



REPORT TO **LAW BRANCH  
THE ARMY LIBRARY**  
THE CONGRESS OF THE UNITED STATES

B162479

NEED FOR IMPROVEMENT  
IN THE  
MANAGEMENT OF EQUIPMENT  
FOR THE  
MILITARY ASSISTANCE PROGRAM

Nov 14, 67

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DEPARTMENT OF DEFENSE  
DEPARTMENT OF THE ARMY



BY  
THE COMPTROLLER GENERAL  
OF THE UNITED STATES

NOVEMBER 1967

770378 / 1087429



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-162479

NOV 14 1967

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

The Department of Defense's management of equipment accumulated in inventory for sale or grant to other countries under the military assistance program has been reviewed by the General Accounting Office.

Our examination revealed a need for the Department to improve procedures at operating levels to account **for**, screen, and utilize equipment accumulated in the military assistance program inventory. We found that millions of dollars worth of equipment had not been considered by the Department in filling program requirements. At the same time, additional equipment was to be procured or obtained from Army stock to meet requirements which should and could have been met with the equipment on hand.

Defense and Army officials agreed generally with our findings, conclusions, and proposals for corrective actions. They informed us that measures had been taken or were in process to improve management procedures and controls over military assistance program inventories.

We believe that the Department's plans, if properly carried out, will improve the administration of this equipment with a reduction in cost to the Federal Government. We intend to review the Department's actions as part of our continuing review of the military assistance program.

We are reporting this matter to the Congress to point out the steps taken by the Department of Defense and the Department of the Army to strengthen management of military assistance program inventories.

**B-162479**

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

A handwritten signature in black ink, reading "James B. Stewart". The signature is written in a cursive style with a large, stylized initial "J".

Comptroller General  
of the United States

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DEPARTMENT OF THE ARMY

INTRODUCTION

The General Accounting Office, 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), has reviewed Department of Defense and Department of the Army management of selected major items of equipment for the military assistance program. Our review covered the period January 1963 through November 1966 and was directed primarily to an examination of management matters which, in our opinion, needed attention.

Our review was performed at the Office of the Assistant Secretary of Defense (International Security Affairs), the Department of the Army, the Army Materiel Command, and three national inventory control points. The scope of our review is set out in detail on page 23 of this report.

At the completion of our review, we submitted our findings, conclusions, and proposals to the Secretary of Defense. By letter dated July 13, 1967, the Deputy Assistant Secretary of the Army (Installations and Logistics), on behalf of the Secretary of Defense, furnished us the comments of the Department of Defense and the Department of the Army. These comments are presented as appendix 1 and have been included, as appropriate, in the report.

## BACKGROUND

The authority for the military assistance program (MAP) is provided for in the Foreign Assistance Act of 1961, as amended and as evolved from predecessor legislation. The act provides for free military assistance on a grant-aid basis and allows the sale of defense articles and services to eligible foreign countries.

The management of the MAP is the responsibility of the Secretary of Defense. General authority to act for the Secretary of Defense on MAP matters is delegated to the Assistant Secretary of Defense (International Security Affairs) by Department of Defense (DOD) Directive 5132.3. In addition to other duties, International Security Affairs (ISA) develops, coordinates, and establishes procedures pertaining to the MAP. The authority for implementing approved programs has been delegated to the military departments.

In this regard, the Department of the Army designated the Army Materiel Command (AMC) and its subordinate commands as the implementing and supplying agencies for Army supply actions for the military assistance program. Many of the AMC subordinate commands function as national inventory control points (NICPs) for the management of designated classes of equipment. Separate MAP offices at AMC and at each of AMC's subordinate commands have been established to implement the Army's portion of military assistance programs.

Military assistance procedures to be followed by the military departments are prescribed by the Office of the Director of Military Assistance. These procedures are set out in the Military Assistance Manual and in various DOD directives and instructions. Supplemental or implementing procedures have been published by the Army, AMC, and AMC subordinate commands.

The implementation of approved grant-aid country programs is initiated by the issuance of MAP orders. **AMC**, acting in behalf of the Army, receives MAP orders from DOD and issues extracts of the MAP orders to its subordinate commands to authorize supply actions.

MAP orders authorize the **Army** either to provide equipment from its own stocks or to initiate new procurement. The Army is reimbursed for equipment and services provided under a grant aid or an approved military assistance sales order when (1) the MAP recipient country receives the goods or services or (2) the Army transfers ownership of material to the military assistance program-owned material (MAPOM) account.

For certain tentative grant-aid or sales requirements, the Army is authorized to reserve its own stock for specified periods of time in anticipation of the requirements becoming firm. Such reservation ensures that the United States can deliver the equipment if proposed sales to eligible countries materialize or if ISA issues a firm MAP order.

According to a Department of the Army letter dated May 23, 1966, to AMC, the reservation of any such stock is to be canceled promptly upon expiration of a specified period of time which was referred to in the letter as 90 days. Equipment held in such a reserved status, as opposed to the MAPOM account, is commonly referred to as Army-owned equipment reserved for MAP.

A MAP-ownership account has been established to record transfers of ownership and to provide prompt reimbursement to the Army for equipment which cannot be immediately delivered to a recipient country. Equipment recorded in the ownership account is referred to as MAPOM or as MAP-owned equipment.

The account is used to record MAP-owned equipment pending delivery, sales, transfer, or disposal. This material can consist of (1) equipment which is assigned to a valid **MAP** requirement and is being held awaiting shipment, (2) equipment which has been canceled from the original recipient country program and for which there is no valid outstanding requirement, commonly referred to as unassigned MAP-owned equipment, and (3) unassigned MAP-owned equipment which is being reserved for anticipated grant-aid or sales requirements.

In some cases, it is not possible to deliver programmed MAP equipment to the grant-aid recipient country as soon as it becomes available. This is especially true in the case of an entire missile system where all equipment must be assembled and tested before it can be shipped to a country as a complete package.

