



REPORT TO THE CONGRESS

Need To Improve Management Of Army Supplies In Vietnam

B-160763

Department of the Army

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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WASHINGTON, D. C. 20548

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

The General Accounting Office has reviewed certain aspects of the Department of the Army's management of supplies in the Republic of Vietnam. This report presents our finding and conclusion that additional attention should be given to supply management in Vietnam.

Despite adverse conditions, the Army supply system has, in our opinion, been responsive to the combat needs of the military units in Vietnam. This high level of support has been achieved however, through costly and inefficient supply procedures.

The Army had recognized many of its supply management problems and initiated certain corrective actions prior to the time of our review. We have noted, however, areas which, in our opinion, warrant additional management attention as follows:

- The development of accurate data relating to stocks on hand and consumed. Such data are needed to facilitate accurate and timely determinations of supply requirements and to preclude significant imbalances of stock.
- The identification and prompt redistribution of the large quantities of excess material now in Vietnam.
- The development of programs which will ensure the prompt return of reparable components to the supply system.
- The institution of procedures designed to increase both intra-service and interservice utilization of available supplies.
- The enforcement of greater supply discipline in order to reduce to a minimum the costly shipment of supplies and equipment under high-priority requisitions.

We believe that the supply problems being encountered were due, in large measure, to the fact that the Army did not have a trained

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logistical organization capable of assuming inventory management responsibilities in Vietnam when the buildup of forces was begun. The lack of sufficient computer capability, the shortage of trained inventory managers, and the lack of military personnel to operate depot activities particularly demonstrated this fact. The Army therefore was compelled to (1) recruit civilian inventory managers and storage technicians, (2) install and reprogram a large-scale computer to replace card-processing equipment, and (3) organize and send special teams to Vietnam to review stock lists and to verify inventory locations and quantities.

Army officials advised us that a Quick Reaction Inventory Control Center was being organized. This organization, with its own computer equipment, pretested programs, and trained military personnel, will be available to move into future combat situations--such as those in Vietnam--and to establish supply management capabilities within a short period of time.

Because of our finding, and because of reports already available to the Department of Defense, the Secretary of Defense instructed the Assistant Secretary of Defense to visit Vietnam to look into the problem of excess supplies. As a result of that visit, steps were taken to ensure the identification of all supply excesses in Southeast Asia and the prompt redistribution of such excesses. Implementation of these plans should, in our opinion, eventually lead to significant reductions in excess stocks in Vietnam and to the use of such stocks by other military activities.

We also made several specific proposals with respect to the problems identified during our review in Vietnam. Although the Army agreed with our finding, it did not agree with certain of our proposals for improved procedures. We recognize that the management emphasis being applied by the Army will tend to improve supply discipline and help to correct the problems. We believe, however, that such emphasis by itself is not sufficient. We therefore are recommending to the Secretary of the Army that certain of our proposals for improved procedures be reconsidered.

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We are reporting this matter to the Congress because of its interest in the conflict in Vietnam and in the actions being taken by the Department of the Army to improve supply management in that country.

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



Comptroller General
of the United States

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REPORT ON
NEED TO IMPROVE MANAGEMENT
OF
ARMY SUPPLIES IN VIETNAM
DEPARTMENT OF THE ARMY

INTRODUCTION

The General Accounting Office has made a review of selected aspects of Army supply management procedures in the Republic of Vietnam. The primary objectives of our review were to examine into (1) the reasonableness of authorized stock levels and the bases on which they were determined, (2) the adequacy of procedures designed to control the redistribution of excess and reparable stocks, and (3) the propriety of high-priority requisitions for non-combat-essential items.

Our 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). The scope of our review is shown on page 37 of this report.

BACKGROUND

United States Army forces in Vietnam were increased from about 50,000 personnel in June 1965 to about 300,000 personnel in December 1967. There has been developed to support these forces a logistical organization encompassing two inventory control centers and five major depots. The following schedule indicates the magnitude of supply activities of the depots as of September 1967.

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<u>Depot</u>	<u>Number of items authorized for stockage</u>	<u>Number of requisitions received during September 1967</u>
Field Depot, Saigon	88,000	181,100
Field Depot, Cam Ranh Bay	63,200	90,700
Field Depot, Qui Nhon	72,500	104,800
Aviation Materiel Depot, Saigon	36,200	61,600
Aviation Materiel Depot, Qui Nhon	(not in operation in September)	

The 1st Logistical Command, a subordinate command of the United States Army, Vietnam (USARV), has the responsibility of supporting Army troops in Vietnam except for medical and aviation items. The 14th Inventory Control Center (ICC), an activity of the 1st Logistical Command, has centralized responsibility for the supply management and stock control functions. It is responsible for determining the stock levels, requisitioning the needed items, and directing the disposition of excesses. The three field depots are also subordinate activities of the 1st Logistical Command.

The 34th General Support Group, another subordinate command of USARV, has the responsibility of supplying aviation, electronic, and armament items peculiar to Army aircraft in Vietnam. Under its direction, an Aviation Materiel Management Center (AMMC), was established to manage such items. The AMMC determines the stock levels, requisitions the needed items, and directs the disposal of excess aviation items. The two depots for aviation items are also under the control of the 34th General Support Group.

A list of the principal officials of the Department of Defense and the Department of the Army responsible for administration of the activities discussed herein is included as appendix I.

FINDING AND RECOMMENDATIONS

NEED FOR IMPROVED MANAGEMENT OF ARMY SUPPLIES IN VIETNAM

Despite adverse geographical and climatic conditions and unstable lines of communications, the Army supply system has, in our opinion, been responsive to the combat needs of the military units in Vietnam. This high level of support has been achieved however, through costly and inefficient supply procedures.

During the early months of the Vietnam buildup, the Army directed its efforts toward providing the most effective supply support with the limited resources at hand. With completion of the buildup and stabilization of the logistic base, the Army has been giving greater attention to the refinement of logistical procedures and operations. The Army had recognized many problems and initiated corrective actions prior to our review. Our review, however, has identified areas which, in our opinion, warrant additional management attention as follows:

- The development of accurate data relating to stocks on hand and consumed. Such data are needed to facilitate accurate and timely determinations of supply requirements and to preclude significant imbalances of stock.
- The identification and prompt redistribution of the large quantities of excess material now in Vietnam.
- The development of programs which will ensure the prompt return of reparable components to the supply system.
- The institution of procedures designed to increase both intraservice and interservice utilization of available supplies.
- The enforcement of greater supply discipline in order to reduce to a minimum the costly shipment of supplies and equipment under high-priority requisitions.

We believe that the supply problems being encountered were due, in large measure, to the fact that the Army did not have a trained logistical organization capable of assuming inventory management responsibilities in Vietnam when the buildup of forces was initiated. In our opinion, this was particularly demonstrated by (1) the lack of sufficient computer capability, (2) the shortage of trained inventory managers, and (3) the lack of military personnel to operate the depot activities.

Some of the problems faced by the Army were also due to inadequate physical facilities for the storage and control of inventories. Photographs showing the conditions under which some stocks were stored are included in the report as exhibit A.

At the time of our review, the Army was taking steps to emphasize improved supply management. Actions that were being taken included the approval of a plan to activate a Quick Reaction Inventory Control Center, a logistical organization to be capable of providing support to Army units in combat areas; the installation of a large-scale computer for the 14th ICC; the recruitment of civilian inventory managers; the construction of new depot facilities; and the institution of increased efforts in the area of stock control. The Army, however, was not yet in a position to know, with any reasonable degree of confidence, the quantities of stocks required in Vietnam, the quantities already on hand, or the locations of stock in the various depot complexes.

Details of our finding follow.

Need for improved supply management data

The Army inventory management activities in Vietnam were not properly computing the quantities of items required because of their reliance on inaccurate and incomplete supply data. As a result, substantial quantities of unneeded items were on hand or on order while, at the same time, required quantities of other items were not being requisitioned from supply sources in the United States.

In general, we found a need to:

- Reduce the order-ship time in computing requirements.
- Properly identify demands as recurring or nonrecurring.
- Accumulate demand information on "red ball" requisitions.
- Eliminate canceled requisitions from demand information.
- Prevent duplicate recording of demand information.
- Cancel orders for supplies no longer required.
- Consider substitute items and former stock numbers in determining requirements.
- Correct errors in data processing programs.
- Review decisions of item managers.

Order-ship time allowances

Stock levels for most Army items of supply are expressed in terms of "days of supply"; i.e., sufficient quantities to meet expected customer requirements for a specified number of days. Stock levels are normally designed to provide for sufficient on-hand supplies to preclude shortages or out-of-stock positions.

The stock-level requirements computed by the 14th ICC are based on the maintenance of a 195-day supply of each item authorized for stockage in the depots in Vietnam. Included in the 195 days is an allowance of 135 days of supply for order-ship time, which is the estimated time between the date an item is ordered and the date it is received. The 60 remaining days represent an allowance for safety and operating levels.

