

094254

094254



REPORT TO THE CONGRESS

Department Of Defense Stock Funds--
Accomplishments, Problems, And
Ways To Improve B-159797

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

~~710638~~

094254

APRIL 2, 1974

Handwritten text, possibly a signature or initials, oriented vertically.



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

B-159797

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

This is our report on Department of Defense stock funds--accomplishments, problems, and ways to improve. Our examination 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).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Defense; and the Secretaries of the Army, Navy, and the Air Force.

James B. Stacks

Comptroller General
of the United States

C o n t e n t s

	<u>Page</u>
DIGEST	1
CHAPTER	
1 INTRODUCTION	5
How a stock fund works	5
Types of stock funds	5
Stock fund accomplishments and plans	8
2 NEED FOR GREATER FINANCIAL FLEXIBILITY	9
The apportionment process--how it works	9
Results of inadequate obligational authority	10
More flexible controls are possible	13
Conclusions	14
Recommendations, agency comments, and our evaluation	14
3 IMPROVEMENTS POSSIBLE BY VERTICAL MANAGEMENT NOT FULLY REALIZED	16
Differences in stock fund concepts in use	16
Vertical system proposed by DOD	18
Potential economic improvements	18
Military services implementation	22
Conclusions	23
Recommendations, agency comments, and our evaluation	24
4 ADDITIONAL ITEMS SHOULD BE IN THE STOCK FUND	26
Criteria for classifying items	26
Field-level repairable items excluded by the Air Force	27
Consumable items excluded by the Navy and Marine Corps	28
Conclusions	29
Recommendations and agency comments	29

	<u>Page</u>	
CHAPTER		
5	IMPROVED PROGRAM NEEDED FOR RETURNING MATERIEL	30
	Different credit policies	30
	Uneconomical materiel returns permitted by services	31
	Conclusions	32
	Recommendations and agency comments	33
6	SCOPE OF REVIEW	34
APPENDIX		
I	Letter dated November 19, 1973, from the Assistant Secretary of Defense, Comptroller	37
II	Principal officials responsible for matters discussed in this report	38

ABBREVIATIONS

DOD	Department of Defense
DSA	Defense Supply Agency
EOQ	economic order quantity
GAO	General Accounting Office
LMI	Logistics Management Institute
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
SPCC	Ships Parts Control Center
SSD	specialized support depot

D I G E S T

WHY THE REVIEW WAS MADE

In fiscal year 1972, the Department of Defense's (DOD's) stock funds controlled inventories worth about \$8.5 billion and reported net sales of about \$10.4 billion. These funds finance and hold inventories of repair parts, subsistence, fuel, and other expense-type consumable supplies for sale to military units.

Because of the amount of money involved, GAO reviewed selected aspects of stock fund management to identify the accomplishments of stock funds and problems that may be impeding attainment of the full benefits of stock fund operations.

FINDINGS AND CONCLUSIONS

Along with improved communications, transportation, and electronic data processing, stock funds have contributed to better supply management. Significant reductions in inventory can be directly attributable to stock fund management.

Since stock funds operate with money generated through sales, they should have greater financial flexibility than programs funded through direct appropriations. However, this flexibility has not been fully used because most stock funds are still subjected to appropriation-type controls. Moreover, purchasing constraints imposed through apportionment of funds have interfered with the ability of stock funds to provide effective customer support and have forced stock fund managers to resort to poor business practices, such as buying less than optimum quantities and incurring unnecessary costs by canceling purchase orders. Stock funds should become revolving funds, which will enable them to be more responsive to inventory requirements, and funds can be adequately controlled by other than appropriations.

DOD has urged the military services to discontinue using a horizontal¹ stock fund system and to use instead a vertical² stock fund system. However, only the Air Force has indicated a willingness to use a vertical stock

¹Horizontal (multiple) stock fund--inventory at wholesale level owned by wholesale stock fund managers and inventory at retail level owned by retail stock fund managers.

²Vertical (single) stock fund--inventory at both wholesale and retail levels owned by same stock fund manager.

fund system. GAO believes that the vertical system should be used by all military services since it offers several advantages over the horizontal system. For example:

- Inventories can be significantly reduced since the user would get direct support from wholesale stocks. (See p. 19.)
- Duplicate inventory functions can be eliminated which would result in significant savings. (See p. 20.)
- The specialized support depots operated by the Defense Supply Agency (DSA) could be eliminated. (See p. 21.)

A report by Logistics Management Institute (LMI) of June 1973 entitled "Financing of Army Inventory" recommended that the Army change to a vertical stock fund system. LMI cited advantages for changing to a vertical stock fund similar to those listed above and estimated that the Army could save 600 man-years by reducing administrative workload in billing and reconciliations between fund levels.

In recent years the military services have greatly expanded their stock funds by transferring to them ownership of materiel already in the supply system. By 1972 stock funds managed about 86 percent of the 3.7 million items in the DOD supply system. Nevertheless, at least 74,000 additional items worth about \$541 million should be in stock funds. A large number of the items not included are of a repairable nature. These items have been excluded because the military services, except the Army, were reluctant to include high-cost items in stock funds. (See p. 26.)

DOD's current policy allows customers to return materiel if (1) it is needed elsewhere and (2) it is worth more than the costs of returning it. The volume of returns--materiel totaling about \$4.5 billion was returned in fiscal years 1970, 1971, and 1972--makes it essential that both factors are considered.

However, the military services are not always following DOD's policy. GAO believes that the present minimum values to control these returns are not representative of costs; therefore, uneconomical quantities are being returned to the stock fund. (See p. 30.)

RECOMMENDATIONS

The Secretary of Defense should:

- Encourage the use of more flexible financial controls.
- Require all military services to use vertical stock funds. (See p. 24.)
- Issue new instructions directing that field repairables be included in stock funds. (See p. 29.)
- Establish new cost factors for returned materiel, preferably by commodity category. (See p. 33.)
- Stop the practice of giving credit for returned materiel when there is no need for the materiel. (See p. 33.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

DOD agreed in principle that more flexible financial controls are needed but said their flexibility has recently been increased and

further increases depend on many factors, such as improvement in management practices employed by stock managers. Many factors influence the degree of flexibility provided and GAO believes DOD can, and should, give fund managers more financial latitude without relinquishing needed managerial oversight.

Regarding eliminating the duplication in specialized support depots, DOD informed GAO that it is evaluating the broad aspects of specialized support depots. DOD agreed that field repairables should be included in stock funds and advised that current instructions include this requirement which will be emphasized for compliance.

DOD advised GAO that it concurs in establishing minimum values per line item of materiel returned to stock and established \$10 for items which are totally excess to retail level needs and \$50 for items with only partial excess quantities.

Also DOD agreed to evaluate the need to adjust those minimum values by commodity category.

DOD said it would comment separately on the use of vertical stock funds. GAO will evaluate these comments.

MATTERS FOR CONSIDERATION
BY THE CONGRESS

Stock funds have contributed to better supply management by placing greater financial consciousness of military operating costs on users and forcing greater economy and efficiency in the use of materiel. Improving stock fund management is therefore important.

Since the advantages of the vertical stock fund system have been generally accepted, the appropriations committees may want to inquire why the Army is taking so long to convert its system to a vertical stock fund.

Blank PAGE

H

CHAPTER 1

INTRODUCTION

In fiscal year 1972, the Department of Defense's (DOD's) stock funds controlled inventories worth about \$8.5 billion and reported net sales of about \$10.4 billion. These funds finance and hold inventories of repair parts, subsistence, fuel, and other expense-type consumable supplies for sale to military units.

