

GAO

Report to the Chairman, Subcommittee on
Conventional Forces and Alliance Defense,
Committee on Armed Services, U.S. Senate

September 1992

ARMY INVENTORY

Problems Managing Excess Supplies as the Army Draws Down in Europe



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**National Security and
International Affairs Division**

B-237804

September 22, 1992

The Honorable Carl Levin
Chairman, Subcommittee on Conventional
Forces and Alliance Defense
Committee on Armed Services
United States Senate

Dear Mr. Chairman:

As you requested, we examined how the Army's force reductions in Europe have affected the U.S. Army, Europe's (USAREUR) management of excess spare and repair parts. Specifically, we determined whether the command has effectively controlled and appropriately managed the excess materiel that has been turned in by deactivating units or returned from the Persian Gulf.

Results in Brief

USAREUR has had difficulty expeditiously processing the large amounts of materiel turned in by units leaving Europe or returned from the Persian Gulf area following the withdrawal of U.S. forces. As a result, units and supply activities have accumulated millions of dollars of excess spare and repair parts—parts that could be redistributed within the theater or used to meet the requirements of Army units outside the theater.

USAREUR has not effectively controlled the turn-in, management, and disposition of excess materiel. In particular, we found that (1) some units leaving Europe had not followed drawdown procedures for returning materiel, (2) materiel turned in to "amnesty points" was not always returned to the USAREUR supply system, (3) the turned-in materiel was often inadequately documented, and (4) there was no visibility over materiel that was in transit between USAREUR supply activities and wholesale storage facilities.

USAREUR has made improvements in identifying and managing excess materiel. One of USAREUR's most significant initiatives has been the use of a special team to review the management of excess materiel at individual units and to promote improved materiel management throughout the command. This special team, along with other initiatives, is making progress in overcoming a prevailing culture that allows the holding of excess spare and repair parts at all echelons. In this culture, excess materiel that should be turned over to the wholesale supply system for possible distribution outside the European theater is instead retained by

USAREUR's supply activities. The command also maintains ownership of millions of dollars of materiel stored at two facilities operated by the Army's wholesale manager, even though this materiel is excess to USAREUR's needs and authorized inventories.

Background

In response to the changed national security environment and the reductions in U.S. military forces, the Army plans to decrease the number of troops in Europe from the January 1, 1990, level of 216,400 to 92,200 by September 30, 1993. During this drawdown, USAREUR is faced with the disposition of departing units' spare and repair parts.

In general, when a unit is deactivated, its remaining spare and repair parts are declared excess and returned to the supply activity supporting that unit. If that supply activity or higher-echelon supply activities within USAREUR can add the materiel to their inventories to meet authorized stock levels, the materiel is no longer considered excess.¹

Materiel that remains excess after this process is sent to one of two redistribution facilities operated by the Army Materiel Command (AMC), the Army's wholesale manager.² AMC and USAREUR jointly established a redistribution facility in 1986 and later opened the second facility to serve as the central turn-in and redistribution points for excess spare and repair parts.³

These facilities were established to improve the ability of the wholesale supply system to meet USAREUR's needs and to gain better visibility over materiel USAREUR transferred to the wholesale system. Between October 1986 and May 1992, the facilities redistributed about \$3 billion of materiel in the European theater.

¹USAREUR supply activities range from small units that manage 300 line items to larger supply activities that manage over 6,000 line items.

²The Army supply system is divided into two levels—wholesale and retail. When an item is issued from a wholesale depot to a retail installation, it enters the retail supply system. At that time, ownership, accountability, and control of the items pass from the wholesale inventory manager to the retail inventory manager, and the wholesale inventory manager loses visibility over the item. The wholesale managers do not have visibility over most USAREUR-owned materiel.

³A third redistribution facility served the Army's VII Corps but was subsequently closed when the corps deactivated.

