

GAO

United States General Accounting Office

**Report to the Chairman, Subcommittee
on Readiness, Committee on Armed
Services, House of Representatives**

August 1994

ARMY INVENTORY

Unfilled War Reserve Requirements Could Be Met With Items From Other Inventory





United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-257583

August 25, 1994

The Honorable Earl Hutto
Chairman, Subcommittee on Readiness
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we determine whether the Army has inventory items that could be used to meet unfilled war reserve requirements. More specifically, your concerns focused on the Department of Defense (DOD) policy that restricted the services to filling war reserve requirements with assets procured with funds specifically appropriated for that purpose. As a result of this policy, situations could arise where assets available to fill a war reserve requirement are not applied against the unfilled requirements because they were not bought with funds appropriated for that purpose.

Background

The Department of Army, in April 1992, instructed its inventory control points that the DOD Comptroller had issued policy guidance limiting the protectable level¹ of the war reserve requirement to those assets acquired with direct war reserve appropriations.

In February 1994, the DOD Comptroller changed the policy and advised the Army that it could use inventory items not needed for peacetime operations to satisfy unfilled war reserve requirements so long as the total amount of protected war reserve inventory did not exceed \$2.9 billion—the cumulative amount Congress had previously appropriated for buying war reserve inventory.

As of May 1994, the Army had war reserve requirements valued at about \$3.6 billion. Of that total, the Army inventory control points reported having protected war reserve inventory valued at \$1.3 billion and unfilled war reserve requirements of \$2.3 billion. According to Army officials, the \$1.3 billion of protected war reserve inventory does not include about \$1.5 billion worth of items owned by the Army but managed by the Defense Logistics Agency and the Surgeon General, thus making the Army's total protected war reserve inventory about \$2.8 billion. As a result,

¹Assets designated as protectable war reserve assets can be issued for peacetime operating purposes. However, in such cases, the item has to be replaced. If the war reserve item is not a protected asset, it does not have to be replaced when it is issued for peacetime operating purposes.

under current DOD policy with its \$2.9 billion ceiling, the Army could only transfer an additional \$100 million of inventory to that category.

Results in Brief

After the DOD Comptroller advised the Army that it could use inventory items not needed for peacetime operating purposes to satisfy unfilled war reserve requirements, the Army estimated that it could reduce its unfilled war reserve requirements by about \$186.6 million at its five inventory control points.²

Our review showed that the Army's estimate of \$186.6 million was understated and that it could meet \$497 million of its unfilled war reserve requirements by using inventory items not needed for operating purposes. We attempted to reconcile the difference between the Army's estimate and our estimate. However, according to Army officials, computer programming errors precluded them from reconstructing the methodology used to arrive at their estimate. Army officials reviewed our methodology and agreed that our approach was correct.

DOD officials said that before the Army could transfer this inventory to the war reserve category, DOD would have to change its policy to allow the Army to exceed the \$2.9 billion ceiling on protected war reserve inventory.

The Army Can Reduce Its Unfilled War Reserve Requirements

Based on the change in DOD policy, which allowed the Army to use assets not specifically acquired with appropriated war reserve funds to satisfy its unfilled war reserve requirements, the Army estimated that it could fill about \$186.6 million of its unfilled requirements. However, the Army's estimate of how much it can reduce its war reserve requirements with such assets is too low.

Our review showed that the Army can reduce its unfilled war reserve requirements by \$497 million by using available inventory that is not needed for operating purposes. Table 1 shows, on an Army-wide basis, the number of items and the value of the war reserve requirements that could be fully or partially filled by using on-hand and due-in assets.

²See appendix I for a breakdown of the \$186 million by inventory control point.

