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

INTERNATIONAL DIVISION

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MAR 29 1972

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DLG04624

Dear General Seignious:

The General Accounting Office made a study of the U.S. defense commitments and military aid programs for the Republic of China (Taiwan). The results of our work were discussed in March 1971 with representatives from the Military Assistance Advisory Group and the U.S. Embassy in Taiwan.

In July 1971 a series of events affecting the nature of U.S.-Taiwan relations began unfolding, including (1) the shift in the longstanding U.S. position on the seating of Communist China in the United Nations, (2) the expulsion of the Republic of China from the United Nations, and (3) a series of high level meetings between U.S. and Communist Chinese officials and representatives of other countries. Because of these developments and the rapidly changing situation, we delayed reporting on the results of our work and decided to reconsider our approach.

Meanwhile, the enclosure will serve to bring to your attention certain problems in supply management which were discussed with the Military Assistance Advisory Group during the course of our review. In summary these problems involved:

--material excess to the needs of the Chinese Army that was not being identified and made available for further utilization or disposition.

--the requisitioning of repair parts over and above the authorized stockage level or need for the items.

The Chief, United States Military Assistance Advisory Group, China, advised us that actions were being taken to establish realistic supply levels, and that criteria will be provided to the Chinese for screening excesses to satisfy repair part requirements.

We appreciate the time and effort devoted by the Chief, Military Assistance Advisory Group, in going over with us the results of our review and in initiating action on the supply management matters presented in the enclosure.

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Copies of this letter are being sent to the Office of Management and Budget, House and Senate Committees on Government Operations, the Committees on Appropriations, and those Committees of the Congress having responsibilities for foreign assistance matters.

Sincerely yours,

James A. Duff

James A. Duff
Associate Director

Enclosure

Lt. General George M. Seignious II
Deputy Assistant Secretary ~~of Defense~~
(Security Assistance)

DLG06140

STUDY OF CERTAIN SUPPLY MANAGEMENT ASPECTS OF THE MILITARY AID PROGRAM FOR THE REPUBLIC OF CHINA (TAIWAN)

GENERAL INFORMATION

The General Accounting Office made a study of certain supply management aspects of the military aid program for the Republic of China (Taiwan). We reviewed:

--a number of line item repair parts, stocked by the Chinese Army, to ascertain whether excess items were being made available for redistribution to other aid recipient countries or for disposal through scrap sales, and

--selected Chinese requisitions for excess U.S. repair parts to determine the validity of the requirements.

The results of our examination into these areas are presented below.

OPPORTUNITIES FOR SAVINGS BY BETTER MANAGEMENT OF CHINESE EQUIPMENT AND REPAIR PARTS INVENTORIES

The United States had provided the Chinese Army millions of dollars in ordnance end items and spare parts through various military assistance programs. During our work in Taiwan, we noted instances where material excess to the needs of the Chinese Army was not being identified and made available for further utilization or disposition. In this regard, we identified the following areas where economies could be effected:

--Utilization of excess spare parts in U.S.-rebuild programs to reduce U.S. "Government-furnished material" costs, and

--Possible transfer of equipment and spare parts to other U.S.-supported countries.

The Chinese Government and the Military Assistance Advisory Group (MAAG) are required to identify U.S.-furnished property which is excess to Chinese needs or no longer being utilized for the purpose for which provided. MAAG Army section regulations require that U.S.-furnished repair parts and assemblies for end items be reported to the U.S. advisors for disposition when such items are in excess of retention levels. The retention level is equal to 4-1/2 years supply.

Agreements between the United States and the Chinese Government provide that the United States may accept title to excess materials for transfer to a third country or for such other disposition as deemed necessary by the United States. In cases where the U.S. Government does

not accept title, the items are generally sold as scrap and 90 percent of the proceeds are deposited into the Military Assistance Program Scrap Fund. The MAAG is responsible for insuring that the scrap funds are put to effective use in support of military assistance objectives and are considered when programming military aid funds for the Chinese.

