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BY THE COMPTROLLER GENERAL

Report To The Ranking Minority Member, Committee on Governmental Affairs, United States Senate

OF THE UNITED STATES

RELEASED

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Army Needs To Improve Its Management And Inventory Control Of Small Arms

Because of their cost, vital role in defense missions, and vulnerability to theft, military small arms, such as the M2 machine gun, require careful management and control.

GAO found that the Army has not established nor maintained accurate inventory information needed to effectively manage its M2 machine gun program. As a result, the Army cannot determine whether decisions on procurement, distribution, or disposal of M2 s are appropriate. To illustrate, after GAO identified that M2 s were available in the Army as well as in the Navy and Air Force inventories of which the Army was unaware, the Army canceled a planned $10.2 million purchase of M2 s.

The shortcomings GAO found in the M2 program may also exist in Army systems for managing other small arms. GAO makes a number of recommendations to improve the Army's management and inventory control of small arms.

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MARCH 24, 1980

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

B-197160

The Honorable Charles H. Percy
Ranking Minority Member
Committee on Governmental Affairs
United States Senate

Dear Senator Percy:

Your letter of March 9, 1979, asked us to investigate certain aspects of Department of Defense procurement, management, and disposition of small arms such as the M2 .50 caliber machine gun. As previously discussed with your office, in view of the Army's procurement responsibility and ownership of the majority of M2s and other small arms, we directed our efforts primarily to the Army's management of these weapons.

We found that Army systems for managing and controlling M2 machine guns do not ensure that procurement and/or disposal actions are in the best interest of the Government. Further, deficiencies identified in the Army systems for managing and controlling M2 machine guns may also apply to other small arms since the Army uses the same management policies, systems, and procedures for the management of all small arms.

As agreed with your office, we obtained oral comments from the Departments of Defense and the Army. These comments have been incorporated in our report where appropriate.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time, we will send copies to the Chairmen, Senate Committees on Appropriations, Armed Services, and Governmental Affairs, and the House Committees on Appropriations, Armed Services, and Government Operations; and to the Secretaries of Defense and the Army. Copies will also then be made available to other interested parties upon request.

Sincerely yours,

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE HONORABLE
CHARLES H. PERCY
UNITED STATES SENATE

ARMY NEEDS TO IMPROVE ITS MANAGEMENT AND INVENTORY CONTROL OF SMALL ARMS

D I G E S T

Because of their cost, vital role in defense missions, and sensitivity to theft, military small arms require careful management and control.

Senator Charles H. Percy, Ranking Minority Member of the Senate Committee on Governmental Affairs, asked GAO to investigate the Department of Defense's (DOD's) weapons procurement, inventory control, and disposal policies. Senator Percy cited a number of concerns about DOD's management of the M2 .50 caliber machine gun program. He asked GAO to determine if there is potential waste in DOD's management of these weapons.

GAO found that the Army's systems for managing and controlling M2 machine guns are not reliable enough to assure that procurement and/or disposal actions related to these guns are in the best interest of the Government. Further, the deficiencies identified in the Army systems for managing and controlling M2 machine guns may also apply to other small arms since the same policies, systems, and procedures are used by the Army for managing all small arms.

BACKGROUND

The M2 .50 caliber machine gun is a reliable, versatile weapon in use since the end of World War I. The current versions of the M2 were produced during the 1940s. During this time approximately 2 million weapons were produced in various configurations at a cost of no more than $750 per weapon.

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In view of these weaknesses, the Army has no assurance that decisions on procurement, distribution, or disposal of M2s are appropriate. To illustrate, after GAO identified that M2s were available in the Army as well as the Navy and Air Force inventories of which the Army was unaware, the Army canceled a planned $10.2 million purchase of M2s. (See p. 13.) Futhermore, the Army had overlooked almost 4,000 M2s in its own inventories. (See p. 11.)

The inventory control problems GAO identified are not new to the Army or DOD. GAO and internal DOD audit groups have previously identified similar problems. (See p. 18.) Further, GAO has previously stressed to DOD the need for proper monetary control of the property for which it is responsible. (See p. 20.)

The Army must devote increased management attention to inventory control of M2 machine guns and other small arms. To avoid future unnecessary procurements of small arms, the Army must develop better procedures to ensure that, prior to procurement, the procuring activity obtains specific information on the status of the items in all DOD component inventories.

RETENTION OF AVAILABLE ASSETS

For many years Army stocks of M2 machine guns far exceeded estimated requirements. During this time tens of thousands of M2 machine guns were sold or given to foreign countries or disassembled for needed repair parts. Because of this severe depletion of M2s and a rapid increase in M2 requirements, since 1975 the Army has been unable to meet its M2 total force requirements. Although DOD guidance does not provide for procurement to meet total force requirements, the Army estimates that over 20,000 additional M2 machine guns would be needed to meet this requirement objective.

DOD has a longstanding policy which allows the Army to retain machine guns and other principal items in its inventories as economic retention or contingency retention stocks. However, DOD

regarding asset availability spell out both the quantities of assets onhand and the quantities required by each component queried and (2) requiring that item managers ascertain asset availability of each DOD component immediately prior to each procurement date.

CORRECTIVE ACTIONS

The Army canceled its planned $10.2 million buy of M2s after GAO advised the Secretary of the Army that other DOD components had available M2s which could be transferred to the Army. (See p. 14.)

The Army also took actions to improve its program for keeping serial number control of small arms. The Army Deputy Chief of Staff for Logistics has established the Small Arms Serialization Program Upgrade Project to resolve problems with the overall implementation and operation of the Army's serialization program. (See p. 18.)

The Army has also initiated action to revise its systems of accounting to achieve monetary control of property, in addition to the item control provided for in its logistics systems. The Standard Financial System Redesign, planned for implementation in 1982, is expected to maintain general ledger control over all fixed assets from acquisition through consumption or disposal.

AGENCY COMMENTS

GAO representatives met with representatives from the Office of the Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) and the Department of the Army to discuss the report. They generally agreed with GAO's recommendations with one exception. DOD officials said that DOD Directive 4100.37 provides adequate guidance to DOD components regarding the computation of retention levels for principal items.

Contents

ABBREVIATIONS

ARRCOM	Army Armament Materiel Readiness Command
DOD	Department of Defense
GAO	General Accounting Office

CHAPTER 1

INTRODUCTION

Senator Charles H. Percy, Ranking Minority Member of the Senate Committee on Governmental Affairs, asked us to investigate certain aspects of Department of Defense (DOD) weapons procurement, inventory control, and disposal policies. In his request, Senator Percy cited a number of concerns about DOD's management of the M2 .50 caliber machine gun program and asked us to determine if there is potential waste in DOD's management of the M2 machine gun and similar weapons. We have summarized Senator Percy's concerns into two areas.