In other cases, equipment becomes available when a country program is canceled after the equipment has been acquired or while it is in the process of being acquired. Many factors, including those revealed by continuous reviews of country requirements by Military Assistance Advisory Groups and unified commands, can cause cancellation of country programs. The Military Assistance Manual describes this type of cancellation and prescribes that shipment to a country be suspended and that a procurement status review be made to determine those items that can be economically terminated from procurement.

Although ownership of equipment is transferred to MAP and is recorded in the MAPOM account, the Army continues to store and maintain the equipment and bills MAP for this service at a yearly rate of 2 percent of the total value of the stored equipment.

NIKE missile systems had been canceled from two country programs. These cancellations had been approved by the cognizant theater command and by DOD. At the time of the cancellations, ISA issued verbal hold orders to reserve the missile equipment, most of which was either on hand or due in from new procurement. We selected for review the NIKE equipment from the canceled missile systems, managed by the Army Missile Command, which was available or due in as unassigned MAP-owned equipment. The cost of the equipment amounted to approximately \$26 million as of July 1966.

In addition to reviewing the equipment from the canceled missile systems, we reviewed selected items of unassigned MAP-owned equipment managed by three NICPs, which were not reserved under hold orders. The equipment reviewed was valued at about \$5 million. We did not review MAP equipment for which a firm valid requirement was indicated to exist.

A listing of the principal officials of the Department of Defense and the Department of the Army responsible for the administration of the activities discussed in this report is included as appendix 11.



## FINDINGS

### NEED FOR IMPROVEMENT IN THE MANAGEMENT OF SELECTED MAJOR ITEMS OF EQUIPMENT FOR THE MILITARY ASSISTANCE PROGRAM

In our opinion, improvements were needed in the management of MAP-owned equipment. We found that certain unassigned MAP-owned equipment in Army storage was not being used to satisfy requirements. Consequently, significant amounts of MAP funds have been required to obtain equipment to fill grant-aid and sales requirements which could otherwise have been filled by the use of identical items of unassigned MAP-owned equipment in Army storage. Further, as a result of such equipment not being used, additional MAP funds were expended for storing and maintaining the unassigned equipment.

We believe that the failure to use available MAP-owned equipment was attributable to (1) the absence at Army NICPs of accurate inventory data and of definitive procedures for systematically screening and using unassigned MAP-owned equipment, (2) the lack of necessary controls to assure higher echelons of command that existing policies were being implemented by the NICPs, and (3) the use of verbal hold orders to reserve equipment, unassigned because of cancellation of certain grant-aid recipient country programs, for potential but unconfirmed sales, barter, or co-production agreements.

#### Unassigned MAP-owned equipment not used to satisfy valid requirements

National inventory control points were not effectively screening unassigned MAP-owned equipment for utilization to satisfy valid requirements. In our opinion, this was caused by the absence of (1) accurate inventory data and written procedures at the NICPs for systematically screening and utilizing such equipment and (2) management controls at higher echelons of command to ensure compliance with existing policies.

The three Army NICPs at which we performed our review, the Missile Command (MICOM), the Mobility Equipment

Center (MEC), and the Electronics Command (ECOM), were operating under varying and conflicting verbal understandings as to the circumstances under which unassigned MAP-owned equipment should be used for other requirements, the priority of use, and the approvals required.

Our detailed reviews at the three NICPs during calendar year 1966 disclosed that about \$5 million worth of unassigned MAP-owned equipment not reserved under hold orders was not being considered available to fill grant-aid or other requirements. We did note that in a few instances unassigned MAP-owned equipment was used for requirements; however, specific approval of such use generally had been obtained from higher headquarters. We believe that these instances were exceptions and did not result from the application of a procedure for systematically screening unassigned MAP-owned assets for other requirements.

#### Missile Command

We found that, as of July 1966, MICOM had various quantities of four items of unassigned MAP-owned equipment valued at about \$1million, which had not been used or considered available for other valid requirements even though the equipment had been unassigned for periods ranging from 7 to 38 months. When we brought the availability of these items to the attention of MICOM officials, they initiated action to make the equipment available for current and future MAP requirements. Actual savings of MAP funds or net dollar savings to the Government could not readily be determined at the time of our review, because actions to use this equipment were still in process.

#### Mobility Equipment Center

At MEC, we found that, as of March 1966, 117 generators valued at about \$876,000 were on hand or due in as unassigned MAP-owned equipment. MEC considered 104 of these generators as being reserved for tentative sales requirements. The remaining 13 generators had been considered unreserved and available during various periods in 1965 and 1966. We found, however, the MEC had failed to systematically screen and use these 13 generators to satisfy new

**MAP** requirements received during the same periods. During our review, MEC took action to use 11 of the generators and agreed to use the remaining two for other **MAP** requirements.

We requested MEC to contact AMC to determine the validity of reserving the remaining 104 generators for tentative sales requirements. We were advised that, of these 104 generators, 28 valued at about \$210,000 were due in from new procurement and could and should be used for other **MAP** requirements. As of December 1966, MEC had taken action to use 10 of these generators for other **MAP** requirements and had made the remaining 18 available for Army requirements or for possible reductions of contract quantities. Had these 28 generators due in from new procurement not been used to satisfy valid needs, additional procurements for generators costing about \$210,000 would have occurred.

#### Electronics Command

At ECOM, we found that, as of March 1966, unassigned **MAP**-owned equipment valued at about \$3.6 million was available as a result of cancellation of various programs, some of which were canceled as early as June 1964. For the most part, this unassigned **MAP**-owned equipment included three types of radios and three AN/TSQ-38 air defense systems. ECOM stated that the radios were not used to fill other valid requirements because its records reflected that the radios had missing components and therefore were not issuable. Despite the fact that the **MAP** funds paid were for complete serviceable units, we found that no effort had been made by ECOM to supply the missing components and to utilize the equipment.

In our opinion, ECOM was not effectively managing the **MAPOM** account as demonstrated in the following paragraphs.

