

GAO

Report to the Chairman, Subcommittee on
Readiness, Committee on Armed Services,
House of Representatives

December 1992

NATIONAL GUARD

Using the Army's Supply System Will Reduce the Guard's Inventory Investment



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**United States
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**National Security and
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The Honorable Earl Hutto
Chairman, Subcommittee on
Readiness
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we determine why the National Guard maintains its own supply system rather than using the same system as the active Army. The report recommends, among other things, that National Guard units receive their support directly from the active Army's wholesale-level depots.

We are sending copies of this report to the Director of the Office of Management and Budget; the Chairmen of the House Committee on Government Operations, the Senate Committee on Governmental Affairs, the House and Senate Committees on Appropriations, and the Senate Committee on Armed Services; and the Secretaries of Defense and the Army. Copies will also be made available to other parties on request.

Please contact me at (202) 275-4141 if you or your staff have any questions. Other major contributors are listed in appendix II.

Sincerely yours,

Henry L. Hinton, Jr.
Director, Army Issues

Executive Summary

Purpose

To support its units, the Army National Guard maintains inventories of repair parts and other supplies at 54 locations throughout the United States, the District of Columbia, and U.S. territories. Concerned that the National Guard's supply system may duplicate supply functions performed by the active Army, the Chairman of the Subcommittee on Readiness, House Committee on Armed Services, asked GAO to determine whether

- the National Guard and the active Army could use the same supply system and such a system would reduce Guard inventory levels without adversely affecting supply responsiveness and
- the National Guard's system for requisitioning inventory items in peacetime is the system it will be expected to use when mobilized.

Background

All National Guard inventory items originate from the active Army's wholesale system. Supplies of these items are maintained by U.S. Property and Fiscal Officers, federal agents responsible for maintaining accountability for federal property at the supply locations used by the National Guard. The types of equipment and supplies maintained at the Guard locations include repair parts, clothing, subsistence items, medical supplies, and support equipment.

Although figures on how much inventory is maintained by all the Guard units is not available on a central basis, the National Guard Bureau estimates that Guard-wide inventories totaled about \$215 million as of April 30, 1992.

U.S. Property and Fiscal Officers attempt to fill requisitions from Guard units using the on-hand inventory obtained from the active Army's wholesale supply system. When the requisition cannot be filled, it is passed to the active Army's wholesale-level inventory control point to be filled from depot stocks.¹

Results in Brief

The Army National Guard already relies heavily on the Army's wholesale supply system to support National Guard units. Recent supply performance data shows that only about one-third of units' requisitions could be met by the Guard's supply system, with the others being passed to the wholesale

¹With regard to repair parts, as opposed to other supply items, the requisition is submitted to a direct support unit rather than to the U.S. Property and Fiscal Officer. If the requisition cannot be filled, it is passed to the U.S. Property and Fiscal Officer, who attempts to fill it from on-hand stocks. If this is not possible, the requisition is passed to the wholesale system.

supply system or filled by local purchases. Moreover, the existence of a separate supply system for the Guard has created inefficiencies. For example, much of the Guard's excess on-hand inventory has not been reported to the wholesale supply system for redistribution. Unaware of this excess inventory, wholesale-level inventory managers have purchased unnecessary spare parts.

By supporting Guard units directly from the Army's wholesale supply system, the Army could reduce its inventory investment by the amount of inventory maintained at the 54 Guard locations. Using the Army's wholesale supply system would also be another step toward achieving the Army's goal of a single supply system for all Army forces. Additionally, this step would be consistent with GAO's prior report recommendation that the National Guard use the Army's supply system rather than its own system for the issuance of clothing to its members.²

National Guard officials were concerned that if the Guard had to rely solely on the wholesale supply system, their units would receive less responsive support than their active counterparts and their equipment readiness could be impaired. GAO found, however, that requisitioning priorities are based on each unit's "force activity designator" (or relative importance) and the urgency of need for the requested item. The priorities are not based on whether the unit is an active or reserve unit. Therefore, the National Guard's requisitions would not be assigned lower priorities than they are now, and supply responsiveness would be based on Army-wide priorities.

In peacetime, reserve units do not use or train on the active Army's Unit Level Logistics System, the automated requisitioning system they are expected to use when mobilized. GAO found that some Guard units, when mobilized for Operations Desert Shield and Desert Storm, encountered requisitioning problems in part because the units lacked training on and experience with the Unit Level Logistics System.

²Army Supply Management: System for Issuing Replacement Clothing to Army Reservists Should Be Changed (GAO/NSIAD-91-136, June 11, 1991).

Principal Findings

Many Requisitions From Guard Units Are Passed to the Army Wholesale System

In the five states where GAO performed its review, over 40 percent of the requisitions submitted by Guard units during a 12-month period were passed to the Army's wholesale system or filled by local purchases because the Guard's supply system was not authorized to stock the items.

This data may not be representative of normal Guard operations because the period GAO reviewed included the time immediately after Desert Storm when the returning units were replenishing their stocks and repairing their equipment. Supply performance reports from 29 states for later periods of time show that about 67 percent of the requisitions were passed to the wholesale system to be filled. If these statistics are more representative of normal operations, then only about one-third of the Guard's supply needs are being satisfied by authorized inventory at the Guard locations.

Much Excess On-hand Inventory Is Not Reported to the Wholesale System for Redistribution

About \$680,000 of the \$22.1 million of on-hand inventory, excluding major end items of equipment, at the five Guard locations reviewed was excess to the Guard's needs. Of the total excess inventory, \$416,000, or about 61 percent, had not been reported to the Army's wholesale-level inventory control points for possible redistribution to other locations where there might be a need for the items. GAO also found that for 34 unreported excess items managed by the Army's Tank-Automotive Command, the Command was buying 10 of the items, valued at \$214,000.

Army's Plans for Single Supply System Do Not Include Elimination of Guard's Supply System

The Army plans to adopt a single supply system that will provide inventory managers with visibility and control over inventory located at the installation and division levels. A single supply system is expected to help inventory managers identify excess inventory and avoid making unnecessary purchases of these items. According to Army officials, however, the current design of the single supply system does not include the inventory located at the Guard locations. Therefore, the inventory will not be visible to or under the control of the single supply system inventory manager.

By using the wholesale system to supply Guard units, the Army could, on a one-time basis, reduce its inventory investment by at least \$35.7 million at the five Guard locations included in GAO's review and by at least \$215 million at all the Guard locations. Additionally, the stock balances at the

wholesale level would not have to be increased to accommodate the Guard requisitions because the wholesale inventory levels were based, in part, on the demands from the Guard units.

National Guard officials expressed the view that the estimated savings may be overstated because of the additional transportation costs and increased supply activity at the wholesale level that would occur if the Guard obtained all of its support directly from the active Army's wholesale system. GAO's position is that the costs and increased supply activity are already accounted for because the Guard units already receive all of their inventory from the wholesale level—either indirectly through the U.S. Property and Fiscal Officer locations or directly from the wholesale system when the U.S. Property and Fiscal Officer locations cannot fill the requisition.

Supporting the Guard From the Active Army Supply System Would Not Affect Equipment Readiness

A unit's requisitioning priority is based on its "force activity designator" (or relative importance of the unit) and the urgency of need for the requested item. Units with a force activity designator of "I" have the highest requisitioning priority, and units with a force activity designator of "V" have the lowest. Therefore, whether a unit is an active Army unit or a reserve unit has no bearing on its requisitioning priority, and the Guard's concern that its units would receive less responsive support if it had to rely solely on the Army's wholesale supply system is not warranted.

GAO found that the Army Reserve, like the National Guard, is heavily dependent on the active Army's supply system for the support of its units. In fact, active Army installations—supporting installations—are the first level of supply support for the Army Reserve. GAO also found that the supporting installations fill about the same percentage of requisitions for the Army Reserve as does the U.S. Property and Fiscal Officer for the Guard. As a result, the majority of the requisitions from Army Reserve units are sent to the wholesale level. Army Reserve officials told GAO that they were pleased with the quality and timeliness of the supply support received from the wholesale system.

GAO also found that for the three Guard locations for which requisitioning information was available, over 60 percent of the requisitions were not for items needed to solve urgent problems with inoperable equipment. However, even the 40 percent of the requisitions that had a priority that would indicate that equipment was inoperable due to the lack of parts may not be typical because the period GAO reviewed included the time

immediately following Operation Desert Storm, when many returning units were repairing their equipment. During this period, the units might have assigned requisitions a higher priority or submitted greater numbers of requests than they would normally have.

GAO recognizes that there may be cases when the lack of parts could significantly impair readiness or mission capability and has previously stated that in those cases, the needed item can be delivered on an expedited basis from the wholesale-level depots to the requesting unit.³

Reserve Component Units Do Not Use the Same Peacetime Requisitioning System as Active Army Units Use

When National Guard units were mobilized for Operations Desert Shield and Desert Storm, many of them had difficulty obtaining supplies, particularly repair parts for combat equipment. For example, one brigade undergoing training at the National Training Center unintentionally ordered a number of parts for the M-60 tank rather than for the M-1 tank with which they were equipped. Among the reasons for these difficulties, according to Army post-mobilization reports, were an apparent lack of familiarity with the wholesale supply system and procedures and a lack of training and experience with the Unit Level Logistics System.

Army and National Guard officials told GAO that they plan to equip Guard units with the Unit Level Logistics System. The Unit Level Logistics System, however, would be used only for mobilization training purposes and not for day-to-day operations. Day-to-day operations would be performed using the Reserve Component Automation System, which is currently being developed for the Guard and Army Reserve.

GAO found, however, that the original milestones for fielding the Unit Level Logistics System have slipped due to funding and software problems and revised milestones have not been established. Additionally, GAO has previously recommended and the Department of Defense has agreed that the Guard should train on and use the same system in peacetime that it is expected to use when mobilized.