1. Is there a need for improved accounting for small arms such as the M2 machine gun?

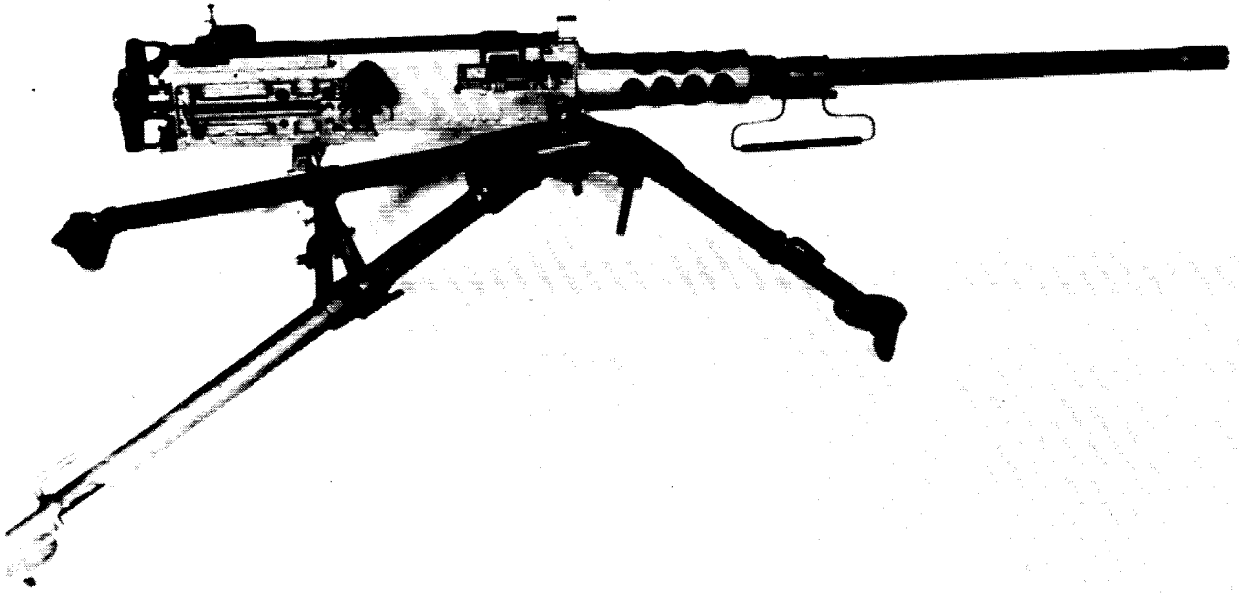
2. Do current procedures assure that these weapons are not destroyed, disassembled, or otherwise disposed of when DOD may have future need for them?

BACKGROUND ON THE M2 MACHINE GUN

The M2 .50 caliber machine gun has been in use since the end of World War I. It has been employed in both offensive and defensive operations and has been considered one of the most reliable and successful guns of all times. The M2 machine gun is an extremely versatile weapon which has been adapted for use on such vehicles as aircraft, ships, tanks, armored personnel carriers, and recovery vehicles. It has also been used as a ground-mounted weapon.

There are currently three basic M2 configurations--heavy barrel fixed, heavy barrel flexible, and light barrel fixed. Within these three configurations are 16 variations, each identified under a separate stock number. The variations are minor, for example, different mounts or other attachments are used, and in the case of light versus heavy barrel weapons, the weight and size of the barrel are different. The receiver, the most important and costly part of the gun, is standard. During depot level overhaul, M2s can be reconfigured for use on other applications.

The Army's use of the heavy barrel fixed M2 machine gun has declined in recent years. However, this gun will be used in the Army's new XM1 tank. The heavy barrel flexible M2 (see p. 2), which is mounted on numerous vehicles and equipment, can be dismounted and used as ground equipment with the M3 mount or as anti-aircraft equipment with the M63 mount. The light barrel fixed M2 was designed to be used on aircraft.



. 50 CALIBER, HEAVY BARREL, FLEXIBLE M2 MACHINE GUN

CREDIT: U.S. ARMY

Current versions of the M2 were produced during the 1940s, the last weapon being produced in 1945. It is estimated that over 2 million weapons were produced at a cost of $350 to $750 each. In 1978 production facilities were established to produce new M2s which are essentially the same as those produced during the 1940s. The cost of the first weapons produced in 1979 was over $9,700 each, a 1,193-percent increase over the cost of the weapons produced in the 1940s. This $9,700 per weapon cost included a share of the initial tooling costs required to establish new production facilities. M2s can now be produced for about $6,700 each.

MANAGEMENT OF THE M2 MACHINE GUN PROGRAM

The Army, Navy, Air Force, and Marine Corps have M2 machine guns in their inventories. Each service independently performs most of the logistics functions which are necessary to manage and support its own weapons in operational units as well as at the depot level. These logistics functions include determining requirements, distributing and redistributing assets, maintaining inventory balances, etc.

In March 1979 DOD records indicated that M2 assets in DOD inventories totaled almost 59,000, with the Army's recorded balance being 45,217, or over 75 percent of total DOD M2 assets. Based on its having the majority of M2s, the Army has been assigned responsibility for providing certain logistics functions, such as cataloging and procurement, for all the services.

Within the Army, logistics management policy, procedures, plans, and other guidance for the M2 machine gun (and all other major items and equipment) are provided by the Army Materiel Development and Readiness Command. The Army Armament Materiel Readiness Command (ARRCOM), a field activity of the Army Materiel Development and Readiness Command, is primarily responsible for the management of the M2 and other small arms. This management includes computing quantitative requirements, initiating procurement or disposal, developing worldwide quantitative and monetary inventory data, and positioning materiel. The Anniston Army Depot is the Army's major storage facility for M2 machine guns which are not assigned to field units. It is also the single Army activity authorized to perform M2 depot level maintenance.

Because of their cost, vital role in defense missions, and vulnerability to theft, small arms such as the M2 require more precise management and control than other

equipment. Each service is responsible for maintaining records by serial number for all small arms in its inventories. The Army, in addition to maintaining records of its own inventories, is responsible for maintaining a central registry of the serial numbers of all DOD small arms, including the M2 machine gun. ARRCOM is responsible for maintaining the Army small arms registry as well as the DOD central registry.

ARMY SYSTEMS FOR INVENTORY CONTROL OF ASSETS

The Army uses several systems for inventory control of M2 machine guns and other equipment. ARRCOM primarily uses three systems in managing the Army's vast inventories of small arms: the Army Equipment Status Reporting System, the Continuing Balance System, and the Worldwide Asset Status Report.

Army Equipment Status Reporting System

The Army Equipment Status Reporting System provides Army-wide asset data for weapons in the hands of the troops. Assets in the Army's depots are not included in this system. Each Army field unit submits a quarterly asset report through command channels to the Depot Systems Command. The asset information is then compiled and provided to the appropriate managers at ARRCOM. According to ARRCOM officials, asset balances reported in the Army Equipment Status Reporting System fluctuate independently from asset balances maintained by item managers at this command. ARRCOM officials also said the system has never been considered reliable.

Continuing Balance System

The Continuing Balance System was implemented in 1975 as a new Army asset reporting system. Because of previous criticisms about the reliability of Army asset data, it was developed to provide accurate, timely, and auditable worldwide asset positions for all major items of equipment Army-wide. This system was to provide the Army with official inventory figures on which to base equipment procurement and distribution decisions.

The Continuing Balance System uses transaction accounting to determine worldwide asset positions, including all assets in operational field units as well as those in storage or undergoing repair in Army depots. The computation of inventory balances for all items in the system

is accomplished through posting transactions which cause gains and losses to the inventory records. During any given period and for each major end item included in the system, there is a beginning inventory balance. On a monthly basis, 158 reporting activities provide the Depot Systems Command with supply transaction data. Those transactions which affect inventory balances are applied against the beginning inventory to determine the ending inventory balance for the period.