At the time of our review, we noted that various types of unassigned radios valued at about \$429,000 were shown in the **MAPOM** account but were not being considered to fill current **MAP** requirements. For example, a **MAP** requirement for AN/VRC-34 radio sets was to be filled through new procurement although the **MAPOM** account showed that a total of 52 of these radio sets valued at \$52,000 were on hand and

unassigned. At our request, a physical inventory of the AN/VRC-34 radio sets in the MAPOM account was made by ECOM. This inventory disclosed that there were only 34 radio sets on hand, 10 of which were in issuable condition, although the Army had been reimbursed for 52 radio sets which should have been on hand in the MAPOM account.

We suggested to ECOM that action be taken to use the various types of available MAP-owned radios. In this regard, ECOM contacted AMC and subsequently advised us that the radios would be completed and used for valid requirements.

With reference to the three unassigned MAP-owned air defense systems, ECOM contended that this equipment could be used only upon direction of higher headquarters. We therefore requested ISA to reevaluate the need for this equipment and to consider using two of the three systems to fill outstanding Army requirements. By letter dated September 19, 1966, ISA advised us that it had requested the Army to furnish a statement of current requirements and that it would notify us later of the decision on this matter. In a further reply dated November 3, 1966, ISA advised us that release of two AN/TSQ-38 systems to the Department of the Army had been authorized. Use of the two systems to satisfy current needs could result in a reduction of expenditures amounting to over \$1million.

Written procedures needed at Army NICPs  
for management of MAP-owned equipment

No internal written procedures or instructions for management of MAP-owned equipment were in effect at the three Army NICPs at the time our work was performed. Army Regulation (AR) No. 795-16, dated July 1964, requires that each new MAP order covering a grant-aid requirement be reviewed by NICPs to ensure that maximum utilization has been made of MAP-owned equipment. The Army regulation is not specific regarding the extent of review required, the priority of use for equipment identified as available, or the actions to be taken where no grant-aid requirements are known but military assistance sales and other requirements exist.

In general, officials at the three NICPs agreed that screening of MAP-owned equipment for possible use in satisfying other requirements was their responsibility in the absence of restrictive hold orders. MICOM officials, however, added that they must obtain approval of higher headquarters before they can use any MAP-owned equipment for military assistance sales requirements.

MICOM contended that the AR was in sufficient detail to permit direct implementation. MEC was operating under the verbal understanding that MAP-owned equipment should be screened periodically, ECOM was following an unwritten general procedure requiring that new MAP orders be screened to see if MAP-owned equipment could be used, but it had excluded from such screening the AN/TSQ-38 systems and equipment not ready for issue.

Our review clearly demonstrated that, by operating under unwritten local procedures or through direct implementation of the AR, the three NICPs had not been adequately managing MAP-owned equipment not under restrictive hold orders. We found no evidence that NICPs were systematically screening unassigned MAP-owned equipment as a first source of supply for other valid requirements.

AR 795-16 requires also that NICPs make an annual reconciliation of MAP-owned equipment. We reviewed this function at MICOM only, principally because it had management responsibility for most MAP-owned missile equipment. We evaluated MICOM's annual reconciliations for fiscal years 1965 and 1966 and concluded that an adequate reconciliation had not been made. In making both reconciliations, MICOM had excluded consideration of (1) some items of MAP-owned equipment, (2) consolidated inventory reports of MAP-owned equipment available in the control computer file, and (3) sample physical inventory counts which should have been made at storage depots.

MICOM did not have written procedures for making the annual reconciliation. In response to our written inquiry, MICOM advised us that it considered the annual reconciliation to be extremely important and that, upon evaluation, it planned to develop written procedures concurrent with the next reconciliation.

In September 1966, while our review was still in process, DOD and the Department of the Army initiated a concentrated review and analysis of MAP-owned equipment. Instructions to NICPs included several objectives, such as (1) reviewing and validating MAP-owned equipment assigned for country requirements, (2) reviewing unassigned MAP-owned equipment in a "hold," or reserved, status, and (3) reviewing unassigned MAP-owned equipment not in a "hold," or reserved, status.

To meet these objectives, NICPs were to provide information based on actual physical inventory counts at storage depots. According to a MICOM representative, this exercise was to be considered a part of the fiscal year 1967 annual reconciliation. We were advised in July 1967 that the results of the physical inventory had been reviewed and processed into Army and DOD records and that the Army portion of the account was being reestablished on the basis of the results of the physical inventory.

In our opinion, the annual reconciliation is an important management tool for identifying, in summary form, unassigned MAP-owned equipment available to satisfy other valid requirements. It is evident that all future reconciliations will be improved by ensuring that all MAP-owned equipment is included and by considering such factors as computer inventory reports and sample physical inventory counts.

Improvement needed in management controls  
over MAP-owned equipment

In our opinion, there was also a need for improvement in management controls at the AMC level to ensure that NICPs were properly managing MAP-owned equipment, were conducting a proper annual reconciliation, and were promptly using unassigned MAP-owned equipment available from cancellations of various country programs. We believe that, if adequate records of unassigned MAP-owned equipment, properly categorized, had been kept by AMC, instances where proper management was not being exercised by the NICPs could have been readily detected and corrected.

In February 1965, AMC established country code M9 for use in reporting specific line-items of MAP-owned equipment available from program cancellations and not assigned to a specific new country requirement. As a result, AMC was able, in July 1965, to prepare its first consolidated report of unassigned MAP-owned equipment. Even with the establishment of the new country code, AMC management levels could not readily distinguish between unassigned MAP-owned equipment in a hold status and unassigned MAP-owned equipment not in a hold status but available for other use. In our opinion, the inability to readily distinguish between individual items in these two categories prevented AMC from exercising proper control over NICPs to ensure full utilization of equipment not in a hold status.

We found that ISA also did not have adequate records to permit effective surveillance of the Army's actions in using unassigned MAP-owned equipment. ISA did not have accurate details of what MAP-owned equipment was unassigned or what equipment was to be held intact as a part of the missile systems which were under hold orders. In effect, ISA did not know what was in the MAPQM account as unassigned equipment and, in our opinion, could not exercise proper surveillance of the military department's management of the account.

In December 1965, ISA initiated a program to determine, on a line-item basis, what MAP-owned equipment was unassigned. The program, insofar as MAP-owned equipment

managed by the Army was concerned, was still under way at the time our review was completed. ISA advised us that the completed program would give them a base for surveillance of the Army's actions in using unassigned MAP-owned equipment.