Table 1: War Reserve Requirements Fully or Partially Filled by Using Assets Excess to the Operating Needs at the Five Inventory Control Points

Dollars in millions

Inventory control point	War reserve requirements partially filled		War reserve requirements fully filled	
	Number of line items	Value	Number of line items	Value
Armament, Munitions and Chemical Command	1,259	\$96.8	685	\$6.2
Aviation and Troop Support Command	1,288	169.1	162	9.5
Communications-Electronics Command	795	39.0	455	11.8
Missile Command	445	32.6	248	9.4
Tank-Automotive Command	912	117.7	344	4.9
Total	4,699	\$455.2	1,894	\$41.8

Our estimate of the war reserve requirements that can be fully or partially satisfied with assets not needed for peacetime operations is conservative. We only considered inventory in a serviceable, ready-to-issue condition and inventory due-in from contracts. If unserviceable inventory had been considered, the value of unfilled war reserve requirements that could be fully or partially satisfied would have been increased by millions, if not hundreds of millions of dollars. However, to achieve the increased fill rate, the Army would have to establish repair programs for the items in an unserviceable condition. In view of the continued downsizing of the Army and the uncertainties about the threat and the types of future conflicts, it may not be a prudent use of resources to repair items just to increase the war reserve fill rates.

Matters for Congressional Consideration

Because there is clearly a hesitancy on DOD's part to proceed in reclassifying any of the peacetime inventory in the absence of a clearer statement of approval by Congress, Congress may wish to eliminate the section of the law that concerns DOD or provide other clarifying guidance on this matter.

Recommendations

We recommend that the Secretary of Defense direct the DOD Comptroller to reevaluate the policy that limits the amount of protected war reserve inventory that the Army can maintain. Otherwise, inventory not needed for peacetime operations could not be transferred to the war reserve category.

However, as pointed out in a prior report,³ before the Army is allowed to transfer the unneeded inventory to war reserves, it needs to assure itself that the computed war reserve requirements represent valid requirements and that future funding requests reflect the reduced need for war reserve appropriations.

Agency Comments and Our Response

In commenting on a draft of this report, DOD agreed with the recommendations but asserted that before it could change the policy that limits the amount of war reserve inventory that the Army maintains, Congress would have to modify section 8007 of Public Law 103-139. This section of the law provides that except in amounts equal to the amounts appropriated to working capital funds in the act, no obligations may be made against a working capital fund to procure or increase the value of war reserve material inventory, unless the Secretary of Defense has notified Congress prior to such obligation.

DOD said that its concern about section 8007 is that inventory that was purchased with war reserve appropriations to support a war reserve requirement may no longer be considered as war reserve material because the item may not now have a war reserve requirement. Thus, if inventory not needed for peacetime operating purposes were now reclassified to fill valid, unmet war reserve requirements, the value of that inventory and the value of war reserve inventory purchased with appropriated war reserve funds would exceed the total of all funds appropriated for war reserves. Therefore, DOD might not be in compliance with section 8007's mandate not to obligate to "increase the value of war reserve inventory."

We do not believe that Congress has to modify section 8007 in order for DOD to implement our recommendations, because the section authorizes the Secretary of Defense to increase the value of war reserve inventory as long as Congress is notified prior to the increase. Moreover, we do not believe that a reclassification of inventory constitutes an obligation.

DOD further stated that the section 8007 provision is also supported by DOD Inspector General report 91-056, Final Quick Reaction Report on Budgeting for War Reserve Stocks in the Defense Logistics Agency.

We do not believe that the Inspector General's report cited in DOD's comments is applicable to the issues identified in our report. It discusses

³Army Inventory: Current Operating and War Reserve Requirements Can Be Reduced (GAO/NSIAD-93-119, Apr. 1993).

situations at the Defense Logistics Agency where the agency would not issue on-hand inventory because it was categorized as "protected war reserve stock" and at the same time, there was a need for peacetime operating stock. As a result, the agency was requesting additional funds to buy inventory to meet its peacetime operating deficits.

As discussed in our report, the inventory that we are recommending be transferred to war reserves is inventory that is not needed to meet operating requirements. In other words, it is inventory that remains after all the operating requirements have been filled. DOD's comments are shown in appendix II.

Scope and Methodology

To determine the number of items and dollar value of the war reserve requirements that could be filled by stock that was excess to operating needs, we identified those items at the five Army inventory control points that had a war reserve requirement. Our next step was to determine what portion of the war reserve requirement had assets applied to it. This is referred to as funded war reserves. The balance of the requirement not funded represented the potential for which assets could be applied. Our next step was to identify those inventory items in a serviceable condition that are not needed to meet peacetime operating requirements. We then matched these inventory items to the unfunded (unfilled) war reserve requirement. The extent to which there was a match between the inventory items not needed for peacetime operating purposes and the unfunded war reserve requirement represented the magnitude by which the Army's war reserve requirements could be reduced.