The computations of stock-level requirements at the 14th ICC were significantly overstated because allowances included for order-ship time were excessive. Our tests showed that the actual order-ship time being experienced was about 35 days less than the time estimated when the stock levels were established. We tested the order-ship time for about 800 receipts and found that the average time to obtain an item from the continental United States was 98 days. The following schedule shows the stock levels and the potential savings that would result from a 35-day reduction in the order-ship time allowance for a few items.

<u>Item</u>	195-day stock level including 135-day order- <u>ship time</u>	160-day stock level including 100-day order- <u>ship time</u>	Dollar value of potential <u>reduction</u>
Extinguisher	440 units	361 units	\$ 3,231
Starter	407 "	344 "	21,462
Starter	920 "	755 "	16,500

We suggested that officials of the 14th ICC make a more extensive study of the actual order-ship time being experienced, with a view toward reducing stock levels. We were advised that the 14th ICC's study of about 22,000 shipments showed the average order-ship time to be 100 days at the Saigon depot, 105 days at the Cam Ranh Bay depot, and 117 days at the Qui Nhon depot. We were informed by Army officials that, on the basis of the results of this test and other subsequent tests, the stock levels were being reduced by 30 days at the Saigon, Cam Ranh Bay and Qui Nhon depots. It has since been estimated that the decrease represented a \$71.5 million reduction in inventory investment.

The computations of stock-level requirements by AMMC included a 90-day allowance for order-ship time. Our study of available data relating to the receipts of about 34,000 items showed that the average order-ship time was 43 days. Shipments of aircraft parts stocked by AMMC were normally made by air transportation, which reduced the shipping time below the average time for other items. We advised AMMC officials of our finding and suggested that they consider reducing the allowance to reflect the actual order-ship time being experienced. After further study, these officials agreed that the stock levels were overstated and they reduced the allowance by 30 days. It has since been estimated that the decrease represented a \$11.6 million reduction in inventory investment.

Need for proper identification
of recurring or nonrecurring demands

Our review showed a need for improved identification of the nature of customer requisitions in order to preclude the overstatement of stock levels. We looked into the validity of the demand codes assigned to 237 requisitions by user activities and found that 52 of the requisitions had been erroneously coded.

Army regulations provide that requisitions for replacing items that have been consumed through normal usage will be coded as "recurring" demands. These regulations provide also that requisitions for initial stock allowances, allowances for planned program requirements, and for one-time projects or maintenance requirements will be coded as "nonrecurring" demands. Stock levels for demand-supported items are based only on estimated future recurring demands and will therefore be overstated if requisitions are erroneously coded as recurring.

We found that most of the requisitions showing improper codes had been for issuance of initial supplies rather than for replacement of consumed supplies. For example, three requisitions coded as recurring were submitted for a total of 49,720 M-16 rifle magazines. We visited the requisitioners and learned that two of the requisitions were for initial issue and that the remaining requisition was for a

onetime rebuild program. These erroneously coded demands were used in the computation of the stock level, which resulted in an overstock of 64,600 magazines valued at about \$91,000.

Army officials advised us that they believed that the accumulation of erroneous demand data had been due to the lack of experienced supply personnel in the user units. They advised us also that a message sent to all commands on November 1, 1967, had instructed commanders to take action to preclude erroneous assignments of demand codes.

Accumulation of demand information
on Red Ball requisitions

We found that red ball requisitions were not being included in the monthly demand data utilized by the 14th ICC for determining stock-level requirements. As a result, the stock levels were being understated and, in some instances, the items were not being stocked.

A "red ball" requisition is a special high-priority order for a repair part that is causing a piece of equipment to remain inoperative. We noted that, for some parts, these requisitions represented the major portion or all of the customer requests for that item. For example, we found that there were only three demands reported for a filter during a 60-day period ended June 30, 1967, while, during the same period, there were 164 red ball requisitions for the same item. As a result, the computed stock level was significantly understated. This caused the item to be in an out-of-stock position and led to the generation of additional unnecessary red ball requisitions.

We were advised that the Army's procedures did not provide for accumulation of customer requests generated through red ball requisitions. When we brought this matter to the attention of Army officials, they directed the commanding officer of each depot to take the necessary action to ensure that red ball requisitions were included in the monthly demand data reported to the inventory managers.

Elimination of canceled requisitions
from demand information

The depots were not uniformly eliminating canceled requisitions from demand data previously accumulated and, as a result, the stock-level requirements were being overstated. We noted that two depots had not eliminated canceled requisitions from demand data previously accumulated. Procedures at the third depot differed in that demands were reduced in the month in which the canceled requisitions were received. In certain instances, however, this practice distorted demand data in that cancellations were deducted only if demands for the same item were received in that month. Therefore, if no demands were received, no effect would be given to the cancellation.

We suggested to the Commanding General, 1st Logistical Command, that uniform procedures be established to provide for the elimination of canceled requisitions from demand history. We were advised that a new data processing system, which was to be installed in the depots between November 1967 and April 1968, would include procedures for automatic reversal of individual requisitions that might be canceled.

Duplicate recording of demand data

During our review of demand data being accumulated at the Cam Ranh Bay Field Depot, we noted that the data included requisitions which had been referred to that depot because of the lack of stock at one of the other depots. The depot initially receiving the requisition also had recorded the demands; thus there was a duplication in the demand data which resulted in the overstatement of stock-level requirements.

For example, a customer unit initiated a requisition for 2,400 gunslings for M-16 rifles and sent it to the Qui Nhon Field Depot. This requisition was referred to the Cam Ranh Bay Field Depot for issue because there was no stock available at Qui Nhon. Our review showed that both depots had reported the demand to the inventory manager and that the stock-level requirement had therefore been overstated.

We found that this situation had been caused by an error in the data processing program used by the depot. When we brought this matter to the attention of depot officials, they corrected the programming error.

Need for prompt cancellation of orders
for supplies no longer required

We found numerous instances where cancellation actions had not been taken on orders for supplies that were no longer needed. In most cases, these orders had not been canceled because of the inability of the inventory managers to make a timely review of the available data.

We reviewed the stock status of 145 items and found that there were excess quantities valued at \$8.4 million on order for 86 of the items. These excesses were caused primarily by the cancellation of previous orders by the requisitioners. Cancellation actions were initiated only as a result of managerial review, but, due to the large volume of work, the managers could not always make timely reviews of stock status data.

For example, we noted that 3,609 engines were on order. On September 12, 1967, the depot reported that the requisition for most of these engines had been canceled by the user activity but that no action had been taken by the manager at the 14th ICC to reduce the quantity on order. When we advised the manager of this situation, he canceled orders for 3,599 engines valued at \$1,166,000.

When we brought our findings to the attention of officials at the 14th ICC, they took action to cancel \$7.2 million worth of items on order. We suggested that an automated program be established to initiate cancellations of orders for stocks found to be excess. We were advised that a procedure was being devised that would identify items for which large cancellations were reported. However, the managers would still be required to initiate the cancellation of stocks no longer required.

Incomplete data on substitute
and superseded stock numbers

The AMMC did not have the data necessary to match all substitute and superseded stock numbers with the preferred stock numbers. As a result, excess stocks were on hand or on order for some items while requisitions for other items remained unfilled even though stocks of those items were on hand in Vietnam. The AMMC had not been able to identify the relationship of these items because of incomplete data furnished by the national inventory control points (NICPs).

We obtained complete reference data on a selected number of items from the appropriate NICP in the United States. We then reviewed 36 items and found that, for 13 of the items, AMMC did not have all the pertinent data relating to substitute and former stock numbers. For nine of the 13 items, stock levels had been established under the items' former or substitute stock numbers as well as under their prime numbers. For six items, there were substitute assets on hand which had not been used to satisfy unfilled requests for the preferred item. When we brought these items to the attention of AMMC officials, they took action to cancel orders for five items valued at about \$425,000.

We found, for example, that stock levels for a universal has been established at 1,615 units under its former stock number and at 875 units under its current stock number. When we advised the manager of this condition, a new level was established and excess stock on order was canceled.

The NICPs had periodically furnished interchangeable and substitute information to the AMMC but had not furnished complete data. We reviewed new data that AMMC received from the Army Aviation Materiel Command on October 21, 1967, and found that the data still did not contain all the needed information for selected items.

Army officials agreed that there was a need for more complete information concerning interchangeable and substitute items, and AMMC requested such data from three NICPs in September 1967. However, as of December 1967, no data had been received from two of the three NICPs.

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Need for improvement
in data processing programs

The data processing programs at the 14th Inventory Control Center and the Aviation Materiel Management Center were leading to the establishment of erroneous stock levels. The program utilized by the 14th ICC did not provide for the correction of erroneous demand data nor did it provide for the consideration of only current demand data. The program utilized by the AMMC did not properly average demand data for the computation of stock-level requirements. As a result of these erroneous programs, the requirements were being overstated in many cases.

Our review at the 14th ICC revealed that erroneous demand data was being utilized because the machine programming did not provide a means for correcting previous errors. Erroneous demand data remained in the data base and diluted current demand information.