Recommendations

GAO recommends that the Secretary of the Army direct the National Guard Bureau to require Guard units to requisition their inventory needs directly from the wholesale level rather than from the U.S. Property and Fiscal

³Army Inventory: Fewer Items Should Be Stocked at the Division Level (GAO/NSIAD-91-218, July 24, 1991).

Officer. For financial accounting purposes, the requisitions should flow through the U.S. Property and Fiscal Officer.

GAO also recommends that the Secretary of the Army

- establish milestones for the fielding of the Unit Level Logistics System in the National Guard units and
- require the National Guard to use the Unit Level Logistics System in its peacetime operations so that it will be better prepared when mobilized.

Agency Comments

The Department of Defense (DOD) did not agree with GAO's principal recommendation that Guard units requisition their supply needs directly from the wholesale system rather than from the U.S. Property and Fiscal Officer and direct support units. DOD officials said that having Guard units requisition their inventory needs directly from the Army's wholesale system would (1) create a Guard-unique supply system, (2) adversely affect the readiness of Guard units, and (3) be more expensive due to an increased number of requisitions and higher transportation costs.

DOD further stated that having the Guard unit go directly to the wholesale system for its supply needs would require the depots to revamp their bulk pack procedures. They cited Meals-Ready-to-Eat as an example. According to DOD, the depots only ship Meals-Ready-to-Eat in quantities of 48 boxes (576 meals). Therefore, if a unit needed only 50 meals, it would have to order 576 meals. DOD also provided examples in which requisitions had been canceled because the "vendor would not ship the quantity ordered."

DOD concluded that before GAO's recommendations are implemented, the Guard should do an in-depth cost and operational analysis to determine the financial and operational effects on readiness.

GAO's review showed that if Guard units relied on the wholesale system for their day-to-day support, the logistics structure would be somewhat different from the active Army's and Army Reserve's. GAO believes that the difference between the recommended supply support structure and the current structure would be relatively insignificant but that the recommended system would be more cost-effective. At present, the Guard's maintenance shops that account for the vast majority of the repair parts requisitions maintain levels of inventory to meet their day-to-day maintenance needs. The only difference that would occur is that the maintenance shops would request inventory to replenish their stocks or

request items that they do not stock from the wholesale system rather than from the U.S. Property and Fiscal Officer or from the direct support units. In essence, this is already happening, as evidenced by the small number of requests that are being filled by the U.S. Property and Fiscal Officer and by direct support units. Therefore, eliminating the inventory levels at the U.S. Property and Fiscal Officer and direct support unit locations would, at a minimum, result in a reduced inventory investment of several hundred million dollars.

GAO plans to address the supply responsiveness of active Army installations in supporting the needs of the Army Reserve in a later report. However, GAO's preliminary audit work at selected Army Reserve locations showed that Army Reserve units are heavily dependent upon the active Army for logistics support much like the Guard units are dependent on the U.S. Property and Fiscal Officer. In fact, the Reserves' first level of support comes from active Army installations.⁴ GAO also found that the level of responsiveness of the active Army installations in meeting the inventory needs of these selected Army Reserve units is about the same as the responsiveness of the U.S. Property and Fiscal Officers in meeting the needs of the Guard units. As with Guard units, most of the requisitions submitted by Army Reserve units are passed to the wholesale level to be filled. Army Reserve officials told GAO that they were pleased with the quality and timeliness of support received from the active Army support installations and the wholesale level.

GAO believes that the readiness of Guard units would not be affected if the units requisitioned their inventory needs directly from the wholesale system. Only about 6 percent of all the Guard's requisitions were submitted with priorities that would indicate that equipment was inoperable due to the lack of parts. Furthermore, the Army's system is capable of expediting the processing and transportation of items from the wholesale system to the requester when items are urgently needed to solve readiness-degrading problems with equipment.

With regard to the Department's concerns about increased costs due to an increase in the number of requisitions and transportation requirements, GAO believes that any additional cost would be marginal and would be more than offset by the reduced inventory investment of several hundred million dollars and the potential reduction that could be made in the number of personnel at the U.S. Property and Fiscal Officer locations who currently

⁴Within a specified geographical area, an active Army installation is designated to support the logistics needs of the Army Reserve units in that geographical area.

maintain and manage the inventory items. Furthermore, as discussed in the report, the transportation costs and work load at the wholesale level would not change whether the requisitions are filled by the U.S. Property and Fiscal Officer or the wholesale system. Under the current system, transportation costs are incurred when the U.S. Property and Fiscal Officer requisitions inventory from the wholesale system or when the requisition is passed from the requester to the wholesale system in cases when the U.S. Property and Fiscal Officer is not able to fill the request. The same holds true regarding increased activity at the wholesale system. Also, as discussed in the report, the U.S. Property and Fiscal Officer could retain the transportation distribution function for items requisitioned by the units from the wholesale system.

Concerning DOD's point that the depots would have to revamp their bulk pack procedures, GAO found that this would not be the case. According to depot officials, the depots do not have minimum ship quantities and will ship the quantity requisitioned. For example, if a unit requisitioned 50 Meals-Ready-to-Eat, the depot would ship 50 meals to the unit. With regard to the requisitions that were canceled because they did not meet the minimum order quantity, GAO found that the canceled requisitions were for items not stocked by the depots. The depots were attempting to procure the items from the vendor for direct delivery to the requester. Items that are not stocked by the depots are not the type of items GAO was referring to in the report. Therefore, GAO's position on having units requisition directly from the depots remains valid.

In view of the above, GAO does not believe that additional study of the recommended changes is warranted.

A more detailed discussion of these and other DOD comments is presented in chapters 2 and 3.

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Abbreviations

DOD	Department of Defense
GAO	General Accounting Office
ULLS	Unit Level Logistics System
USPFO	U.S. Property and Fiscal Officer

Introduction

To support its units, the Army National Guard maintains inventories of equipment and supplies in each state, the District of Columbia, and U.S. territories. These inventories, which are procured using federal funds, are under the control of U.S. Property and Fiscal Officers (USPFO), who are the federal agents responsible for maintaining accountability for federal property used by the National Guard.¹ The equipment and supplies maintained by the USPFOs include all classes of supplies, including repair parts, clothing, subsistence items, medical supplies, and support equipment.

Information on how much inventory is maintained at all 54 USPFO locations is not available on a centralized basis. However, according to Guard officials, the USPFOs had about \$215 million of inventory items on hand as of April 30, 1992.

Within the National Guard, each state or territory functions as a separate entity. Each USPFO location maintains an authorized stock list of inventory items to satisfy demands for frequently needed and essential items. For all but repair parts, the inventory is maintained at a USPFO warehouse. For repair parts, most states have one or more direct support units that manage these inventory items.

To carry out its logistics responsibilities, each USPFO has a staff that performs inventory management functions such as commodity management, warehousing, and packing. These personnel also perform other logistics-related duties such as picking up, storing, and transporting hazardous materials; managing excess and contingency materiel; and delivering equipment and supplies to the units and picking up materiel for return to the USPFO.

National Guard's Requisitioning Process

All inventory items provided to the National Guard originate from the active Army's wholesale system. When the USPFOs and direct support units need to replenish their stock levels, they submit a requisition to the

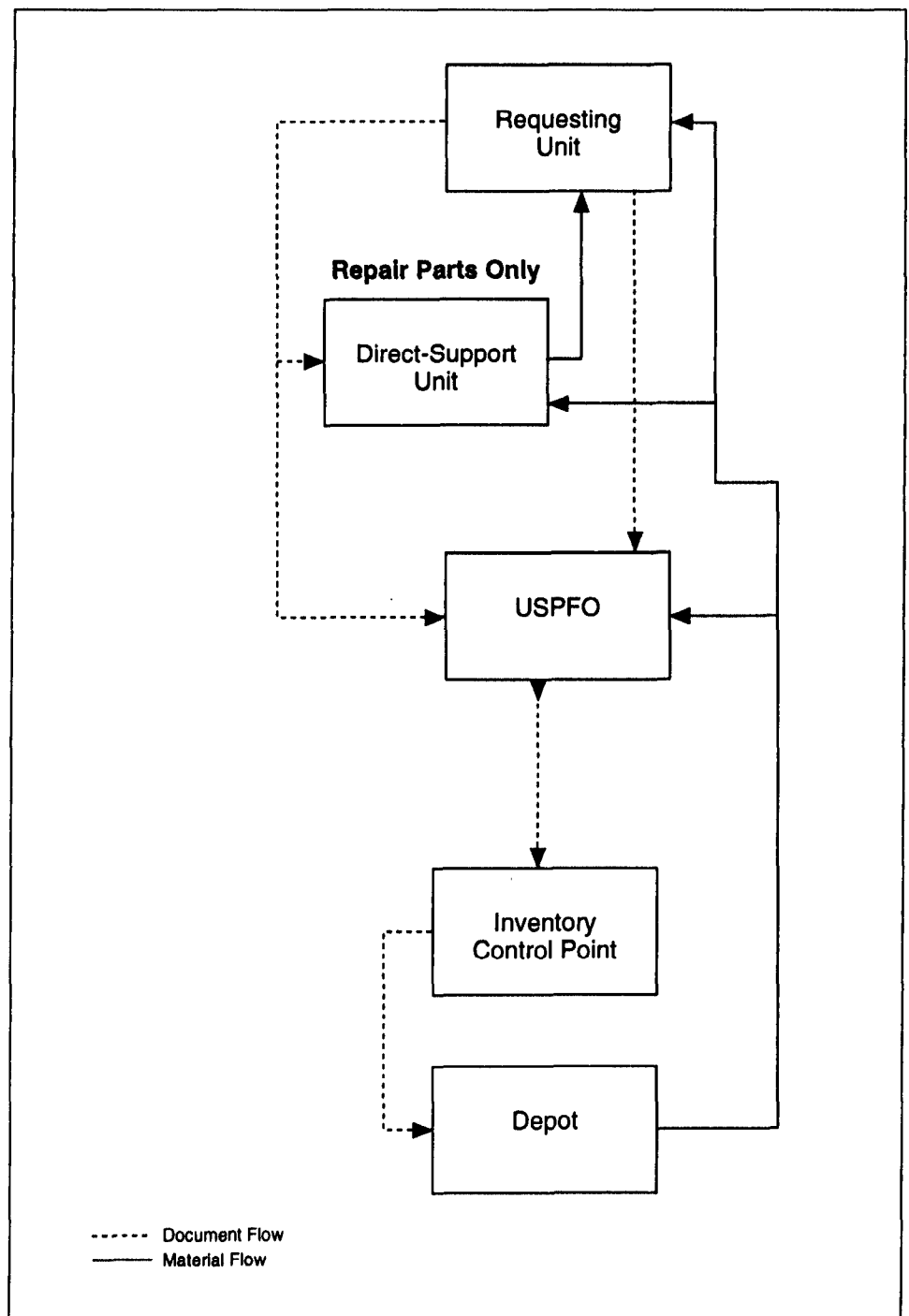
¹The USPFO performs functions other than logistics management. While the functions may vary from state to state, they generally include administrative, financial accounting, logistics, and procurement and contracting functions. This report focuses on the logistics functions.