Our overall approach and methodology is very conservative in that we only considered inventory items that were in a serviceable, ready-to-issue condition and items due-in on contracts. We did not consider inventory that was in an unserviceable condition or inventory that was due-in from Army field units or repair facilities. Therefore, our estimate of the number and dollar value of inventory items that could be used to fully or partially satisfy an unfilled war reserve requirement is considerably less than the true inventory position of the item.

Before applying our methodology to the Army's inventory data files, we had Army officials review and comment on it. They generally agreed with our approach and made certain suggestions that we incorporated into the methodology.

We performed our review between December 1993 and May 1994 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Chairmen and Ranking Minority Members, Senate and House Committees on Appropriations and on Armed Services, Senate Committee on Governmental Affairs, and House Committee on Government Operations; the Director, Office of Management and Budget; and the Secretaries of Defense and the Army.

Please contact me at (202) 512-5140 if you or your staff have any questions concerning this report. The major contributors to this report are listed in appendix III.

Sincerely yours,



Mark E. Gebicke
Director, Military Operations
and Capabilities Issues

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Table 1: War Reserve Requirements Fully or Partially Filled By
Using Assets Excess to the Operating Needs at the Five Inventory
Control Points

Abbreviations

DOD Department of Defense

Breakdown of Army's Estimated Reduced Unfilled War Reserve Requirements by Inventory Control Point

Dollars in millions

Inventory control point	War reserve requirements		Unfilled war reserve requirements		Reduction of unfilled war reserve requirements	
	Number of line items	Value	Number of line items	Value	Number of line items	Value
Armament, Munitions and Chemical Command	3,988	\$616.2	1,861	\$402.4	1,429	\$35.6
Aviation and Troop Support Command	2,713	1,706.3	501	1,210.2	846	30.9
Communications-Electronics Command	3,710	279.6	1,026	178.5	1,278	25.2
Missile Command	2,475	304.0	477	215.4	1,005	17.3
Tank-Automotive Command	2,306	715.7	950	340.6	512	78.0
Total	15,192	\$3,621.8	4,815	\$2,347.1	5,070	\$186.6

Comments From the Department of Defense



COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

AUG 10 1994

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "ARMY INVENTORY: Unfilled War Reserve Requirements Could Be Met With Items Not Needed for Peace Time Operations," dated June 23, 1994 (GAO Code 703049/OSD Case 9714). The DoD concurs with the report.

DoD will reevaluate the policy that limits the amount of protected war reserve inventory that the Army can maintain as recommended in the report.

Due to limited time given to review the draft report, the DoD has only provided detailed comments on the recommendations. Those comments are provided in the enclosure. The DoD appreciates the opportunity to comment on the draft report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Alice C. Maroni".

Alice C. Maroni
Principal Deputy Comptroller

Enclosure
As stated

Appendix II
Comments From the Department of Defense

GAO DRAFT REPORT - DATED JUNE 23, 1994
(GAO CODE 703049) OSD CASE 9714

"ARMY INVENTORY: UNFILLED WAR RESERVE REQUIREMENTS COULD BE MET
WITH ITEMS NOT NEEDED FOR PEACE TIME OPERATIONS"

DEPARTMENT OF DEFENSE COMMENTS
ON THE GAO RECOMMENDATIONS

* * * * *

RECOMMENDATIONS

• RECOMMENDATION 1: The GAO recommended the Secretary of Defense direct the Comptroller, DoD to reevaluate the policy that limits the amount of protected war reserve inventory that the Army can maintain. (p. 5/GAO Draft Report)

DOD RESPONSE: Concur. The Comptroller, DoD in conjunction with the Office of the Under Secretary of Defense for Acquisition and Technology, will reevaluate the policy that limits the amount of protected war reserve inventory that the Army can maintain as recommended in the report.