Because of the amount of money involved, GAO reviewed selected aspects of stock fund management to determine whether there were problems that prevented attainment of the full benefits of stock fund operations.

HOW A STOCK FUND WORKS

A stock fund is a revolving fund which operates with money generated through sales. It sometimes obtains goods through capitalization; i.e., it assumes ownership of materiel already in the supply system. When materiel is capitalized, the stock fund does not have to pay for it. The following illustration shows how a stock fund works.

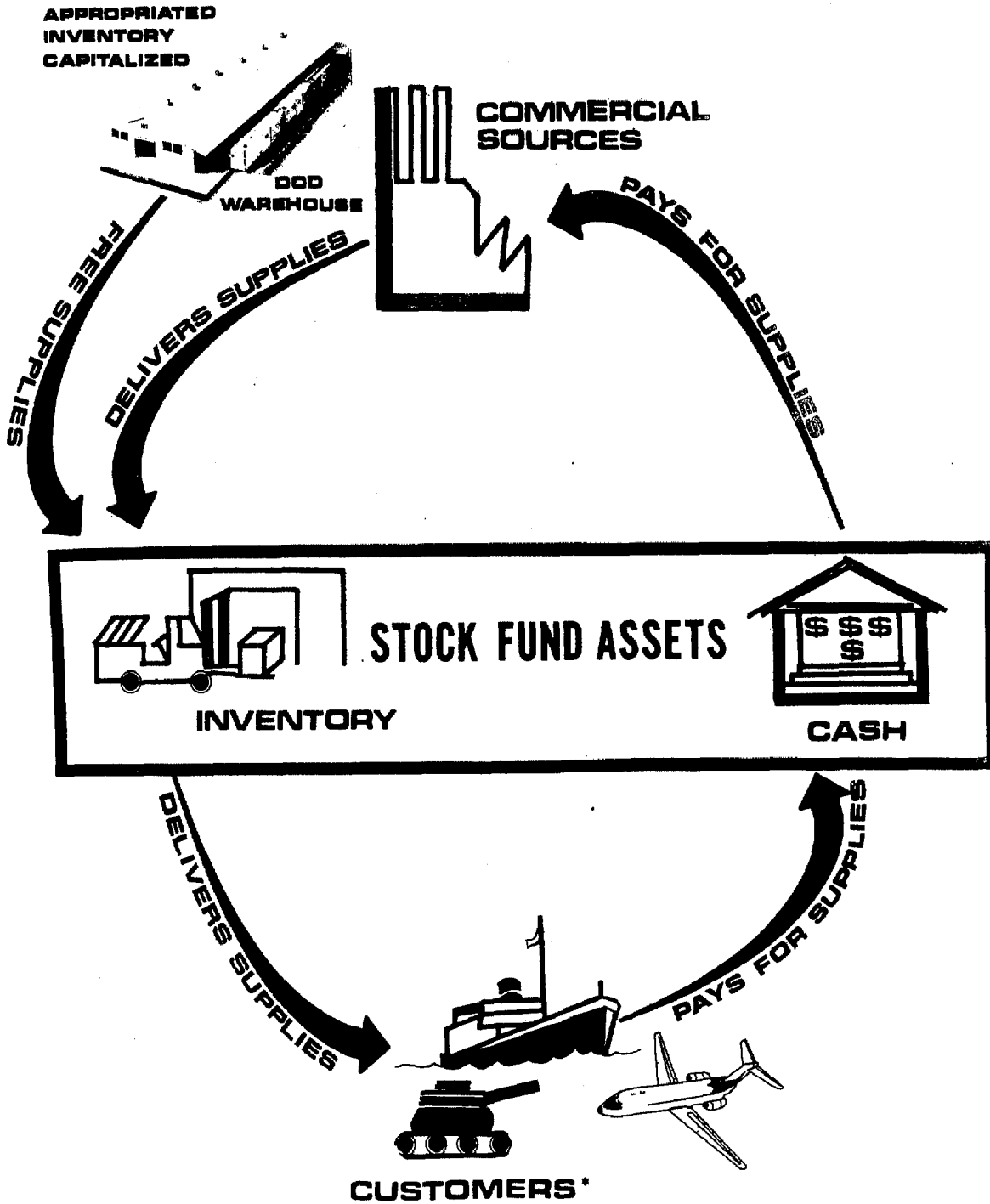
A stock fund is not intended to be self-sustaining. The sales prices do not recover such operating expenses as salaries and storage costs. The expenses which the fund attempts to recover are

- materiel costs,
- transportation costs, and
- foreseeable net inventory losses.

TYPES OF STOCK FUNDS

Since organizational structures and procedures for stock funds have no precise guidelines, each military service has developed its own stock fund concept. Basically, two types of funds have evolved--the vertical and the horizontal.

A REVOLVING STOCK FUND- HOW IT WORKS



* Consist of operating unit such as a maintenance activity, an operating vessel, an artillery brigade, and an aircraft squadron.
 * Obtain annual appropriations to pay for material purchases.

In vertical stock funds, the wholesaler procures inventory from commercial sources with the funds' working capital. The inventories are maintained either at the fund's wholesale storage facility or at the fund's various retail outlets. Reimbursement takes place when the stock fund issues items to the ultimate users not when it transfers items to the retail levels. Thus, regardless where the inventory is maintained, it is owned and controlled by a designated inventory control point.

In a horizontal stock fund, the wholesale stock fund is reimbursed when it transfers items to the retail levels. Thus the wholesale and the retail levels must be funded separately and supported by separate stock fund accounting structures and overhead.

Before stock funds were authorized, the military services acquired practically all materiel with appropriated funds. The services issued the inventory free upon request and placed few, if any, financial restrictions on the amount of inventory that could be requested. The Congress, various Secretaries of Defense, and the Hoover Commission have often expounded stock fund advantages. However, the specific management goals for stock funds have never been precisely spelled out.

Legislative history, hearings, and DOD regulations seem to indicate that stock funds' more important goals are to:

- Provide data for cost-of-performance budgets.
- Automatically generate funds for orderly and timely procurements, thus minimizing the requirement for yearly apportionment.
- Manage items on a DOD-wide basis by a single manager under a simplified financial arrangement.
- Place supply and financial control over both users and fund managers through cost-consciousness incentives.
- Reduce overall inventory by consolidating materiel needed by two or more services.

STOCK FUND ACCOMPLISHMENTS AND PLANS

Along with improved communications, transportation, and electronic data processing, stock funds have contributed to better supply management. The stock funds have placed greater financial consciousness of military operating costs on users.

Each responsible organizational entity, in accordance with the budget cycle for operating appropriations, must estimate its annual requirements for consumable items. According to DOD, this has forced greater economy and efficiency in the use of materiel.

Inventory reductions are indicative of positive performance of a stock fund. Under a recent DOD contract, the Logistics Management Institute analyzed the performance of selected stock funds operations which began and continued in a period not affected by the Korean or Southeast Asia operations. On this analysis the Institute reported:

"* * * the inventory reached a peak within three years from the start, and then declined to a value of from 25 percent to 70 percent of the peak (on the average about 50 percent of the peak) within five years."

The Air Force provided us with the following information on inventory reductions in its Systems Support Division and General Support Division.

<u>Period</u>	<u>Inventory (millions)</u>		
	<u>System support</u>	<u>General support</u>	<u>Total</u>
End of fiscal year 1969	\$1,808.6	\$220.4	\$2,029.0
End of fiscal year 1972	<u>1,327.4</u>	<u>182.0</u>	<u>1,509.4</u>
3-year reduction (percent)	\$ <u>481.2</u> (26.6)	\$ <u>38.4</u> (17.4)	\$ <u>519.6</u> (23.5)

Air Force officials state that part of the reductions result from factors unrelated to stock fund management. They believe, however, that many reductions can be directly attributed to such management.