USAREUR Has Accumulated Large Amounts of Excess Spare and Repair Parts

USAREUR supply activities have accumulated large amounts of excess spare and repair parts since units began to deactivate in 1990. Army regulations require the supply activities to process the excess materiel and dispose of it appropriately, but we found that the activities had not made this a high priority. We believe that this problem is indicative of the culture within USAREUR that is changing but, to some extent, still allows supply activities to retain ownership of excess materiel rather than returning it to the wholesale supply system. While USAREUR has made progress toward improving the management of excess materiel, supply activities within the theater have identified \$36.1 million of excess materiel still in their inventories as of May 1992.

Persian Gulf War Exacerbated the Problem of Excess Materiel

During the Persian Gulf war, USAREUR's supply activities received only high priority items from the United States. Because they did not know if the supply pipeline would close entirely, the supply activities generally held onto the materiel they had in stock, whether they needed it or not.

At the end of the war in February 1991, many USAREUR units (from the VII Corps) were deactivated in the Gulf and turned their materiel over to remaining units. For example, when two of the command's main support battalions in the Gulf began deactivating, they transferred their inventories to other USAREUR units. According to supply officials, the units accepted the materiel, and much of it was declared excess after being returned to Europe.

In November 1991, when the normal supply pipeline resumed, USAREUR began receiving new spare and repair parts. The supply activities focused their efforts on processing the incoming materiel to fill known stock shortages and meet existing maintenance requirements, not on identifying parts that were excess to their authorized inventories. Consequently, excess materiel continued to accumulate.

Further, the supply activities have had to cope with the large amount of materiel that is continuing to be turned in by units deactivating in Europe. In addition to the \$36.1 million of excess materiel still in the supply activities' inventories, USAREUR units have turned in over \$500 million of excess materiel, including both serviceable and unserviceable materiel, during the first 8 months of fiscal year 1992. The command does not know how much more materiel will be turned in as the drawdown proceeds.

Supply Activities Inundated With Materiel Turn-ins

We found that every echelon of supply activity was inundated with spare and repair parts. Large amounts of unprocessed materiel were on hand, but not on record, at five supply activities we visited in early 1992. The command's Excess Reduction Team, established in December 1991 to inspect units' supply operations, also found large amounts of unprocessed materiel at supply activities. One supply activity, for example, had approximately 60 to 80 trailer loads of unprocessed materiel stored in a motor pool building and the fenced yard around it. The materiel had been accumulating for 4 months.

In addition to accumulating materiel at their facilities, the supply activities have transferred large amounts to AMC's redistribution facilities. To cope with this influx, the redistribution facilities borrowed additional warehouse space from other Army organizations. Even with this space, however, they reached capacity. Because these facilities were being overwhelmed, AMC and USAREUR in February 1992 began using another facility, the Retrograde Processing Point,⁴ to temporarily store and process excess spare and repair parts.

USAREUR Units Have Not Effectively Managed Excess Materiel

USAREUR units were not effectively managing excess materiel, increasing the amount of spare and repair parts that have accumulated and limiting the command's ability to redistribute it to fill requisitions. We identified four specific management deficiencies.

First, deactivating units have not always followed USAREUR's procedures for turning in their materiel. For example, some units did not cancel outstanding requisitions for spare and repair parts as required prior to their departure date. As a result, the spare and repair parts arrived after the units' equipment had been turned in, and the materiel was immediately declared excess.

Another problem was the management of materiel turned in to amnesty points. Several brigade units established amnesty points to allow departing units to turn in materiel that was excess to their authorized inventories without having to explain why they had this materiel. The amnesty points were intended to encourage the return of materiel that otherwise might not be returned. We found, however, that they did not work effectively because the brigade units did not add the returned materiel to their inventories. The

⁴This central facility processes unserviceable materiel and excess of most classes of supply other than spare and repair parts.

materiel, therefore, did not enter the USAREUR supply system for possible redistribution within the European theater, and the command did not have visibility over this materiel.

A third problem was the inadequate documentation that accompanied materiel that was turned in. Although Army regulations require that an appropriate turn-in document be prepared and attached to each item being returned to supply activities, most of the unprocessed excess materiel we examined at supply activities did not meet this requirement. The poor documentation forced the supply activities to devote additional staff time and other resources to identifying and processing excess materiel. Further, the supply activities we visited did not identify the units that were failing to follow the documentation procedures and therefore could not hold them accountable or provide them with guidance or training on the proper procedures.

