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Report to Gen. George S. Blanchard, Commander in Chief, Department of the Army: United States Army, Europe; by Joseph Eder, Director, International Div.: European Branch (Frankfurt).

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Between 1974 and 1976, the U.S. Army, Europe (USAREUR) instructed its VII Corps, V Corps, and 21st Support Command to establish special projects, identified as Project Capture, to retain and eventually use repair parts and other items of material on hand in excess of established stock levels. However, USAREUR had not established uniform criteria for the retention of this material and, as a result, large and duplicative inventories have been retained. No economic analysis has been performed to determine whether retention was justified. Although existing procedures provided for some excess material to be redistributed to meet needs within each corps, there were no plans for providing USAREUR or the National Inventory Control Points with visibility over these inventories. As of July 11, 1977, the V Corps had 2,300 items in its Project Capture inventory; 77% of items tested were retained in quantities that significantly exceeded those required for recurring needs. Procedures and criteria developed independently by the V and VII Corps differed significantly. The Commander in Chief of USAREUR should direct the establishment of uniform criteria and standard procedures to be followed by all USAREUR activities to insure that retained excesses are limited to those which are economically justified based on cost benefit analysis and that excess quantities of material are made available for redistribution to all other activities. (BBS)



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OFFICE OF THE DIRECTOR

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In Issue 10

JAN 16 1978

General George S. Blanchard
Commander in Chief
United States Army, Europe
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Dear General Blanchard:

We recently completed a survey of the Army's management of excess repair parts in Europe. Our work was performed at Headquarters, U.S. Army, Europe (USAREUR), the Material Management Centers (MCMs) at USAREUR, V Corps, VII Corps, and the V Corps' 3rd Armored and 8th Infantry Divisions.

Between 1974 and 1976, USAREUR instructed its VII Corps, V Corps, and 21st Support Command to establish special projects, identified as Project Capture, in order to retain and eventually use repair parts and other items of material on hand in excess of established stock levels. Below the corps level, Army divisions also retained special inventories of excess combat-essential and critical items. The intent of these excess retention programs was to avoid disposing of material which would have to be later requisitioned from wholesale supply sources in the United States.

However, USAREUR had not established uniform criteria for the retention of this material and, as a result, large and duplicative inventories were being retained at the corps and division levels. In addition, no economic analysis had been performed to determine whether this retention was justified. Existing procedures provided for some of this excess material to be redistributed to meet needs within each corps; however, there were no plans for providing USAREUR or the National Inventory Control Points (NICPs) with visibility over these inventories. Therefore, redistribution to other activities, including non-Army organizations, which might be ordering the same material from supply sources in the United States, was precluded.

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As of March 31, 1977, USAREUR reported that \$64.7 million, or almost 30 percent, of its total \$218.5 million inventory of material procured through the Army Stock Fund was excess to current needs. But, precise data was not available on the quantity and value of excess material being retained in Project Capture and special inventories by the individual corps and divisions.

EXCESSIVE AND DUPLICATIVE INVENTORIES
MAINTAINED AT CORPS AND DIVISION LEVELS

As of July 11, 1977, the V Corps had 2,300 items in its Project Capture inventory. We made a limited test and found that 77 percent of the items tested were being retained in quantities that significantly exceeded those required for recurring needs. Following are three examples.

	Unit cost	Quantity currently needed by Corps activities (note a)	Project Capture material on-hand	
			Quantity	Value
Fan assembly	\$ 53.04	2	241	\$12,783
Gear parts kit	18.26	1	116	2,119
Firing block	139.00	4	102	14,178

^{a/}This quantity, referred to as the "Corps Requisitioning Objective," represents the sum of the quantities which supply activities below the corps level were authorized to have on-hand or on-order to meet current, recurring needs.

Because they were based on computations made by activities below the corps level using the economic order quantity principle, the corps requisitioning objective (RO) for individual items represented varying numbers of days of supply. However, a Department of the Army official informed us that USAREUR requisitioning objectives averaged about 150 days, or 5 months of supply. Based on this average, the on-hand quantities for the three Project Capture items listed above represented from more than 10 to more than 50 years of supply.

In addition, V Corps had made no attempt to coordinate its Project Capture program with the 3rd Armored Division's retention of combat-essential and critical items. Six of the items included in our sample

of 40 excess combat-essential items retained by the Division were also retained by V Corps' Project Capture. For example, the Division had 1,382 parts kits on-hand versus a requisitioning objective of 274, while 97 of the same kits were available in the Corps Project Capture excess inventory.

INCONSISTENT PROCEDURES
AND CRITERIA FOR RETENTION
OF EXCESS MATERIALS

VII Corps implemented Project Capture in February of 1974 as a program for redistributing excess repair parts. Subsequently, the Corps added items of clothing, equipment, tools, and construction materials. As requisitions from subordinate units passed through the Corps, they were filled whenever possible from the Project's excess stocks. In the fall of 1976, USAREUR instructed the V Corps and the 21st Support Command to establish similar projects for redistribution of stocks. The 3rd Armored and 8th Infantry Divisions had also established special inventories of excess quantities of items designated as combat-essential or critical.