1. Repair parts stocked for post World War II vehicles

Our study of selected repair parts which were stocked by the Chinese Army for post World War II vehicles and which had identified stockage objectives showed that quantities were in excess status. Concurrently, the United States was furnishing repair parts for the overhaul of identical vehicles under the U.S. repair/rebuild programs. In our opinion, items which are excess to the current needs of the Chinese should be reported to the MAAG for potential utilization to fill U.S. overhaul requirements or redistribution to other military aid recipients.

We selected seven items and found that all seven were in excess of the established requisition objective (the maximum quantity of material to be maintained on hand and on order to sustain current operations). Moreover, the repair parts on hand ranged from 9 to 136 times the 1-year supply (an average of 64 years supply for the seven items). The value of the on-hand excess repair parts was about $1.6 million.

For example, we noted that the on-hand quantity of steering gears (FSN 2530-693-0617) was considerably in excess of the prescribed stockage level. About 6,800 of these items were on hand even though the prescribed stockage level was 20. The value of the steering gears in excess of the stockage level was about $391,000.

Axles (2520-736-8511) and wheels (2530-026-0265) were among the other items having on-hand balances significantly in excess of the established requisition objective. The value of the excess axles and wheels amounted to about $520,000.

The MAAG advised us that most of the items were in an unserviceable condition, and that the wash-out rate for unserviceables is about 30 percent. Considering this wash-out rate there would still be significant quantities on hand in excess of needs.

2. Repair parts stocked for World War II equipment

Our study of 25 selected line items, stocked for World War II equipment, showed that repair parts amounting to $19 million were in excess of U.S. authorized levels. Potential proceeds from the sale of these excess items are estimated at $1.9 million. In our analysis of excesses we used the MAAG's authorized retention level (4-1/2 years supply) rather than current needs or U.S. criteria for the obsolete

World War II equipment because the higher stock levels may be justified in view of the age of the equipment.

A few examples of these cases are noted below:

FSN	Description	Current 1-Year Demand	Quantity on hand and due-in	Years of Supply
2530-631-3969	Hub	24	4327	180
2520-832-7587	Transfer	112	6730	60
2520-737-8233	Transmission	88	4635	53
2520-773-4206	Axle	73	3350	46
2520-449-5514	Axle	90	3150	35
2520-737-3922	Transfer	130	4609	35

MAAG personnel advised us that most of the above items were in an unserviceable condition and that, as a result, the average supply of serviceable assets on hand was about seven years. We believe that the amount of unserviceables further demonstrates the potential for scrap sales revenue.

We also noted that 23 of 25 line items in excess had repair parts due-in from Chinese Army rebuild facilities, Chinese procurement and U.S. grant aid. Parts valued at about $92,000 were due-in from grant aid or Chinese funded procurement.

We were advised by Chinese officials that items are not reviewed for excesses until they have not had any demand experience for at least two years. Chinese Army personnel review the repair parts within this category annually to determine if the items are still required in the army supply system. In our opinion, the infrequent review of repair part stock status has contributed to the large quantities of excess stock on hand or on order. We were also advised that U.S.-furnished items believed to be required regardless of demand history are retained by the Chinese while those not required are reported to the United States for disposition.

MAAG views, GAO conclusions and suggestion

Since the United States is currently overhauling several post World War II vehicles for its own needs and other U.S.-supported countries have these vehicles in their inventory, it was our opinion that consideration should be given to reporting U.S.-furnished repair parts which are

excess to current Chinese needs to the MAAG for potential utilization to fill U.S. requirements or redistribution to other U.S.-supported countries in need of this material. Further, the amount of repair parts stocked for World War II equipment in excess of the 4-1/2 year supply level suggests that additional aid program resources could be obtained through scrap sales. We brought both these matters to the attention of the Chief, MAAG.