Worldwide Asset Status Report

The Worldwide Asset Status Report is an informal system maintained and used at ARRCOM to track asset balances of ARRCOM managed items. ARRCOM item managers developed this system because asset information generated by the Continuing Balance System is considered unreliable, untimely, and unverifiable. To determine asset balances for weapons in the depot supply system, the item managers rely on the asset information recorded in the Commodity Command Standard System. Balances are computed based on transactions reported for gains and losses at each Army depot. For assets which are assigned to field activities throughout the world, ARRCOM item managers must rely on inventory balances computed by the Continuing Balance System.

The inventory balances in the Worldwide Asset Status Report are calculated by adding depot assets to those assets reported by the Continuing Balance System as being in Army field activities. These balances are often used (instead of those computed by the Continuing Balance System) as official asset positions in the Army Materiel Plan 1/ and other planning and budget documents.

DOD SMALL ARMS SERIALIZATION PROGRAM

According to DOD officials, the DOD Small Arms Serialization Program is not and was never intended to be used as an inventory system. DOD established this program in 1974 in response to criticisms from the then Senate Committee on Government Operations and us that DOD components had inadequate procedures for keeping track of weapons inventories. Because of haphazard management of arms and ammunition, DOD could not determine the exact number of weapons, ammunition,

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1/The Army Materiel Plan is a planning document which provides mobilization consumption requirements for the Army Industrial Preparedness Program. These requirements are the basis for planning with industry and the Government-owned industrial production base, including production base support.

and explosives which had been lost or stolen. The program was established to provide asset visibility over all small arms in each DOD agency through the serial number registration and reporting of handguns, shoulder-fired weapons, and other light weapons, including the M2 machine gun.

The objectives of the Small Arms Serialization Program are to:

--Establish visibility over small arms serial numbers in DOD.

--Interface small arms serial number reporting between the DOD central registry and each DOD component.

--Provide investigative agencies, within 72 hours, the identification of the last known accountable activity having a specific serial numbered small arm.

The Army is responsible for operating and maintaining the DOD central registry of small arms. This registry should include the serial numbers of all small arms onhand at and in transit to DOD components and a file of all small arms which have been lost, stolen, demilitarized, or shipped outside DOD's control.

Each DOD component is required to maintain a file of all its small arms serial numbers. The information in these files is used to update the DOD registry. The Army central registry should record the serial numbers of all small arms at each Army installation and depot. Furthermore, each installation and depot must maintain its own file of serial numbers based on property books and stock record accounts and must report transactions involving these weapons to the Army central registry. ARRCOM maintains both the DOD central registry and the Army central registry.

HISTORICAL DATA ON M2 ASSETS NOT AVAILABLE

It is estimated that during the 1940s over 2 million M2 machine guns were manufactured in various types and configurations. These weapons have been used by all U.S. military components and by many foreign countries. No records have been maintained to document how the vast M2 inventories have been depleted; however, many weapons were lost during and after World War II and in Korea and Vietnam. Additionally, since 1951 at least 100,000 M2s have been sold or donated to foreign governments. At the time of our review, the Army had 45,217 M2s, the Navy and Marine Corps had 13,161, and the Air Force had 315.

Although the modern version of the M2 is a 35- to 40-year old weapon, historical supply, inventory control, and other logistics information is quite limited. No records exist to provide any such information prior to 1964 and little is available prior to 1975.

In 1964 the number of M2 assets reported in the Army Materiel Plan was 138,811. Peacetime requirements at that time were 44,868. Army officials said the accuracy of the asset information recorded for 1964 is questionable for several reasons. First, the M2 was not accounted for as a separate line item. It was considered an integral part of those vehicles and equipment on which it was assumed to be attached. Second, there were no records of physical inventories of weapons to verify asset balances.

In 1964 the Army Weapons Command at Rock Island, Illinois (the predecessor of ARRCOM), began management of machine gun inventories. Since that time handwritten data sheets showing various inventory information have been maintained by the M2 item manager, but little formal documentation has been kept. More detailed asset usage information is available for the last 2 years. DOD and Army requirements for retention of logistics information are only 2 to 3 years old. DOD records retention requirements are based on General Services Administration standard criteria for retention of logistical records.

SCOPE OF REVIEW

In view of the Army's procurement responsibility and its ownership of the majority of all M2 machine guns in DOD, our review was directed primarily to Army's management of M2 machine guns. We (1) inquired into Army policies, procedures, and criteria for determining worldwide assets of the M2, (2) evaluated the propriety of a proposed fiscal year 1979 M2 machine gun procurement, (3) reviewed Army implementation of the DOD Small Arms Serialization Program, (4) compared M2 assets reported in various Army inventory control and asset reporting systems, (5) compared M2s onhand in two Army facilities with assets reported as being onhand, (6) reviewed policies, procedures, and criteria for retention of assets, and (7) inquired into policies and procedures for disposal of M2 assets through foreign military sale, disassembly, and destruction.

We reviewed DOD and Army directives, instructions, and other procedural guidance and interviewed officials at the following locations:

--Headquarters, Department of the Army, Washington, D.C.

--U.S. Army Materiel Development and Readiness Command, Alexandria, Virginia.

--U.S. Army Armament Materiel Readiness Command, Rock Island, Illinois.

--Anniston Army Depot, Anniston, Alabama.

--U.S. Army Armor Center and Fort Knox, Fort Knox, Kentucky.

--Headquarters, Department of the Navy, Washington, D.C.

--Warner Robins Air Logistics Center, Warner Robins, Georgia.

--Defense Security Assistance Agency, Washington, D.C.

CHAPTER 2

NEED FOR IMPROVEMENT IN THE INVENTORY MANAGEMENT AND CONTROL OF M2 MACHINE GUNS

The Army, which is the procuring agent for M2 machine guns for all DOD components, does not have reliable information on the quantity and condition of M2s in its inventories, does not have adequate procedures for obtaining information on M2s held by other DOD components, and is not properly maintaining serial number control over its and other DOD components' M2s. As a result of these weaknesses, the Army has no assurance that its decisions regarding procurement, distribution, and disposal of M2 machine guns are in the best interest of the Government. Further, the weaknesses noted in Army procedures and controls for managing M2 machine guns may also apply to other small arms since the same procedures and controls are used for all Army small arms.

WEAKNESSES IN ARMY INVENTORY CONTROL OF ASSETS

At the time of our review, neither the official Army asset reporting system (the Continuing Balance System) nor the informal records maintained by the M2 item manager at ARRCOM accurately portrayed the quantity of M2s in Army inventories.

We noted that for one M2 machine gun stock number, the Continuing Balance System showed 700 more M2s located at the Anniston Army Depot than the ARRCOM item manager records showed. We determined that the item manager records were in agreement with the accountable records maintained by the Anniston Depot.

According to ARRCOM officials asset balances generated by the Continuing Balance System could not be verified in the past. The 700 M2s previously discussed have been used as a book balancing quantity in the Continuing Balance System. It is not known whether the quantity represents weapons which are positioned somewhere in the Army supply system. ARRCOM officials told us that the use of balancing quantities is typical in small arms management because of the difficulties involved in maintaining accurate, up-to-date inventory accountability records for these active, high-volume items.