CHAPTER 2

NEED FOR GREATER FINANCIAL FLEXIBILITY

Since stock funds operate with money from sales, they should have a greater financial flexibility than programs funded through direct appropriations. However, this flexibility has not been fully used because most stock funds are still subjected to appropriation-type controls. Moreover, purchasing constraints imposed through apportionment have interfered with the stock fund's ability to provide effective customer support and have forced stock fund managers to resort to poor business practices such as buying less than optimum quantities and incurring unnecessary costs by canceling purchase orders.

THE APPORTIONMENT PROCESS--HOW IT WORKS

Each operating stock fund activity that incurs obligations must prepare a yearly budget for its supply program requirements. These budgets are consolidated into a single budget for each stock fund division which is then submitted to the Office of the Secretary of Defense (OSD) and the Office of Management and Budget (OMB) for approval.

Most stock fund divisions are subjected to modified appropriation controls over funding. The primary difference between stock funds and programs funded by direct appropriations is that congressional and presidential approval is not required for stock fund expenditures. OSD and OMB limit the amount of materiel which stock funds can purchase for resale.

OSD and OMB primarily consider two factors--sales and inventory--in determining the amount of obligational authority. For the same level of inventory to be maintained during the year, the obligational authority should equal sales. If the inventory is too low or too high, the obligational authority will be increased or decreased accordingly.

Whether the proper amount of obligational authority is provided depends on the stock fund manager's ability to forecast the amount and type of sales. Both factors are difficult to predict--rapid military buildups, decreased military activity, or introduction of a new item could all significantly affect sales.

When the obligational authority is inadequate, the fund managers can request increases. However, obtaining increases may take a long time since increases must be approved in a manner similar to that employed in approving the original budget.

Once the obligational authority is approved, it is apportioned among the various divisions. These apportionments are generally made for fiscal quarters; however, they can be made for complete fiscal years.

RESULTS OF INADEQUATE OBLIGATIONAL AUTHORITY

Purchasing constraints imposed through apportionment have interfered with the stock funds' ability to provide effective customer support and have forced stock fund managers to resort to poor management practices. These include purchasing less than optimum quantities or incurring unnecessary costs by canceling purchase orders. A more serious effect is--not being able to provide materiel to the users when needed.

Buying less than economic quantities

Stock-funded items generally should be bought in economic order quantities (EOQs).¹ EOQs are determined by balancing procurement costs against inventory holding costs. If less than the economic quantity is bought, the volume purchase advantage is lost, operating costs are increased, and additional contracts must be awarded.

Our review showed that, given inadequate funding, the fund managers generally attempt to work within the funds' obligational authority by purchasing less than the EOQ. For example, the Air Force's Systems Support Division which manages 533,000 items normally buys on an EOQ basis (equal to a 1-year supply for certain items with an annual issue value of \$600.) For most of fiscal year 1972 it could not buy on an EOQ basis for most of those items.

¹Quantities sufficient to last 3 months to 4 years, depending on unit cost and frequency of demand.

Reducing the normal EOQ permits purchasing a wider range of items. However, the depth of stock is reduced and as pointed out in a recent LMI report¹ the supply system "may be operating at an unnecessarily high total cost level. The excessive costs arise from increased numbers of requisitions, a large number of small shipments, thus increasing supply and transportation costs and a larger number of back orders with the resulting cost of down time of essential equipment." The stock funds do not keep statistics on the additional orders necessitated by funding constraints; therefore, we could not determine the increased ordering cost.

Cancellation and deferral of purchases

Purchase requests were deferred or canceled to stay within procurement ceilings. Since new purchase requests often had to be submitted, operating costs increased.

--The Defense Electronics Supply Center canceled purchase requests in fiscal years 1970 and 1971 to stay within ceilings for a particular fiscal quarter. New purchase requests were submitted as funds became available. Defense Electronics Supply Center officials estimated that this resulted in 44,470 unproductive labor-hours during fiscal years 1970 and 1971.

When funds are not subsequently made available for procurement, the customers do not receive the necessary support.

--The Army's Electronics Command canceled purchase requests amounting to \$5 million in November 1970 to stay within established procurement ceilings for fiscal year 1971. By the end of that year, sufficient funds had not been made available to purchase \$2.9 million of the canceled materiel needed to fill customers' orders.

Adverse effects on users

We found that the fixed obligational authority caused materiel shortages at both retail and wholesale outlets of stock fund operations.

¹Logistics Management Institute (LMI) report dated June 1973 "Financing the Army Inventory".

Although retail outlets get some of their inventory from commercial sources, they get most of it from managers of wholesale stock funds. In a horizontal system, retail outlets receive specific obligational authority which is not always adequate to stock materiel in the range and depth needed to support customers. Thus, the outlets defer replenishing inventories or order smaller quantities than needed. For example:

--The retail outlet at the New Cumberland Army Depot in Pennsylvania, did not have sufficient obligational authority at the beginning of fiscal year 1971 to purchase all materiel its maintenance activity needed. By October 1970 the maintenance activity reported that 14 maintenance programs had stopped or slowed work because of shortages even though the maintenance activity itself had sufficient appropriated funds available to pay the retail outlet for the needed materiel. The outlet requested a \$5.8 million increase in obligational authority. Although needed immediately, the funds were made available in increments extending to February 1971.

A DOD review team found that similar purchasing constraints prevented a Fort Hood, Texas, retail outlet from effectively supporting its customers in fiscal year 1972.

The obligational authority for wholesale levels also was not always adequate to procure all materiel needed for effective support. For example:

- At the Air Force Air Materiel Area in Utah, the fund managers received less than they requested in fiscal year 1972. As a result, there were shortages of repair parts for the F-4 aircraft. These shortages caused (1) a work stoppage on a repair program, (2) deadlining of aircraft, and (3) cannibalization; i.e., removal of parts from aircraft and major equipment.
- The Army's Electronics Command had its fiscal year 1971 obligational authority reduced from \$75 million to \$48 million. By the end of the fiscal year, the percentage of requisitions supply managers were able to fill dropped from 75 to 65 percent and a zero balance existed in about 8,400 different line items authorized for stockage.

MORE FLEXIBLE CONTROLS ARE POSSIBLE

Although OMB uses the apportionment process to control the budget execution of some revolving funds, it can exempt a major stock fund or any of its operating divisions from the process. DOD may request exemptions from the apportionment process when stock fund managers show that they are able to properly manage the funds and to adopt more flexible fiscal controls. Five of the seven divisions of the Air Force's stock fund have been exempted under this policy. The exempted divisions operate under an "inventory and capital control" concept which provides incentives for managers to improve overall management of inventories and still allows OMB and DOD to retain control over obligations.

In the inventory and capital control concept, OMB and OSD receive operating budgets with essentially the same data submitted by activities controlled by the apportionment process. However, the budgets include estimates of inventory objectives and sales required, by month, for the program year. OMB and OSD approve the inventory objective as the control lever rather than as specific obligational authority. The operating activities submit reports to OSD and OMB comparing actual operations with approved objectives.

The annual inventory objective is set at a level required to effectively support forecast sales programs. When OSD and OMB approve the objective, the fund managers can buy the needed replacement materiel. Fund managers make monthly reviews to detect any variation between actual and forecast amounts. If actual sales are higher or lower than projections, the inventory objectives may be increased or decreased, respectively. Thus, the stock funds become more flexible and still control obligations.