For example, the machine-computed stock level for a motor increased, in the quarter ended March 1967, from 303 to 390,081 because of the inclusion of demand data subsequently determined by the manager to be erroneous. These data showed no demands for January and only three demands for February but showed 200,003 demands for March 1967. Since the program did not permit a correction of this obviously erroneous data, the machine-computed stock level would have been overstated indefinitely. In this instance, the inventory manager rejected the machine-computed level and retained the old stock level of 303. However, at a future date, personnel changes may result in the error in the level not being recognized. Furthermore, the retention of the prior level does not reflect the current need for this item.

We suggested that the data processing program be revised to permit correction of erroneous data utilized in the computation of requirements. Officials of the 14th ICC advised us that the new data processing system which was planned for installation in Vietnam during the early part of 1968 would correct this problem.

The program utilized by the AMMC to compute weighted average monthly demands did not assign a weighting factor to the months in which there were no demands. Since weighted average monthly demands are a key factor in the determination of stock-level requirements, the exclusion of no-demand months results in overstatements. Following is an illustration of such an overstatement for one item, an instrument panel.

<u>Month (1967)</u>	<u>Demands</u>	<u>Weight factor (note a)</u>	<u>Total</u>
January	-	-	-
February	5	2	10
March	-	-	-
April	1	4	4
May	-	-	-
June	10	6	60
July	-	-	-
August	-	-	-
		<u>12</u>	<u>74</u>

The weighted average monthly demand was determined to be six (74 divided by 12) and a 5-month stock level was established at 30. If no-demand months had been considered, the calculation would have been:

<u>Month (1967)</u>	<u>Demands</u>	<u>Weight factor (note a)</u>	<u>Total</u>
January	-	1	-
February	5	2	10
March	-	3	-
April	1	4	4
May	-	5	-
June	10	6	60
July	-	7	-
August	-	<u>8</u>	<u>-</u>
		<u>36</u>	<u>74</u>

^a Greater weight is assigned to the most recent demands.

The weighted average monthly demand should have been two (74 divided by 36) and a 5-month stock level of 10 would have been established.

AMMC officials advised us that this matter would be corrected during their reprogramming of the data processing system and that the new program would be available prior to the next scheduled computation of stock-level requirements.

Need for supervisory review
of inventory managers' decisions

There was a tendency on the part of inventory managers at both the 14th ICC and the AMMC to erroneously reject automatically computed stock-level requirements. Furthermore, controls were not adequate to ensure that the computed stock levels accepted as correct by the managers were properly recorded to provide the bases for future requisitioning actions. As a result, the stock levels being utilized did not reflect current requirements.

We reviewed stock records for 130 items to determine the bases for the stock levels and found that, for 71 of the items, the managers had rejected the machine-computed levels, primarily because of widely fluctuating demands. Rejection of machine-computed stock levels solely because of fluctuating demands was not proper, in our opinion, because the data processing system had been programmed to average demands over several months, a procedure which automatically compensated for demand fluctuations.

For a number of items, the computed stock levels that were accepted as correct by the managers were not properly recorded. When a significant change in requirements is automatically computed by the data processing system, a change card is furnished to the manager for his review. If the newly computed level is determined to be correct, the card must be reintroduced into the system so that the new level can be posted to the records. Failure to record the new stock level results in supply management decisions being initiated on the basis of erroneous stock levels. We could not determine whether the cards had not been returned by the managers or had been lost or destroyed while awaiting processing.

In none of the instances described above could we find evidence that supervisory reviews had been made of the managers' decisions. Army officials advised us that a continuing training program was being conducted at the 14th ICC, which, together with newly established procedures requiring documentation of rejections and supervisory reviews, would improve the managerial decisions affecting stock levels. Also, we were advised that the AMMC was preparing instructional programs to train the managers in the analysis of machine-computed stock-level requirements. In addition, these officials advised us that a new data processing program would provide for the automatic posting of newly computed requirements unless such requirements were rejected by the managers within specified periods of time.

Need for improved procedures
for identification and
redistribution of excess stocks

Significant quantities of excess supplies and equipment have apparently been accumulated in Vietnam as a result of (1) inadequacies of management data, (2) errors in data processing program, (3) unforeseeable fluctuations in consumption rates, and (4) receipt of unusable items. During our review, the 14th ICC identified from its stock records more than 28,500 line-items with balances in excess of current needs. Because of a lack of confidence in the stock records, however, the 14th ICC took no immediate action to direct redistribution of these assets.

In our opinion, prompt identification and redistribution of excesses in Vietnam are required not only because the depots in Vietnam have limited adequate storage space but because the NICPs in the United States are procuring significant quantities of similar items in the absence of knowledge of the assets available in Vietnam.

Program to manage excesses in Vietnam

In March 1967, the 14th ICC established a program to identify and dispose of items not authorized for stockage in Vietnam. By October 1967, the return of about \$39.5 million worth of such items had been directed. Another program was initiated in April 1967 to dispose of unneeded bulky items occupying valuable storage, and, by November 1967, 81 of these items valued at \$6.5 million had been returned to the Army supply system.

In September 1967, 14th ICC officials developed a plan to identify and price those items on the authorized stock list that were indicated in stock records as being in excess of the Army's needs. As a result of this program, the 14th ICC identified more than 45,000 line-items with excess stocks on hand. Recorded balances for about half the items were more than nine times the computed requirements. After management reviews of the validity of stock levels and stock number and subsequent redistribution actions where appropriate, the list was reduced to about 28,500 line-items.

The 14th ICC classified the excesses by dollar value and found that there were 305 items for which the excess stocks of each item were valued at more than \$100,000, for a total excess value of \$131.6 million. In October 1967, the 14th ICC instructed the depots to accomplish physical inventories to validate on-hand quantities for those items having excess stocks valued at \$100,000 or more. In November, the depots were instructed to conduct special inventories on over 2,000 other items having reported excess stocks valued at more than \$5,000 each. Because of the significant workloads at the depots, Army officials have not yet scheduled inventories of the 26,000 remaining items.

As of November 20, 1967, 250 of the initial 305 items identified had been inventoried. Excess stocks on 31 items valued at \$5.7 million were confirmed and reported to higher commands for disposition instructions. We were informed that there were no excess stocks for the 219 remaining items and that the stock records indicating excesses were determined to be erroneous because of key-punch errors, data processing programming errors, and other reasons. We believe, however, that, because of erroneous inventory counts, excess stocks actually were on hand for some of the 219 items. Illustrations of such erroneous inventories are discussed below.

GAO review of excesses

We selected for review 25 line-items from the listing of items identified by the 14th ICC as having significant excess balances on hand. We requested officials of the 14th ICC to validate the on-hand balance for these items, and the officials requested the depots to conduct physical inventories.

The results of the physical inventories reported by the depots on the 25 items disclosed that none of the recorded on-hand balances agreed with the physical counts and that, for 11 of the items, the physical count showed no stock on hand. Since other tests performed during our review indicated that there actually was stock on hand for a high percentage of the items reported by the depots as having zero balances, we requested that recounts of selected items be

made. This recount disclosed, for example, that, for one item previously reported as out of stock, 73,150 units were on hand.

As a result of our review, additional excess stocks valued at \$950,000 were validated and reported to higher commands for disposition instructions and \$319,000 worth of supplies were redistributed within Vietnam.

We also made limited tests at several NICPs to ascertain whether there were current or planned procurements for items that were excess in Vietnam. For 25 items having excesses valued at \$2.1 million in Vietnam, we found that procurement actions were in process for the same items or that the items were in short supply Army-wide and would probably be procured in the near future. When we brought these items to the attention of the inventory manager, they indicated that the excesses would be taken into account so that appropriate supply actions could be taken. Some examples of items in the procurement process are shown below.

<u>Item</u>	<u>Excess in Vietnam</u>		<u>Procurement in process</u>	
	<u>Quantity</u>	<u>Value</u>	<u>Quantity</u>	<u>Value</u>
Stock assembly	16,659	\$227,900	136,530	\$1,867,700
Tent pole	5,480	100,300	60,000	1,098,000
Gun tube	75	159,200	1,174	2,491,200

We found also that the Army in Vietnam had requisitioned additional quantities of items that were already in an excess status. When we brought this to the attention of the 14th ICC, it canceled outstanding orders totaling \$2.9 million for these items.

We were advised that the Army in Vietnam lacked the resources to physically inventory all depot assets at that time. Army officials advised us, however, that they planned to pursue an aggressive inventory program, concentrating on correcting inaccuracies between record balances and actual stocks on hand for high-dollar value and combat-essential items.

We discussed the matter of excesses with Department of Defense officials in November 1967. Shortly thereafter, the Assistant Secretary of Defense (Installations and Logistics), along with other officials of the Office of the Secretary of Defense and Department of the Army, visited Vietnam to look into this problem.