In commenting on our report, Army officials stated that 500 M2 assets were identified in June 1979 and continuous research will correct this discrepancy. The asset discrepancy we identified at Anniston was based on the June 1979 Continuing Balance System reporting cycle. According to ARRCOM officials this discrepancy increased to 730 in September 1979 and to 794 in December 1979.

The Army Audit Agency reported 1/ that the asset positions computed by the Continuing Balance System are unreliable, untimely, and unverifiable. The report identified several important factors causing reporting and processing breakdowns in the system. These factors included procedural and control weaknesses, system and computer program deficiencies, incomplete and erroneous computer files, and a lack of supply discipline. In addition, the Army Audit Agency reported that beginning inventory balances established for the Continuing Balance System were inaccurate.

In commenting on a draft of our report, DOD officials stated that the Army has responded to the findings reported by the Army Audit Agency. They said that since 1978 the Continuing Balance System has been extended to the unit level and is now known as the Continuing Balance System Expanded. They also said that the deficiencies reported by the Army Audit Agency have been eliminated or corrections are in the process of completion.

During our review, we identified deficiencies in the Continuing Balance System similar to those reported by the Army Audit Agency in 1978. We found that the M2 asset positions computed by this system are unreliable and cannot be verified.

ARRCOM officials advised us that managing small arms inventories according to the transaction based procedures used by the Continuing Balance System is a monumental task because of the large number of transactions involved in documenting the movement of small arms inventories. They said that the Army is currently engaged in a program to identify and correct system deficiencies in the Continuing Balance System. Although the accuracy of asset information generated by this system has improved, it is unlikely that valid information can be produced without conducting a worldwide inventory to establish a reliable and accurate starting balance.

1/U.S. Army Audit Agency Report: NE 79-200, Oct. 20, 1978.

Unreported M2 assets

In addition to the discrepancy of 700 M2s, we identified almost 4,000 light barrel M2 machine guns in storage at the Anniston Army Depot which were not included in either the Continuing Balance System or the ARRCOM item manager records. Exclusion of these guns resulted in the understatement of M2 assets reported in the Army Materiel Plan and other budgetary and logistical planning documents.

The Army obtained most of these weapons from the Air Force in 1969 and stored them at Rock Island Arsenal. They differ slightly from the Army M2 machine gun configurations currently in use--the major difference being that currently active Army M2s are equipped with heavy barrels. However, as previously stated, the major component of the M2 and by far the most expensive is the receiver. This component is standard for all M2s. At the time these weapons were obtained, Army M2 assets exceeded estimated peacetime requirements. The weapons were obtained for disassembly to provide repair parts needed for the Army M2 overhaul program. In 1976 these weapons were shipped from Rock Island to Anniston Army Depot, where they were stored and remained unused and unreported. They were, however, recorded in the Army Small Arms Serialization Registry.

Improper condition coding of assets

The Army assigns codes to classify materiel by their degree of serviceability, condition, and completeness (readiness for issue and use) and to identify actions underway to change the status of materiel. We found that present practices at the Anniston Army Depot allowed improper condition coding, with resultant Army inability to know the true condition of its assets. For example, the 4,000 light barrel M2 machine guns in storage at the Anniston Army Depot were improperly condition coded.

Over 3,700 of the light barrel M2s were condition coded "P," which by definition should apply to materiel that has been determined to be unserviceable and uneconomically reparable but which contain serviceable components or assemblies which may be reclaimed. Records also indicated that about 2,000 of these M2s contained only the receiver and were not considered to be "whole weapons." Our evaluation of these M2s indicated that at least 1,700 were in a "like new" condition with no indication of use except for limited testing. Furthermore, our evaluation of the remaining M2s showed that some of them had certain parts missing (bolts, for example), but few of them should have been considered less than whole weapons.

INADEQUATE PROCEDURES FOR OBTAINING ASSET DATA FROM OTHER SERVICES

The procedures followed by ARRCOM to determine the availability of M2 assets in long supply in other DOD component inventories were not adequate. The use of these procedures would have caused an unneeded buy had we not questioned the necessity for the planned buy based on our identification of available assets in Navy and Air Force inventories which could be used to meet Army needs.

DOD Directive 4100.37 provides policy to DOD components regarding the retention and transfer of materiel assets. This directive provides that the maximum quantity of an item to be retained in inventory is the sum of the approved force acquisition objective (estimated quantity needed for peacetime use), the approved force retention stock (estimated quantity needed to offset production shortages in the event of a conflict), the economic retention stock (estimated quantity to be held because it is economical to do so rather than disposing of the stock and rebuying new stocks when requirements increase), and the contingency retention stock (estimated quantity to be held for future contingencies). Although this directive allows individual components to retain assets above their approved force acquisition objective, under specified conditions, retention stocks must be made available for other DOD components.

For example, if one component has more assets of a given item than are needed to meet its approved force acquisition objective while another component has insufficient assets to meet its acquisition objective, the component in short supply is authorized to acquire assets from the component in long supply. This transfer should be made on a nonreimbursable basis. When there is disagreement on the transfer, the component in short supply can appeal to the Joint Chiefs of Staff for appropriate resolution by the Joint Materiel Priorities and Allocations Board.

DOD Directive 4140.34 (DOD Personal Property Utilization Program) and DOD 4140.34M (Defense Utilization Manual) provide additional policy and procedural guidance governing the redistribution of assets to ensure that available assets are used to the fullest extent practicable. These procedures include the requirement that before initiating a new procurement, a procuring activity should ensure that releasable assets are not available in another DOD component. Furthermore, the Armed Services Procurement Regulation, as revised (paragraph 1-302.1), provides that a DOD activity initiating a new procurement action should first attempt to meet its needs through the utilization of existing DOD assets.

Although the Army attempted to comply with the policy described above, the procedures used were inadequate to identify available M2s in other DOD component inventories. As a result, a procurement action was initiated when excess assets were available elsewhere which, based on established DOD criteria, should have been transferred to the Army.

M2 procurement

For many years the number of M2 assets in the Army far exceeded known or projected requirements. During this time the Army's M2 inventory was severely depleted through donations and sales (at less than replacement cost) to foreign countries and through disassembly to obtain repair parts. ARRCOM first identified a projected shortage of M2s in 1974. This projected shortage was based on anticipated increases in the (1) number of Army divisions from 21 to 24, (2) expected wartime losses, and (3) number of vehicles and equipment on which the M2 is included as authorized equipment. The need to buy new weapons was identified to the Army Materiel Development and Readiness Command in 1975, but it was not until 1976 that procurement action was initiated.

The Army proposed to buy 13,092 M2 machine guns, including 3,763 for foreign military sales. Due to budget constraints, DOD eliminated the direct Army buy of 9,329 weapons and the Army awarded an M2 contract funded solely with foreign military sales dollars. By contract option, however, the Government reserved the right to increase the quantity of weapons to be produced. During fiscal year 1979 budget deliberations, the Conference Committee agreed to authorize $13.2 million for the acquisition of 1,530 M2 machine guns. The contract option was to be exercised on June 26, 1979, to acquire these weapons at a cost of $10.2 million.