Some Air Force officials believed that this concept would improve inventory management and decided that its General Support Division should operate under the inventory and capital control concept in fiscal year 1972. Pending a decision on a request to OSD that the division be exempted from apportionment controls, this concept was implemented. The Air Force officials stated that the division has effectively supported customers since it was placed under the more flexible controls.

CONCLUSIONS

Apportionment control restricts the financial flexibility needed to take full advantage of stock fund operations. Providing financial flexibility to stock fund managers could minimize, or even eliminate, many of the problems we identified.

We believe that the Air Force's success with inventory and capital control shows that this is a workable method. It provides greater flexibility, allows managers to control the size of the fund, and conforms to basic stock fund principles.

We are not proposing that the specific inventory and capital control method currently being used by the Air Force be adopted as the standard for all DOD stock fund divisions, since there may be other ways to achieve the same or greater flexibility. However, we do believe that stock funds should become revolving funds with sufficient financial flexibility to effectively service its customers.

RECOMMENDATIONS, AGENCY COMMENTS, AND OUR EVALUATION

We recommend that the Secretary of Defense encourage the use of more flexible financial controls.

By letter dated November 19, 1973, DOD advised us that it agreed in principle that the financial controls should be more flexible and stated:

"Considerable flexibility was provided the Military Services and the Defense Supply Agency beginning with the last Stock Fund Financial Plan for Fy 1973 and the Initial Plan for FY 1974. Under the present plan, the Services/DSA are authorized to reprogram stock funds among their several divisions with RS 3679 controls imposed only at the total level. In addition, specified flexibility amounts are approved for materiel categories or divisions wherein the volume of sales is subject to significant fluctuations."

DOD stated, however, that further increases in flexibility depended on many factors, such as improvement in management practices employed by stock managers.

We recognize that many factors influence the degree of financial flexibility provided managers. We encourage DOD to continue to work for improvements in the management practices needed to provide financial flexibility to its managers.

CHAPTER 3

IMPROVEMENTS POSSIBLE BY

VERTICAL MANAGEMENT NOT FULLY REALIZED

Since a vertical stock fund permits a greater degree of integrated management of wholesale and retail inventory, OSD has urged the military services to discontinue using horizontal stock fund systems and to adopt properly designed standard vertical systems by 1980. As of January 1973, only the Air Force had indicated a willingness to use a vertical stock fund system proposed by OSD on a worldwide basis. The Army, however, has started to partially implement the vertical system by shipping materiel directly overseas to the last point of storage and bypassing the Army's overseas depots.

DIFFERENCES IN STOCK FUND CONCEPTS IN USE

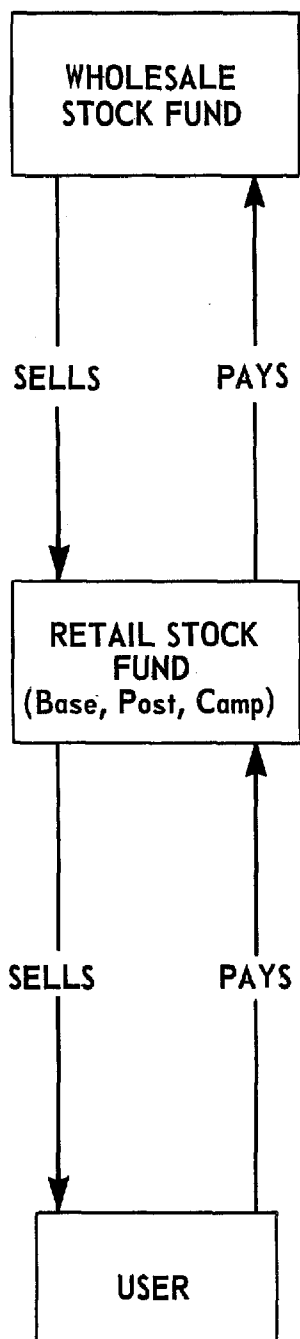
In vertical stock funds, the wholesaler procures inventory from commercial sources with the funds' working capital. The inventories are maintained either at the fund's wholesale storage facility or at the fund's various retail outlets. Reimbursement takes place when the stock fund issues items to the ultimate users not when it transfers items to the retail levels. Thus, materiel, regardless of where the inventory is maintained, is owned and controlled by a designated inventory control point.

In a horizontal stock fund, the wholesale stock fund is reimbursed when it transfers items to the retail levels. Thus the wholesale and the retail levels must be funded separately and supported by separate stock fund accounting structures and overhead.

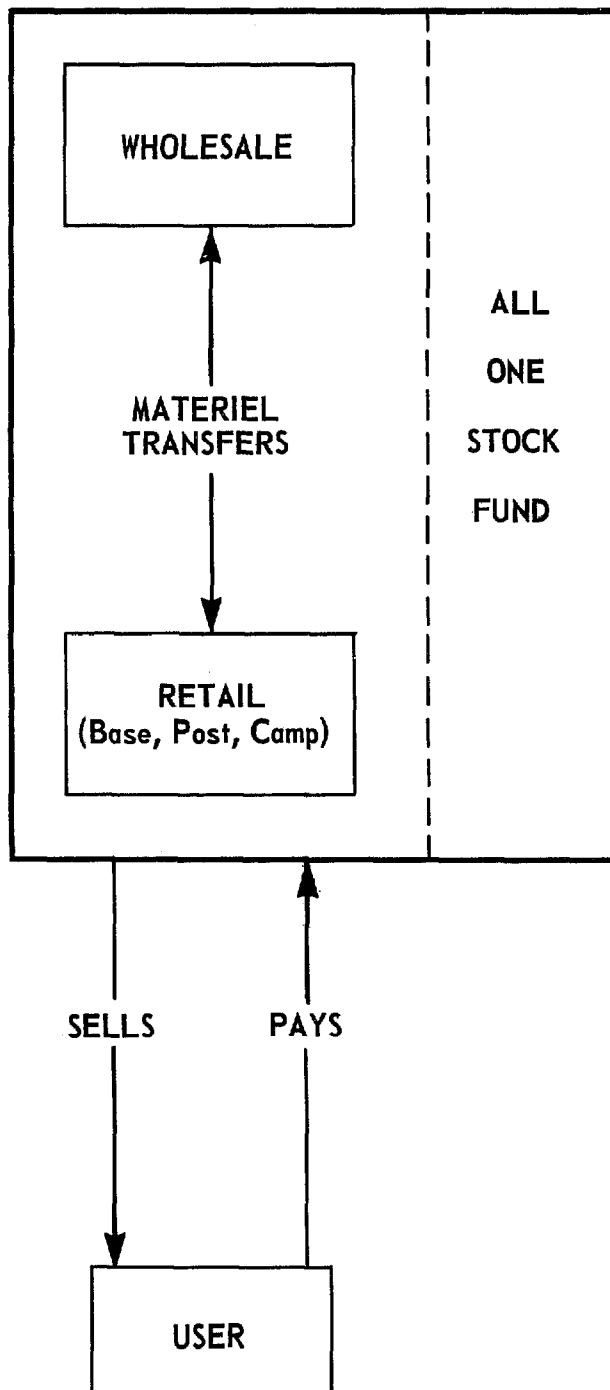
Until 1963 DOD required the services to use vertical stock funds because it interpreted authorizing legislation as permitting sales to the ultimate users only. At that time, however, DOD allowed the services to use horizontal stock funds, permitting one military supply activity to sell materiel to another before it was sold to the ultimate user. (See the following illustration of concept differences.)