wholesale system. When a National Guard unit submits a requisition to the USPFO,² the USPFO attempts to fill the requisition from on-hand stocks.

If the USPFO is unable to fill the requisition for an item that it is authorized to stock but does not have on hand, a “due out” to the requester is established, and the requisition is retained at the USPFO until the number of requests reaches an economic order quantity. At that point, the items are ordered from the Army’s wholesale-level inventory point. When the ordered items are received at the USPFO, the requests from the units are filled. Figure 1.1 illustrates the requisitioning process for National Guard units requesting needed items.

²With regard to repair parts, as opposed to other inventory items, many states maintain their repair parts at direct support units rather than the USPFO locations. In these cases, the National Guard unit sends the requisition to the direct support unit to be filled. If the requisition cannot be filled, the direct support unit passes it to the USPFO location, which tries to fill the requisition from on-hand stocks that are awaiting return to the wholesale system. If the requisition cannot be filled from these stocks, it is passed to the wholesale system.

Figure 1.1: Flow of Requisitions and Materiel for the National Guard



The USPFO offices and direct support units in the five states in our review were authorized to stock \$35.7 million of inventory. They had on-hand inventory valued at \$36.3 million, as shown in table 1.1.

Table 1.1: Value of Authorized and On-Hand Inventory for the Five States in Our Review

State	Authorized Inventory	On-hand Inventory
Iowa	\$3,207,551	\$8,685,066
Utah	9,854,057	7,184,922
Louisiana	7,201,009	7,200,128
Georgia ^a	3,438,924	2,901,532
Idaho	11,991,798	10,331,488
Total	\$35,693,339	\$36,303,136

^aIncludes repair parts at only one of the three direct support units. Therefore, the values of the authorized and on-hand inventories are larger than what is shown.

Objectives, Scope, and Methodology

Concerned about why the National Guard operates its own separate logistics system to support its units, the Chairman of the Subcommittee on Readiness, House Committee on Armed Services, asked us to determine whether

- the National Guard and the active Army could use the same supply system and such a system would reduce Guard inventory levels without adversely affecting supply responsiveness and
- the National Guard's system for requisitioning inventory items in peacetime is the system it will be expected to use when mobilized.

We reviewed Army policies and regulations concerning how the National Guard logistically supports its units. We also held discussions with Army and National Guard officials at the following locations to obtain their views on the advantages and disadvantages of the National Guard's using the same supply system that the active Army uses:

- the Office of the Deputy Chief of Staff for Logistics, Department of the Army, Washington, D.C.;
- the National Guard Bureau, Washington, D.C.;
- the Army's Strategic Logistics Agency, Fort Belvoir, Virginia; and
- the Adjutant General Offices for the states of Georgia, Idaho, Iowa, Louisiana, and Utah.

We selected five USPFOS for detailed review. We selected these particular locations because (1) they provided geographical representation and (2) the National Guard Bureau recommended them as states whose USPFOS operations were representative of the Guard as a whole.

At each location we visited, we obtained the availability balance file, which showed the authorized and on-hand inventory balances, and the demand history tapes, which showed the item numbers and quantity of items requisitioned during the past 12 months. The demand history tapes included data for the period immediately before and after Operation Desert Storm. The number of demands during this period may be larger than normal because the units were replenishing their authorized stocks and repairing their equipment.

Using the demand history tapes, we determined (1) the number and quantity of demands for each item and (2) the number of high priority demands. By comparing the items requisitioned on the demand history tapes to the items on the availability balance file, we determined the number of requisitions for items on the authorized stock list and the number of requisitions that were passed to the wholesale system to be filled from depot stocks.

As part of our analysis of supply system responsiveness, we analyzed the on-hand excess inventory being retained by the USPFOS to determine which items had been reported to the wholesale system for redistribution. We also traced 34 unreported excess items to an Army inventory control point—the Tank-Automotive Command—to determine whether there were any procurement actions in process.

In our analyses of demands and excess inventory, we excluded major end items of equipment. We did so because it would not be an objective measure of the supply system's effectiveness to include items that the USPFOS would not be authorized to stock. Furthermore, including excess end items would have the effect of inflating the dollar value of excess items.

We performed our review from April 1991 to May 1992 in accordance with generally accepted government auditing standards.

The Logistics Support Needs of National Guard Units Could Be Met by the Army's Wholesale Supply System

Many of the demands submitted by National Guard units are not filled by USPFOS or the direct support units. Instead, the requisitions are passed to the wholesale level to be filled because (1) the requisitions are for items that the Guard is not authorized to stock or (2) there is no stock on hand to fill the requisitions.

The USPFOS and direct support units in our review had excess inventory valued at about \$680,000, and over 60 percent of it had not been reported to the Army's wholesale supply system for redistribution to other units that might have had a need for the items. At the same time, the wholesale supply system was in the process of buying some of the items that were excess at Guard locations.

Inventory support for Guard units could be obtained directly from the Army's wholesale supply system rather than from the USPFOS and direct support units. This practice would allow the Army to eliminate a retail level of inventory and reduce its inventory investment at the USPFOS and direct support units. Furthermore, this practice would make the Guard's peacetime inventory system comparable to the system it is expected to use when mobilized and would be another step toward the Army's goal of achieving a single supply system.

Many Items Requested by Guard Units Are for Items Not Authorized to Be Stocked

Only 23 percent of the individual items requisitioned from the USPFOS and direct support units in our review were for items that the Guard was authorized to stock.¹ The requisitions for authorized inventory items accounted for 59 percent of all the requisitions. The remaining 41 percent were filled by local purchase or passed to the wholesale supply system to be filled from wholesale-level stocks. Table 2.1 shows the numbers of requisitions for items that the Guard was and was not authorized to stock during the latest 12-month period.

¹Our analysis excluded requisitions for major end items of equipment that the Guard locations are not authorized to stock.

Table 2.1: Requisitions for Items Authorized and Not Authorized to Be Stocked by the Five States in Our Review

States	Requisitions for authorized items	Requisitions for items not authorized	Percentage of all requisitions that were for authorized items
Iowa	27,730	27,065	50.6
Utah	26,883	23,121	53.8
Louisiana	86,998	50,089	63.5
Georgia ^a	11,343	2,163	84.0
Idaho	29,267	23,475	55.5
Total	182,221	125,913	59.1

^aDemand data for the direct support unit in Georgia was inadvertently deleted from the computer data base.

The statistics cited in table 2.1 regarding the numbers of requisitions for authorized inventory items may not be typical of normal Guard operations. The requisitioning period covered by these statistics included the period during which Guard units were preparing to mobilize and/or returning from Operation Desert Storm. As a result, the units were requisitioning items to build up their inventories before deploying, replenishing their inventories after returning, or requisitioning items to repair their equipment.

Supply performance information from 29 states covering varying lengths of time between July 1991 and January 1992 showed that the percentage of requisitions for items that the Guard was authorized to stock averaged about 33 percent. The remaining 67 percent of the requisitions would have been passed to the Army's wholesale level or would have been filled by local purchase. These statistics could be more typical of normal Guard operations in that the number of requisitions would not have been greatly influenced by Operation Desert Storm.

Much of the Excess On-Hand Inventory Has Not Been Reported for Redistribution

Our review also showed that \$416,000, or about 61 percent, of the \$680,000 of on-hand excess inventory at the USPFO locations in our review had not been reported to the Army's wholesale-level inventory control points for possible redistribution, as required by Army regulations. Consequently, the wholesale system was not able to redistribute the excess to other locations where the items might have been needed.

Excess inventory can accumulate when units reorganize and change their missions. When such changes occur, the inventory items needed to support units' equipment may no longer be applicable. Excess inventory can also

Chapter 2
The Logistics Support Needs of National
Guard Units Could Be Met by the Army's
Wholesale Supply System

accumulate as a result of a decrease in demand. When demands decrease, requirements objectives are reduced, and the inventory above the requirements objectives becomes excess.

Table 2.2 shows the amount of excess on-hand inventory in each of the states at the time of our review. The table also shows the amount of the excess that had not been reported to the wholesale-level inventory managers.