Complete missile systems reserved for  
tentative but unconfirmed sales agreements

As a result of the cancellation of two missile systems from certain recipient country programs in December 1963 and May 1964, about \$26 million worth of equipment became available to meet other grant-aid and/or sales requirements. In our opinion, these cancellations confronted ISA with a major managerial decision as to the procedures under which maximum utilization of these assets could be achieved.

We believe that ISA had three alternatives: (1) reserving the missile **systems** intact for possible sale or barter as complete packages, (2) using individual items of the canceled equipment to satisfy requirements as they **ma-**terialized, or (3) combining the better features of these two alternatives by reserving long lead-time equipment and utilizing readily replaceable equipment as requirements occurred.

We were advised that, at the time of cancellation, ISA had considered the first alternative and had provided the **Army** with verbal instructions which required that all equipment in each canceled missile system be held intact for potential sale or barter as a complete system. Therefore, the effect of the hold orders was to preclude the use of individual items of equipment for other requirements.

We found no evidence to show that **ISA** had obtained definitive information on a tentative but unconfirmed sale, which would show what equipment was being considered and when it was desired. Nor did we find that ISA had inquired **into** the status of the equipment in the canceled systems before making its decision. In this regard, we believe that consideration should have been given to such factors as:



1. Determination of procurement status of all items and identification of those that could and should economically be terminated from procurement.
2. Identification of individual equipment items that could be used for other valid MAP requirements and replaced in the event a firm requirement for a complete package developed.
3. Feasibility of holding equipment for long periods of time, taking into account obsolescence and deterioration of the equipment as well as the sizeable storage and maintenance costs that could be incurred.

We believe that, at a minimum, the above factors should have been considered by ISA prior to its decision to maintain the system intact. We believe also that the decision should have been conveyed in writing, providing detailed instructions to the Army, so that uniform actions could be taken on the part of concerned NICPs.

In our opinion, verbal rather than written instructions were not an effective means of instructing the various NICPs in maintaining the integrity of the missile systems. For example, MICOM and MEC took widely different actions in response to the verbal hold orders. We did find, however, that subsequent messages between elements of the Department of the Army did mention that the integrity of the NIKE missile equipment should be maintained. These messages tend to substantiate the intent of the verbal hold orders, which was to maintain the systems intact for a tentative but unconfirmed sales agreement.

MEC took actions to cancel outstanding procurements where economically feasible and, in cases where procurements could not economically be terminated, accepted and used the equipment for other requirements. In our opinion, the actions taken by MEC conflicted with the intent of the verbal hold orders. However, on the basis of our review, we believe that the actions taken by MEC conformed in principle with the requirements of the Military Assistance Manual.

Actions taken by MICOM were the opposite of those taken by MEC. No evaluation was made by MICOM of the feasibility of economically terminating procurements or canceling planned procurements on any items included in a canceled system, despite the fact that 60 NIKE rails valued at about \$752,000 were not approved for procurement at the time the system was canceled. As late as April 1965, the MAP office at MICOM could have prevented procurement of the 60 rails; however, it directed the Major Items Division at MICOM to continue procurement action. A status review at the time of the cancellation might also have shown that other MICOM-managed items already on procurement could be economically terminated.

In response to our written inquiry, MICOM advised us that, since procurement action was in process and there was no direction to cancel the MAP orders, the procurement action had been continued. However, we found that, contrary to MICOM's statement, procurement action on the 60 rails was not in process at the time of the cancellation.

Potential utilization of reserved equipment  
from canceled missile systems

We found that, although the equipment from the two canceled missile systems had been under hold orders for over 3 years, ISA had not at the time of our review entered into any agreements to dispose of the systems in a package arrangement. As early as October 1964, a recipient country was considered to be interested in buying a complete missile system. In this regard, the Director of Military Assistance was advised at that time by a member of his staff that "Our only hope at the moment, for the NIKE is that the \*\*\* will purchase it, otherwise we are faced with disposal to Army with no fund accrual to MAP."

In February 1967, ISA officials advised us that the missile systems were still being held for a possible sales, barter, or coproduction agreement with the same recipient country. However, it was not known at that time whether the missiles, valued at \$9.6 million, would be included in any agreement reached. In this regard, information available as early as January 1966 indicated, that the recipient country might not require the missiles from the canceled

systems. In our opinion, this information was contrary to the basic reason given for reserving the equipment and not utilizing individual items of missile equipment for other requirements.

Our review of actual grant-aid and sales requirements approved during the period January 1964 through August 1966 disclosed that there was no single demand from one source for a complete missile package. We found that during this period grant-aid and sales requirements for missile equipment valued at about \$13.9 million might have been satisfied by using identical MAP-owned equipment available from the canceled missile systems. However, as previously stated, this equipment, which was not individually identified, was reserved for a tentative but unconfirmed sales agreement. We found that about \$4.7 million worth of equipment was to be provided from Army stock and about \$9.2 million worth was to be provided from new procurement. For example:

1. Missile body section--As of January 15, 1966, there were 216 body sections valued at \$5,496,764 on hand or due in for the MAPOM unassigned account, which were generated from cancellation of the missile systems in December 1963 and May 1964. We found that a grant-aid requirement for two identical missile body sections valued at \$55,980 was transmitted to MICOM in December 1965 with the source of supply indicated as procurement.
2. Control surfacer kit--As of July 21, 1966, there were 216 control surfacer kits valued at \$476,088 on hand or due in for the MAPOM unassigned account, which were generated from cancellation of the missile systems in December 1963 and May 1964. We found that a sales requirement for 65 identical kits was approved in September 1964 with the source of supply indicated as procurement.

We found also that the total Army-wide new procurement for missile items identical to those available from the two canceled systems amounted to about \$31 million during the time that the equipment from the canceled systems had been

reserved for a potential requirement for an entire missile system. We believed that these new procurements were significant because they indicated that more than one opportunity had been presented to the Army to utilize the reserved missile equipment.