Finally, we found that USAREUR's supply activities have no visibility over materiel once it leaves their facilities. The Army has no requirements, procedures, or system to (1) track materiel shipped by the supply activities to the redistribution facilities, (2) notify the redistribution facilities of shipments en route from the supply activities, or (3) identify the items included in the shipments. The Army therefore has no assurance that the materiel actually arrives at its destination. This lack of visibility creates the potential for loss or theft because if materiel in transit is lost or stolen, no one would know of or be held accountable for the loss.

USAREUR's Initiatives to Improve Management of Excess Materiel

USAREUR has taken several initiatives to improve its visibility over and management of excess materiel. Since December 1991, the Excess Reduction Team has been inspecting units' supply management operations and encouraging them to process excess materiel. Because of the team's efforts, supply activities have begun sending excess materiel they were holding to the redistribution facilities and the Retrograde Processing Point.

The command also established the Asset Visibility and Redistribution System to enable the screening of requisitions against on-hand assets at the supply activities and to automatically direct the transfer of materiel to fill these requisitions. One of USAREUR's major subordinate commands used this system to redistribute \$18.9 million of materiel between July 1990 and April 1992.

However, another major subordinate command did not use the system successfully. We were told that supply activities viewed the assets they held in their inventories as their own and refused to transfer materiel when directed. The subordinate command subsequently stopped using the system. In March 1992, USAREUR directed the subordinate command to reactivate the system. This time, supply officials are receiving training on the use of the system, and the subordinate command has directed all supply activities to participate. In addition, USAREUR has agreed to test a newly developed Army-wide asset visibility system later this year.

USAREUR Is Retaining Ownership of Unneeded Spare and Repair Parts

As of May 1992, USAREUR was holding about \$105 million of materiel in a special redistribution account stored at the redistribution facilities and the Retrograde Processing Point. AMC and USAREUR screened this special account and reported that at least \$20 million of this materiel was not needed by USAREUR units. Although USAREUR designed this special redistribution account to store only limited amounts of high-demand items, the amount of materiel currently stored in the account greatly exceeds authorized levels. The extensive growth in the size of this special account is largely due to the fact that USAREUR has placed millions of dollars of materiel directly into the account without first screening it against the command's demand history. Because USAREUR is retaining ownership of the items in this special account, the materiel is not available to the wholesale level and cannot be redistributed outside the theater to meet Army-wide requirements. USAREUR officials have recently endorsed a proposal to transfer ownership of the materiel in this special account to AMC so that it can be redistributed throughout the Army with the provision that these items be issued free of charge to USAREUR units.

Special USAREUR Account Was Established

Originally, AMC's redistribution facilities were to accept only materiel that USAREUR returned to the Army's wholesale supply system, but they began to store USAREUR-owned materiel as well in November 1989. The materiel is managed through a special redistribution account that was established to reissue items free to USAREUR units. USAREUR designed the special redistribution account to store only limited amounts of high-demand items. AMC initially authorized USAREUR to store 400 line items for which there had been at least six requests in the last 6 months. Over time, however, AMC has increased the number of authorized line items to about 11,700. USAREUR established the redistribution account to (1) enable it to retain ownership of excess materiel in case units in the theater need it in the future,

(2) ensure that it did not have to pay for the items twice, and (3) save on transportation costs.

Size of Special Account Grew, and Unscreened Materiel Was Added

Since the drawdown commenced and materiel began returning from the Persian Gulf area, the size of the special redistribution account has greatly exceeded the levels authorized by AMC. The size of the account is much bigger than intended because USAREUR has placed millions of dollars of materiel directly into it without first screening the materiel to ensure that it meets the high-demand retention criteria. For example, in an effort to gain accountability over returns from the Gulf, USAREUR added \$127.4 million directly into the account without first determining whether it was needed within the theater.