In view of the Army's planned procurement of 1,530 M2 machine guns, we asked the Navy, Air Force, and Marine Corps to provide their asset and requirement positions for the M2 machine gun so that we could see if any of these DOD components had more M2s than needed. Our inquiries revealed 7,587 weapons in the Navy, 636 in the Marine Corps, and 122 in the Air Force that could potentially have been redistributed to the Army. We also learned that 650 M2s were available from the Federal Republic of Germany and 195 were available from various former grant-aid countries. Therefore, the proposed buy of 1,530 M2s appeared unnecessary.

We told ARRCOM officials about the potential availability of M2s in the other DOD component inventories and asked why they had not considered the availability of these assets

before initiating a buy for new M2s. These officials told us that in 1976, before the Army initiated an M2 procurement, the Navy, Marine Corps, and Air Force were queried as to whether they had available M2s that the Army could use. Each service responded negatively. Although we could not obtain the specific M2 inventory positions of these services in 1976, we noted that the standardized DOD form used by ARRCOM to query the other services as to the availability of assets did not request a breakdown of the asset and requirement positions so that ARRCOM could see whether any component had more assets than needed to meet its approved force acquisition objective.

The content of the standardized interservice support form, which ARRCOM used in 1976 to query the other DOD components, is provided for by DOD 4140.34M. This form identifies the stock numbers of the items requested and requests notification as to the availability of excess stocks for interservice transfer. However, the form does not request the delineation of stratified assets and requirements. Thus, the requesting component cannot determine whether the responding components have assets above their approved force acquisition objective.

In 1976 ARRCOM was unable to identify potentially excess M2 assets in the other DOD components. However, in 1979 when the Army reinitiated its M2 procurement action, ARRCOM did not request updated information on the availability of assets in the other components. Rather, ARRCOM relied on its 3-year-old check, which was made when the procurement was originally initiated. We believe a recheck should have been made; however, we recognize that the inadequacy of the interservice support form used may have precluded the Army's recognition of the fact that the Air Force, Navy, and Marine Corps had M2 assets in excess of their approved force acquisition objective and that these assets should be transferred to the Army in lieu of new procurement.

As a result of our identification of available M2 assets in other DOD component inventories, which based on established DOD criteria should have been transferred to the Army, we wrote to the Secretary of the Army recommending a reevaluation of the proposed procurement. The Army decided not to make the planned buy and initiated action to acquire the available assets from the Navy, Marine Corps, and Air Force and also to obtain available assets from the Federal Republic of Germany. The Marine Corps identified a need to retain its assets, and the Navy offered justification to retain over 2,000 of the M2s which are above its approved force acquisition objective. However, the Navy and Air Force transferred 4,429 and 122

M2s, respectively, to the Army. While these weapons must be overhauled and slightly reconfigured to meet Army needs, the cost to repair each machine gun will be about $600, while the cost to procure each new M2 would be about $6,700.

We also noted that the procedures followed by ARRCOM to identify available assets in other DOD component inventories may have caused unneeded buys of other small arms. For example, in 1977 the Army procured 5,283 M16 rifles for the Navy at a cost of $1.1 million, while the Marine Corps and Air Force each had over 70,000 M16 rifles in excess of their approved force acquisition objective. We could find no evidence that attempts were made to obtain these rifles before the new procurement was initiated.

We inquired as to the current status of M16 assets and requirements and found that the Army is currently 361,000 weapons short of its acquisition objective. We also determined that the Air Force retained over 70,000 rifles more than required to meet its acquisition objective. As a result of our identification of M16s currently available in the Air Force, the Army has obtained 40,247 M16s to help offset its large shortage.

REQUIRED M2 SERIAL NUMBER CONTROL NOT ENFORCED

The DOD Small Arms Serialization Program was intended to provide investigative agencies with a single reference for determining DOD ownership of small arms and to improve control of such weapons.

Our review of this program, which was concentrated on the Army and primarily on the M2 machine gun family, disclosed numerous deficiencies. We found the same serial numbers were registered under more than one stock number, weapons were not registered, erroneous transactions resulted in dropping weapons from the serialization registry even though the unit initiating the transaction still retained possession of the weapon, and registered weapons were being transferred to another location or destroyed without being reported. Consequently, the serialization program does not provide the intended visibility over small arms; thus, it is often impossible to identify the location and ownership of a weapon. While our review was concentrated on the Army's registration of M2 machine guns, similar problems may exist with other small arms and with other DOD components.

At the time of our inquiry, the Army Small Arms Serialization Registry contained about 62,700 active serial numbers for M2 machine guns. We found that identical serial numbers were recorded under more than one stock number. This duplication inflated the number of active serial numbers by about 8,000 and in many cases made it difficult, if not impossible, to determine where a weapon is located. While the vast majority of these duplicate serial numbers involved Army M2 machine guns, there were instances where the registry identified both the Army and another DOD component as the owner. About 80 percent of the duplicate serial numbers involved the Anniston Army Depot or Anniston and another installation.

Another problem of the Army Small Arms Serialization Registry is the large number of outstanding shipping transactions. These transactions represent weapons which were supposedly shipped from one activity to another; however, the receipt was never acknowledged by the intended recipient. Many of these unconfirmed shipping transactions have been outstanding since 1975. We analyzed outstanding shipping transactions involving shipments to the Anniston Army Depot and found that, as of May 1979, Anniston had not acknowledged receipt of 1,806 M2s supposedly shipped. One Army official estimates that Army-wide there are over 136,000 outstanding small arms shipments. Although this condition does not necessarily indicate that weapons have been lost, it may be difficult to determine their location and loss is a possibility.

The significance of the problems we identified with the serial number registration program at the Anniston Army Depot is further evidenced by the fact that a physical inventory taken in early July 1979 confirmed there were almost 8,000 more M2 serial numbers in the registry than there were M2s onhand. After identifying this problem, Anniston Army Depot officials initiated corrective action. By mid-July Anniston had removed about 4,900 serial numbers from the registry, including about 3,500 duplicates. Other serial numbers were removed because the M2s were no longer at Anniston or the serial numbers were erroneous. For many of those M2s which were no longer in storage at Anniston, officials could not determine when or where they had been shipped.

According to Anniston officials, the problems we identified with the serial numbered registration of M2s have been known for some time; however, shortages in personnel and equipment prevented corrective action. We were also told that similar problems exist with the registration of other small arms.

Deficiencies in the implementation of the Small Arms Serialization Program at the Anniston Army Depot prompted our review of its implementation at an Army field activity. At Fort Knox, Kentucky, we found numerous inaccuracies in its local registry of M2 serial numbers. We also found many more discrepancies in the Army's central registry of M2 serial numbers from Fort Knox.

Prior to our visit, Fort Knox officials conducted a reconciliation between the property book accounts maintained by the operational units and the Fort Knox Serialization Registry. At this time, discrepancies between the two records should have been identified, reviewed, and corrected. However, during our physical verification of M2 machine guns assigned to selected units at this installation, we identified numerous errors. For example, (1) 31 M2s onhand were not registered, (2) numerous serial numbers were incorrectly recorded, and (3) weapons reported by the registry as belonging to a Fort Knox unit were not found at this installation.