As a result, the Secretary of Defense announced, on November 24, 1967, that (1) he had designated the Department of the Army as executive agent for the Department of Defense to ensure that excess materials of all services in Southeast Asia would be promptly identified and made available for redistribution and (2) the Commander in Chief, Pacific, would establish a special agency to inventory and supervise the redistribution of such material. The implementation of these plans should, in our opinion, eventually lead to significant reductions in the excess stocks in Vietnam and to the utilization of such stocks by other activities within the Department of Defense.

Need to identify and return parts
no longer needed

The Aviation Materiel Management Center continued to stock and order some parts for the UH-1A helicopter, even though all of these aircraft had been removed from Vietnam several years previously. When we brought this matter to the attention of AMMC officials, they identified the UH-1A parts on hand, directed their return to the Army supply system, and took action to cancel UH-1A parts on order.

In August 1967, AMMC officials requested the Army Aviation Materiel Command to furnish a listing of parts peculiar to the UH-1A helicopter so that they could identify and return all parts no longer needed. We made a limited test to ascertain whether that listing was complete and found that five engine parts had been omitted.

Need for development of programs
to ensure return of reparable items

A comparison of issues and returns of reparable aviation items showed that substantial quantities of unserviceable reparable items were not being returned for repair and reissue on a timely basis. We found that there were no procedures that would ensure the prompt return of reparable items to repair facilities.

We made a comparison of the issues and returns of 64 reparable items during a 6-month period and found shortages of returns valued at \$8.2 million for 38 of the items. The following schedule shows some of the more significant differences.

<u>Item</u>	<u>Issues</u>	<u>Returns</u>	<u>Differences</u>	<u>Value of difference</u>
Transmission	525	262	263	\$3,512,102
Blade	1,531	1,187	344	1,009,984
Blade	413	203	210	741,720
Transmission	74	41	33	464,508
Door	184	8	176	365,200

Army officials at the AMMC were unable to explain the differences. In general, issues of items such as these are made to replace components that are in need of repair or overhaul. Because of the buildup of stock levels and the wear or damage that make it uneconomical to repair the items, the returns of reparable items normally will not equal 100 percent of the issues. The significant differences between issues and returns shown by our review, however, indicated that there was a serious lack of management control over reparable items in Vietnam.

Most reparable aircraft items have a high-dollar value and can be repaired at a fraction of the cost of new procurements. Furthermore, the time required to repair such items is normally less than the time required to obtain new items from a manufacturer. It is therefore important, from the standpoint of cost and effective supply support, that proper management controls be maintained to ensure the return of all possible reparable items to the supply system.

On June 12, 1967, a memorandum was issued to subordinate units of the United States Army, Vietnam, emphasizing the need for positive supervision at the operating level to ensure that removed reparableables are promptly turned in to overhaul facilities. We were advised that the operating units did not have procedures to control the return of reparable items but that the data processing equipment which was being put into operation by the direct support units would be capable of preparing listings showing issues and returns by line-items. These listings were not being prepared at the time of our review.

During our review of the return of reparableables, we noted that some units were unnecessarily returning expendable items. We tested 10 such items and found that seven had been shipped to overhaul facilities in Vietnam or the continental United States.

We proposed that positive controls be established to ensure the return of reparable items and to preclude the unnecessary return of expendable items. We suggested that listings showing issues and returns be prepared, which could be utilized by supervisory personnel as a control over the return of reparableables.

The Chief of Staff, USARV, advised us that, by utilizing the data processing equipment at the aviation direct support units, a listing showing issues and returns would be prepared. He stated also that the units would be required to reconcile these listings and to note the reasons for not returning reparable items. He stated further that inspection teams from direct support units had been organized and were presently reviewing the user units supported by the direct support units, concerning disposition of reparable equipment.

Need for more effective utilization of supplies in Vietnam

The inventory managers have not been giving adequate consideration to the possible redistribution of stocks on hand in some depots before they requisition additional stocks to satisfy requirements at other depots in Vietnam. Furthermore, when items have become available as a result

of inventory adjustments, they have not been redistributed to other depots--a procedure which would have permitted cancellation of requisitions for those items. As a result, substantial quantities of supplies on order actually were not required and additional excesses in Vietnam were generated thereby.

The 14th Inventory Control Center instituted a redistribution system in November 1966 and took action whereby a total of \$70.5 million worth of supplies were redistributed between depots in Vietnam through September 1967. Our review, however, indicated that this program had not been entirely effective since there were a significant number of instances where redistribution actions had not been taken.

We looked into the status of 145 items and found 27 items for which the managers had not redistributed stocks in lieu of requisitioning additional stocks from the United States. As a result of our review, redistributions of stocks for 22 of these items, valued at \$571,000, were initiated.

Prior to October 1967, the data processing system at the 14th ICC did not have the capability of automatically screening stock assets of other depots when a replenishment requisition for a depot was prepared. The managers were required to review these requisitions and to consider stock assets of other depots before approving the submission of the requisitions. Our review, however, indicated that such reviews had not always been made. Officials of the 14th ICC advised us that the new data processing system installed in October 1967 had been programmed to consider assets of all depots and, when applicable, to identify to the inventory manager potential redistributions.

We suggested that 14th ICC officials consider establishing an automated program for initiating redistribution actions. We were advised that such a program was being developed and was to be available by February 1968.

Opportunities for further improvement
in supply support for Vietnam

In general, the Army forces in Vietnam have, in our opinion, been adequately supported. A great amount of this support, however, has been achieved through costly special procedures not contemplated in the normal Army supply system.

On September 30, 1967, the three Army field depots in Vietnam reported that, for a significant number of items authorized for stockage, there were no stocks on hand, as shown below.

<u>Depot</u>	Number of items authorized for <u>stockage</u>	Percentage of items out <u>of stock</u>
Saigon	88,000	40
Cam Ranh Bay	63,200	36
Qui Nhon	72,500	37

Despite the relatively large number of items out of stock, deadline rates (percentage of equipment that is inoperative) for essential items of equipment were generally below standards established by the Army. We believe that the low deadline rates for equipment and the relatively high level of support were attributable to extraordinary steps taken during the past several years. Special supply systems have been devised for selected items of equipment, such as the CH-47 helicopter and the HAWK missile. In addition, the red ball system is designed to provide expedited handling, including emergency procurements and priority air shipments, of requisitions for repair parts for deadlined equipment.

We made a limited test of 12 items that were in critical supply in Vietnam because requisitions directed to the appropriate NICPs in the United States had not been filled. For six items, we found that necessary procurement actions had been delayed because of a temporary lack of funds at the NICPs.

For example, the inventory manager at the Army Tank-Automotive Command initiated procurement action for 4,634 gears in October 1966. The contract award, however, was delayed until July 1967 because of a lack of funds. Lack of funds was also cited as the reason for not having stock on two of the four items tested at the Army Weapons Command. A Weapons Command official advised us that \$365 million of stock funds were needed during fiscal year 1968 but that, as of November 1967, only \$160 million had been made available.

In addition to the funding problems, unnecessary delays had occurred in the award of contracts for six items. For example, a procurement action for oscillators for radio sets was initiated on May 18, 1966, by the Army Electronics Command. Bids were not solicited until October 31, 1966, because the procurement data needed clarification. Bids were opened on November 14, 1966, and the low bid was rejected because it was received 20 minutes late. The only other bid received was rejected because the price was determined to be excessive.

The same two bidders were resolicited on February 28, 1967, and only one bid was received. It also was rejected because it was considered excessive. Bids were solicited for the third time on April 27, 1967. Two bids were received and, again, one was rejected as being excessive. Negotiations were held with the remaining bidder and were completed on June 13, 1967. The contract, however, was not awarded until July 17, 1967, due to a lack of funds. The contract was awarded to the same bidder who, on November 14, 1966, was considered nonresponsive because his bid had been received 20 minutes late.

The records at the Electronics Command showed 106 unfilled requisitions for 2,214 oscillators for Vietnam. Included in these requisitions were some that were over 1 year old and 35 that were classified priority 02, a high-priority designator. This item had consistently been the subject of red ball requisitions, indicating that radio sets were deadlined.

Although we made a limited test only of 12 items, we believe that other items were similarly out of stock in

Vietnam primarily due to causes such as those described above. During a 1966 review of the responsiveness of the military supply systems, we noted similar procurement problems at the NICPs.

Need for supply discipline to reduce use
of high-priority requisitions
for non-combat-essential items

User activities in Vietnam have been assigning high-priority designators to requisitions for non-combat-essential items. The principal reasons advanced by Army personnel for assigning high priorities to requisitions for such items were that (1) high-priority designators had been considered the only way by which they could be assured of receiving the items quickly and (2) the preparers of the requisitions had been instructed by higher authority to assign such priorities. Army officials in Vietnam have taken action to reduce the number of high-priority requisitions that are sent out of Vietnam for supply, but additional action is needed to preclude the improper assignment of high-priority designators to requisitions.

The military priority system prescribes designators ranging from a high of 01 to a low of 20, based on the criticality of the item being requisitioned and the mission of the unit submitting the requisition. Priorities 01 through 08 are generally considered to be "high" priorities that justify expedited handling throughout the supply system, possible emergency procurements, and utilization of air transportation.