Table 2.2: Value of Reported and Unreported Excess Inventory in the Five States in Our Review

State	Excess inventory		Total
	Reported	Unreported	
Iowa	\$60,195	\$75,897	\$136,092
Utah	54,717	81,678	136,395
Louisiana	46,033	152,475	198,508
Georgia	91,452	52,637	144,089
Idaho	11,672	53,522	65,194
Total	\$264,069	\$416,209	\$680,278

At the time that the Guard had unreported on-hand excess inventory, the wholesale supply system was procuring some of these same items. For example, we traced 34 unreported excess items to an Army national inventory control point—the Tank-Automotive Command—to determine whether there were any procurement actions in process.

Our analysis showed that 10 of the excess items were being procured by the Tank-Automotive Command at a cost of \$214,000. While our sample involved only a small number of items, it demonstrates what can happen when there is inventory at locations below the wholesale level that is not visible to the wholesale-level item manager.

After we had completed our review, Guard officials told us that the unreported excess inventories had been or were being reported to the wholesale inventory system and that they were awaiting instructions for the disposition of the excess items.

The Standard Army System Can Support National Guard Units With Less Inventory Investment

The supply support needs of Guard units could be met by having the Guard units receive their day-to-day operating support directly from the Army's wholesale supply system rather than from the USPFOS and direct support units.² The Guard units could submit their requisitions through the USPFOS to the wholesale-level inventory control points, which, in turn, could fill the requisitions and either directly ship the requested items to the units or, in the case of bulk shipments, ship the items to the USPFO for delivery to the units. The USPFOS would retain funding approval but would not be required to manage or stock the inventory.

By removing the inventory from the USPFOS, the Army could reduce its inventory investment, advance its goal of achieving a single supply system, and still maintain an acceptable readiness for National Guard units. Furthermore, such an action would be consistent with our recent recommendation in a June 1991 report concerning National Guard clothing issue points. In that report, we recommended that the National Guard use the Army's wholesale supply system rather than its own system to fill requisitions for clothing for National Guard members.

Reducing Inventory Investment

Inventories at the USPFOS and direct support units represent a sizable investment by the Army.³ While this inventory serves a useful purpose in that it allows the Guard to rapidly fill requisitions for authorized inventory items, the fact remains that a large percentage of the requisitions are already sent to the wholesale-level inventory control points to be filled. Therefore, the question is whether the Army wants to maintain a sizable inventory at the Guard locations when the wholesale level could satisfy the Guard's needs.

If the Guard units requisitioned all of their items from the wholesale level, the Army could, on a one-time basis, reduce its inventory investment by the amount of stocks maintained at the Guard locations. The stock balances at the wholesale level would not have to be increased to accommodate the Guard requisitions because the wholesale inventory levels are based, in part, on the demands from the Guard units.

²For the purpose of this report, we are not including in the day-to-day operating stocks the contingency items that are assigned to Guard units but are often stored at the USPFO locations.

³The exact amount cannot be easily determined because the information is not accumulated. However, on the basis of the on-hand inventory at the five Guard locations in our review, we estimate that the total on-hand inventory Guard-wide could be several hundred million dollars.

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Guard officials were concerned that the estimated savings did not include the additional transportation costs or the increased activity that they believe would occur if the units got their support directly from the wholesale system.

We pointed out that the same transportation costs and increased activity at the wholesale system are experienced regardless of whether the requisition is filled by the USPFPO or the wholesale system. Under the current system, transportation costs are incurred when the USPFPOs requisition inventory from the wholesale system or when the requisition is passed from the requester to the wholesale system in cases in which the USPFPOs are unable to fill the request. The same holds true regarding increased activity at the wholesale system.

Advancing the Goal of
Achieving a Single Supply
System

The Army is moving towards its goal of establishing a single supply system throughout the Army. Once achieved, the single supply system will provide inventory managers with visibility and control over inventory located at the installation and division levels.

According to Army officials, however, the single supply system, as currently designed, would not include the inventory located at the USPFPOs or the direct support units. The inventory at these locations would not be under the purview of the single system inventory manager and would represent another supply system within the Army. Unless the National Guard's inventory is included in the single supply system or responsibility for managing the inventory is transferred to the wholesale-level depots, the Army will not achieve its overall goal of having one supply system for all its forces.

Readiness of the Units Would
Not Be Impaired

National Guard officials were concerned that if their units had to rely on the Army system for support rather than on the National Guard system, the units would receive a lower level of support. This decreased support, they believed, would affect their equipment readiness.

We found, however, that the Guard's concern that its units would receive a lower level of support if it had to rely solely on the Army wholesale supply system is not warranted. The requisitioning priority, which drives the order-ship-time, is based on the unit's "force activity designator" (its relative importance in terms of assigned deployment date, assigned mission, and so on) and the urgency of need for the requested item.

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Requisitioning priority is not based on whether the unit is an active Army or Guard unit.

With regard to the Guard's concern about the impact on equipment readiness, our review showed that for the three Guard locations for which requisitioning information was available, over 60 percent of the requisitions were not to solve readiness-related equipment problems. However, even the 40 percent of the requisitions that were coded with a priority that would indicate that equipment was inoperable due to lack of parts may not be typical. The period we reviewed included the time immediately following Operation Desert Storm, when many returning units were repairing their equipment. During this period, units might have assigned higher priorities or submitted greater numbers of requests than they would normally have done.

Table 2.3 shows the average priority for the repair parts requisitioned by Guard units in three of the states in our review. (Requisitions are assigned priorities numbered 1 through 15: 1 is highest priority; 15 is lowest.)

Table 2.3: Average Requisitioning Priority for the Authorized Inventory Items Requisitioned During the Latest 12-Month Period at the Time of Our Review

State	Priority								Total
	1-3		4-6		7-8		9-15		
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	
Idaho	581	7.7	1,724	23.0	757	10.1	4,436	59.2	7,498
Iowa	131	1.5	413	4.9	922	10.8	7,061	82.8	8,527
Louisiana	2,043	9.2	5,972	26.9	2,454	11.1	11,740	52.8	22,209
Total	2,577	7.2	8,109	21.2	4,133	10.8	23,237	60.8	38,234

We recognize that there may be instances in which a unit has a critical need for an item. As recommended in a previous report, when the lack of a part would cause equipment not to be operational and thereby significantly impair the unit's readiness, delivery of the needed item could be expedited from the wholesale inventory depot.⁴ Any increased cost of expedited delivery from the depots would be more than offset by the savings from reduced inventory levels.

⁴Army Inventory: Fewer Items Should Be Stocked at the Division Level (GAO/NSIAD-91-218, July 24, 1991).

Conclusions

Having National Guard units obtain their needed items from the wholesale-level depots would allow the Army to reduce its investment in inventory, would be another step toward achieving the Army's goal of having a single supply system, and would not adversely affect the readiness of the units.

In the five states in our review, inventories are maintained to support 59 percent of the demands generated by Guard units. The remaining 41 percent of the demands are filled by local purchase or are passed to the Army's wholesale-level supply system to be filled from depot stocks. However, the level of support obtained from Guard inventories is probably overstated because during our review the units were replenishing their inventories or repairing their equipment as a result of Operation Desert Storm.

The USPFOs at the five states in our review had \$680,000 of on-hand excess inventory of which about 60 percent, or \$416,000, had not been reported to the wholesale level for possible redistribution. Furthermore, the wholesale level was in the process of buying some of these same items.

Our analysis of requisitioning priorities for Guard units in three states for which such information was available showed that the average requisitioning priority was 9 or higher for over 60 percent of the items requested. (Priorities are rated on a scale of 1 to 15, with 15 being the lowest.) These lower priorities indicate that the items were not needed to solve problems with equipment readiness.

Recommendation

We recommend that the Secretary of the Army direct the National Guard Bureau to require Guard units to requisition their inventory needs directly from the wholesale level rather than through the USPFO. For financial accounting purposes, the requisitions should still flow through the USPFO.

Agency Comments and Our Response

The Department of Defense (DOD) did not agree with our recommendation. DOD officials said that having Guard units requisition their inventory needs directly from the Army's wholesale system would (1) create a Guard-unique supply system, (2) adversely affect the readiness of Guard units, and (3) be more expensive due to the increased number of requisitions and transportation costs.

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DOD further stated that having the Guard unit go directly to the wholesale system for its supply needs would require the depots to revamp their bulk pack procedures. They cited Meals-Ready-to-Eat as an example. According to DOD, the depots only ship Meals-Ready-to-Eat in quantities of 48 boxes (576 meals). Therefore, if a unit needed only 50 meals, it would have to order 576 meals. DOD also provided examples of requisitions being canceled because the "vendor would not ship the quantity ordered."

DOD concluded that before our recommendations are implemented, the Guard should do an in-depth operational and cost analysis to determine the financial and operational effects on readiness.

Our review showed that if Guard units relied on the wholesale system for their day-to-day support, the logistics structure would be somewhat different from the active Army's and Army Reserve's. In a later report, we plan to address the supply responsiveness of active Army installations in supporting the needs of the Army Reserve.

We believe that the difference between the recommended supply support structure and the current structure would be relatively insignificant but that the recommended structure would be more cost-effective. At present, the Guard maintenance shops that account for the vast majority of the repair parts requisitions maintain levels of inventory to meet their day-to-day maintenance needs. The only difference that would occur is that the maintenance shops would request inventory to replenish their stocks or request items that they do not stock from the wholesale system rather than from the USPFPO or from the direct support units. In essence, this is already happening, as evidenced by the small number of requests that are being filled by the USPFPO and by direct support units. Therefore, eliminating the inventory levels at the USPFPO and direct support unit locations would result in a reduced inventory investment of several hundred million dollars.