In our opinion, ISA should have identified what items of equipment from the canceled missile systems could be readily replaced if they were to be used and replacement became necessary and what items of equipment could be used without affecting the integrity of the system. In this regard, we proposed in our draft report that ISA reevaluate the need for continuing to reserve NIKE equipment for a tentative but unconfirmed sales requirement.

ISA concurred with our proposal and stated that an intensive review was then in progress to apply reserved assets to other requirements. We note that AMC was notified by a message dated ~~May~~ 24, 1967, that missiles from the canceled systems which had been reserved during the past 3 years were released from reserve status and were to be applied against current and future requirements.

Use of the MAP-owned equipment from the two canceled NIKE systems for the requirements discussed above would also have resulted in a significant reduction of MAP-owned equipment in storage at Army depots, with a reduction in yearly storage and maintenance costs. In this regard, the Army bills MAP at the rate of 2 percent of the value of MAP-owned equipment in Army storage.

NEED FOR IMPROVEMENT IN NICP MANAGEMENT  
OF ARMY-OWNED EQUIPMENT RESERVED FOR MAP

In addition to the need for improvement in the management of MAP-owned equipment, there was, in our opinion, a need for improvement in NICP management of Army-owned equipment reserved for MAP, to ensure that, upon termination or reduction of the MAP requirement for which the equipment was reserved, it would be promptly released for general issue purposes. Our review at the three Army NICPs disclosed that only MEC had local written procedures in effect to cover this management area.

MICQM contended that the existing military standard requisitioning and issue procedure (MILSTRIP) was adequate for the above purpose. However, this procedure provides only for processing necessary adjustment cards to change the computer ownership coding and does not set out responsibility for initiating action within the MAP office or other MICOM elements upon receipt of information concerning termination or reduction in MAP requirements.

We noted that the executive officer of MICQM, in commenting on excesses of Army-owned assets reserved for MAP, stated in a memo dated March 7, 1966, that there were "\*\*\*no procedures to police these accounts to prevent excesses from accumulating." These comments, which appear to conflict with the stated MICOM position, were prompted by the fact that the NICP had to make large-scale adjustments to release Army-owned assets unnecessarily reserved for MAP over long periods of time for nonexistent MAP requirements. For example, MICOM initiated action during the period January through March 1966 to remove the reservation of major items valued at about \$13 million.

Many of the items released had been in a reserve status for several years. If, as MICOM contended, MILSTRIP had been adequate for managing this area, it is probable that the large-scale accumulation of assets would never have occurred and that no need would have arisen for the recent large-scale adjustments.

MEC did have written local procedures for management of Army-owned assets reserved for MAP. These procedures

outlined responsibilities of the MAP division with relation to other operating divisions at MEC and described the actions to be taken by each division upon termination or reduction of **MAP** requirements for which Army assets were reserved. We believe that the MEC procedures were adequate,

ECOM did not have local written procedures for management of Army-owned stock reserved for MAP. ECOM contended that each commodity manager had the responsibility of using his discretion in determining the utilization of materiel reserved for **MAP**. In our opinion, the individual commodity managers could not properly manage such materiel without being advised promptly of changes in **MAP** requirements.

#### Agency corrective actions

As previously stated, when we brought to the attention of NICPs situations where management considerations appeared necessary or desirable, the NICPs took or initiated corrective action, in most cases while our review was still in process. Also, the Department of the Army initiated a physical inventory of equipment recorded in the MAPOM account and stored at Army depots.

Actions taken by ISA to improve the management of **W**-owned equipment are demonstrated by recent changes to the Military Assistance Manual dated December 19, 1966, and March 23, 1967, which was subsequent to the completion of our fieldwork. These changes prescribe procedures to be followed in programming material to the MAPOM account and set forth criteria for utilization and/or disposal of material in the account. In our opinion, the changes in the manual are major steps toward improved management of the MAPOM account.

One of the provisions prescribed in the changes to the manual which we feel has specific significance is the classification of unassigned equipment by codes designating the equipment as (1) unassigned but on hold order or (2) unassigned and susceptible to military department screening for application against other needs.

### Proposals for corrective action

In our draft report, we proposed to the Department of the Army that appropriate written procedures be established at operating activity levels to provide for a greater degree of control and utilization of unassigned equipment recorded in the MAPOM account as well as Army-owned equipment reserved for MAP. We proposed also that procedures be established for conducting an annual reconciliation of *MAP*-owned equipment, which would include actual physical inventories. The Department of the Army concurred with our proposals and stated that the following corrective actions were then in process and were to be completed during September 1967.

1. Preparation of written procedures for operating-level activities to ensure uniform implementation of recent changes to the Military Assistance Manual\*
2. Development of procedures for the management of Army-owned equipment reserved for *MAP*.
3. Performance of a semiannual physical inventory of MAP-owned equipment and preparation by MICOM of written procedures based on guidance and instructions from AMC.

We proposed also that the Department of Defense re-evaluate the need for continuing to reserve equipment from canceled missile systems for potential but unconfirmed sales requirements. DOD agreed with our proposal and stated that an intensive review was then in progress as to the applicability of MAPOM assets in a reserved status against (1) *MAP* requirements through fiscal year 1972, (2) Army requirements, and (3) a sales offer then under consideration.<sup>1</sup>

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<sup>1</sup>We have been informed that an agreement for sale of the NIKE ground equipment was concluded in October 1967. This agreement excluded the missiles.

With regard to the above, we were informed that AMC had been notified by a message dated May 24, 1967, that missiles valued at about \$9.6 million had been released **from** a reserve status and would be applied against future requirements.



### Agency comments

Upon completion of our review, we submitted a draft of our report to the Secretary of Defense. By letter dated July 13, 1967, the Deputy Assistant Secretary of the Army (Installations and Logistics) furnished us with comments on behalf of the Secretary of Defense. The Department of Defense and the Department of the Army concurred with our proposals and conclusions and generally agreed with our findings.

The Department of the Army's position was that the greater portion of equipment recorded in the MAPOM account consisted of missile equipment reserved for potential sales and that as such the equipment could not be used to satisfy other requirements. According to the Army, it had to preserve the integrity of the two missile systems discussed in our report.