As a result of a prior review by this Office, the Commanding General, USARV, issued instructions on March 30, 1967, requiring unit commanders or their designees to authenticate the assignments of priorities 02 through 10. The instructions further specified that housekeeping-type items would not normally qualify for the assignment of such priorities.

Our current review has shown that, during the 3 months ended August 1967, the depots in Vietnam received 277,400 high-priority requisitions, or 26.3 percent of all requisitions received. We selected 106 high-priority requisitions for apparently non-combat-essential items and visited the units that had initiated the requisitions so that we could ascertain the bases for the assigned priorities.

In our opinion, the priorities assigned to 76 of these requisitions were not justified. In most instances, the units agreed that there had been no justification for assigning high-priority designators to the requisitions in question. The principal reasons given by the units for designating high priorities was that they had felt that there was no other way of being assured of receiving the items as soon as possible or that higher authority had directed them to do so.

Following are examples of the types of items which, in our opinion, were improperly requisitioned under high-priority designators:

<u>Date</u>	<u>Requisitioner</u>	<u>Item</u>	<u>Quantity</u>	<u>Priority</u>
9-18-67	Housing Management Division, Headquarters, U.S. Army Area Command	Refrigerators	150	02
9- 7-67	19th Data Processing	Dictionary	1	02
9- 7-67	Unit	Davenport	3	02
9-22-67	34th General Support Group	Organ	1	05
9-12-67	Headquarters, Special	Salt shakers	200	05
9-16-67	Troops	Paper clips	50 boxes	05
9-18-67		Paper staples	300 "	05
9-18-67		Pencils	25 dozen	05
9-18-67		Erasers	20 "	05
9-18-67		Pen sets	30	05

During the 3-month period ended August 1967, the 14th Inventory Control Center referred 169,800 of the 277,400 high-priority requisitions to supply sources outside of Vietnam because there were no stocks on hand. To reduce the number of requisitions being forwarded to sources outside of Vietnam, the 14th ICC initiated procedures on September 25, 1967, precluding the forwarding of any requisitions for general materiel items which were on the authorized stockage list and for which sufficient stock was already on order to fill the requisitions.

This action, together with command emphasis during the preceding months, has apparently resulted in reducing the number of high-priority requisitions being forwarded, as shown by the following table.

Month (1967)	Number of high-priority <u>requisitions forwarded</u>
July	56,786
August	50,833
September	41,329
October	32,238

Although the revised procedures will reduce the number of high-priority requisitions being passed, they do not correct the basic problem, which is the improper initiation of such requisitions by the user units. For example, we noted that, shortly after our first visit, the Housing Management Division, Headquarters, United States Army Area Command initiated three high-priority requisitions for 720 crystal liquor glasses. Officials of that unit later stated that there was no justification for assigning the high-priority designators to these requisitions.

Internal review activities

The Army Audit Agency (AAA) conducted several audits of the supply system in Vietnam during fiscal year 1967. In April and May 1967, it issued reports containing the following observations.

1. The Army supply system was overburdened with high-priority requisitions.
2. Requisitions were not being processed within the established time standards.
3. Excessive delays were being incurred in recording receipt of materiel.
4. Excessive number of warehouse denials were being experienced.
5. Excessive delays were being experienced in shipment of items for repair out of the country.

The Secretary of Defense directed that significant internal audit reports be brought to the attention of top officials in the Office of the Secretary of Defense (OSD) and

that corrective actions taken be evaluated and reported to the Secretary. The AAA audit report of April 1967 on the "Army's Supply System for Support of Vietnam," discussed in part above, was the first Army report to be selected under this OSD directive. A report on the corrective actions taken by USARV and a quarterly status report on the deficiencies reported by AAA were forwarded to the Department of the Army on October 9, 1967. Where these corrective actions related to the matters discussed in this report, they have been given appropriate consideration.

Agency comments

On January 12, 1968, we brought our findings to the attention of the Secretary of Defense and proposed that several logistic organizations, capable of quickly assuming inventory management responsibilities in situations--such as those in Vietnam--that may arise in the future, be established within the active Army. We suggested that these organizations should have (1) staffs of trained military personnel, (2) their own mobile computer equipment, (3) standard pretested computer programs, and (4) capability for establishing and operating effective depot activities.

We also made four proposals dealing with specific supply management problems in Vietnam, as follows:

1. The Department of Defense should review its Military Standard Requisitioning and Issue Procedures to determine if revision in the methods of demand coding by requisitioners would improve the reliability of reported demands. Consideration should be given to the use of codes that would identify the purpose for which the stock was being requisitioned (i.e., initial issue, rebuild program, increase in stock levels, and normal consumption) rather than identify the demand as recurring or nonrecurring.
2. Army officials in Vietnam should give immediate attention and emphasis to programs for controlling the return of reparable items to the supply system.
3. Army officials in Vietnam should establish a "challenge" system to preclude the unauthorized use of high-priority requisitions. The challenge authority should be at a level in the logistic organization having authority to direct the resubmission of improperly prepared requisitions.
4. The 14th Inventory Control Center and the Aviation Materiel Management Center should, once each month, provide the national inventory control points in the United States with lists of items in short

supply in Vietnam. The inventory control points should establish procedures to ensure that procurements for those items would not be delayed because of fund shortages or any reasons which could be avoided.

The Assistant Secretary of the Army (Installations and Logistics) commented on our findings and proposals by letter dated March 21, 1968 (see app. II), in which he stated that the Army concurred in principle with our findings. The Army did not agree, however, with certain of our proposals for improved procedures.

The Assistant Secretary stated also that the Army had, for some time, recognized the problems identified in the report. In commenting on the causes of the problems, he pointed out the following:

"To control the flow of supplies it was necessary to establish an inventory management system capable of providing current and accurate data. Conversion from the manual inventory system, using punch card and card processing, to a highly sophisticated automated system required many skills which were not available. Programs had to be developed and tested prior to being implemented. Personnel and equipment are now arriving in RVN and should reduce these problems."

The Assistant Secretary outlined a number of actions that the Army had taken, or was planning to take, to resolve logistic problems in Vietnam. These included physical inventories, identification of excesses, reorganization of depot activities, and increased civilian staffing. In the Army's judgment, correction of the problems outlined in our report is a long-term proposition which will require at least 1 year.

With respect to our proposal, the Assistant Secretary advised us that the Army had approved a plan, in June 1967, for the activation and training of a Quick Reaction Inventory Control Center. Our discussions with Army personnel indicated that the organization planned was consistent with the type of unit we envisioned in our proposal.

Following are summaries of the Army's position with respect to our four remaining proposals (see pp. 30 and 31) and of our evaluation thereof.

Revisions in the methods of demand coding

The Army believes that the proposed revisions offer little opportunity for improvement over the current method. The Army believes also that, because of personnel turbulence, continual training and retraining at the user level is the final answer to this problem.

The Army has long been faced with extreme personnel turbulence. This turbulence, in effect, negates much of the value of training because trained personnel do not remain in their assignments long enough to effectively associate their training with actual on-the-job experience.

Our review showed that, although applicable regulations stated the conditions under which requisitions should be coded as recurring or nonrecurring, errors were being made by the requisitioners. We believe that the errors were attributable to the fact that the requisitioners were confronted with two very broad choices for coding--recurring or nonrecurring--and they frequently did not correctly apply the prescribed broad definitions to particular situations or transactions.

If the Army were to use a more specific coding system that would identify the nature of the use to which the material would be put (i.e., initial issue, rebuild program, increase in stock levels, and normal consumption), personnel would not have to apply as much interpretation or judgment to categorize individual transactions. We believe that this would permit automatic and more accurate classification of demands into recurring or nonrecurring categories and more accurate computations of requirements by the inventory managers that use these data.

Controls over the returns of reparable items

The Army believes that some progress is being made with respect to the return of reparable items to the supply system. The Army points out, however, that its ability to implement improved procedures for the control of reparable items is dependent upon the availability of trained personnel and adequate storage, transportation, and port facilities.

Army officials in Vietnam advised us, during the course of our review, that controls would be established over reparable returns as soon as the availability of data processing equipment at user levels permitted. (See p. 21.) We believe that this type of control, whereby issues and turn-ins are compared by the user unit, should be an effective method of identifying excessive rates of loss and determining the causes. It appears, on the basis of our observations, that sufficient storage, port, and transportation facilities now exist for the handling of returns of reparable items.

Controls over high-priority requisitions

The Army has stated that continued command emphasis has resulted in a reduction in high-priority requisitions but that it is not yet satisfied with the volume of such requisitions being generated. The Department of the Army states that commanding officers of requisitioning units will be required to report the causes for high-priority requisitions whenever the such requisitions exceed 25 percent of the total.

Although we agree that command emphasis is a necessary element of control over the excessive use of high-priority requisitions, we believe that it will not be fully effective. The Army in Vietnam has, in the past, issued various instructions designed to limit the abuse of the priority system. As pointed out in the Army's comments, however, the volume of these requisitions is still deemed to be excessive.