Our audit work at selected Army Reserve locations showed that Army Reserve units are heavily dependent upon the active Army for logistics support. In fact, the Reserves' first level of support comes from active Army installations.⁶ We also found that the level of responsiveness of the active Army installations in meeting the inventory needs of the Army Reserve units is about the same as the USPFPO in meeting the needs of the Guard units. Also, most of the requisitions submitted by Army Reserve units are passed to the wholesale level to be filled. Army Reserve officials

⁶Within a specified geographical area, an active Army installation is designated to support the logistics needs of the Army Reserve units in that geographical area.

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told us that they were pleased with the quality and timeliness of support received from the active Army support installations and the wholesale level.

We believe that the readiness of Guard units would not be affected if the units requisitioned their inventory needs directly from the wholesale system. Only about 6 percent of all the Guard's requisitions were submitted with priorities that would indicate that equipment was inoperable due to the lack of parts. Furthermore, the Army already has a system for expediting the processing and transportation of items from the wholesale system to the requester when items are urgently needed to solve readiness-degrading problems with equipment.

With regard to the Department's concerns about increased costs due to an increase in the number of requisitions and transportation requirements, our position is that any additional cost would be marginal and would be more than offset by the reduced inventory investment of several hundred million dollars and the reduction in the number of personnel at the USPFO locations who currently maintain and manage the inventory items. Furthermore, as discussed in the report, the transportation costs and work load at the wholesale level would not change whether the requisitions are filled by the USPFO or the wholesale system. Under the current system, transportation costs are incurred when the USPFO requisitions inventory from the wholesale system or when the requisition is passed from the requester to the wholesale system in cases when the USPFOs are not able to fill the request. The same holds true regarding increased activity at the wholesale system. Also, as discussed in the report, the USPFO could retain the transportation distribution function for items requisitioned by the units from the wholesale system.

Concerning DOD's point that the depots would have to revamp their bulk pack procedures, we found that this would not be the case. According to depot officials, the depots do not have minimum ship quantities and will ship the quantity requisitioned. For example, if a unit requisitioned 50 Meals-Ready-to-Eat, the depot would ship 50 meals to the unit. With regard to the requisitions that were canceled because they did not meet the minimum order quantity, we found that the canceled requisitions were for items not stocked by the depots. The depots were attempting to procure the items from the vendor for direct delivery to the requester. Items that are not stocked by the depots are not the type of items we were referring to in the report. Therefore, our position on having units requisition directly from the depots remains valid.

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In view of the above, we do not believe that additional study of the recommended changes is warranted.

Data System Used by the Guard for Requisitioning Inventory Items Is Not the System Used by the Active Army

The Army's standard automated data system, the Unit Level Logistics System (ULLS), is used by active Army units to requisition and manage inventories at the unit level. Because this system was not provided to National Guard units prior to Operation Desert Storm, Guard units had difficulty adapting to it when they were mobilized.

During peacetime, the Guard had developed its own inventory requisitioning system using personal computers and Guard-unique software. Army after-action reports on Operation Desert Storm concluded that the Guard's lack of familiarity with the active Army's supply system procedures and its lack of training on ULLS had impeded the units' supply performance when they were mobilized.

Mobilized National Guard Units Had Problems Adapting to Active Army System

After National Guard units were mobilized, many of them experienced difficulties in obtaining supplies, particularly repair parts for combat equipment. The units had difficulty in properly preparing and submitting requisitions and sometimes ordered the wrong parts.

We previously reported on the types of problems encountered by Guard units in having to learn a supply system upon mobilization that was different from the one they used in their peacetime training.¹ For example, one of the round-out brigades undergoing training at the National Training Center ordered a number of parts for the M-60 tank, rather than for its M-1 tanks.

In response to our report, the Department of Defense stated that it is committed to resolving incompatibilities that exist between active and reserve supply systems.

In post-mobilization reports, the Department of the Army Inspector General's staff and the units cited an apparent lack of familiarity with the active Army's supply system and procedures and a lack of training and experience with ULLS as causes of the problems they encountered.

The ULLS is an automated data system developed by the Army to requisition supplies and manage unit-level inventories. The system is currently used by the active Army but had not been provided to the National Guard round-out brigades or the Army Reserve units. Rather than use the standard Army system, many states obtained personal computers for their National Guard

¹National Guard: Peacetime Training Did Not Adequately Prepare Combat Brigades for Gulf War (GAO/NSIAD-91-263, Sept. 24, 1991).

units and used internally developed software to manage supply activities at the unit level. When the units were mobilized, however, the computers and software remained at the units' home stations, thus requiring the activated units to use the less familiar active Army system.

The Army has provided ULLS to a few National Guard units and, according to Army officials, plans to provide the system to certain high priority units. The officials also said that the National Guard plans to obtain ULLS for the lower priority units using funds provided under the Dedicated Procurement Program. This would allow the National Guard units to train on the same system that they will be expected to use when mobilized.

According to Army and National Guard officials, however, time frames for completing the fielding of ULLS to the National Guard have not been established. The officials also said that ULLS will be used only for mobilization-day training. The system that will be used for day-to-day operations is the Reserve Component Automation System. The system, which is being developed for Guard and Army Reserve forces, is a peacetime system that will not accompany the units to the mobilization stations.

Conclusions

The lack of compatibility between the logistics systems used by the National Guard and by the active Army impeded the effectiveness and efficiency of National Guard units when they were mobilized for Operations Desert Shield and Desert Storm. The ULLS, which is used by the active Army, could be exported to the National Guard and used by the units to process their requisitions. Taking this action would allow the units to be familiar with the system they will be expected to use when mobilized.

Recommendations

We recommend that the Secretary of the Army

- establish milestones for the fielding of ULLS in the National Guard units and
- require the National Guard to use ULLS in its peacetime operations so that it will be better prepared when mobilized.

Agency Comments and Our Response

DOD partially agreed with both of the recommendations. The officials said that a fielding plan had already been established for ULLS. The Army is funding the requirements for high priority Guard units, and \$8.7 million of Guard Dedicated Procurement Program funds has been transferred to the

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project manager for procurement of ULLS for other than high priority Guard units.

The officials also said that congressional direction limits the use of ULLS and requires that the Reserve Component Automation System be used for day-to-day operations. For these reasons, ULLS will be used during weekend and annual training sessions. The officials further commented that the software for the two systems will mirror each other, and therefore, the transition from the peacetime Reserve Component Automation System to the wartime ULLS should not be a problem.

We agree that the Army and the Guard have established goals for fielding the ULLS to the Guard. However, the plan applies only to the computer hardware for repair parts. The hardware associated with managing the other classes of supplies is still being developed, and according to an Army official, the National Guard has not placed any orders for this equipment. Another Army official told us that the fielding of the ULLS has been delayed due to funding and software problems.

Concerning the use of the ULLS only during training and not for day-to-day operations, our position remains that the Guard should use the same system in peacetime that it is expected to use in wartime. The Guard is not prevented from using ULLS for day-to-day operations. The expressed direction of DOD's Appropriations Act for fiscal year 1988 provided that no funds intended for the Reserve Component Automation System could be used to procure computers for the reserve forces until a contract had been awarded for the Reserve Component Automation System.

Comments From the Department of Defense



RESERVE AFFAIRS

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1500

17 SEP 1992

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
United States General Accounting Office
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report entitled--"NATIONAL GUARD: Using The Army's Supply System To Meet The Guards' Needs Will Reduce Inventory Investment" (GAO Code 393416/OSD Case 9101), dated August 3, 1992. The Department partially concurs with five of the GAO findings and two recommendations, and does not concur with the others.

The Army National Guard presently uses the Army supply system. All Army supply regulations apply to the National Guard and Reserves; there are no unique regulations that apply specifically to the National Guard and Reserves. Incorporation of the GAO recommendation that the National Guard units receive their support directly from the active Army wholesale level depots, would create a Guard "unique" system. With regard to the Unit Level Logistics System, the Army already has a plan to field the system to the National Guard. The Reserve Component Automation System is required by law and is a peacetime system; however, its software functional descriptions will mirror the Unit Level Logistics System and, thereby, be transparent to the user.

The detailed DoD comments on the GAO findings and recommendation are provided in the enclosure. The Department appreciates the opportunity to review and comment on this draft report.

Sincerely,

A handwritten signature in cursive script that reads "George G. Kundahl".

George G. Kundahl
Principal Deputy Assistant Secretary

Enclosure:
As Stated

GAO DRAFT REPORT--DATED AUGUST 3, 1992

(GAO CODE 393416) OSD CASE 9101

"NATIONAL GUARD: USING THE ARMY'S SUPPLY SYSTEM TO MEET THE
GUARDS' NEEDS WILL REDUCE INVENTORY INVESTMENT"

DEPARTMENT OF DEFENSE COMMENTS

* * * * *

FINDINGS

- 0 **FINDING A: National Guard Supply System.** The GAO observed that the Army National Guard maintains inventories of equipment and supplies in each state, the District of Columbia, and U.S. territories--which are procured using Federal funds. The GAO noted that the inventories are under the control of U.S. Property and Fiscal Officers. The GAO reported that the amount of inventory maintained at all 54 U.S. Property and Fiscal Officers offices is not known because the data is not maintained in a central location. Based on a review of Guard activities in five states, however, the GAO estimated that the inventory at all the Guard locations is several hundred million dollars.