We agree that the majority of the unassigned MAP-owned equipment was being reserved for a potential sales requirement. However, at the time of our review, the Army's procedures did not require unassigned MAP equipment which was reserved to be segregated from that which was not reserved. Therefore--and as demonstrated in our report--when requirements did arise in which unassigned MAP equipment that was not reserved could have been utilized, the Army did not use the MAP equipment. Furthermore, it did not have written procedures for systematically screening unassigned equipment to determine if such equipment could be used.

We have been advised in addition that the results of a June 30, 1967, physical inventory conducted by the Army indicated that about \$29 million worth of unassigned MAP-owned equipment managed by the Army was then available for other requirements.

The Department of Defense stated that it did not believe our finding fully described the utilization of unassigned MAP-owned missile equipment. DOD stated that \$9 million worth of missile equipment had been loaned to the Army and that \$4 million worth had been released for sale to foreign recipients as a result of case-by-case reviews.

We agree that MAP-owned equipment was loaned to the Army and that some equipment was released for sale to foreign recipients. However, this utilization covered unassigned MAP-owned equipment which included NIKE, HAWK, and other missile systems. Our review of missile equipment was limited to the canceled NIKE missile systems equipment valued at about \$26 million. Therefore, to place this utilization in proper perspective, we should point out that only \$115,000 worth of the equipment sold to the foreign recipients and only \$1.3 million worth of the equipment loaned to the Army was NIKE equipment.

In our opinion, and as stated by DOD, the utilization of MAP-owned equipment was made on a case-by-case basis and did not result from the application of a standard procedure for systematically screening unassigned MAP-owned assets for other requirements. However, as previously stated, we believe that the procedures prepared or in the process of being prepared should, if properly implemented, preclude the recurrence of the management weaknesses discussed in this report.

### Conclusions

In our opinion, the absence of management procedures and controls and the reservation of certain missile equipment for an indefinite sales agreement resulted in millions of dollars worth of unassigned MAP-owned equipment not being used to satisfy valid requirements.

The Department of Defense and the Department of the Army agreed that there was a need to improve and strengthen procedures and controls over the management of MAP-owned equipment as well as Army-owned equipment reserved for MAP. In this regard, the Departments have already taken many steps to improve management procedures. Also, other management improvements are in the process of being developed or implemented.

We believe that the actions taken or in process should result in a more effective utilization of MAP-owned equipment and Army-owned equipment reserved for *MAP* and reduce costs to the United States. The corrective measures are of a too recent origin to evaluate. Therefore, as a part of our continuing review of the *MAP*, we plan at a future time to examine into the effectiveness with which the new and revised procedures and controls are being implemented.

## SCOPE OF REVIEW

The scope of our audit included a review of policies and procedures applicable to the management of the military assistance program and related equipment, examination of pertinent records, and discussions with responsible officials at the following locations.

Office of the Assistant Secretary of Defense  
(International Security Affairs)  
Washington, D.C.

Office of the Deputy Chief of Staff for Logistics  
Department of the Army  
Washington, D.C.

United States Army Materiel Command  
Washington, D.C.

United States Army Missile Command  
Redstone Arsenal, Alabama

United States Army Mobility Equipment Center  
St. Louis, Missouri

United States Army Electronics Command  
Philadelphia, Pennsylvania

We obtained information relative to the cancellation of missile systems from the applicable Military Assistance Advisory Groups of the countries whose programs were canceled. We reviewed actions taken by various management levels at the time the two NIKE missile systems were canceled and actions taken subsequent to the cancellations. In addition, we selected other items of unassigned *MAP*-owned equipment for the purpose of further testing Army's management of MAP-owned equipment.

We reviewed NICP management functions pertaining to MAP-owned equipment and Army-owned equipment reserved for *MAP*. We discussed our work and evaluations with responsible officials during the course of our review and conducted an exit conference on September 27, 1966, at which time fieldwork was substantially completed.

## **APPENDIXES**



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

13 JUL 1967

Mr. Oye V. Stovall  
Director, International Division  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Stovall:

This is in response to your letter of April 24, 1967, to the Secretary of Defense forwarding copies of your Draft Report to the Congress, titled: "Department of the Army Management of Selected Major Items of Missile Equipment for the Military Assistance Program, DOD and DA." (OSD Case No. 2593)

The Department of the Army and the Department of Defense positions with respect to the report are inclosed. This reply is made on behalf of the Secretary of Defense.

Sincerely yours,

A handwritten signature in black ink, appearing to read "A. Tyler Port", is written over the typed name.

A. Tyler Port  
Deputy Assistant Secretary of the Army  
(Installations and Logistics)

1 Incl  
Army and Defense  
Position Statement

DEPARTMENT OF THE ARMY AND DEPARTMENT OF DEFENSE POSITIONS

ON

GAO DRAFT REPORT, DATED 24 APRIL 1967,

"DEPARTMENT OF THE ARMY MANAGEMENT OF SELECTED MAJOR ITEMS OF  
MISSILE EQUIPMENT FOR THE MILITARY ASSISTANCE PROGRAM, DA AND DOD"  
(OSD Case #2593)

I. POSITION SUMMARIES

A. GAO Position Summary

Millions of dollars worth of major items of equipment owned by or reserved for the Military Assistance Program (MAP) has not been systematically screened or effectively used to satisfy valid requirements. Consequently, significant amounts of MAP funds have been expended to obtain equipment to satisfy firm requirements which could have been provided by using already owned unassigned equipment. GAO concludes that the unassigned equipment was not used due to (1) lack of accurate inventory and systematic screening procedures at operating levels, (2) lack of adequate controls to assure higher commands that existing policies were being effectively implemented by operating activities, and (3) the use of verbal hold orders to reserve two cancelled missile systems intact for a potential but unconfirmed sales agreement. As a result of the GAO review, the Department of the Army has initiated a physical inventory which is currently in progress, and the Department of Defense has amended the Military Assistance Manual (MAM) to provide more specific guidelines for the management of property in the MAP-Owned Materiel (MAPOM) account. These guidelines, if properly implemented, should preclude many of the deficiencies cited in the report.