None of the steps taken or planned by the Army contemplates the questioning of requisitions at the time of their submission. We believe that a system, such as we proposed, for challenging apparently unjustified priority designators is necessary, especially with respect to non-combat-essential items.

Improved procedures to preclude
shortages of critical items

The Department of the Army does not agree that inventory control points in the United States need be provided with lists of items that are in short supply in Vietnam. In the Army's opinion, the current method of submitting requisitions for needed items provides sufficient data for inventory managers.

The Army also disagrees that shortages of funds have resulted in delays in support for Vietnam. In the opinion of the Army, invalid demand data and demand fluctuations adversely affected the composition of the inventory. As a result, procurement of some items fell short while others exceeded requirements.

We agree that circumstances often preclude the accurate determination of requirements. Our review, however, showed a number of instances where procurement actions had been delayed for long periods of time after the need for the items had become critical in Vietnam. Although the Department of the Army claims that the delays were not due to fund problems, the records at the various national inventory control points indicate that some procurements were delayed by temporary shortages of funds. (See p. 24.)

The Army has stated that valid requisitions provide the best means by which inventory management activities may determine current needs of combat units. We are in agreement; however, our review has demonstrated that the necessary degree of requisition validity has not been attained and, in our opinion, will not be attained until an intensive amount of management attention is applied over a reasonable period of time.

Consequently, we believe that some interim measure is necessary in order to bring current and accurate information to the attention of inventory managers regarding the supply position of items which are in short supply or which can be anticipated to become critical within a short period of time.

This information, in the form of a periodic list of short supply items or anticipated critical items submitted directly by operating commands, would be useful in placing inventory managers on notice that special attention must be given to these items. This listing could be eliminated when an acceptable degree of requisitioning validity has been reached.

Conclusions

Army units in Vietnam have apparently been adequately supported with supplies and equipment, despite adverse conditions and lack of an effective supply management organization. This relatively high level of support has been achieved through special and costly procedures not contemplated in the normal Army supply system.

Although the buildup of Army forces in Vietnam was begun about 2 years ago, it was not until the latter part of calendar year 1967 that steps were taken to provide the 1st Logistical Command and the 14th Inventory Control Center with the resources necessary to manage inventories. At the time of our review, data processing programs had not been perfected, a reasonable standard of competence had not been achieved by inventory managers, and stock records were unreliable. As a result of the shortcomings in the Army's management capabilities, stock levels were not being properly computed and serious imbalances existed. As indicated on pages 16 and 23, respectively, significant excesses had been accumulated for some items, while at the same time many other items were out of stock.

In our opinion, the results of our review illustrate the need for logistical organizations that will be able to move into combat areas and to quickly assume management responsibilities. Such organizations should be provided

with computer equipment, pretested computer programs, and personnel properly trained in supply management techniques.

Our review also identified several areas in the operation of the supply system--such as the unwarranted use of high-priority requisitions, the erroneous coding of demands, and the lack of attention to specific problem items--in which there was a need for improvements. Although the Army agreed with the facts in our report, it did not agree with certain of our proposals for improved procedures in these areas.

The emphasis being applied to these matters by the Army will no doubt tend to increase supply discipline and result in improvements. We believe, however, that such emphasis by itself will not correct the problems we have identified. We therefore believe that our proposals for specific improvements should be reconsidered in the light of our comments relative to the Army's position. (See pp. 32 to 35.)

Recommendations

We recommend that the Secretary of the Army require that a test be made of a more specific system of coding requisitions with the type of demand, in order to determine if more accurate categorization of recurring and nonrecurring demands can be obtained.

We recommend also that the Secretary establish a system for challenging the priorities of requisitions in Vietnam to preclude unauthorized use of unnecessarily high priorities.

We recommend further that the Secretary initiate an interim procedure, pending improvements in the validity of requisitions, whereby periodic lists of short supply items or anticipated critical items will be submitted by operating organizations in Vietnam to inventory managers in order to focus their attention on these items in advance and to minimize unnecessary support problems.

SCOPE OF REVIEW

Our review, which was conducted in Vietnam during the period September 1967 through December 1967, included an inquiry into (1) the policies, procedures, and criteria for determining stock levels and assigning priorities of requisitions and (2) the procedures for the identification and disposition of excesses. We examined inventory and supply records and held discussions with responsible officials at the following Army activities in Vietnam.

- Headquarters, United States Army, Vietnam
- Headquarters, 1st Logistical Command, Saigon
- 14th Inventory Control Center, Saigon
- United States Army Support Command, Saigon
- 506th Field Depot, Saigon
- United States Army Support Command, Cam Ranh Bay
- 504th Field Depot, Cam Ranh Bay
- United States Support Command, Qui Nhon
- 58th Field Depot, Qui Nhon
- Aviation Materiel Management Center, Saigon
- Various direct support and using units

Additional work was performed at the following inventory control points.

- Army Tank-Automotive Command, Warren, Michigan
- Army Weapons Command, Rock Island, Illinois
- Army Electronics Command, Philadelphia, Pennsylvania
- Defense Electronics Supply Center, Dayton, Ohio
- Defense Personnel Support Center, Philadelphia, Pennsylvania



