

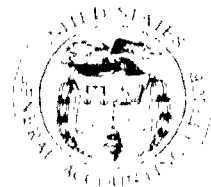
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Fact Sheet for the Chairman,
Subcommittee on Readiness, Committee
on Armed Services, House of
Representatives

April 1993

OPERATION DESERT STORM

DOD's Funding Actions Relating to Leftover Inventories





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

National Security and
International Affairs Division

B-252211

April 26, 1993

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

Dear Mr. Chairman:

You asked that we provide information on the services' residual or excess secondary inventory items¹ resulting from Operations Desert Shield and Desert Storm. On January 14, 1993, we briefed your office on the results of our work. At that time, we agreed to provide the Subcommittee with a report summarizing details relating to the three questions we addressed in our work.

How Did the Office of the Secretary of Defense Determine Its \$3.1-Billion Estimate as the Value of Residual Inventory Resulting From Operations Desert Shield and Desert Storm?

The Office of the Secretary of Defense's (OSD) \$3.4-billion² estimate consists of three parts: (1) the estimated value of the material that was on order/in transit to Southwest Asia, (2) the estimated value of the material that was needed to build up the services' incremental³ inventories, and (3) the estimated value of material expected to be returned to the Department of Defense's (DOD) wholesale level based on historical peacetime returns.

To establish a value for the residual inventory, OSD first estimated a daily expenditure rate for material purchased for Operations Desert Shield and Desert Storm to be \$21.8 million.⁴ OSD then multiplied the estimated daily expenditure rate by the average number of days (79) of on-order/in-transit time for material being shipped to Southwest Asia. This resulted in an estimated value of \$1.7 billion.

OSD then multiplied its estimated daily expenditure rate of \$21.8 million by 45, which was the number of days of incremental inventory that had been

¹Minor end items; replacement, spare, and repair components; and personal support and consumable items. Examples include aircraft and ship components; medical and construction supplies; and clothing.

²This figure was later revised to \$3.1 billion.

³This represents 45 days of in-country inventory needed for Operations Desert Shield and Desert Storm.

⁴OSD calculated the cost of Operations Desert Shield and Desert Storm inventory purchases and divided that total by the number of days of inventory ordered. This resulted in an estimated daily expenditure rate of \$21.8 million. (Total purchases of \$7.3 billion divided by 334 days of inventory.)

established for Operations Desert Shield and Desert Storm. This resulted in an estimated value of \$981 million for the material that was needed to build up the services' incremental inventories.

To establish a value for the expected returns to the wholesale level, OSD subtracted the value of the material on order/in transit and the value of the incremental inventory from total inventory purchases of \$7.3 billion (\$7.3 billion less \$1.7 billion less \$981 million). It applied a factor of 15 percent to the result.⁵ This resulted in an estimated value of \$700 million.

The above three parts, when added together, total \$3.4 billion.

What Does Each Service Estimate the Value of Its Residual Inventory to Be?

The services cannot tell exactly how much inventory came back from Operations Desert Shield and Desert Storm because they used some of it in their normal operations and did not keep track of how much they used, and they do not believe they can estimate the amount. According to the services' officials, following Operations Desert Shield and Desert Storm, the services reassessed their peacetime inventory requirements and demand levels before identifying any excess inventories. While this process was ongoing, material was being redistributed within the services to satisfy requirements and, in some instances, the inventory was also being consumed. If this inventory exceeded requirements and had not been consumed, then the services handled it as excess.

The Marine Corps gathered the material returned in two central locations and then reallocated it; excess material valued at \$155 million was identified. Officials at one Army base said they used some of the residual material to fill current operational needs until June 1992 and then turned in what remained. According to DOD officials, the Army identified residual material of \$1.7 billion at the wholesale and retail supply levels (some of this material has since gone to disposal) and \$.2 billion disposed of in Saudi Arabia. The Air Force and Navy said they have no excess inventory resulting from Operations Desert Shield and Desert Storm.

Marine Corps officials said they have received about \$7 million of credit for excess inventory and have been promised a total of \$46 million for items turned in. The Army did not maintain a separate account for Operations Desert Shield and Desert Storm credits. According to Army

⁵The 15-percent factor is the value of material that can be expected to be returned to DOD's wholesale system based on historical peacetime inventory return rates.

officials, there was no practical means to distinguish credits received for material acquired as a result of the war from credits received for other unrelated material.

What Is the Status of OSD's Proposed Funding Adjustments Relating to This Inventory?

OSD reduced the services' operation and maintenance budgets over 3 fiscal years (1993 to 1995) by about \$3.1 billion—\$2.5 billion for the Army, \$448 million for the Air Force, \$102 million for the Navy, and \$68 million for the Marine Corps. These adjustments were based on OSD's calculations of residual inventory and the services' proportion of the \$7.3 billion Operations Desert Shield and Desert Storm purchases.

DOD's fiscal year 1993 budget request reduced the services' operation and maintenance funding level by \$2.036 billion and proposed to offset this reduction by transferring the same dollar amount from the Defense Business Operations Fund. OSD officials said this approach took advantage of cash assets generated in the Defense Business Operations Fund and provided an incentive for the services to return unneeded inventory to the wholesale system.

The conferees on the fiscal year 1993 DOD Appropriations Act (P.L. 102-396) further reduced DOD's operation and maintenance funding request level by an additional \$1.018 billion associated with Operations Desert Shield and Desert Storm. Thus, a total of \$3.054 billion was made available for transfer from the Defense Business Operations Fund to the various operation and maintenance accounts to restore the operation and maintenance reduction.

The \$3.054 billion transfer amount was broken down as follows—\$2.229 billion for the Army, \$94.5 million for the Navy, \$58.5 million for Marine Corps, and \$672.0 million for the Air Force.

OSD required the services to provide information on their Operations Desert Shield and Desert Storm purchases in order to obtain the transfers. In a March 1, 1993, memorandum to the services, the OSD Deputy Comptroller (Program/Budget) stated that the services had adequately accounted for Operations Desert Shield and Desert Storm purchases. The memorandum stated that a transfer of \$1.588 billion had been initiated, and that the additional \$1.466 billion transfer would occur as cash in the Defense Business Operations Fund became available.

Scope and Methodology

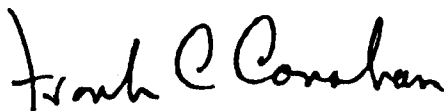
We held discussions with and obtained pertinent documents from officials of DOD, the Army, the Air Force, the Navy, the Marine Corps, and the Defense Logistics Agency. We also visited Fort Campbell, Kentucky; Marine Corps Logistics Base, Barstow, California; Camp Pendleton, California; and the Defense Distribution Region West, Stockton, California.

We did not obtain written agency comments, but we did informally discuss a draft of this fact sheet with responsible agency officials and have incorporated their comments as appropriate. Also, we did not attempt to validate the model used by OSD in making its estimate nor did we independently verify the data provided us by OSD and the services.

Unless you publicly announce the contents of this fact sheet earlier, we plan no further distribution until 30 days from its issue date. At that time, we will send copies to the Secretaries of Defense, the Army, the Air Force, and the Navy; the Chairmen, House and Senate Committees on Appropriations and on Armed Services; and the Director of the Office of Management and Budget. We will also make copies available to others on request.

Please contact Mark E. Gebicke on (202) 512-5140 if you or your staff have any questions regarding this fact sheet. Major contributors to this fact sheet are Joan Hawkins, Assistant Director, and Nancy Lively, Evaluator-in-Charge.

Sincerely yours,



Frank C. Conahan
Assistant Comptroller General

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