The size of the account has fluctuated as items have been redistributed. As of May 1992, USAREUR had about \$105 million of materiel in its account—\$47.5 million stored at the two redistribution facilities and \$57.6 million at the Retrograde Processing Point. USAREUR could not provide information on the total number of line items in the account. USAREUR screened the materiel at the redistribution facilities and estimated that \$20 million (42 percent) of the \$47.5 million of materiel will not be needed by units in the European theater.

USAREUR does not know how much of the \$57.6 million of materiel stored at the Retrograde Processing Point will be needed because the facility lacks an automated screening process. All the materiel received at this facility is entered directly into the special redistribution account without a determination of whether it meets the retention criteria.

USAREUR does not periodically screen materiel at any of the facilities to determine whether it is still needed in theater. Without periodic screening, materiel can stay in the redistribution account indefinitely.

Materiel Held by USAREUR Cannot Be Redistributed Outside the Theater

By accumulating unneeded materiel in its special account, USAREUR consumes warehouse space and incurs additional holding costs. In addition, the Army's wholesale inventory managers cannot redistribute the materiel to satisfy outstanding requisitions elsewhere in the Army. AMC has developed a system to provide USAREUR inventory data to the wholesale managers, and these managers can request items on a case-by-case basis. According to Army officials, however, the wholesale managers have not requested the transfer of any items to units outside Europe.

USAREUR officials said they intend to return unneeded materiel to the Army's wholesale supply system so that it may be redistributed outside the European theater, but they have not determined what materiel will be returned or when. USAREUR officials have recently endorsed a proposal to transfer ownership of the materiel in its special account to AMC so that materiel can be redistributed outside the theater to meet other Army-wide requirements. These officials stated, however, that their endorsement of this proposal is contingent on the provision that these assets be available to USAREUR units on a free-issue basis so that the command does not have to pay for the items twice.

Recommendation

We recommend that the Secretary of the Army transfer ownership of USAREUR's special redistribution account to the wholesale inventory managers so that this materiel can be used to fill valid Army-wide requirements.

Agency Comments

We did not obtain written DOD comments on this report. However, we discussed a draft of this report with Army and DOD program officials. These officials generally concurred with our findings and recommendation. They said that the Army has already begun to act on our recommendation to transfer ownership of USAREUR's special redistribution account to the wholesale inventory managers. These officials also provided other specific comments and suggested revisions to clarify the factual presentation of the report. We incorporated these comments and revisions where appropriate.

Scope and Methodology

We performed our work at Headquarters, U.S. Army, Europe; V Corps; 3rd Corps Support Command; 21st Theater Army Area Command; 200th Theater Army Materiel Management Center; U.S. Army Materiel Command-Europe; Military Traffic Management Command, Europe; and selected units of the 1st Armored Division, 3rd Infantry Division, and 2nd Armored Cavalry Regiment.

At each location, we obtained information from officials on the management of excess materiel and the processes used to transfer the excess materiel from the unit level through the supply activities to the redistribution facilities. We specifically gathered information from units and supply activities of one divisional brigade and one regiment that were involved in the drawdown, as well as the divisional supply activities of the two divisions remaining after the force restructuring, to determine the

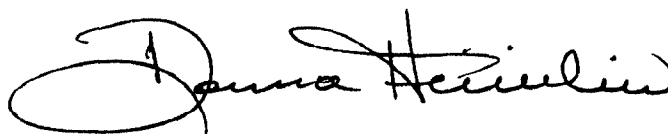
effects of the drawdown on the management of excess materiel. We also visited the redistribution facilities as well as the Retrograde Processing Point.

We conducted our review from November 1991 to June 1992 in accordance with generally accepted government auditing standards.

As arranged with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 30 days after its issue date. At that time, we will send copies to other appropriate congressional committees; the Director, Office of Management and Budget; and the Secretaries of Defense and the Army. We will make copies available to others on request.

Please contact me at (202) 275-8412 if you or your staff have any questions concerning this report. The major contributors to this report are listed in appendix I.

Sincerely yours,



Donna M. Heivilin
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