OUTSIDE STORAGE FACILITIES
SAIGON, VIETNAM
U. S. ARMY PHOTOGRAPH

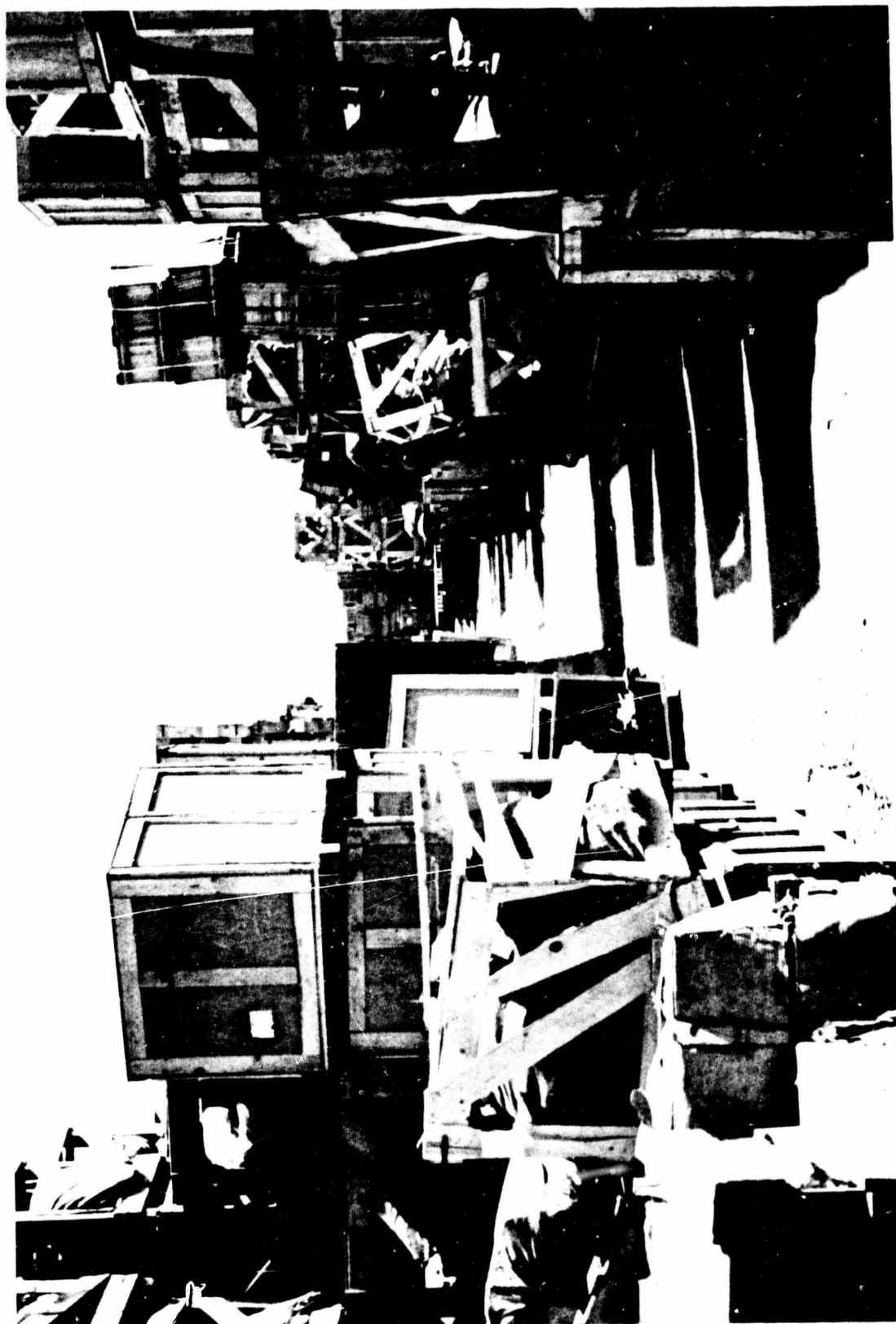


OUTSIDE STORAGE FACILITIES
SAIGON, VIETNAM
U. S. ARMY PHOTOGRAPH

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OUTSIDE STORAGE FACILITIES
SAIGON, VIETNAM
U. S. ARMY PHOTOGRAPH



OUTSIDE STORAGE FACILITIES
SAIGON, VIETNAM
U. S. ARMY PHOTOGRAPH

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:			
Clark Clifford	Mar. 1968	Present	
Robert S. McNamara	Jan. 1961	Feb. 1968	
DEPUTY SECRETARY OF DEFENSE:			
Paul H. Nitze	July 1967	Present	
Cyrus R. Vance	Jan. 1964	June 1967	
ASSISTANT SECRETARY OF DEFENSE (INSTALLATIONS AND LOGISTICS):			
Thomas D. Morris	Sept. 1967	Present	
Paul R. Ignatius	Dec. 1964	Aug. 1967	
<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. 1964	
ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS 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 ARMY</u> (continued)		
CHIEF OF STAFF, UNITED STATES ARMY:		
Gen. Harold K. Johnson	July 1964	Present
DEPUTY CHIEF OF STAFF FOR LOGIS- TICS:		
Lt. Gen. Lawrence J. Lincoln, Jr.	Aug. 1964	Present
COMMANDER, MILITARY ASSISTANCE COMMAND, VIETNAM:		
Gen. William C. Westmoreland	Aug. 1964	Present
DEPUTY COMMANDING GENERAL, UNITED STATES ARMY, VIETNAM:		
Lt. Gen. Bruce Palmer, Jr.	July 1967	Present
Lt. Gen. Jean E. Engler	Jan. 1966	June 1967
Brig. Gen. John Norton	July 1965	Jan. 1966
COMMANDING OFFICER, 1st LOGIS- TICAL COMMAND:		
Maj. Gen. Thomas H. Scott, Jr.	Aug. 1967	Present
Maj. Gen. Shelton E. Lollis	Jan. 1967	Aug. 1967
Maj. Gen. Charles W. Eifler	Jan. 1966	Jan. 1967
Col. Robert W. Duke	Apr. 1965	Dec. 1965



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

21 MAR 1968

Dear Mr. Newman, Jr.

This is in response to your letter of January 12, 1968,
to the Secretary of Defense requesting comments on your draft
report titled: "Improved Management Needed for Army Supplies in
Vietnam, DA" (OSD Case #2706).

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

Sincerely yours,

A handwritten signature in black ink, appearing to read "Robert A. Brooks", is positioned above the typed name.

Robert A. Brooks

1 Incl
Army Position
Statement

Mr. William A. Newman, Jr. Assistant Secretary of the Army
Director (Installations and Logistics)
Defense Accounting and Auditing Div
US General Accounting Office
Washington, DC 20548

APPENDIX II
Page 2

DEPARTMENT OF THE ARMY POSITION

ON

GAO Draft Report No. SM-93, Dated January 1968

IMPROVED MANAGEMENT NEEDED FOR ARMY SUPPLIES IN VIETNAM

(OSD Case #2706)

I. POSITION SUMMARIES:

A. GAO Position Summary - GAO contends that despite adverse geographical, climatic and transportation conditions, the Army supply system has been responsive to the combat needs of the military units in Vietnam. This high level support, however, has been achieved through costly and inefficient supply procedures. While it is recognized that the rapid build-up of forces in Vietnam dictated the measures taken, it is believed that current conditions indicate the need for greater attention towards improving supply management. It is concluded that the principal matters which warrant management attention and the application of additional resources are:

1. The development of accurate data relating to stocks on hand and consumed.
2. The identification and prompt redistribution of the large quantities of excess material now in Vietnam.
3. The development of programs which will insure the prompt return of reparable components in the supply system.
4. The institution of procedures designed to increase both the intra-service and inter-service utilization of available supplies.
5. The enforcement of greater supply discipline in order to reduce to a minimum the costly shipment of supplies and equipment under high priority requisitions.

B. Army Position Summary - The Army concurs in principle with the GAO in that (1) the development of accurate data relating to stocks on hand and consumed is a subject of highest priority, with the objective established to purify the stock records in Vietnam in order to provide sound management data. (2) The identification and prompt redistribution of the excess material now in Vietnam has been and will continue to be given special attention throughout the Army. (3) The development of programs which will insure the prompt return of reparable components in

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the supply system has for a long time been in existence, and procedures concerning the return of reparable are basically sound. (4) The institution of procedures designed to increase both the intra-service and inter-service utilization of available supplies will be given greater command emphasis in future actions. (5) The enforcement of greater supply discipline in order to reduce to a minimum the costly shipment of supplies and equipment under high priority requisitions has been under close surveillance by DA and is receiving increased command emphasis in the controls for processing such requisitions.

II. BACKGROUND FOR ARMY POSITION

The Army for some time has recognized the problems identified in the report. The causes can be traced to many factors. During the build-up units were hastily deployed with items and equipment not suited in all cases to the country's climate, terrain, or for the tactical operations encountered. Initial provisioning of the newly activated depots in Vietnam was provided by CONUS "push packages" of supplies and parts based upon emergency estimates of consumption. The heavy initial volume of receipts overtaxed the manual record keeping procedures of the depots; as a result receipts, issues and demand data were not recorded accurately in all cases.

To control the flow of supplies it was necessary to establish an inventory management system capable of providing current and accurate data. Conversion from the manual inventory system, using punch card and card processing, to a highly sophisticated automated system required many skills which were not available. Programs had to be developed and tested prior to being implemented. Personnel and equipment are now arriving in RVN and should reduce these problems.

Depots were, of necessity, located in areas that did not permit expansion or provide adequate protection for supplies.

Considerable attention has been directed at all levels to identify and resolve these problems. Enumerated below are some of the actions taken thus far:

In June 1967 units were directed to turn in unneeded equipment without regard to the time consuming administrative effort that is normally required. This has resulted in the identification of 31,000 line items relating to 400 types of equipment that are not needed by the units, consisting of such items as: trucks, trailers, crew-served weapons, and communication equipment. This turn in created stocks needed to fill shortages in other US units.

Project Counter teams in 1966, identified excess items that have been reported and disposed of at unit and DSU/GSU level.

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As a major step, depots were directed in October 1967 to conduct a physical inventory of selected high dollar value items in order to reconcile on-hand balances with book balances. As a result of the initial inventory of 250 high dollar value items with a book balance of 121 million dollars, only 31 items were, in fact, excess to the authorized retention level. The value of the items, in excess of the retention level is \$5.7 million.

This action was followed by the identification of depot stocked items with book balances reflecting quantities on hand above the retention level with a dollar value of \$5,000 or more. Inventories on the 2,080 line items in this category were completed by 15 December 1967 and retro-grade shipping directives were issued on validated excess quantities prior to 31 December 1967. Present programs schedule the disposition of accumulated depot excesses by 1 July 1968 and the adoption of a continuing program for the disposition of excesses as they are generated on a monthly basis. Although the first effort indicates that the book value of excesses is inflated, it is too early to determine if this is a valid conclusion.

The 1st Logistical Command Depots are being reorganized along functional lines to enhance management capabilities. Until conversion of the depots to TDA's is complete and adequate staffing is provided Project Counter will be a continuing requirement.

Project Counter III is in-country assisting the 1st Logistical Command in locating and inventorying stocks at the three depots.

The management capabilities of the 14th Inventory Control Center have been enhanced by the additional computer capability and an authorized augmentation of 127 DA civilian personnel. As of 12 November 1967, 89 DAC's of this authorized number are permanently assigned and further augmented by 20 TDY civilians.

In summary, this is a problem of extensive magnitude that cannot be entirely resolved in a short period of time. The Army is aware of this situation and is vigorously attacking it. RVN will require additional assistance in resolving the problems of acquiring specific skilled personnel, both military and civilian; developing simplified procedures for reporting and accelerating disposition of identified excess; and obtaining quick reaction to divert and to cancel incoming supplies that would further compound the problems. In the Army's judgment, this is a long term proposition which will require at least one year to bring under reasonable control.

III. ARMY POSITION ON GAO FINDINGS & CONCLUSIONS

A DA task group has been established to outline management actions to further reduce the supply pipeline. Continuous command emphasis has

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been encouraged in order to improve order ship time by prompt preparation and release of requisitions, expedited processing of requisition documents and movement of materiel and prompt action on receiving and recording receipt of materiel on asset/availability records. In this regard, special studies on these various segments of OST have been made and problem areas identified to the commanders for necessary corrective actions.

Increased emphasis has been placed on identification and redistribution of excesses through three major programs:

The Project Counter III assistance team with 450 personnel will place emphasis at the depot level. This team completed training at Fort Lee and arrived in-country 5 February 1968.

The Program for Utilization and Redistribution of Materiel (PURM) was established in November 1967. The purpose of this program is to identify excesses and achieve the most economical redistribution and utilization of these items.