With respect to the use of these assets for U.S. rebuild programs, military advisory personnel noted that the repair/rebuild agreement would require careful consultations with the Chinese Government concerning the transfer of the assets in question. In addition, existing contracts have already provided for sufficient repair parts. Regarding the redistribution of these assets to other U.S.-supported countries, we were advised that specific requests from higher headquarters for other country requirements have been promptly met by the Chinese Government.

While negotiations with the Chinese Government may be necessary, we proposed that, in view of the future programming of rebuild of U.S. vehicles from Vietnam and in the interests of realizing economies for the U.S. Government, appropriate steps be taken to utilize spare parts which are excess to the current needs of the Chinese Army.

In response, the Chief, MAAG advised that our examples of excess repair parts are a part of the larger problem of convincing the Chinese Armed Forces of the necessity for a complete review of equipment authorization and establishment of realistic repair parts levels of supply at all echelons. He noted, however, that the Chinese Army is currently engaged in determining authorized allowances for rebuild vehicles and in establishing realistic supply levels of repair parts. Further, items found to be in an excess position will be reported for disposition through the U.S. supply system and subsequently be used in the U.S. vehicle rebuild activities or offered to other U.S.-supported countries.

We believe that such efforts could effect significant economies for the United States and provide additional resources for application toward the military aid objectives. Accordingly, we suggest that the Chief, MAAG monitor the Chinese efforts to insure that realistic supply levels are established and that excess items are disposed of in accordance with U.S. and Chinese agreements.

REQUISITIONS UNDER THE EXCESS PROGRAM FOR SECONDARY ITEMS EXCEEDED AUTHORIZED STOCKAGE LEVELS

In our study of the requisitioning practices followed by the Chinese Army Inventory Control Center for repair parts to be furnished by the United States under the excess program for secondary items (SIMEX), we found that repair parts over and above the authorized stockage level or need for items were being requisitioned. Although these repair parts are

provided by the United States without a charge to military grant-aid appropriations for the cost of the items, the overordering could result in the otherwise unnecessary cost for packing, crating, handling and transporting of the items to Taiwan. The overordering occurred because in computing stockage requirements:

--Unserviceable but repairable parts were not considered.

--All available serviceable repair parts were not considered.

--Erroneous computed data was used.

The SIMEX Program was implemented by the Department of Defense in March 1969. The program was established for the worldwide redistribution of secondary items, repair parts and consumables which have been determined by the National Inventory Control Points of the military departments and the Defense Supply Agency to be excess to U.S. objectives. The items are controlled by U.S. commodity managers and offered by the inventory control points to aid recipient countries through unified commands. Material requisitioned through the SIMEX Program are not to exceed one year's consumption requirement over and above authorized stock levels.

The Chinese Government has received SIMEX material from worldwide sources without any charge being made against grant-aid appropriations for the cost of the items, however, grant-aid appropriations are used to cover the cost of packing, crating, handling, and transporting the items to Taiwan.

We selected 61 SIMEX requisitions (for $10,000 or more), for ordnance parts during the period April - June 1970, amounting to about $2.2 million. Our study of these requisitions showed that spare parts were being requisitioned through the SIMEX Program without valid requirements for the items. For 12 items, we found that about $468,000 of repair parts were requisitioned over and above the approved level, as shown in the following schedule.

SCHEDULE SHOWING REQUISITION OF SELECTED REPAIR PARTS
OVER AND ABOVE REQUIREMENTS UNDER SIMEX PROGRAM, APRIL-JUNE 1970

FSN	Quantity requisitioned	Valid requirements	Value of valid requisitions	Value of unauthorized requisitions
2610-269-7347	9,363	none	$ 0	$ 43,819
2610-275-7996	1,199	161	9,043	58,305
1005-557-4620	494	4	464	56,840
2610-262-8677	1,041	none	0	42,285
2530-449-5390	9,719	none	0	160,364
2510-734-3023	699	none	0	58,185
2520-740-9871	144	9	1,696	25,438
1005-628-9055	1,040	480	4,906	5,723
2540-740-9980	11	6	5,586	4,655
2520-734-6959	558	455	11,994	2,715
2530-093-5597	621	510	11,123	2,421
2590-974-9670	18	6	3,672	7,344
			$48,484	$468,094

The primary causes for the invalid requisitioning through the SIMEX program with examples of each are noted below.