HORIZONTAL AND VERTICAL STOCK FUNDS

HORIZONTAL



VERTICAL



VERTICAL SYSTEM PROPOSED BY DOD

In June 1971 officials responsible for developing the DOD logistic plan recommended that vertical stock funds be adopted throughout the distribution systems. A vertical stock fund contains the characteristics necessary for integrated management. For example, in such a fund, a DOD item manager:

- Owns materiel to the last storage point before the materiel is issued for use. This normally would be the closest practical point to combat operations.
- Uses only two echelons of supply (one at wholesale and another at retail) to support customers.
- Computes system-wide requirements on retail level documents that reflect actual use.

The vertical stock fund is not a new supply management concept. As mentioned above it was used by all three services until 1963. The Air Force has used it successfully for the past 4 years in its Systems Support Division to manage items for which the Air Force has sole management responsibility. The Navy has also used a vertical fund for many years to manage items for which it has sole management responsibility.

DOD is also implementing a vertical fund for fuel under the Defense Supply Agency's (DSA's) integrated management. DOD officials said they were having no serious problems and expected successful implementation.

LMI's study entitled "Financing the Army Inventory" recommended a vertical method of financing Army inventory which would give item managers greater visibility of assets and could improve procurement planning and use available resources. LMI estimated that the Army could save 600 man-years by reducing administrative workload in billing and reconciliation between fund levels.

POTENTIAL ECONOMIC IMPROVEMENTS

The vertical system offers several advantages in supply operations, including those listed below.

Reduction in inventories

Army, Navy, and Marine Corps retail supply activities get materiel from wholesale activities and retain it as their inventory to support other supply activities. DOD and the military services are aware of this intermediate, or duplicate, inventory level.

For the most part, these intermediate levels are held at facilities considered to be primary stock points or depots. The Navy and Marine Corps limit their duplicate inventories to items obtained from integrated managers, but the Army also includes items obtained from its own wholesale activities. The more significant duplicate levels are located in:

- The Marine Corps' remote storage activities in the United States.
- The Army's theater depots in overseas areas and camps, posts, and stations in the United States.
- The Navy's supply centers in the United States and Pacific naval depots.

Under a vertical stock fund, the user would get direct support from wholesale stock positioned either at the wholesale or retail level. This would require only two levels of inventory for an item, both within the visibility of a single manager, and would permit reduction in inventories.

As mentioned earlier, the Army has started using a Direct Supply Support System to supply its forces in Europe and Korea. This has permitted a \$47.9 million reduction in peacetime levels at theater depots by June 30, 1972. Under this system, materiel is being shipped from wholesale storage points in the United States to the last point of storage overseas, bypassing the Army's overseas depot complex. However, since all transactions still pass through the theater command echelon, most of the processes related to a horizontal system still remain.

The Navy and Marine Corps, however, have taken no action to eliminate their duplicate inventory. We did not determine the amount of inventory that could be eliminated

by relying on direct support to units or the use of consolidated supply points near units. According to the Marine Corps, its duplicate inventory to support peacetime operations amounted to \$5.6 million as of December 21, 1971.

Reduction in inventory holding costs

Eliminating duplicate inventories would reduce inventory holding costs. Military and industrial cost studies showed that annual inventory carrying costs ranged from 20 to 25 percent¹ of the cost of all commodities. Eliminating the Marine Corps' \$5.6 million duplicate inventory could save the Government about \$1.1 million annually.

Eliminating duplicate inventory functions

DOD's objective is to eliminate any unnecessary duplicate inventory functions. As an example, under the vertical management concept the scope of the mission at the Marine Corps Supply Activity would be substantially affected.

For years this activity has duplicated management functions on items managed by other services or agencies. In our November 1970 report to the Congress "Savings Attainable by Eliminating Duplicate Stocks in the Marine Corps," we recommend that the duplicate functions be eliminated and that direct support from integrated managers to the retail supply levels be allowed.

Reduction in accounting transactions

A horizontal system requires two buy-sell transactions--one when a wholesale activity sells to a retail activity and another when the retail activity sells to a customer. Likewise, two transactions are required for customers to return materiel to the wholesale activity.

The vertical system requires only one buy-sell transaction--from the wholesale activity to the customer. The retail activity reports sales to the wholesale activity which bills the customer.

¹These estimates cover interest on investment in inventories, costs of warehousing and preventing deterioration of inventories, and inventory losses from obsolescence.

Use of the vertical system will eliminate millions of accounting transactions the horizontal systems require. For example, over 5.3 million of the Defense Electronics Supply Center's fiscal year 1971 sale transactions could have been eliminated in the vertical concept. Data was not available on the estimated savings.

Duplication and problems in specialized support depot operations

When DSA became operational in 1963, DOD allowed duplicate inventory management functions in DSA's specialized support depots (SSDs).

DSA positions wholesale stock at its two SSDs at the naval supply centers in Norfolk, Virginia, and Oakland, California. The SSDs are to support the naval fleet and overseas activities and other customers located within 25 miles.

DSA has given the Navy stock control and issue authority for items in SSDs. Numerous DSA and DOD reports have expounded the disadvantages of such an operation. The more important disadvantages are listed below.

1. The concept results in dual facilities. For example, DSA operates the Defense Depot Tracy about 50 miles from the Oakland SSD. Tracy supports military services and Navy customers not supported by the SSD. In fiscal year 1971 only 65 percent of Tracy's storage capacity was used.
2. At least 10 percent of DSA materiel is reserved for the exclusive support of the Navy. This unnecessarily emphasizes supporting one service.
3. The inventory records maintained by the Navy at SSDs duplicate inventory records maintained by DSA.

The Navy claims that SSDs are absolutely essential to support its fleet. It contends that the fleet is too mobile to requisition supplies directly from DSA supply centers. The following conditions, however, suggest otherwise.

--During the 18-month period ended March 31, 1972, the Norfolk SSD filled only 69 percent of the

requisitions required from customers and passed the remainder of the requisitions to DSA supply centers.

--Oakland's SSD major customers are naval supply depots in the Pacific area.

During fiscal year 1972 about 45 percent of the materiel issued at Oakland and 25 percent at Norfolk was issued to non-Navy customers. Furthermore, demands from Navy customers for Defense Electronics Supply Center items indicated that only \$19.9 million of the \$61.5 million worth of such stock positioned at the SSDs was really needed.

MILITARY SERVICES IMPLEMENTATION

The Air Force was the only service that indicated it as proposed by OSD was willing to use a vertical stock fund. The Army and the Navy had reservations about using the vertical system.

Air Force

The Air Force concurred with the extended use of the concept but stated that:

"Prior to establishing vertical stock funds which could be applied across service/agency lines, intraservice vertical stock funds systems should be developed in each service to finance expense material controlled by IMs (item managers) of that service. * * * When this position has been reached, the objective of eliminating stock funds across service/agency lines should be pursued."

Navy

The Navy said it was willing to participate further in discussions and studies on the practicality of using the vertical system but wanted to retain the horizontal system. DOD officials said the Navy's response included the Marine Corps' position.

Extending the vertical system affects integrated manager items in the retail system of the Navy and the Marine Corps. The Navy's response contained two arguments against the vertical system.

- The loss of a unified support base from which an operating commander can get almost all of his materiel requirements without dealing with a number of wholesale managers, all having potential policy and procedural variances.
- The loss of flexibility in using available resources for assigned missions.

DOD plans to continue operating support bases--when they are essential--under policies and procedures applicable to all wholesale activities. The proposed vertical system should increase flexibility over the present horizontal system. It will allow the services to participate in setting stock levels.

Army

The Army replied to OSD that its logistic plan contained several features of vertical management but did not have a total vertical supply management system. It said:

"The extent to which the Army will move in that direction remains undecided and should be decided by the Army, depending upon results obtained through the evolutionary changes now in progress."

