procurement would be suspended pending review of requirements.

REQUIREMENTS OVERSTATED
AND PROCUREMENTS UNAUTHORIZED

Requirements for Korea were vastly overstated, and certain spare parts were being procured even though not authorized.

Requirements for spare parts
for the Korean Army overstated

Spare parts requirements for Korea included in the procurement program, which accounted for approximately 79 percent of the total program, were grossly overstated.

We tested 15 line items which represented a program value of \$750,722 and found that several years' supply of similar parts were already on hand or due in from other requisitions under the military assistance program and that the requirements were for substantially more than 6 months' needs. We found that the requisitions from Korea had not been properly edited at any level for inclusion in the program. The following tabulation is illustrative of our findings:

<u>Quantity and item</u>	<u>Program value</u>	<u>Years of supply</u>	
		<u>In the program</u>	<u>In country and due in</u>
9,660 Gear, counter	\$158,424	7	10
5,624 Drum, brake	94,186	4-1/2	11
4,000 Shaft	25,000	6	10
3,430 Gear, clutch	9,947	5-1/2	49
2,460 Gear, overdrive	12,373	3	17
1,720 Joint, slip	26,105	3	14
2,530 Cover	38,456	5-1/2	7-1/2

Procurement initiated for unauthorized spare parts

USALDJ procurement action included spare parts which had not been authorized for procurement under the programs to provide fast-moving spare parts for 1/4-, 3/4-, and 2-1/2-ton general-purpose World War II-type vehicles. We found over \$100,000 worth of spare parts which related to other types of vehicles and numerous instances in which slow-moving parts, such as bumpers, door handles, and fenders, were included in the procurement program.

Recommendation and agency action

Headquarters, Eighth United States Army, agreed with our findings and informed us that the United States military advisors in Korea were recomputing requirements for the Korean Army after which USALDJ would conduct a second rescreening and excess or unauthorized items would be canceled.

INITIATION OF EXCESS PROCUREMENT
RESULTED FROM SO-CALLED ECONOMICAL BUYS

Quantities planned for purchase were increased over consolidated country requirements with the objective of obtaining more economical procurement. However, no criteria were established as to what constituted an economical procurement, and the actual quantities in the procurement program were unreasonably in excess of consolidated requirements.

We estimated that about \$800,000 of the planned procurement resulted from quantities increased to establish what was called an economical buy. These increases were made without definitive instructions from any source as to what constituted an acceptable quantity-price relationship. We believe that the increases in

quantities were unreasonable and that many could not be justified under any circumstances. The following tabulation is taken from those we selected for our test and is illustrative of our findings:

<u>Item</u>	<u>Consolidated requirements</u>	<u>Quantity on program</u>	<u>Value of excess</u>
Drum, brake	45	1,440	\$13,336
Carburetor	55	720	10,374
Seal	40	51,840	33,670
Kit	225	7,776	10,042
Armature	20	1,100	14,256
Piston	60	8,960	10,858
Panel	2	576	14,522
Spring	37	864	10,420
Cable	10	7,616	13,766
Gear, constant	10	1,440	11,869

Recommendation and agency action

We discussed our findings with responsible officials at USALDJ who agreed that quantities which had been increased to achieve an economical buy were inordinately large and that they would rescreen all these items with the objective of reducing quantities to a lower and more practical procurement quantity. We also recommended that the Department of the Army prepare specific guidelines to establish how and under what conditions quantities to be procured can be increased above consolidated country requirements. We have been advised that the Army is currently initiating appropriate corrective directives to prevent recurrence of the situations set forth in our report.

ADDITIONAL CORRECTIVE ACTION TAKEN

The Department of the Army was advised by USALDJ in October 1958 that, after the review of requirements, 17 of the 132 line items under contract in March 1958 were eliminated. In addition,

only 86 line items of the 440 not yet contracted for in March 1958 were placed on procurement and the balance of the items were either shipped from stock or canceled.

The Department of the Army also stated, in reply to the above findings, that (1) a 10-man team was dispatched to USALDJ to assist in locating, classifying, and inventorying stocks on hand which will provide means for a more rapid screening action of future requirements against availabilities, (2) appropriate corrective directives are being initiated with emphasis on development of realistic requirements, improved judgment in editing of requisitions, and more rapid procurement of items required on an emergency basis, and (3) future Department of the Army authorizations of offshore procurement of repair parts will be subject to reasonable precautions being taken to insure that such repair parts are not already available in military assistance program accounts or in long supply in United States Army depots.

The Assistant Secretary of Defense for International Security Affairs has advised us that his office is establishing a Military Assistance Institute to familiarize officers with military assistance program management, logistics, and programing. He has stated also that this training coupled with personnel selection by the Department instead of the theater headquarters and longer tours of duty for key personnel are expected to preclude any possibility of a recurrence of the disclosed discrepancies.