Unserviceable (repairable) items not considered

In one case, 9,363 vehicle tire tubes (FSN 2610-269-7347) with an acquisition cost of $43,819 were requisitioned through the SIMEX Program. The requirement was based on shortages of 9,363 serviceable items. We found that the requirement did not consider 15,656 unserviceable but repairable items on hand.

The MAAG stated that about 30 percent of the 15,656 tubes were probably unrepairable and therefore should not be considered in determining requirements. However, we believe that the remaining 70 percent is significant and should be considered in determining requirements.

In a second case, 1,199 tires (FSN 2610-275-7996) with an acquisition cost of $67,348 were requisitioned based on a shortage of 1,199 serviceable items. We found that the requirements did not consider 1,038 unserviceable but repairable items on hand.

When we brought these matters to the attention of the MAAG, U.S. advisors agreed that unserviceable items should be considered and stated that a recommendation has been made to include repairable unserviceable assets in future SIMEX requirements computations.

All available serviceable repair parts not considered

Our study showed that all serviceable assets on hand were not being considered during requirement computations. For example, 494 parts for an elevating and traversing mechanism assembly (FSN 1005-557-4620) with an acquisition cost of $57,304 were requisitioned based on shortages in serviceable stocks reserved for the maintenance or repair program. However, we found that there were 386 excess serviceable items in the "general issue material - field use" account that were not considered in the requirement computation. Moreover, 104 unserviceable but repairable items were also on hand. Thus, requisition of only four items was necessary.

In another case, 1,041 tires (FSN 2610-262-8677) with an acquisition cost of $42,285 were requisitioned for maintenance or repair programs. We found that there were 3,089 excess serviceable items in the "controlled items - field use" accounts. Moreover, 2,529 unserviceable (repairable) items were on hand. In this case, there were more than enough serviceable assets on hand to satisfy the needs for the maintenance and repair programs.

U.S. advisory personnel concurred with our finding and recommended that the Chinese Army consider assets in all accounts when computing SIMEX requirements.

Requisition objectives erroneously computed

In one instance, 9,719 rods (FSN 2530-449-5390) with an acquisition cost of $160,364 were requisitioned due to an erroneous requisition objective being used. If the correct objective of 2,243 had been used, no requirement would have existed.

A second case where an erroneous requisition objective was used revealed that 699 shafts (FSN 2510-734-3023) with an acquisition cost of $58,185 were requisitioned for the "controlled items - field use" account. Had the correct objective been used, the account would have shown a requirement of only 119 shafts. However, if other serviceable and unserviceable accounts were considered, no requirement would have existed.

U.S. officials advised us that necessary action had been taken to correct the errors.

Additional MAAG Comments

The MAAG agreed that items were being requisitioned through SIMEX when no valid requirement existed. We were advised that as time, priority and personnel allow the MAAG will continue to provide criteria to the Chinese Army for screening SIMEX requirements.

Conclusions

Our review revealed that items were being requisitioned through the SIMEX Program when no valid requirement existed. This was caused in part because the Military Assistance Advisory Group was not effectively monitoring SIMEX requisitions, which is contrary to existing regulations and results in grant-aid costs for packing, crating, handling, and transporting the items to Taiwan in addition to possibly denying other countries with valid requirements the use of the repair parts. In our opinion, the planned action to provide the Chinese Army criteria for screening SIMEX requirements will do much toward improving the conditions found during our review. We believe, however, that more effective MAAG monitoring will still be required to insure that such requisitions are based on the established criteria.