The Army suggested that it not be asked to further consider vertical stock funds.

CONCLUSIONS

We believe that the vertical stock fund concept will realize not only increased efficiencies in supply management but also significant reductions in the Government's investment in inventories.

We recognize that physically implementing a vertical system throughout all the military services is difficult and that it will take time. DOD believes that a relatively long leadtime will be required to fully implement vertical stock funding with the desired system capability. The DOD-proposed system would operate with centrally designed, standardized, and automated financial systems. This capability apparently does not exist in the present system. DOD will have to develop the necessary controls to insure

that the program will work. The action on fuels and subsistence items, however, suggests that the desired capability is not absolutely necessary to successfully implement the vertical concept.

In our opinion, the services' reluctance should not delay the implementation since the military has already successfully used the vertical system. We believe that sufficient time has already been spent studying the vertical system and determining a positive course of action.

Duplicate SSD operations should be eliminated because they increase overall cost to the stock funds without substantially improving supply effectiveness.

RECOMMENDATIONS, AGENCY COMMENTS, AND OUR EVALUATION

We recommend that the Secretary of Defense:

- Eliminate duplicate SSD operations.
- Require all military services to use the vertical stock fund concept.

Regarding eliminating duplicate specialized support depots, DOD stated that it:

"Is addressing 'duplicate' echelons of supply on a broad basis under LSPC [DOD Logistics Systems Policy Committee] sponsorship and by internal staff action. As effort progresses, the determination of the need for a possible duplicate echelon of supply at specific activity is made based on a functional analysis of all factors involved including military necessity. The application of vertical supply management techniques and the technical advances in communications, ADPE and materiel movement methodology will have a considerable influence on determining redundancy in echelons of supply. As postulated in DOD LOGPLAN objectives, the emerging distribution system will be vertically oriented and have the capability of supplying the armed forces under peace and wartime conditions."

Eliminating those duplicate SSD operations described in this report would result in savings significant enough to warrant immediate action.

Regarding use of vertical stock funds DOD advised that:

"Final comment on this recommendation will be made within sixty days. As you can appreciate, DOD is not considering 'vertical stock funds' as an independent issue. Our continuing review of stock fund operations has led to the conclusion that a vertical stock fund is feasible when vertical management concepts are in place and operative."

We will assess the DOD final comments on this issue.

CHAPTER 4

ADDITIONAL ITEMS SHOULD BE IN THE STOCK FUND

In recent years the military services have greatly expanded their stock funds through capitalization of additional items. By 1972 inventory managers used stock funds in managing about 86 percent of the 3.7 million items in the DOD supply system.

Nevertheless, at least 74,000 additional items worth about \$541 million should be in stock funds. These have been excluded because the military services, except the Army, have been reluctant to include high-unit cost items in stock funds.

CRITERIA FOR CLASSIFYING ITEMS

It was never considered practical to require a user to pay for such major end items as tanks, planes, and ships. These investment-type items are acquired with appropriated funds and are issued to users without charge and are not included in the stock fund. Other items which are consumed or lose their identity in use (such as food, fuel, and certain repair parts) are considered expense items and are included in the stock fund; users are charged for these items.

The following table indicates how current DOD criteria for classifying items have been applied.

<u>Type of item</u>	<u>Classification</u>	
	<u>Expense</u> <u>(stock fund)</u>	<u>Investment</u> <u>(appropriated)</u>
Repairable items:		
Major end items		X
Other end items	X	X
Components, assemblies, and subassemblies	X	X
Consumable items:		
Minor end items	X	
Ammunition and explo- sives		X
Mod kits		X
Repair parts	X	X
Food, clothing, fuel, etc.	X	

FIELD-LEVEL REPAIRABLE ITEMS EXCLUDED
BY THE AIR FORCE

There is no standard system among the DOD components for managing and controlling investment items with repairable characteristics. This has led to inconsistent application of OSD's stock fund concepts.

Repairable items is one of the categories of materiel we found classified as being both investment and expense. OSD classified repairable items as either field repairable (relatively simple to repair close to the user level) or as depot repairable (more complex items which can be repaired only at special facilities). To determine whether an item should be in the stock fund, OSD's guidelines also suggest that the degree of management over an item be the determining factor.

The Army, Navy, and Marine Corps generally consider all field repairables as expense and thus include them in their stock funds. The Air Force includes in its stock fund all field repairables managed by others but only includes Air Force-managed field repairables if they cost less than \$100 each. At the beginning of fiscal year 1973, the Air Force excluded some 60,900 different items worth \$392 million because their unit cost was more than \$100.

Air Force officials said the quality of management might deteriorate if the items were placed in stock funds and that centrally managing the items would provide greater visibility and control. Their position conflicts with statements made by the Assistant Secretary of Defense (Comptroller) during fiscal year 1971 appropriations hearings.

"* * * all expense-type items formerly financed by procurement funds have been transferred to and capitalized under the stock funds. * * * As the result of these actions, the stock fund now finances the inventory levels for all expense-type items. This provides for uniformity between the services, better inventory control and utilization, and permits consumer fund financing on a consumption basis."

During fiscal year 1972 hearings the Air Force's Deputy Director of Budget stated:

"Now that we have included all our expense-type supply items in the Stock Fund, we are gaining greater visibility of our inventory transactions and status. We are confident that this information will permit us to achieve more efficient and economical management."

CONSUMABLE ITEMS EXCLUDED BY
THE NAVY AND MARINE CORPS

According to OSD criteria, consumable materiel (except ammunition, explosives, modification kits, and sometimes repair parts) should be classified as expense items and included in the stock funds, regardless of the unit value or management control exercised over it. Because the Navy and the Marine Corps have not followed DOD's guidelines, they omitted from the stock fund consumable items worth at least \$149 million at the end of fiscal year 1971 as shown below.

The Navy's Ships Parts Control Center (SPCC) did not include consumable items if their unit value was \$1,000 or more. The Navy Supply Systems Command also directed SPCC to exclude items which were in the "high value asset control" inventory management program. Items were selected for that program on the basis of unit value or the anticipated value of annual procurement. As of June 30, 1971, SPCC did not stock fund about 11,000 different consumable items worth about \$73 million. A limited review at the Navy's Aviation Supply Office showed that about \$9 million worth of expense items had been omitted for similar reasons.

The Marine Corps also excluded consumable items on the basis of unit cost. It did not include items with a unit value of \$500 or more; therefore, such consumable items as cannon tubes and electron tubes were omitted. Weaknesses in the corps' procedures and controls over classifying items caused other items to be excluded. The corps had excluded a total of about 2,900 different items worth about \$67 million as of December 31, 1971.

CONCLUSIONS

All items used by the military services which meet OSD criteria for stock fund management have not been transferred to stock fund control. The stock funds should include all field repairables, regardless of the degree of control exercised. These items specifically lend themselves to stock fund management.

A periodical review of items not included in stock funds should be made to determine whether they should be included and to detect arbitrary criteria the services may use to exclude items.

RECOMMENDATIONS AND AGENCY COMMENTS

We recommended that the Secretary of Defense issue new instructions directing that field repairables be included in stock funds.

DOD agreed in its letter dated November 19, 1973 (see app. I), that field repairables should be included in stock funds. It stated that current instructions included this requirement and that it would be emphasized for compliance.

CHAPTER 5

IMPROVED PROGRAM NEEDED FOR RETURNING MATERIEL

DOD's current materiel return policy allows customers to return materiel if (1) it is needed elsewhere and (2) it is worth more than the costs of returning it. The volume of returns--materiel totaling about \$4.5 billion was returned in fiscal years 1970, 1971, and 1972--makes it essential that both factors are given real consideration.