B. Army and Defense Position Summaries

1. Army Position Summary

a. In general, the Department of the Army concurs with the findings contained in the report. It is the Army's view, however, that certain factors involving Army's management of the Military Assistance Program warrant consideration. These are discussed in Sections II and III following,

GAO Draft Report, "DA Management of Selected Major Items of Missile Equipment for MAP" (OSD Case #2593)

b. Army concurs with the conclusions and recommendations. In addition to the corrective action taken, as cited in the report, Army is continually monitoring the progress of the National Inventory Control Points (NICP's) to insure that accurate inventory data is maintained and that definitive procedures are formally prescribed. Specific corrective measures initiated are taken by Army are described in Section V following.

2. Defense Position Summary

a. The Department of Defense agrees generally with the conclusions of this draft report. However, the DOD does not believe that the GAO finding on unassigned MAP-owned missile equipment fully described the utilization of this materiel. During the period in which a hold was placed on MAP-owned materiel comprising integral basic air defense systems, certain peculiar support equipment and missiles amounting to \$9 million were loaned to the Department of the Army for operational requirements. In addition, case-by-case reviews resulted in the release of about \$4 million of equipment for sales to foreign military customers.

b. Also, prior to issuance of the draft GAO report, DOD had already initiated action to preclude the recurrence of deficiencies discussed in this report, with respect to unassigned MAP-owned equipment available from cancellation of materiel lines from recipient country programs (pp. 15-20 of draft report). These corrective measures are acknowledged on page 2 of the proposed GAO letter to the Congress and relate specifically to the GAO recommendations cited in Section V following.

II. BACKGROUND FOR ARMY POSITION

The greater portion of the inventory in the MAPOM account consisted of those missile battalions which were in a "hold" category and not available for utilization pending further guidance from the Department of Defense. As noted in the report, negotiations between the U.S. Government and a potential customer had been in progress for a number of months. As long as these negotiations were being conducted, the Department of the Army and subordinate commands had no recourse but to exert influence to preserve the integrity of the two missile systems.

It was the understanding of the Department of the Army that during the initial negotiations being conducted by the Government for sale of the missile systems, the equipment being offered reflected the complete battalion equipment, either on hand or due in from procurement not assigned to a specific country. Had the Army cancelled procurement on these missile system items during the negotiations which later resulted in a sales agreement, an incident could have occurred that

GAO Draft Report, "DA Management of Selected Major Items of Missile Equipment for MAP" (OSD Case #2593)

would have reflected unfavorably on the United States. Further, utilization of any one of the missile items of ground equipment from the two systems or cancellation of procurement to complete a battery set would have rendered the battalions useless as a complete "package deal".

Concerning the application of unassigned MAPOM assets, the configuration required by a customer may involve refurbishment or modification of the equipment to equal current configuration. This would create additional costs to appropriately supply the materiel and thereby lessen the amount of dollar savings indicated,

### III. ARMY POSITION ON GAO FINDINGS

While Army agrees that the findings are generally valid, there could be inference drawn from the report that in the absence of written procedures emanating from the Department of the Army the NICP's would be at liberty to exercise local application of whatever management controls deemed appropriate. The Department of the Army considers that the continuing review of Military Assistance Programs, including MAPOM, is an inherent responsibility on the part of those operating personnel involved. In addition, it is pointed out that close personal relationships exist between the Department of the Army and the subordinate commands which provide for the free exchange of advice and guidance.

Although Army considers the provisions of AR 795-16 adequate to permit direct implementation of the review and utilization of unassigned MAPOM assets, it is planned to provide additional guidance in line with the revised MAM for purposes of developing standard written procedures for all of the NICP's.

### IV. ARMY POSITION ON GAO CONCLUSIONS

The Army concurs in the conclusions cited by GAO and recognizes the need for improvement in the management and utilization of MAP-owned equipment as well as Army-owned equipment reserved for Military Assistance customers. Action has been initiated by Army to review the various regulations (AR 795-16, AR 795-17 and AR 725-50) and the Military Assistance Manual to determine if there is any conflict in instructions and to provide appropriate clarification, guidance and instruction for the development of written procedures. It is anticipated that finalization of necessary written procedures will be completed during the early part of September 1967.



GAO Draft Report, "DA Management of Selected Major Items of Missile Equipment for MAP" (OSD Case #2593)

V. ARMY AND DEFENSE POSITION ON GAO RECOMMENDATIONS

A. Army Position

1. The Department of the Army concurs with the recommendations as cited in the draft report and has taken initial action to implement development of appropriate written procedures to insure adequate control of the management and utilization of unassigned MAE-owned equipment, including annual reconciliation of MAP-owned equipment and Army-owned equipment reserved for MAP customers. Intensive review is currently being given all phases of MAPOM. The GAO recommendations, directed to the Army Materiel Command (AMC), and the corrective measures initiated are as follows.

a. That AMC require its NICP's to establish written local procedures to insure that unassigned MAP-owned equipment is systematically screened as a first source of supply for other grant aid and MA sales requirements. Further, that AMC participate in the preparation of such procedures to insure that they are uniform and contain clear statements of priorities of use and the approvals required.

Action is being taken to publish changes to the appropriate regulations to implement the guidelines provided by recent changes in the Military Assistance Manual. Under the guidelines furnished by the Department of Defense there will be available a current and precise record of all materiel delivered to, or programed to MAPOM. AMC will participate in the preparation of written procedures to insure uniform implementation by all NICP's. The target date for completion of the written procedures is early September 1967.

b. That AMC require its NICP's to prepare written procedures for conducting the annual reconciliation of MAP-owned equipment and that such procedures call for use of depot stock reports and actual physical inventory counts.

The results of the recent MAPOM physical inventory have been reviewed and processed into Army and Department of Defense records. The frequency of the physical inventory will be increased to a semi-annual basis as of 30 June and 31 December. Clarification, guidance and instructions are being prepared for the development of written procedures. Problems involved are being reviewed. MICOM will prepare procedures as soon as all problems involved have been resolved. Implementation is anticipated during early September 1967.