Corps procedures and criteria

The procedures and criteria developed independently by the V and VII Corps differ significantly. For example:

- Both corps included excess repair parts; however, VII Corps also included excess items of clothing, equipment, tools, and construction materials.
- V Corps retained excess items which have been demanded six or more times annually within the Corps, while VII Corps retained all excess items stocked by two or more direct support units (DSUs) in the Corps.
- V Corps DSUs were provided a catalog listing 13,166 items for which excess quantities should be shipped to the Project Capture warehouse. VII Corps had no catalog; DSUs reported their excess quantities to the VII Corps and waited for instructions before shipping them to the Project Capture warehouse.

--V Corps accepted all items listed in its catalog regardless of the quantity already on-hand in the Project Capture warehouse. VII Corps would normally not accept items for which a quantity equal to twice the total Corps requisitioning objective was already on-hand. Excesses which were not accepted were shipped directly to the USAREUR depot for disposition through shipment to wholesale supply activities in the United States or for sale as surplus material.

--V Corps' Project Capture had excess quantities of 2,300 different items on-hand, compared to VII Corps' 8,700 items.

Because of these differing procedures and criteria, totally different treatment would be afforded the same type of material which became excess to the needs of DSUs in both corps. In the case of one corps, the excess quantity could be retained in the Project Capture inventory for an extended period, while in the case of the other corps, the excess quantity of the same item could be returned to the United States or sold as surplus.

USAREUR and corps officials considered Project Capture to be cost effective because stocks were being redistributed within the individual corps. Additionally, it avoided future obligation of corps' funds which would be necessary if the material were not retained and had to be ordered later. However, this parochial outlook ignores other important considerations. A thorough cost-benefit analysis, from a Government-wide viewpoint, had not been performed taking into consideration such things as:

- potential increased supply support of other military activities and transportation savings if the Project Capture excess quantities were made available for redistribution in Europe by being reported to the Defense European and Pacific Redistribution Agency (DEPRA),
- cost of operating the Project Capture warehouses and administering the program,

- the value of wholesale-level procurements that might be avoided if the Project Capture excess quantities were reported to NICPs for possible return to the United States, and
- increased sales revenues from those Project Capture excess quantities which would be determined to be surplus to foreseeable world-wide needs if reported to the appropriate NICPs.

Division procedures and criteria

As in the case of the corps, the 3rd Armored and 8th Infantry Divisions had adopted different procedures and criteria for the identification and retention of excess quantities of material.

The 3rd Armored Division had authorized the retention without limit of all excess quantities of 4,044 combat-essential and 62 critical items. In contrast, the 8th Infantry Division had designated only 16 as critical items for which excess quantities were to be retained.

At the 3rd Armored Division, we reviewed 40 items designated as combat-essential for which excess quantities valued at more than \$1,000 per item had been retained. In 39 instances, the Division was retaining greater quantities than it would have retained had it used the 8th Infantry Division's retention criteria (two times the requisitioning objective). Following are three examples.

	<u>Unit cost</u>	<u>Quantity on-hand</u>	<u>Two times RO</u>	<u>Excess quantity retained</u>	<u>Value of excess quantity</u>
Road wheels	\$197.00	429	200	229	\$45,113
Filter element	5.38	5,719	1,114	4,605	24,775
Filter	37.93	575	116	459	17,410

As in the case of the V and VII Corps, use of widely differing criteria for deciding which items and how much excess quantities to retain results in inconsistent treatment. While one division can be retaining items, another division can be returning the same items to the corps.

Limited corrective action taken
by 3rd Armored Division

After we discussed the differing criteria and procedures with officials of the 3rd Armored Division, the Division made changes in its procedures in an effort to limit the excess quantities of items identified for retention. Under the new procedures, enlisted personnel reviewing items for retention of excess quantities must bring all items having an excess quantity valued at more than \$1,000 to the attention of the Technical Supply Officer for his special review. Although this is a step in the right direction, it does not address the need for consistent criteria throughout USAREUR.

LACK OF VISIBILITY

Under the current corps' criteria and procedures, neither the USAREUR MMC nor the NICPS have any visibility over the excess quantities of items making up the Project Capture inventories. As a result, redistribution of these excess quantities of items, some of which have been identified as combat-essential or critical, to meet other Army or other military services' needs is not possible. Similarly, excess combat-essential and critical items retained by the divisions are not visible at the corps or higher level and, therefore, cannot be redistributed for use even within the corps, much less to Army activities outside the corps or to non-Army organizations. No plans existed to provide visibility of these corps and division-level excesses to higher commands.

CONCLUSIONS AND RECOMMENDATIONS

Due to a lack of coordination and uniform retention criteria, large duplicative inventories of excess material were being accumulated by USAREUR organizations without assurance that their retention was economically justified. In addition, possible redistribution of this excess material

to organizations having needs for it was hindered because its existence was not visible to higher level activities which had knowledge of these needs.

We recommend that you direct the establishment of uniform criteria and standard procedures to be followed by all USAREUR activities which will insure that (1) retained excesses are limited to those which are economically justified based on cost-benefit analyses and (2) excess quantities of material are made available for redistribution to all other activities, including non-Army organizations, having current needs for the material.

We would appreciate receiving your comments on these matters within 60 days from the date of this report.

Sincerely yours,

(SIGNED) JOSEPH EDER

Joseph Eder
Director

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