DIFFERENT CREDIT POLICIES

DOD policy is that users should receive full credit for authorized returns unless the items need repair; in that case, the users should receive full credit minus the repair costs. The military services do not always follow DOD's policy; some are too restrictive and others are too liberal. For example:

- The Navy and Air Force require users to return materiel to the retail outlets which support them. The users are given credit only if that particular outlet needs the materiel. This practice conflicts with DOD's policy that credit should be given if the items are needed anywhere, not only at the location where the items are turned in.
- The Navy does not give credit for items that can be economically repaired, contrary to DOD's policy requiring partial reimbursement. The Navy charges the customer the full standard prices for serviceable items issued to replace the repairable ones.
- The Marine Corps allows its two industrially funded depot maintenance activities full credit for all serviceable materiel returned, without regard to whether the item is needed elsewhere. The corps implemented this policy so the two maintenance activities would not have to absorb losses on inventories that became excess as repair programs changed during the Vietnam buildup.

During the first 7 months of fiscal year 1971, the two maintenance activities returned more than 25 percent of the amount they purchased. Items turned in for credit are

possibly already excess in the fund. Although the Marine Corps was prompted to review its policy, it decided to continue the policy through fiscal year 1972 on all items supplied to the depot maintenance activity by remote storage activities (retail outlets which supply most of the items used by the depot maintenance activity).

--The Army allows some credit for all excess materiel returned to its retail outlets. Full credit is given for serviceable materiel that can be used by the retail outlet. Credit for all other materiel varies by category and ranges from 10 to 100 percent. The Command sets the percentages quarterly by dividing the amount of credits obtained from wholesalers for each category by the value of excesses returned to them. Command officials have adopted this policy to encourage return of all excesses.

UNECONOMICAL MATERIEL RETURNS
PERMITTED BY SERVICES

Despite DOD policy to be contrary, stock fund customers return many items worth less than the costs of returning them. These costs include paperwork costs involved in shipping and receiving the items, handling costs, and transportation costs. The principal cause, as shown below, is that the services have established different minimum dollar values, generally too low, for returning materiel to wholesale levels.

<u>Major stock fund</u>	<u>Minimum values</u>	
	<u>U.S. customers</u>	<u>Overseas customers</u>
Army	\$20	\$50
Navy	7	7
Marine Corps	5	5
DSA	7	25
Air Force	50	50

These values are not representative of the minimum cost to return an item. For example, DSA originally established its minimum value in 1963. This amount represented the cost at that time to process a return once it was received by the inventory managers. It did not include the transportation, packing, crating, and handling costs, which were to be added by customers to arrive at the economic return value. The

minimum values used by the Air Force were arbitrary amounts that were set when its stock funds were expanded in fiscal year 1969.

If more realistic costs of returning the items were used, significant savings could be realized. For example, we estimate that the Navy's SPCC annually processes about 4,560 materiel return transactions involving only \$12,800 worth of materiel. If the cost involved in returning the materiel varied from \$10 to \$50, the loss would be anywhere from \$32,800 to \$215,200, as shown below.

<u>Number of transactions</u>	<u>Cost per transaction</u>	<u>Total cost</u>	<u>Less value of materiel returned</u>	<u>Loss</u>
4,560	\$10	\$ 45,600	\$12,800	\$ 32,800
4,560	20	91,200	12,800	78,400
4,560	30	136,800	12,800	124,000
4,560	40	182,400	12,800	169,600
4,560	50	228,000	12,800	215,200

We did not try to establish a minimum return value. However, DOD is considering raising its minimum value to \$25, and the General Services Administration has recently set values from \$25 to \$300, depending on the commodity.

CONCLUSIONS

For many different reasons--some avoidable and some not--intermediate level supply activities and users of stock fund materiel always accumulate excess materiel. In recognition of this, DOD allows excess materiel to be returned to the stock fund. In general, the DOD credit policy appears to be reasonable. Full and consistent application of this policy would encourage returns; at the same time it would discourage overbuying. However, actual practices vary and improvements are needed in the implementation of DOD's policy.

A balanced credit policy must be implemented if returns of excesses are to be encouraged and financial discipline is to be enforced. Users should receive all the credit they are entitled to; however, an unlimited credit policy does not promote financial discipline and should be stopped.

It is not economical to permit materiel returns from retail levels when the cost of return exceeds the value of the materiel. The present minimum values to control materiel returns are not representative of costs; therefore, uneconomical quantities of materiel can be returned to the stock fund.

RECOMMENDATIONS AND AGENCY COMMENTS

We recommended that the Secretary of Defense:

- Insure that credit is given for materiel returned whenever there is a need for the materiel and that partial credit is given for items in need of repair.
- Stop the practice of giving credit for returned materiel when there is no need for the materiel.
- Establish new standard minimum values of items to be eligible for return, preferably by commodity category.

In a letter dated November 19, 1973, DOD concurred in those recommendations and stated that a policy memorandum dated February 6, 1973, set the reporting level for retail activities at \$10 for items which are totally excess to the retail level needs and \$50 for items with only partial excess quantities.

DOD advised that the requirement to adjust the minimum values for accepting returned items by commodity category will be evaluated.

CHAPTER 6

SCOPE OF REVIEW

In performing this review, we evaluated the policies, procedures, and instructions governing stock fund operations. Our work included a review of pertinent records and discussions with officials at headquarters, at inventory control points, and at the customer level.

The size and scope of stock fund operations required that our review be limited. We, therefore, did not consider all aspects of stock funds in this review. Our review emphasized

- the criteria for including items in stock funds,
- financial controls imposed on stock fund managers,
- management controls over materiel returns from customers, and
- a comparison of the horizontal and vertical systems.

Our work was performed at the following activities.

Army:

New Cumberland Army Depot
Fort Meade, Maryland
Fort Monroe, Virginia
U.S. Army Electronics Command

Navy:

Aviation Supply Office
Fleet Material Support Office
Norfolk Naval Supply Center
Ships Parts Control Center

Marine Corps:

Marine Corps Supply Activity
Camp Pendleton, California

Air Force:

Ogden Air Materiel Area, Utah
Ent Air Force Base, Colorado

Defense Supply Center:

Defense Electronics Supply Center

Blank PAGE

36



COMPTROLLER

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

11-19-73

Mr. Werner Grosshans
Assistant Director-In-Charge
of Materiel Management
U. S. General Accounting Office

Dear Mr. Grosshans:

The Secretary of Defense has asked me to reply to your letter of May 14, 1973, which forwarded the GAO draft report on "Department of Defense Stock Funds -- Accomplishment and Problems " (OSD Case #3624).

I am enclosing the Department of Defense Partial Reply to the report.

Sincerely,

Terence E. M'Uany

Enclosure

DEPARTMENT OF DEFENSE (DoD)

PARTIAL REPLY GAO DRAFT REPORT OF MAY 14, 1973

ON

DEPARTMENT OF DEFENSE STOCK FUNDS --

ACCOMPLISHMENTS AND PROBLEMS

(OSD CASE #3624)

I. Summary of GAO Findings and Recommendations

In its review of DoD's annual report of personal property for fiscal year 1972, GAO found that DoD's five major stock funds controlled inventories worth about \$8.5 billion and reported net sales of about \$10.4 billion. Because of the amount of money involved, GAO decided to review certain aspects of stock fund management to identify problems which might be preventing attainment of full benefits of the stock fund principle.