The GAO explained that, within the National Guard, each state or territory functions as a separate entity. The GAO noted that each U.S. Property and Fiscal Office maintains an authorized stock list of inventory items to satisfy demands for frequently needed and essential items. The GAO found that, for all but repair parts, the inventory is maintained at a U.S. Property and Fiscal Officer warehouse--and, for repair parts, most states have one or more Decentralized Automated Service Support System units to manage the inventory. The GAO further explained that, in order to carry out its logistics responsibilities, each U.S. Property and Fiscal Office has a staff that perform inventory management functions, as well as performing other logistics related duties such as (1) the pick-up, storage, and transportation of hazardous materials, (2) the management of excess and contingency materiel, and (3) the delivery of equipment and supplies to the units and pick-up of materiel for return to the U.S. Property and Fiscal Office. (pp. 2-3, pp. 12-13/GAO Draft Report)

DoD RESPONSE: Partially concur. The Department agrees with the general description of the National Guard portion of the Army Supply System with regards to location, staffing, inventory ownership, and performance of logistics related duties. Additional factors need to be recognized, however,

Now on pp. 2 and 12.

the inventories are under the control of the 54 U.S. Property and Fiscal Officers in accordance with Title 32 Section 708 of the U.S. Code. The 54 "separate entities" actually come under the control of the National Guard Bureau (Major Command), not unlike any other subordinate command in an Army organization. While the total inventory of each state is not readily visible at the Bureau level, the National Guard Bureau does maintain visibility and accountability through each of its United States Property Fiscal Offices. The total inventory on April 30, 1992 was \$215,380,000. (The GAO review was conducted between April 1991 and May 1992.) Visibility of centrally managed assets, such as excess and major end items, are rolled up at the Bureau level where extensive equipment cross-leveling also takes place. That is accomplished using the Equipment Readiness Analysis for major end items and the Equipment Assets and Requirements Report in the National Guard for all other classes of supply. The U.S. Property and Fiscal Offices/Direct Support units also serve as the intermediate retail supply support activities in the National Guard, similar to the supporting installation/direct support activity for the Army Reserve and the resident supply support activity for the active Army. Depots provide the wholesale-level inventory for the Army system.

- o **FINDING B: The National Guard Requisitioning Process.** The GAO reported that all inventory items provided to the National Guard originate from the active Army wholesale system. The GAO explained that, when the U.S. Property and Fiscal Office and Decentralized Automated Service Support System units need to replenish stock levels, a requisition is submitted to the wholesale system. The GAO further explained that, when a National Guard unit submits a requisition to the U.S. Property and Fiscal Office, the Office attempts to fill the requisition from on-hand stocks; however, if the office is unable to fill the requisition, the requisition is passed to the active Army wholesale-level inventory control point to be filled from depot stocks. The GAO noted that the requested items are then sent from the depot to the U.S. Property and Fiscal Officer location for distribution to the units, or the items may be directly shipped to the requesting units. The GAO found that the U.S. Property and Fiscal Offices and the Decentralized Automated Service Support System units in the five states included in the review were authorized to stock \$23.2 million of inventory--and had on-hand inventory valued at \$21.7 million. (pp. 2-3, pp. 13-15/GAO Draft Report)

DoD RESPONSE: Partially concur. The Department agrees with the description of the "National Guard" requisitioning

Now on pp. 2 and 12-14.

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process. While automation systems vary between the Guard and the Active Army, the method used to requisition supplies/equipment is not different. Stocks located in each U.S. Property and Fiscal Office warehouse and the Direct Support locations are demand supported and are ordered from the wholesale supply system. The National Guard's method mirrors the installation and direct support system found in the Active Army. Stocks are maintained at the retail level in each state to facilitate rapid issue to the units in that state. In addition, there is the added Guard requirement for the immediate availability of contingency stocks to support civil disturbances, natural disasters, and drug eradication programs. When a unit submits a requisition to the U.S. Property and Fiscal Office or the Direct Support units for a stockage item that is out of stock, a "due-out" to the unit is established and the requisition is not passed to the wholesale supply system until requirements reach the appropriate order quantity. When stockage is then received at the U.S. Property and Fiscal Office, the "due-out" is filled to the unit. That is a cost-effective way to provide required support to the units in the state by ordering in bulk. Elimination of such stocks through turn-in and conversion to a "depot to unit system" would eliminate the efficiency and, in fact, create a "Guard unique system".

The Department questions the GAO-cited inventory figures of \$23.2 million (authorized) and \$21.7 million (on hand)-- which were purportedly based on reports from the five U.S. Property and Fiscal Offices visited during the audit (Georgia, Idaho, Iowa, Louisiana, and Utah). The totals should be \$35.7 million and \$36.3 million, respectively. Reports from those offices indicated there may have been some confusion on the part of the GAO evaluators, based on their requests for Authorized Stockage Level and Authorized Balance File, as well as the interpretation and understanding of the raw data obtained. For instance, the amount of inventory on hand in Iowa was inflated because it included equipment being held for mobilized units that deployed without equipment.

- O **FINDING C: Many Items Requested By Guard Units Are For Items Not Authorized To Be Stocked.** The GAO found that only 23 percent of the individual items requisitioned from the U.S. Property and Fiscal Offices and Decentralized Automated Service Support System units in the review were for items that the Guard was authorized to stock. The GAO determined that the requisitions for authorized inventory items accounted for 59 percent of all the requisitions and the remaining 41 percent were passed to the Army supply system to be filled from wholesale-level stocks. The GAO acknowledged that the data may not be typical of normal

Guard operations because the period reviewed by the GAO included the time during which Guard units were preparing to mobilize and/or returning from OPERATION DESERT STORM. The GAO explained that, as a result, the units were (1) requisitioning items to build up inventories before deploying, (2) replenishing the inventories after returning, or (3) requisitioning items to repair equipment.

The GAO reported that supply performance information from 29 states covering varying lengths of time between July 1991 and January 1992 showed that the percentage of requisitions for items that the Guard was authorized to stock averaged about 33 percent. The GAO noted that the remaining 67 percent of the requisitions could have been passed to the Army wholesale level or could have been filled by local purchase. The GAO noted that the latter data could be more typical of normal Guard operations in that the number of requisitions would not have been greatly influenced by OPERATION DESERT STORM. (p. 5, pp. 18-20, p. 28/GAO Draft Report)

Now on pp. 4 and 17-18.

DoD RESPONSE: Partially concur. The Department agrees with the percentages in this finding. It should be recognized, however, that many items requested by units (whether active Army, Army Reserve, or National Guard) are for items not authorized to be stocked at the intermediate retail level. The authorized stockage level is the critical factor; in this particular case, the critical issue is stockage at the retail level, not whether the stocks are Guard, Reserve, or Active.

The GAO also implies that the percentage of total requisitions filled from National Guard stock is insignificant. In reality, it represents hundreds of thousands of requisitions per year from over 9,000 separate customers/units in the National Guard. Army Regulation 710-2 establishes the stockage criteria at the intermediate retail level (supply support activities) based on demand support criteria. It would not be cost effective to stock major end items or low-demand items at the retail level; however, it is cost effective to stock demand-supported supplies. The percentage fill of the total requisitions submitted by customers at the retail level is normal with respect to the overall Army.

- 0 **FINDING D: Much of the Excess On-Hand Has Not Been Reported For Distribution.** The GAO found that \$416,000 (or about 61 percent) of the \$680,000 of on-hand excess inventory at the U.S. Property and Fiscal Officers locations included in the review had not been reported to the Army wholesale-level inventory control points for possible redistribution--as

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required by Army regulations. The GAO concluded that, consequently, the wholesale system was not able to redistribute the excess to other locations where the items might have been needed.

The GAO also reported that, at the time that the Guard had unreported on-hand excess inventory, the wholesale supply system was procuring some of the same items. The GAO traced 34 unreported excess items to an Army National Inventory Control Point--the Tank-Automotive Command--to determine whether there were any procurement actions in process. The GAO found that ten of the excess items were being procured by the Command at a cost of \$214,000. The GAO observed that, while the sample involved only a small number of items, it demonstrated what can happen when there is inventory at locations below the wholesale level that is not visible to the wholesale-level item manager. (p. 5, pp. 20-22, p. 28/GAO Draft Report)

DoD RESPONSE: Partially concur. The Department agrees the lack of visibility of inventory to the item manager at locations below the wholesale level is a problem that can exacerbate any associated problems in a large inventory system and complicate the re-ordering process. The \$416,000 of "excess" not reported to the wholesale system represents Guard-owned equipment in the reporting pipeline, but not yet visible at the National Inventory Control Point. The National Guard Bureau screens against total Guard requirements prior to passing to the wholesale system. Although there currently are no programs in either the Active Army or the Guard that can give managers "real time" visibility over excess, the Strategic Logistics Agency and Program Manager-Integrated Logistics Systems are developing the Objective Supply Capability, which will improve the program. The Guard is participating in the development and anticipates a test system by the fourth quarter of FY 1993. The Objective Supply Capability, is part of the "Single Supply System" being developed by the U.S. Army.

The National Guard has developed and uses a computerized tracking program, Equipment Assets and Requirements Report in the National Guard, to enhance the management and redistribution of excess. The report is produced monthly and ensures inventory excess is screened against total Guard requirements. That is accomplished at the National Guard Bureau level. Material needed at another U.S. Property and Fiscal Office is then shipped from the U.S. Property and Fiscal Office that has been identified as having an excess amount of the needed item(s). Excess remaining after this process, known as "true excess", is made available for

Now on pp. 4 and 18-19.

redistribution to the Army through the wholesale system. The fact National Guard assets are purchased with National Guard appropriations necessitates that all Guard requirements are met prior to making the "true excess" available for to the total Army. During the period of January through June 1992, a total of \$58.3 million worth of excess equipment was redistributed within the Guard or returned to the wholesale system.

0 FINDING E: The Standard Army System Can Support National Guard Units With Less Inventory Investment. The GAO concluded that the supply support needs of Guard units could be met by having the Guard units receive day-to-day operating support directly from the Army wholesale supply system rather than through the U.S. Property and Fiscal Officers and Decentralized Automated Service Support System units. The GAO explained that Guard units could submit requisitions through the U.S. Property and Fiscal Officers to the wholesale level inventory control points--which, in turn, could directly ship the requested items to the units. The GAO further explained that the U.S. Property and Fiscal Officers would retain funding approval, but would not be required to manage inventory or stock, issue, and deliver inventory items to individual units. The GAO concluded that, by removing the inventory from the U.S. Property and Fiscal Officers, the Army could (1) reduce inventory investment, (2) advance the goal of achieving a single supply system, and (3) still maintain an acceptable readiness for the National Guard units. The GAO also explained that such an approach would be consistent with a recent recommendation in a June 1991 report concerning National Guard clothing issue points (OSD Case 8599).