• RECOMMENDATION 2: As recommended by the GAO in a previous report--OSD Case 9301, The GAO stated that the Secretary of the Army needs to assure that the computed war reserve requirements represent valid requirements and that future funding requests reflect the reduced need for war reserve appropriations before the Army is allowed to transfer the unneeded inventory to war reserves. (p. 5/GAO Draft Report)

DOD RESPONSE: Concur. During 1994, the Army will begin efforts to validate war reserve requirements. The Army will ensure that the validation is completed before any unneeded inventory is transferred to war reserves.

Now on p. 3.

Now on p. 4.

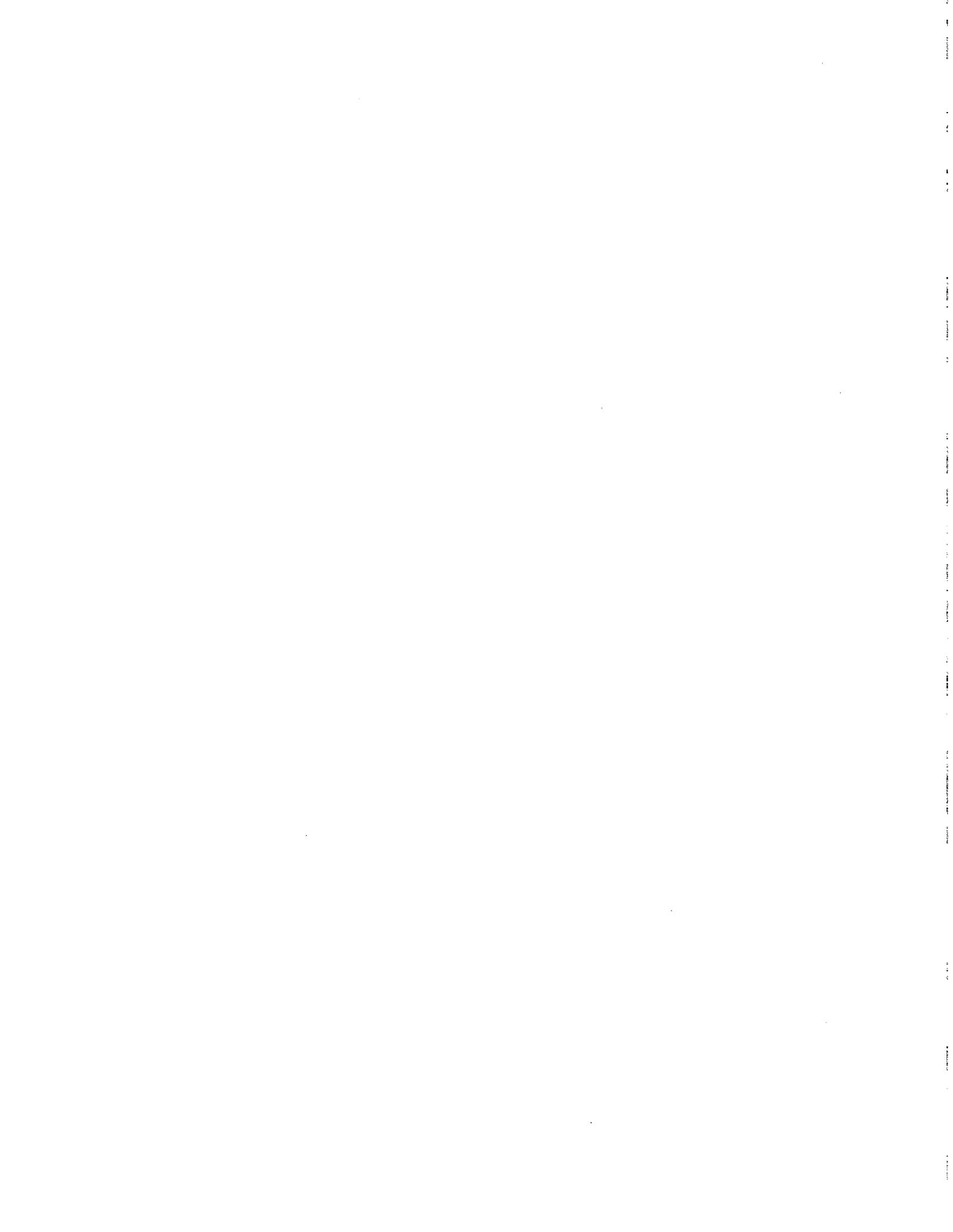
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