Complemented by improved communications, materiel movement technology and automated data systems, stock fund employment has contributed to better supply management. The stock funds have enhanced the user consciousness of military operating costs. Significant reductions in inventory can be directly attributed to stock fund management.

The GAO centered its attention on four broad functional areas:

1. The total item range in the DoD supply system and the degree that such items should be managed in the stock fund environment.

2. The apportionment controls imposed on those stock fund divisions which have technical spare parts as a dominant characteristic. It stated that "purchasing constraints imposed through apportionment (and subsequent allotments to intermediate level activities operating in the horizontal stock fund environment) have interfered with the stock funds' ability to provide effective customer support and have forced stock fund managers to resort to poor business practices." (Parenthetical expression inserted.)

3. DoD's current credit/materiel return policy. As an order of magnitude, GAO pointed out that \$4.5 billion of materiel (assumed to include returns from user to intermediate as well as intermediate to wholesale levels) was returned in FY 1972 and the two preceding fiscal years. Criticism was directed to inconsistent employment by the components of the OSD published policy and the possibility that uneconomical quantities of materiel can be returned to a given stock fund.

(The latter is based on GAO's belief that present minimum values per line item are not representative of costs to process.) (Parenthetical expression inserted.)

4. The DoD-wide level of employment of the "vertical stock fund system." GAO believes that the vertical system should be used by all military components and advanced substantial rationale in support thereof.

GAO recommends that the Secretary of Defense:

- a. Issue new instructions directing that field repairables be included in stock funds.
- b. Encourage the use of more flexible financial controls.
- c. Establish new standard costs for returned material, preferably by commodity category.
- d. Insure that credit is given for material returned whenever there is a need for the material and the partial credit is given for items in need of repair.
- e. Stop the practice of giving credit for returned material when there is no need for the material.
- f. Require all military services to use vertical stock funds.
- g. Eliminate the duplication in specialized support depots.

II. Summary of the Present Department of Defense Position

1. Issue new instructions directing that field repairables be included in stock funds.

The DoD agrees that field repairables should be included in stock funds. Current instructions include this requirement, and this feature of our instruction will be emphasized for compliance.

2. Encourage the use of more flexible financial controls.

The DoD agrees in principle with this recommendation. However, approval for further increases in flexibility is contingent on many factors such as improvement in management practices employed by stock fund managers. It also should be mentioned that the OMB has provided general guidelines against which all requests from stock fund managers for relief from apportionment are evaluated.

Considerable flexibility was provided the Military Services and the Defense Supply Agency beginning with the last Stock Fund Financial Plan for FY 1973

APPENDIX I

and the Initial Plan for FY 1974. Under the present plan, the Services/DSA are authorized to reprogram stock funds among their several divisions with RS 3679 controls imposed only at the total level. In addition, specified flexibility amounts are approved for materiel categories or divisions wherein the volume of sales is subject to significant fluctuations.

3. Establish new standard costs for returned material, preferably by commodity category.

The DoD concurs in the establishment of minimum values per line item for returned material. In a policy memorandum, dated February 6, 1973, the reporting level for retail activities was set at \$10 for items which are totally excess to the retail level needs and \$50 for items with only partial excess quantities. This policy is designed to preclude uneconomical returns to the wholesale system, and also uneconomical and perhaps premature disposal actions. At the same time, these levels permit the inventory manager an opportunity to screen for items which may be in critical need. The requirement to adjust the above stated policy to allow variables by commodity category will be evaluated.

4. Insure that credit is given for material returned whenever there is a need for the material and the partial credit is given for items in need of repair.

5. Stop the practice of giving credit for returned material when there is not need for the material.

The DoD concurs in the two foregoing recommendations.

6. Require all military services to use vertical stock funds.

Final comment on this recommendation will be made within sixty days. As you can appreciate, DoD is not considering "vertical stock funds" as an independent issue. Our continuing review of stock fund operations has led to the conclusion that a vertical stock fund is feasible when vertical management concepts are in place and operative. This prerequisite was recognized on May 30, 1972, in a memorandum addressed to the members of the DoD Logistics Systems Policy Committee (LSPC) by the ASD(I&L) and concurred in by the ASD(C). It is understood that a copy of this memorandum was made available to your staff.

7. Eliminate the duplication in specialized support depots.

Although this recommendation speaks only to the existing "specialized support depots," DoD is addressing "duplicate" echelons of supply on a broad basis under LSPC sponsorship and by internal staff action. As effort progresses, the determination of the need for a possible "duplicate"

echelon of supply at a specific activity is made based on a functional analysis of all factors involved including military necessity. The application of vertical supply management techniques and the technical advances in communications, ADPE and materiel movement methodology will have a considerable influence on determining redundancy in echelons of supply. As postulated in DoD LOGPLAN objectives, the emerging distribution system will be vertically oriented and have the capability of supplying the armed forces under peace and wartime conditions.

APPENDIX II

PRINCIPAL OFFICIALS
 RESPONSIBLE FOR MATTERS
 DISCUSSED IN THIS REPORT

Tenure of office	
<u>From</u>	<u>To</u>

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE:

James R. Schlesinger	June 1973	Present
William P. Clements, Jr. (acting)	Apr. 1973	June 1973
Elliot L. Richardson	Jan. 1973	Apr. 1973
Melvin R. Laird	Jan. 1969	Jan. 1973
Clark M. Clifford	Mar. 1968	Jan. 1969

ASSISTANT SECRETARY OF DEFENSE
 (INSTALLATIONS AND LOGISTICS):

Arthur T. Mendolia	Apr. 1973	Present
Hugh McCullough (acting)	Jan. 1973	Apr. 1973
Barry J. Shillito	Feb. 1969	Jan. 1973

DIRECTOR, DEFENSE SUPPLY AGENCY:

Lt. General Wallace H. Robinson, Jr.	July 1971	Present
Lt. General East C. Hedlund	July 1967	June 1971

DEPARTMENT OF THE ARMY

SECRETARY OF THE ARMY:

Howard H. Callaway	May 1973	Present
Robert F. Froehlke	July 1971	May 1973

COMPTROLLER:

Lt. General Edward M. Flanagan, Jr.	Jan. 1973	Present
Lt. General John M. Wright, Jr.	Sept. 1970	Dec. 1972

<u>Tenure of office</u>	
<u>From</u>	<u>To</u>

DEPARTMENT OF THE AIR FORCE

SECRETARY OF THE AIR FORCE:

John L. McLucas	July 1973	Present
Dr. Robert C. Seamons, Jr.	Feb. 1969	May 1973

COMPTROLLER:

Lt. General Duward L. Crow	Mar. 1969	Present
Lt. General T. R. Melton	Apr. 1968	Feb. 1969

DEPARTMENT OF THE NAVY

SECRETARY OF THE NAVY:

John W. Warner	May 1972	Present
John H. Chafee	Jan. 1969	Apr. 1972

COMPTROLLER:

Robert D. Nesen	May 1972	Present
-----------------	----------	---------

COMMANDANT OF THE MARINE CORPS:

General Robert E. Cushman, Jr.	Jan. 1972	Present
General Leonard L. Chapman, Jr.	Jan. 1968	Dec. 1971

Copies of this report are available at a cost of \$1 from the U.S. General Accounting Office, Room 6417, 441 G Street, N.W., Washington, D.C. 20548. Orders should be accompanied by a check or money order. Please do not send cash.

When ordering a GAO report please use the B-Number, Date and Title, if available, to expedite filling your order.

Copies of GAO reports are provided without charge to Members of Congress, congressional committee staff members, Government officials, news media, college libraries, faculty members and students.

AN EQUAL OPPORTUNITY EMPLOYER

UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300

POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE



THIRD CLASS