Subsequent to our identification of errors in the registration of M2s at Fort Knox, we were advised that a complete inventory of all its small arms would be conducted and a reconciliation, which was scheduled for completion in January 1980, would be used to correctly identify serial numbered weapons in the Army central registry.

After we reported our findings to Army officials, they initiated action to assess the magnitude of the problems we described. One official reported that due to deficiencies in the program, the reliability and accuracy of the Small Arms Serialization Registry is questionable. For example, (1) there are over 80,000 errors involving the registration of small arms at the Anniston Army Depot alone, (2) there are at least 6,000 errors involving Army weapons located in Korea, and (3) there has never been a reconciliation to determine the validity of the registration of weapons in Europe.

According to Army officials, the causes for the poor condition of the Small Arms Serialization Program are (1) inadequate processes and procedures for updating the records, (2) insufficient computer resources, (3) insufficient personnel to process transactions and resolve errors, and (4) inadequate training for field personnel who are responsible for the program at the local level.

As a result of our identification of deficiencies in the Army's implementation of the DOD Small Arms Serialization Program, the Army has initiated action to improve the program. The Small Arms Serialization Program Upgrade Project was established by the Army Deputy Chief of Staff for Logistics. This project will consist of two separate, but related efforts to be pursued concurrently. Headquarters, U.S. Army Materiel Development and Readiness Command, will be responsible for improving the operation of the Army's Small Arms Serial Number Registry which ARRCOM maintains. The Army Logistics Evaluation Agency will be responsible for developing effective participation in the Small Arms Serialization Program by all Army reporting activities. The Logistics Evaluation Agency has also been made responsible for appropriate coordination/integration of the two efforts.

SIMILAR PROBLEMS PREVIOUSLY IDENTIFIED AND REPORTED TO DOD

The Army's inability to keep accurate inventory records has been a longstanding problem. In our report, "Improved Inventory Controls Needed for the Department of the Army, Navy and Air Force and the Defense Supply Agency" (B-146828, Nov. 14, 1967), we pointed out that substantive differences existed between stock records and the actual quantities of items in inventories throughout the depot supply systems. Some of the factors cited as contributing to inaccurate stock records were:

--Inadequate control of documentation for receipts and issues occurring while physical inventories were taken.

--Failure to make proper reconciliations between the physical inventory counts and stock records.

--Failure to accomplish prescribed inventories.

--Inadequate research of adjustments to the stock records to disclose causes for the differences.

We reported to the Congress on "Movement of American Forces from France (Operation FRELOC)" (B-161507, Aug. 7, 1968) and noted that the Army lost control over large quantities of supplies and equipment, including weapons, because inventory records were inadequate.

This condition was again detailed in our report "Army and Air Force Controls Over Inventories in Europe" (B-161507,

June 30, 1969). We noted that many inventory adjustments were made to stock records without adequate research to determine why the adjustments were made. In our October 3, 1972, report, "Controls Over Small Arms in Europe Need Strengthening" (B-161507), we pointed out that Army records for small arms were not sufficiently accurate and reliable for management to make sound decisions. For example:

--Accountable records for small arms required extensive adjustment to make them agree with quantities onhand at the depots.

--The reliability of supply records was measured by a faulty standard which permitted errors in the records to be eliminated before the accuracy of the records was determined.

--The Army's inventory management in Europe did not provide the necessary control over small arms. Records of transactions between depots and support activities were inaccurate, indicating a loss of control of weapons shipped between them. Physical inventories were not performed regularly. Furthermore, because controls were not adequate, the Army in Europe was unable to determine what weapons were available for the troops.

In our November 21, 1975, report "Improved Inventory Management Could Provide Substantial Economies for the Army" (LCD-76-205), we stated that the Army had failed to achieve or sustain acceptable levels of stock record accuracy. We concluded that prescribed Army policies and procedures did not provide adequately for the reporting of physical inventory results to higher commands so they could ensure that acceptable levels of inventory accuracy were being maintained.

In a July 28, 1975, letter report to the Secretary of Defense (B-161507), we noted some improvements in the Army's accountability control for arms and ammunition; however, we pointed out that problem areas still existed. Although Army regulations and instructions were generally adequate, procedures established for ensuring the application of accountability controls were not always followed. At several installations discrepancies were noted between physical inventory counts and record balances; moreover, these discrepancies were not sufficiently explored to explain the

underlying causes. Accordingly, there was little assurance that some inventory losses had not occurred as a result of theft. In this report we also noted instances where inventory accuracy rates were overstated, custodial records were not maintained, and records were inadequate.

In our 1975 report, we stated that the establishment of a serial number control system could improve the Army's physical and accountability controls of small arms. However, as previously discussed in this chapter, the Army's Small Arms Serialization Program has numerous deficiencies which have precluded its achieving program objectives.

In regard to financial accounting controls, we stated in our report "Status, Progress, and Problems in Federal Agency Accounting During Fiscal Year 1978" (FGMSD-79-40, Aug. 24, 1979) that all Government property should be under general ledger control from the time it is acquired until it is consumed or disposed of. This is not the case at DOD. The logistics function in the military services is completely separate from the financial accounting function. Accounting in the private sector, and as required in the Budget and Accounting Procedures Act of 1950, as amended, should serve as a control of resources, including property. DOD needs to revise its systems of accounting to achieve monetary control of property in addition to the item control provided in its logistics systems.

In commenting on this report, Army officials informed us that the Army has initiated an effort to improve its system of accounting. The Army Standard Financial System Redesign, which is planned for implementation in 1982, provides for general ledger control over all fixed assets from acquisition through consumption or disposal.

In addition to our previous reports which have noted deficiencies in the Army's ability to maintain accurate inventory records of small arms, DOD internal audit groups have reported similar problems. In 1971 the Defense Audit Service issued a report "Interservice Audit of Small Arms and Ammunition and Explosives" which identified numerous weaknesses in the accounting controls over small arms. Many of the deficiencies were attributed to the lack of supply discipline. The July 19, 1976, Defense Audit Service report "Review of Small Arms Control in the Department of the Army" concluded that (1) there was inadequate control over depot stocks of small arms and (2) a complete inventory count would be needed to establish a precise inventory position. This same report stated that supply discipline problems at the U.S. Army Armament Command and at Army depots must be corrected if small arms accountability is to be maintained.

CONCLUSIONS

Because of their cost, their vital role in defense missions, and their vulnerability to theft, military small arms require careful management and control. Furthermore, if management is to successfully accomplish its mission, the records needed for decisionmaking must be accurate and complete. We have repeatedly reported deficiencies in the Army's policies, procedures, and implementing actions for keeping track of small arms and other equipment. Although the Army has taken action to improve small arms accountability and recordkeeping, our review of the M2 machine gun program demonstrates that inventory records continue to be inaccurate. Identified deficiencies reflect the lack of required management attention needed to ensure the development of a workable system to provide accurate inventory control information.

Although the Continuing Balance System was developed in response to past criticisms about the reliability of Army data, it has not achieved its established goals. We believe that increased emphasis should be placed on obtaining an accurate assessment of inventory balances for M2 machine guns and other small arms, and on establishing a system to ensure that accurate balances are maintained in the future.