- Reducing Inventory Investment--The GAO reported that, if Guard units requisitioned all items from the wholesale level, the Army could, on a one-time basis, reduce the inventory investment by the amount of stocks maintained at the Guard locations and the stock balances at the wholesale level would not have to be increased to accommodate the Guard requisitions because the wholesale inventory levels are based, in part, on the demands from the Guard units. The GAO explained that Guard officials were concerned that the estimated savings did not consider the additional transportation costs or the increased activity that would occur by having the units get support from the wholesale system.

The GAO pointed out that the same transportation costs and increased activity at the wholesale system are already being incurred regardless of whether the requisition is filled by the U.S. Property and Fiscal Officers or the wholesale system. The GAO pointed out

that, under the current system, transportation costs are incurred when the U.S. Property and Fiscal Officers requisition inventory from the wholesale system or when the requisition is passed from the requester to the wholesale system in cases where the U.S. Property and Fiscal Officers are unable to fill the request. The GAO noted that the same holds true regarding increased activity at the wholesale system.

- Advancing the Goal of Achieving a Single Supply System--The GAO explained that the Army is moving towards the goal of establishing a single supply system throughout the Army which will provide inventory managers with visibility and control over inventory located at the installation and division levels. The GAO observed that, according to Army officials, the single supply system, as currently designed, would not include the inventory located at the U.S. Property and Fiscal Offices or the Decentralized Automated Service Support System units. The GAO pointed out that the inventory at those locations would not be under the purview of the single system inventory manager and would represent another supply system within the Army. The GAO concluded that, unless the National Guard inventory is included in the single supply system or the inventory is moved back to the wholesale-level depots, the Army will not achieve the overall goal of having one supply system for all its forces.

The GAO explained that Guard officials expressed the opinion that removing the day-to-day operating inventories from the U.S. Property and Fiscal Officers and Decentralized Automated Service Support System locations would result in a supply system that would be dissimilar to that of the active Army. The GAO explained that inventory levels at the maintenance sites are equated to division direct support units in the active Army, and the inventory levels at the U.S. Property and Fiscal Officers and Decentralized Automated Service Support System locations to the installation support stocks in the active Army. The GAO explained that in the active Army, when the division direct support units cannot fill the needs of customers, the requisition is passed to the wholesale system, not to the installation support activity. The GAO explained that the role of the installation support activity is for "housekeeping" type items required to support the installation and for support of Army Reserve units and National Guard units that train at the installation.

- Readiness of the Units Would Not be Impaired--The GAO observed National Guard officials were concerned that, if Guard units had to rely on the Army system for support rather than using the National Guard system, the units would receive a lower level of support--i.e., increased order-ship-time, which would affect their equipment readiness. The GAO concluded, however, that the requisitioning priority, which drives the order-ship-time, is based on the force activity designator of the unit and the urgency of need for the requested item and not whether the unit is an active Army or Guard unit. The GAO explained that its audit work at selected Army Reserve locations showed that Army Reserve units were heavily dependent upon the active Army for logistics support in comparison to the logistics system for the National Guard--and the active Army installations serve the same role as the U.S. Property and Fiscal Officers.

The GAO also observed that, for three Guard locations for which requisitioning information was available, over 60 percent of the requisitions were not to solve readiness related equipment problems (priorities 9 to 15). The GAO noted, however, 40 percent of the requisitions coded with a priority that would indicate a readiness--related problem may not be typical because the period reviewed included the time immediately following OPERATION DESERT STORM when many returning units were repairing equipment. The GAO further observed that situation may have resulted in the units using a higher priority or submitting a greater number of requests than they would normally. The GAO pointed out DoD studies have shown that over 90 percent of the requisitions submitted as high priority are not time sensitive for readiness purposes.

The GAO recognized that there may be instances where a unit has a critical need for an item. In a previous report (OSD Case 8701), the GAO had recommended that cases where the lack of a part would cause equipment not to be operational and such condition would significantly impair the unit's readiness, delivery of the needed item could be expedited from the wholesale inventory depot and any increased cost of expedited delivery from the depots would be more than offset by the savings from reduced inventory levels (OSD Case 8701). (pp. 6-8, pp. 22-28/GAO Draft Report)

Now on pp. 4-6 and 20-22.

DoD RESPONSE: Nonconcur. The premise that "the Standard Army System Can Support National Guard Units with Less Inventory Investment" is flawed. The GAO does not address

the operative factors, primarily the cost of doing business after eliminating the U.S. Fiscal and Property Office/Direct Support intermediate retail level of supply. A change of such magnitude requires an in-depth cost and operational effectiveness analysis in order to determine the affects both financially and operationally (on readiness).

- Reducing Inventory Investment. The GAO described procedure equates to a one time cost savings as the inventories of the U.S. Property and Fiscal Office/Direct Support units are returned to the Depot level wholesale warehouses. Such a procedure is inconsistent with Section 708 of Title 32, U.S. Code, which requires the U.S. Property and Fiscal Officer to manage inventory, that is, to receipt and account for all funds and property of the U.S. in the possession of the National Guard. Although conceptually possible, the full one-time savings cited by GAO does not represent a true savings. Increased stockage would, for example, be necessary at a consolidated warehouse (i.e. the Depot level)--which would partially offset the total savings accruing from closing the 54 field warehouses. The Guard buys stock-funded supplies from the depot with appropriated Guard funds. If required to turn in warehouse stocks, a credit or other reimbursement would have to be made, otherwise the National Guard would, in effect, be paying for the supplies twice. The GAO also concluded that the same transportation costs would be incurred regardless of whether the U.S. Property and Fiscal Offices or the wholesale system fills the requisition. The transportation and handling costs will remain constant, or even increase, due to the following:

- (a) Shipping small quantities to 9,200 National Guard locations individually, as opposed to shipping consolidated multi-pack to 54 U.S. Property and Fiscal Offices locations by freight will be more costly.
- (b) Depots currently have an established economic depot bulk pack for shipping most stocks. Depots would have to revamp the bulk pack procedure to accommodate unit-of-issue requirements at the unit level. Failure to do so would create huge excesses. One example is combat meals (Meals Ready-to-Eat). The depot pack for Meals Ready-to-Eat is a pallet of 48 cases (576 meals). A unit may require only 50 meals, but it is going to get 576 meals. Currently, the U.S. Property and Fiscal Offices warehouses break the depot packs and issue the exact quantity to the unit. The

See comment 1.

balance is held in U.S. Property and Fiscal Offices stocks and is used to fill other unit requirements until depleted. Eliminating that intermediate step would increase transportation/handling costs and generate excesses at unit level, far above the capacity to handle. Similar situations would occur with batteries, hand tools, padlocks, field gear, and cases of paint and oil.

- (c) The National Guard would have to package and ship all of its warehouse inventory back to the wholesale supply system would result in significant transportation/handling costs. Due to the fact that Guard warehouse stocks are based on demand history, the Guard will incur additional transportation/handling costs to ship the turned-in items back to the requesting units when needed. It would be possible to accomplish the consolidation through a drawdown of supplies over time.
- (d) Increased costs will be incurred at the depot level as these additional requisitions are added to the system. Defense Management Review Decision 902 established the processing cost for each requisition received by a depot at \$35. Another consideration is whether the depots are in a position to handle the additional workload, as well as the increase in volume of their inventory stock. Response time and customer satisfaction could be impacted. It is expected, however, that savings will be realized at each of the 54 state warehouses.
- (e) Additional costs will be shifted to the user or customer units. Functions such as receiving direct shipments of supplies and equipment, preparing reports on discrepancies on commercial shipments, and transporting excess and unserviceable supplies to active component installations (in many cases hundreds of miles) will be transferred to the unit level. There is also the potential cost of increasing storage capacity at approximately 3000 armories throughout the nation to handle the increased supply volume due to bulk deliveries discussed earlier.

- The Department is very supportive of the concept of the "Single Supply System." The Army effort to improve materiel management includes visibility over all Army supply items (i.e., Active duty, National Guard, and

Reserve) consistent with the Defense Management Review Decision process. There are four initiatives associated with that effort: (1) Objective Supply Capability, (2) Total Asset Visibility, (3) Usage Based Requirements Determination, and (4) Readiness Based Maintenance.

- (a) Objective Supply Capability is being developed with the capability to place orders on the wholesale system the same day they are produced by the customer, and to make available to the customer all assets that are available on the Army post or within the geographic area. The Lead Verification Site Test for the Objective Supply Capability began at Fort Hood on January 21, 1992, following the successful completion of the Software Qualification Test and the signing of the Test Readiness Review. At this time, the confidence level in meeting the program/schedule is extremely high with the goal of a Major Automated Information Review Council II/III in September 1992, and subsequent approval to field worldwide. The National Guard is working on a parallel development of Objective Supply Capability as well.
- (b) Total Asset Visibility prototype testing was implemented at Headquarters, U.S. Materiel Command on June 1, 1992 and U.S. Army Missile Command on June 15, 1992, and began at the U.S. Army Communications-Electronics Command in August 1992. Initial results and test evaluation are due October 1992.
- (c) Usage Based Requirements Determination supports provisioning for new weapons systems based on actual rather than engineering estimates. This initiative is still in various stages of technical testing and evaluation. Prototyping of concept will begin in September 1992 and scheduled completion in December 1992.
- (d) Readiness Based Maintenance allows for depot repair and materiel distribution to be prioritized according to readiness requirements. The first such proof-of-principle was conducted during May-November 1991 at the U.S. Army Missile Command, Red River Army Depot and a contractor facility in Camden, Arkansas. Based on the initial test and a macro-level economic analysis, which estimates a favorable return on investment, a second proof-of-principle began at Fort Carson, Colorado in August 1992.