As part of the PURM program above, the Commander in Chief, Pacific, has established an agency known as the "Pacific Utilization and Redistribution Agency" (PURA) to (1) maintain an inventory of excess materiel identified in the Pacific area, (2) supervise redistribution or disposal of such materiel within his area, (3) report the availability of materiel which cannot be utilized in the Pacific area to other Defense activities, in accordance with procedures developed by the Project Coordinator.

In an effort to provide the best logistics support to military forces in Vietnam, Department of the Army established a program for the special management of selected critical items. Referred to as Closed Loop Support (CLS), it provides the framework for control and scheduling of critical items throughout the entire cycle of retrograde, overhaul and return to the Army supply system. Fundamental to the CLS program is a definitized schedule for quantities in each segment of the loop, a network of control points, Closed Loop Project Officers, and a status reporting system. The intensive management requires monitorship and reporting as items move, or fail to move, including "problem flashers" when a slippage in the program is detected or anticipated. Control of Retrograde of Reparables is within the doctrine of existing supply and maintenance systems, but has been separately identified in order to assure the necessary application of management and command emphasis.

The advance Notice of Major Findings submitted by the GAO under the provisions of paragraph 24, AR 36-20, to CG, 1st Logistical Command stated

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that there is a need for accumulation and submission by field depots of demand data on Red Ball requisitions. The Commanding General of 1st Logistical Command directed the Commanding Officer of each depot to review his procedures and take necessary action to insure full compliance with the provisions of the 1st Log Regulation 700-13 which required depots to include Red Ball requisitions in determining demand data. CG, 1st Log Command also indicated that the impact of this deficiency had been somewhat offset by the adjustment made by the 14th ICC upon receipt of the monthly listings of Red Ball demands from the US Army Maintenance Board.

The increased ADP capability, along with the more meaningful 3SV machine programs, are necessary tools to assist in the improvement of supply management operations. However, unless the assets currently in or to be received in Vietnam are properly identified, located, counted and accurately recorded, the effectiveness of this increased ADP capacity will be minimal and overall improvement in the supply operation marginal. It is for this reason, that the Army has been putting the emphasis on these fundamental supply functions, through maximum use of in-country resources and the help of the DA Project Counter. The objective of this project is to identify, count and record assets in Vietnam. Over the past two years many other management improvement programs have been initiated by the Army, such as:

1. Special Supply Support Systems (Stovepipe) (1965).
2. DCSLOG, DA directed assistance teams, visit to SEA for period approximately 10 days duration, twice a month. The first team departed 6 November 1965.
3. Reconstitution 2d Log Command due-in file (1966).
4. Closed Loop Program - Retrograde (1966).
5. Reconciliation of due-in files (quarterly R/O reconciliation between CONUS supply sources and all requisitions) (began 1966).
6. Common Supply System (began March 1966).
7. US Army, Vietnam Program for Evacuation of Reparables (started May 1966).
8. Col Harbert Supply Review Team Report (Oct - Dec 1966).
9. Improved Requisition Editing (began April 1967).
10. Special Study on "Lost" Requisitions (Project Check began April 1967).

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11. Improved asset and "loss" reporting (began June 1967).
12. Increased ADPE capability in-country (July 1967).
13. Improved Control and Purification of PLL/ASL and Fringe Items (July 1967).
14. Purification of demand and RO's (began July 1967).
15. Validation of customer back orders in-country (Jul - Dec 1967).
16. USARV program to accomplish physical inventories and improve/purify locator files (July - Dec 1967).
17. Expedited effort to install new 3SV computer programs in SVN (began fall 1967) (will be completed March 1968).
18. MACV's MACONOMY Program began in October 1967.
19. Project ARM (Microfilm of Catalog Data) October 1967. (Vietnam has received 83 Microfilm readers under this program).
20. Project for the Utilization and Redistribution of Materiel (PURM).
21. PACOM Utilization and Redistribution Agency (PURA).

IV. ARMY POSITION ON GAO RECOMMENDATIONS (Page 34, Incl 1, TAB A)

1. GAO recommended that several logistics commands be established within the active Army, to be available for immediate redeployment.

a. The Army recognized the need of a trained logistics management organization and on 28 June 1967 approved the plan for the activation and training of a "Quick Reaction Inventory Control Center" (QRICC).

b. Fort Lee, Virginia has been designated as activation (4th Qtr, FY 68) and training site for QRIICC, which will be composed of a Support Brigade Headquarters, Stock Control Detachment, Maintenance Management Detachment and a Data Processing Detachment.

c. By the end of 2d Qtr, FY 69, the QRIICC will be operational in CONUS and prepared for deployment anywhere in the world to support a corps-sized force.

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2. Recommend that MILSTRIP procedures be reviewed to determine if revision in the methods of demand coding by requisitioners would improve the reliability of reported demands.

a. This recommendation offers little if any change or improvement over the current method of identifying demands as either recurring or non-recurring. At some point in time, the recommended terms (i.e. initial issue, rebuild program increases in stock levels or normal consumption) must be equated to either recurring or non-recurring for requirements computation purposes. In some respects the increased number of codes (terms) would result in incorrect application of the demand data. An additional interpretation of the original coding would lead to invalid conclusions. The DA Supply Assistance Team for Vietnam (Harbert Team) and now the Project Counter Teams are educating the requisitioners in this problem area. Because of the personnel turbulence, continual training and retraining of supply personnel at the user level in the proper coding of demands is the final answer under current criteria. In this connection increased emphasis has been placed at all levels of Command within the Army, in the proper preparation and submission of requisitions under the MILSTRIP system. Under the direction of Headquarters, US Continental Army Command, the service schools Programs of Instructions (POI's) have been changed to provide for additional and more meaningful hours of instructions in all aspects of supply management, with particular emphasis on MILSTRIP.

3. Army officials in Vietnam should give immediate attention and emphasis to programs for controlling the return of reparable items to the supply system.

a. This is a valid recommendation; however, the ability to implement this recommendation is dependent upon the availability of trained personnel to identify, classify, locate, and record the location of returnable materiel. In addition adequate storage, transportation and port facilities are required to handle the return of repairable materiel to the system. Some progress being made in this area is the Closed Loop Program in Vietnam.

4. Army official in Vietnam should establish a "challenge" system to preclude the unauthorized use of high-priority requisitions.

a. For over a year now, DA has emphasized to commanders the necessity for continuous attention to and compliance with prescribed priorities, policies, and procedures. USARV's emphasis on supply discipline and enforcement of the provisions of AR 735-25 pertaining to unit submission of high-priority requisitions has resulted in reduction in priority requisitions.

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b. DA is not satisfied with the volume of high priority requisitions still being received by in-country depots and has requested USARPAC to take additional action to make reductions expeditiously and permanently. Specifically USARPAC has been requested to assure that support activities bring to the attention of commanders requisitioning units/activities the number and per cent of high priority requisitions (IPG I and II) received by depots during the preceding week. The commanders of these requisitioning units/activities will be required to report within 5 work days the various causes for these high priority requisitions whenever the percentage of IPG's I and II exceed 25% of the total.

c. On a monthly basis, USARV (1st Logistical Command) will review the above reports to identify problem areas and assist the support commands (Depots/DSU's/Units) to minimize/eliminate the causes resulting in overuse of high priority requisitions. This will also be included as a major item of interest for all future IG inspections and AAA audit trends world-wide.

d. The above concept is being formalized into appropriate AR's (AR 711-16 and AR 735-35) as a uniform policy Army-wide.

5. USARV should, once each month, provide the inventory control points in United States, with lists of items that are in short supply in Vietnam, and should insure that procurements are not delayed because of fund shortages.

a. The recommendation that a list of items that are in short supply be provided the NICP's is not the best method of insuring timely procurements. A valid requisition is much better than a list of items. If the item is in short supply and would qualify for the list, it should be in such a position as to warrant submission of a requisition. Currently Vietnam requisitions flow through Okinawa to the CONUS source of supply. If the stock is available to Okinawa, the CONUS source of supply never sees the requisition (requirement). If a list were used, assets could be available to Okinawa and the CONUS NICP not be cognizant of this fact and could initiate action to acquire items that were available and possibly in excess at Okinawa. If requisitions were used and processed against Okinawa assets this danger would be eliminated.

b. The allegation that delays in the supply of Vietnam occurred due to lack of funds is incorrect. Adequate funds to cover Vietnam requirements were provided; there was, however, difficulty in predetermining requirements which resulted, in some cases, in inappropriate utilization of funds provided. Action in Vietnam required a sudden, tremendous increase in inventory levels. The NICPs based their procurement of supplies on the best demand data available to them at the time of procurement. However,

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demand fluctuations, and in some cases, invalid demand data affected the composition of the accumulated inventory. In retrospect, it can be seen that procurement of some items fell short and for others exceeded requirements. Emergency reprogramming was accomplished where procurement had fallen short of requirements. In view of the unstable conditions which prevailed, inability to project requirements some 12 to 18 months into the future with complete accuracy cannot be considered to be poor management. Under stable conditions developed procedures are available to preclude delay in procurement.

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