Correcting system deficiencies in the Small Arms Serialization Program is crucial if the required degree of visibility and control is to be achieved for small arms. Based on the type and magnitude of errors found with the registration of M2 machine guns, we believe the DOD Central Registry of Small Arms is inaccurate and unreliable. Until all weapons are registered and the registry is purged of inaccurate data and other errors and is updated to reflect current weapon serial number identification, ownership, and location, the Small Arms Serialization Program will be of limited value in meeting its intended objectives.

The registration of all serial numbered small arms cannot be accomplished without the concerted effort of each Army field activity and depot ensuring that its weapons are correctly registered. Thereafter, emphasis must be placed at all levels on maintaining accurate records to correctly document the movement of small arms from one location to another.

The breakdown in procedures provided for by DOD Directive 4100.37 and DOD Directive 4140.34 have in the past allowed new procurements to be initiated when assets were available in another DOD component. We believe that if such unnecessary procurements are to be precluded, a procedure must

be developed to ensure that prior to procurement, a procuring activity obtains information on the inventory status of the same items in other DOD component inventories, including the identification of both requirements and the assets onhand. Furthermore, assets from one service which are above the approved force acquisition objective should be made available to another DOD component when that component's asset position is below this same level. The transfer of assets is especially critical when it will preclude the necessity for a new procurement.

RECOMMENDATIONS

We recommend that the Secretary of Defense direct the Secretary of the Army to:

--Ensure that discrepancies between physical inventories and inventory records for M2 machine guns and other small arms are investigated, and accurate inventory balances are established and maintained in the Continuing Balance System.

--Improve the Army's implementation and maintenance of the DOD Small Arms Serialization Program by ensuring that all serial numbered small arms are registered and that the small arms registry is maintained in an accurate and timely manner.

--Establish improved procedures for obtaining information on the status of inventories of other DOD components prior to procurements by (1) assuring that the communications regarding asset availability spell out both the quantities of assets onhand and the quantities required by each component queried and (2) requiring that item managers ascertain asset availability for each DOD component immediately prior to each procurement date.

CHAPTER 3

NEED FOR ADDITIONAL GUIDANCE ON RETENTION LEVELS FOR MACHINE GUNS AND OTHER WEAPONS

Until 1974 Army stocks of M2 machine guns exceeded known or anticipated requirements. In earlier years tens of thousands of M2s were sold or given to foreign countries or were disassembled for needed repair parts. Due to an increased requirement for M2s, the remaining M2 assets became insufficient to meet the Army's total force requirements for this weapon. While current DOD guidance does not allow procurement to meet total force requirements, the Army currently estimates an additional 20,000 M2s would be needed to meet this requirement objective.

During the time M2s were being sold, given away, and disassembled, DOD had (and still has) a policy which authorized DOD components to retain inventories which exceeded their approved force acquisition objective. These stocks could have been retained as economic or contingency retention stocks. However, DOD has not given DOD components guidance regarding computation of the quantity of weapons and other principal items to be retained as economic or contingency stocks.

While the past reductions in stocks of M2s may have been appropriate based on policy guidance given to ARRCOM at the time and based on ARRCOM's desire to reduce expenditures for repair parts, we believe the history of the M2 machine gun program illustrates the need for additional consideration and DOD guidance on the retention of stocks of principal items such as the M2 machine gun.

CURRENT POLICY

DOD policy for retaining materiel assets is set forth in DOD Directive 4100.37, which applies to principal items of equipment (including M2 machine guns and other weapons) as well as secondary items (including parts and components which compose principal items). As previously discussed (see p. 12), this directive provides that the maximum quantity of an item to be retained in inventory is the sum of the approved force acquisition objective, the approved force retention stock, the economic retention stock, and the contingency retention stock. Stocks in excess of these four levels are considered potential excesses.

The need for retention of secondary items above the approved force acquisition objective is well recognized by DOD

and is practiced by DOD secondary item managers. The Office of the Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) has issued several memorandums which reiterate existing policy for retention of secondary items. A February 6, 1973, memorandum stated:

> "It is our desire that all components develop and use true economic criteria on an item-by-item basis to compute the Economic Retention Stock quantity. A recent Army study indicates that such criteria would considerably expand Economic Retention Stock for most items. This would provide a retention buffer to absorb drastic fluctuations and decreasing trends in demand and appreciably deter premature disposal actions. Another retention stratum available at the wholesale level is Contingency Retention Stock."

In its May 4, 1979, "Report on the Review of the Retention and Transfer of Materiel Assets" (Report No. 79-080), the Defense Audit Service challenged current DOD procedures for determining the quantities of secondary items which should be retained in the wholesale supply system. This report pointed out that the mechanized procedures used by the DOD components for making stock retention decisions were not based on true economic criteria. According to the Defense Audit Service, computations on which retention decisions were based were distorted in favor of disposal because the cost-to-hold factors used were unrealistically high. The Defense Audit Service report recommended that the Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) revise DOD policy to require that assets be retained in the wholesale supply system on the basis of the item's potential usefulness rather than its recent demand.

In September 1979, the Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) identified that DOD policy for retention and disposal of wholesale secondary items needed to be reviewed. This review is to be concluded by September 1980 and is to include:

- --Identification, documentation, and evaluation of current policies and procedures for retention of wholesale secondary items by the services and the Defense Logistics Agency.

- --Development of standard retention definitions and criteria for application throughout DOD.

- --Development of an implementable methodology for making cost effective retention and disposal decisions.

--Development of a revised DOD retention and disposal policy.

--Development of necessary plans and general procedures for implementing a revised retention policy throughout DOD.

While management philosophies for controlling retention and disposal decisions for principal items may be different than those for secondary items, we believe principal items are no less critical and do require high level management attention. According to DOD officials, neither the Office of the Secretary of Defense (Manpower, Reserve Affairs and Logistics) nor any other DOD office has evaluated the need for guidance to the services regarding retention of principal items as economic retention stocks.

REDUCTIONS OF M2 STOCKS

We were unable to obtain asset and requirement data for the M2 machine gun prior to 1964. The following table shows such data for 1964, 1967, and 1970 through 1979, as shown in Army Materiel Plans. The requirement levels indicated are the Army's authorized acquisition objectives. Requirements for economic or contingency retention were not computed during this period and assets were not retained based on economic or contingency retention criteria.

M2 Machine Gun Inventory Status

Year	Assets	Requirements	Asset excesses or shortages (-)
1964	138,811	44,868	93,943
1967	115,429	41,445	73,984
1970	83,260	46,992	36,268
1971	67,117	54,316	12,801
1972	61,412	a/65,882	-4,470
1973	55,150	52,035	3,115
1974	52,623	40,374	12,249
1975	47,265	48,879	-1,614
1976	49,370	64,720	-15,350
1977	46,439	74,302	-27,863
1978	45,864	66,742	-20,878
1979	45,217	68,437	-23,220

a/ARRCOM officials indicated that this figure may have been incorrect.

As indicated in the previous table, between 1964 and 1979 the Army's M2 inventory was reduced by over 93,000. No specific records are available to document how this inventory was depleted, but Army officials told us that primarily the M2 depletion was the result of sale or donation to foreign countries and disassembly to obtain repair parts for the Army supply system.