GAO Draft Report, "DA Management of Selected Major Items of Missile Equipment for MAP" (OSD Case #2593)

c. That AMC require its NICP's to prepare written procedures for management of Army-owned equipment reserved for MAP to insure prompt release of such equipment for general issue purposes upon termination or reduction of the MAP requirements for which reserved.

Procedures for management of Army-owned equipment are in process of development. Finalization of uniform procedures is anticipated by early September 1967.

2. With regard to utilization of MAPOM assets, guidelines are now in existence which when fully implemented will clearly identify all materiel in a "hold" category. The Department of the Army and subordinate commands will continually screen MAPOM assets not under "hold order" for application to new requirements. The Department of the Army will look to the Office, Director of Military Assistance to furnish reprogramming instructions for materiel on "hold order" and those assets not on "hold category" for which no effective utilization can be accomplished.

#### B. Defense Position

a. GAO recommendation to establish firm policy guidelines and criteria for conducting detailed status reviews at the time of any weapons systems cancellation of MAP country requirements including detailed documentation to support any resulting management decision.

DOD has established firm policy guidelines and criteria for conducting detailed status reviews at the time any weapons systems (including portions thereof or individual items which may comprise a weapons system) are cancelled from a MAP country program. These were published on 23 March 1967 in paragraph D, Chapter 2, Section E, Part II of the Military Assistance Manual, which prescribed procedures to be followed in programming materiel to the MAP-owned materiel (MAPOM) account and sets forth criteria for utilization and/or disposal of materiel in the account.

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When the MAPOM account is reestablished in accordance with the new MAM procedures, necessary data in line item detail will be available at any time for review against prior year, current and out year requirements. Under these new procedures the Office of the Director of Military Assistance (ODMA), OASD/ISA will control all items entering or remaining in the MAPOM account through the review of all MAPOM transactions in the weekly MAP referral listings. Since this control will be exercised in line item detail and the machine accounting records of all MAPOM transactions will be maintained in ODMA, it is not considered necessary to issue additional procedural guidance or criteria, As specifically stated in the new MAM procedures, when MAPOM assets cannot be applied for utilization against a firm requirement, ODMA will direct the programing of such assets to the MAP Sales and Disposal (MAPSAD) account.

b. (C) GAO recommendation to reevaluate need for continuing to reserve cancelled NIKE equipment.

DOD is implementing this recommendation. The current Army MAPOM account is in process of being reestablished in accordance with the new MAM procedures, and a physical inventory conducted.. An intensive DOD review is concurrently in progress for the application of MAPOM assets in "hold" status against MAP requirements thru FY 72, U. S. Army requirements and a [GAO note] sales offer now under consideration.

GAO note: Name of country deleted.

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

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>DEPARTMENT OF DEFENSE</u>		
SECRETARY OF DEFENSE :		
Robert S. McNamara	Jan, 1961	Present
DEPUTY SECRETARY OF DEFENSE:		
Paul H. Nitze	July 1967	Present
Cyrus R. Vance	Jan, 1964	June 1967
Roswell L. Gilpatric	Jan. 1961	Jan. 1964
ASSISTANT SECRETARY OF DEFENSE (INTERNATIONAL SECURITY AFFAIRS) :		
Paul C. Warnke	Aug. 1967	Present
John T. McNaughton	Mar. 1964	July 1967
William P. Bundy	Nov. 1963	Mar. 1964
Paul H. Nitze	Jan. 1961	<b>Nov.</b> 1963
DIRECTOR OF MILITARY ASSISTANCE :		
Vice Admiral Luther C. Heinz	Sept. 1965	Present
General Robert J. Wood	Sept. 1962	Sept. 1965

<u>DEPARTMENT OF THE <i>ARMY</i></u>		
SECRETARY OF THE ARMY:		
Stanley R. Resor	July 1965	Present
Stephen Ailes	Jan. 1964	June 1965
Cyrus R. Vance	July 1962	Jan. 1964

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 <b>ARMY</b></u> (continued)			
ASSISTANT SECRETARY OF THE <b>ARMY</b> (INSTALLATIONS AND LOGISTICS) :			
Dr. Robert A. Brooks	Oct. 1965	Present	
Daniel M. Luevano	July 1964	Sept. 1965	
A. Tyler Port (acting)	Mar. 1964	July 1964	
Paul R. Ignatius	May 1961	Feb. 1964	
CHIEF OF STAFF, UNITED STATES <b>ARMY</b> :			
Gen. Harold K. Johnson	July 1964	Present	
Gen. Earle G. Wheeler	Oct. 1962	June 1964	
DEPUTY CHIEF OF STAFF FOR LOGIS- TICS:			
Lt. Gen. Jean E. Engler	June 1967	Present	
Lt. Gen. Lawrence J. Lincoln	Aug. 1964	May 1967	
Lt. Gen. R. W. Colglazier, Jr.	July 1959	July 1964	
COMMANDING GENERAL, UNITED STATES <b>ARMY</b> MATERIEL COMMAND:			
Gen. Frank S. Besson, Jr.	May 1962	Present	
COMMANDING GENERAL, UNITED STATES <b>ARMY</b> MISSILE COMMAND:			
Maj. Gen. Charles W. Eifler	July 1967	Present	
Maj. Gen. John G. Zierdt	Sept. 1963	June 1967	
Brig. Gen. Howard P. Persons, Jr. (acting)	Aug. 1963	Sept. 1963	
Maj. Gen. Francis J. McMorrow	May 1962	Aug. 1963	

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)			
COMMANDING GENERAL, UNITED STATES			
ARMY MOBILITY EQUIPMENT COMMAND:			
Brig. Gen. Edwin I. Donley	Jan. 1967	Present	
Brig. Gen. Thomas B. Simpson	Aug. 1964	Dec. 1966	
Col. Thomas B. Simpson	Aug. 1961	Aug. 1964	
COMMANDING GENERAL, UNITED STATES			
ARMY ELECTRONICS COMMAND:			
Maj. Gen. William B. Latta	Oct. 1965	Present	
Maj. Gen. Frank W. Moorman	Aug. 1963	Sept. 1965	