- "Readiness of the Units would not be impaired." The Department does not agree with the conclusion that unit readiness would not be impaired. It is the DoD position that, in fact, the readiness of the National Guard would definitely be impaired. Requiring National Guard units to draw 100 percent of their logistical support, to include historically demand supported supplies and repair parts, directly from the wholesale system would significantly affect the readiness of National Guard units. The Force Activity Designator and the commander's urgency of need establishes the priority for supply support; however, supply system responsiveness to meet the standard delivery times required by Department of the Army Pamphlet 710-2-1 is the key to maintaining combat readiness. The Department agrees that the majority of the Army supply requisitions should not be high priority, but the 20 percent - 30 percent that are high priority will impact on readiness if standard delivery times are not met. The effect of eliminating the National Guard's intermediate retail level supply capability would result in a decrease in supply system responsiveness. Withdrawal of stocks from the U.S. Property and Fiscal Offices and Direct Support unit locations would negatively impact unit readiness, as well as degrade the ability of 54 states and territories to quickly and effectively meet support for mission requirements (real world deployments), civil disturbance, natural disasters and drug interdiction programs.

Another issue is the management of older equipment not in the Army inventory, but still used by the National Guard such as: M123 tractors, M113A2 Armored Personnel Carriers, M151AZ trucks, 2 1/2 and 5 ton trucks and O7E and O7F bulldozers. This equipment is unique to the National Guard. The National Guard also maintains the complete inventory of required repair parts. To require the Depot to manage associated supplies, equipment, and repair parts seems inefficient.

0 FINDING F: Mobilized National Guard Units Had Problems Adapting To Active Army System: The GAO learned that, after National Guard units were mobilized, many of units had experienced difficulties in obtaining supplies--particularly repair parts for combat equipment. The GAO also learned that the units had difficulty in properly preparing and submitting requisitions--and sometimes ended up ordering the wrong parts. The GAO noted it had previously reported on the types of problems encountered by Guard units having to learn to use a supply system upon mobilization that was different than the one used in peacetime training (OSD Case 8769).

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The GAO explained that the Unit Level Logistics System is an automated data system developed by the Army to requisition supplies and manage unit level inventories, which is currently used by the active Army, but had not been provided to the National Guard round-out brigades at the time of their mobilization. The GAO explained that, rather than use the standard Army systems, many states obtained personal computers and used internally developed software to manage supply activities at the unit level. The GAO pointed out that when the units were mobilized, the computers and software remained at the unit home stations--thus, requiring the activated units to use the less familiar active Army system.

The GAO reported that the Army provided the Unit Level Logistics System to a few National Guard units and, according to Army officials, currently plans to provide the system to certain high priority units. The GAO further reported the same officials also said that the National Guard plans to obtain the Unit Level Logistics System for the lower priority units using funds provided under the Dedicated Procurement Program, which would then allow all the National Guard units to train on the same system that will be used when mobilized.

The GAO also reported that, according to Army and National Guard officials, time frames for completing the fielding of the Unit Level Logistics System to the National Guard have not been established. The GAO was advised that the Unit Level Logistics System will only be used for mobilization day training; the Reserve Component Administrative System, which is currently being developed, will be used for day-to-day training. The GAO concluded that, as a result, Guard personnel will have to learn two systems because the Reserve Component Administrative System is a peacetime system that will not accompany the units to the mobilization stations. (pp. 8-9, pp. 30-33/GAO Draft Report)

DoD RESPONSE: Partially concur. The Department agrees that mobilized Guard units had problems adapting to the active Army systems. At the time of mobilization, Unit Level Logistics System had not been fielded to any Army National Guard units nor had fielding to all active Army units been completed. All unfielded units experienced difficulty. The GAO attributed the difficulty in obtaining supplies upon mobilization to the Guard's lack of familiarity with the Unit Level Logistics System. At the time of mobilization, activated Guard units operated under manual requisitioning procedures outlined in Army Regulation 710-2. The ordering of the wrong supplies/parts could be attributed to many different factors regardless of the system used. Simple

Now on pp. 6 and 27-28.

human error can occur no matter how well trained personnel may be. The lack of the Unit Level Logistics System in the National Guard is an ongoing fielding issue. The Guard units that were issued the Unit Level Logistics System upon mobilization were asked to receive the new equipment and conduct training on it under wartime conditions.

In its response to a related GAO report (OSD Case 8769), the DoD stated that, although it is true the systems operated by the Active component and the Reserve components were not compatible and may have hampered some of the reporting requirements, the consequence of the shortfalls were not nearly as great as implied by the GAO. The DoD pointed out that the GAO focused on the three National Guard Roundout Brigades; however, 297 other Army National Guard units (37,848 troops) were mobilized and deployed to the Persian Gulf with the same systems as the Roundout Brigades. The DoD emphasized that the deployed units were able to sustain effective personnel, supply, and maintenance operations, despite the cited difficulties. The fielding plan for the Unit Level Logistics System for other than Force Package I National Guard units has been developed and is being implemented. Some units have already commenced training and hardware is scheduled for delivery beginning October 15, 1992. The fielding plan should be completed in January 1994.

* * * * *

RECOMMENDATIONS

- O **RECOMMENDATION 1:** The GAO recommended that the Secretary of the Army direct the National Guard Bureau (1) to transfer its inventory from the National Guard U.S. Property and Fiscal Officers and Decentralized Automated Service Support System locations to the appropriate active Army wholesale inventory control points and (2) to require that National Guard units be supported directly from the wholesale-level depots. (pp. 28-29/GAO Draft Report)

DoD RESPONSE: Nonconcur. It is the DoD position that the readiness of the National Guard units would be impaired. Requiring National Guard units to draw 100 percent of their logistical support, to include demand supported supplies and repair parts, directly from the wholesale system would significantly affect the readiness of the units. Presently, stocks maintained at the U.S. Property and Fiscal Office and

Now on pp. 6-7 and 23.

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the Direct Support unit locations are used to support National Guard units, just as the supplies at the Forward Support Battalion and the Main Support Battalion are used to support Active Army and Army Reserve units. They mirror the intermediate retail level supply support system found in the standard Army logistics support chain. In addition, elimination of these stocks, through turn-in and conversion to a "depot to unit system" would, in fact, establish a Guard-unique system.

- O **RECOMMENDATION 2:** The GAO recommended that the Secretary of the Army establish milestones for the fielding of the Unit Level Logistics System (Unit Level Logistics System) in the National Guard units. (p. 33/GAO Draft Report)

Now on pp. 7 and 28.

DoD RESPONSE: Partially concur. A fielding plan for the Unit Level Logistics System for other than Force Package I National Guard units has already been established and implementation has begun. Some units have already commenced training with hardware delivery scheduled for October 15, 1992. The fielding plan should be completed in January 1994. A total of \$12.2 million of Guard Dedicated Procurement Program funds has been transferred (\$3.5 million on August 6, 1992 and \$8.7 million on August 11, 1992) to Project Manager, Tactical Management Information Systems, for the purchase of Unit Level Logistics System hardware for units other than Force Package I. The active Army is funding the requirements for high-priority Force Package I units.

- O **RECOMMENDATION 3:** The GAO recommended that the Secretary of the Army require the National Guard to use the Unit Level Logistics System in its peacetime operations, so it will be better prepared when mobilized. (p. 33/GAO Draft Report)

Now on pp. 7 and 28.

DoD RESPONSE: Partially concur. The Department has already gone on record in support of a single supply system that would handle both peacetime and wartime scenarios. The Unit Level Logistics System is considered to be a mobilization asset. Training on this system will be primarily conducted during weekend training and two-week annual training. Use of the Unit Level Logistics System during peacetime is limited by the DoD compliance with the direction expressed in the Report of the House Committee on the FY 1988 Appropriations Act (H.R. Rep. No. 410, 100th Congress, 1st Session, 21-25 (1987)) for Army Reserve and Army National Guard units to use the Reserve Component Automation System for day-to-day operations. To facilitate a smooth

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transition from one system to the other, software functionality is being developed to blend the two systems as mirror images of each other. The software should be available by the first quarter of FY 1995. The end result will be that the conversion from Reserve Component Automation System to Unit Level Logistics System will be transparent to the soldier.

The following are GAO's comments on the Department of Defense's letter dated September 17, 1992.

GAO Comments

1. On November 9, 1992, we met with officials responsible for preparing the official comments on this report and advised them that the comments that there are minimum ship quantities for items such as Meals-Ready-to-Eat, hand tools, and batteries were factually incorrect. We explained that after receiving their comments, we had analyzed the top 200 requisitions (based on demand frequency) at each of the USPFOS in our review and found that the unit of issue for the overwhelming majority of the items requisitioned was "each." We also confirmed with officials at the New Cumberland Depot that there are no minimum ship quantities and that the depot will ship the quantity requisitioned.

The DOD officials, at the meeting, agreed with our conclusion that the depots do not have minimum ship quantities but did not want to change their comments. After the meeting, the officials provided us additional information that they said supported their position. The information, which they had obtained from the USPFOS in our review, showed that certain requisitions had been canceled because the quantity requisitioned was less than the vendor would agree to ship. Our analysis of the requisitions and discussion with depot officials disclosed that the items requisitioned were irrelevant to this issue because the items are not stocked by the depots. The cancellations occurred when the depot tried to procure the items from vendors for direct shipment to the requesters.

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