Although we could not identify the number of M2s sold or donated to foreign customers since 1964, Army officials estimate that since 1951 over 100,000 M2s have been sold or donated to foreign countries. We identified the number of M2s diverted from Army inventories for delivery to foreign customers between 1973 and 1978. This information is presented in the table below.

M2 Machine Gun Diversions

Year	Diversions for foreign military sale	Diversions for grant aid	Total
1973	1,413	2,469	3,882
1974	969	514	1,483
1975	3,816	242	4,058
1976	4,142	-	4,142
1977	713	-	713
1978	1,022	-	1,022
Total	12,075	3,225	15,300

Little information is available to document the number of M2s disassembled to obtain repair parts for the Army supply system. ARRCOM officials told us that between 1966 and 1971, 57,584 M2s were disassembled. They said that after consideration of the M2 inventory level during this period and evaluation of alternatives available at the time, these disassemblies were in the best interest of the Government. These officials told us that no M2 disassemblies have taken place since 1971.

Prior to 1974, decisions to dispose of M2s through sale or donation to foreign countries or through disassembly were made in view of the fact that Army assets exceeded acquisition objective requirements. No information is available to

indicate what economic and contingency retention requirements should have been during this period. ARRCOM officials told us they received no guidance as to (1) whether principal items such as the M2 should be retained and (2) how such computations should be calculated. However, as previously reported by the Army Audit Agency and us, 1/ M2 machine guns sold to foreign countries after 1974 (when the Army first identified a deficiency in its capability to meet approved force acquisition objective requirements) were underpriced. From 1974 to 1978, 11,418 M2 machine guns were diverted from Army inventories for sale or donation to foreign customers, while the funds received in payment for these weapons were sufficient to purchase only 1,109 M2s to restock the depleted Army inventories.

Under past and current DOD policy, principal item assets which are not needed to meet requirements through the approved force acquisition objective can be offered to qualified foreign countries under the Military Assistance Program. Transfer of items under this program is on a nonreimbursable basis, except for costs of repair, modification, and accessorial charges. Additionally, assets onhand above the approved force acquisition objective which are sold to foreign governments under the foreign military sales program are priced at less than the replacement cost of such materiel since replacement would not be envisioned. These criteria may have contributed to the Army's not retaining M2s and other assets for economic or contingency retention purposes.

Officials at ARRCOM told us that diversions of M2 stocks to satisfy foreign military sales requirements continue. The prices which have been negotiated more recently on such sales allow for diverted M2s to be replaced on a one-for-one basis with new M2s procured under an existing Army contract. However, there may be extended periods between the time the M2s are diverted from the Army's inventory and the time a new M2 can be procured and received by the Army as replacement. For example, those M2s diverted since mid-1975 will not begin to be replaced in the Army's inventory until 1980. During the intervening period between the time when diversions are made from Army stocks and replacement items can be procured, the Army's ability to meet its own requirements is lessened.

1/"The Department of Defense Can Improve Its Free Asset Management" (LCD-76-44, Mar. 3, 1976). "Charges to FMS Customers - 50 Caliber Machine Gun Order" (LCD-77-449, Oct. 7, 1977). U.S. Army Audit Agency Report: MW-78-700 (Jan. 20, 1978). U.S. General Accounting Office letter (B-183318, Aug. 1978).

CURRENTLY PLANNED DISASSEMBLY OF M2s

In the past, when assets of M2s were greater than anticipated requirements, large quantities of M2s were disassembled to obtain needed repair parts to be used in the overhaul of other M2s. These actions reduced expenditures which would have been required to procure needed parts. However, although the Army's M2 assets are now more than 20,000 below total force requirements, ARRCOM is considering the disassembly of additional M2 machine guns.

As previously discussed (see p. 11), in the late 1960s the Army obtained almost 4,000 light barrel M2 machine guns from the Air Force. While it was initially intended that these guns would be disassembled for repair parts, this action never took place.

In May 1979 ARRCOM issued an order for the Anniston Army Depot to disassemble 3,843 of these guns. Anniston officials estimated that parts valued at about $2.4 million would be recovered--not including the value of the receivers of these guns. Anniston officials also estimated that the cost of the disassembly would be $561,000.

We visited Anniston, inspected the guns, and noted that most of the guns were in a like new condition. We then questioned Army officials as to the prudence of the proposed disassembly action in view of the large shortage of M2s. ARRCOM canceled the order to disassemble the 3,843 guns in August 1979. However, at about the same time, ARRCOM also directed the depot to utilize 1,999 of the guns as needed to replace receivers condemned during overhaul of heavy barrel M2s. ARRCOM thought these 1,999 guns were actually receivers only, but during our examination of the weapons, we found them to be whole guns.

Officials at Anniston Army Depot estimated that the light barrel M2s could be overhauled and converted to the heavy barrel configuration, which is currently needed, for about $1,100 each. Converting machine guns from one stock number or configuration to another is a standard practice at the depot. Hundreds of M2s have undergone such conversion to meet current Army requirements.

CONCLUSIONS

Established DOD and Army policies and practices regarding the retention of principal item assets have allowed the depletion of Army M2 assets to a level which is insufficient to meet current total force requirements. Decisions to dispose

of M2 assets may have been appropriate on the basis of policies and procedures in existence at the time. However, on the basis of our limited evaluation of past and current policies and procedures for retention of M2 machine guns, we believe additional DOD guidance is needed on the retention and disposal of principal items such as machine guns.

Further, the practice of disassembling principal items to obtain needed repair parts may be prudent in those cases where quantities of principal items onhand far exceed estimated requirements. However, we do not believe the currently planned disassembly of M2 machine guns can be justified in view of the current shortage.

RECOMMENDATIONS

We recommend that the Secretary of Defense issue specific guidance on the economic retention levels for principal items in DOD's inventories similar to those procedures now followed for secondary items.

We also recommend that the Secretary of Defense direct the Secretary of the Army to require that the light barrel M2 machine guns in storage at Anniston Army Depot be converted to meet current Army M2 machine gun requirements rather than disassembled for repair parts.

AGENCY COMMENTS AND OUR EVALUATION

The Army generally agreed with the above recommendations. However, the Office of the Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) did not concur with our recommendation to issue specific guidance regarding the computation of economic retention levels for principal items. According to the DOD officials who commented on our report, DOD Directive 4100.37 provides that subject to stated transfer policies, DOD components will normally retain assets up to the sum of the approved force acquisition objective, approved force retention stock, economic retention stock, and contingency retention stock.

We agree that DOD Directive 4100.37 allows the computation of economic retention levels for principal items, but it does not (1) require DOD components to compute an economic retention level or (2) provide guidance as to how such computations should be made. Furthermore, during our discussions with Army officials, we observed that there is a general unawareness that DOD Directive 4100.37 applies to principal items (such as the M2 machine gun and other weapons) as well as to secondary items.

The fact that DOD has seen fit to provide additional guidance to DOD components regarding the computation of economic retention levels for secondary items suggests that the provisions of DOD Directive 4100.37 were considered inadequate criteria for this class of items. Additionally, we could find no evidence that DOD has sought to ensure that the services have complied with the provisions of DOD Directive 4100.37 as they apply to principal items. To ensure that implementation takes place and that this implementation is consistent among all DOD components, we believe that specific guidance should be issued regarding the computation of economic retention levels of principal items.

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