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Selecting the Optimum Army Stock Fund Structure

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Executive Summary

SELECTING THE OPTIMUM ARMY STOCK FUND STRUCTURE

The Department of Defense (DoD) stock funds are working capital (revolving) funds used to finance the stock levels of most consumable and reparable items. These stock funds buy materiel from commercial vendors, and their funds are replenished by sales of materiel to consumers/users or to other stock funds. DoD budget reductions, consolidation of accounting and supply functions across the Services, Army strategic logistics programs, and other initiatives of the Defense Management Report Decisions have prompted the Army to question whether its stock fund structure needs modification. Since we had reviewed the Army stock fund structure in 1987, we were tasked to update our analysis in light of recent events.

Stock funds are sometimes characterized as being either vertical or horizontal in their structure. In a vertical structure, all Service-managed materiel for both wholesale and retail requirements is managed centrally in the wholesale stock fund; no "sale" occurs when materiel is transferred between wholesale and retail echelons. In a horizontal structure, Service-managed materiel is in both the wholesale and retail stock funds, the stock funds are managed independently and a sale occurs when materiel moves from the wholesale to the retail echelon. The existing Army stock fund is a horizontal structure organized by major commands, a structure established in 1962.

In this analysis, we evaluate 7 options for an Army stock fund structure against 12 Army-approved criteria. The 7 options include the current organization and represent a full spectrum of realistic, horizontal and vertical structures. We also examine the structure of the other Services' stock funds to discover any lessons that may be applied to the Army.

We recommend that the Army convert its current horizontal structure to a vertical structure. It should do so by creating a single stock fund under the management of a national organization that would consolidate the current wholesale stock fund, the retail stock fund, and all Operation and Maintenance, Army

(O&MA)-funded materiel to the Supply Support Activity and Direct Support Unit levels. O&MA would continue to fund materiel at the consumer/user level – the Prescribed Load List (PLL). This new structure would

- Facilitate the transition from peacetime to wartime operations
- Provide more complete and accurate financial data for total supply system inventories
- Eliminate the need for duplicate automated financial systems
- Reduce the number of sales and other financial transactions, thereby reducing total workload and personnel requirements
- Simplify budget preparation
- Reduce workload of the field commanders
- Support the Army's major strategic logistics initiatives and facilitate obtaining visibility of assets.

The Army may decide to implement this recommendation in two steps for the following reasons. First, the change is far reaching and extensive and the concept on which it is based must be tested. Second, Operation Desert Shield/Desert Storm and the implementation of many Defense Management Report Decisions have already imposed a significant burden on key personnel, equipment, and facilities. If the two-phase approach is adopted, we recommend the following implementation actions:

- *Phase 1* – Combine the existing wholesale stock fund and the retail stock fund under one national organization. Conduct a prototype test of the single stock fund at an installation supporting an active Army division and begin planning for the extension of the stock fund to the supply support activity/direct support unit level.
- *Phase 2* – Extend the stock fund to the supply support activity/direct support unit level.

Incremental benefits will be achieved during the implementation of each phase, but the full benefits of a comprehensive and integrated stock fund will only be realized at the completion of Phase 2.

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CHAPTER 1

THE STOCK FUND STUDY

BACKGROUND

As the United States emerges from the Persian Gulf war, a new national strategy is being developed to encompass the mission of the Department of Defense (DoD). That strategy, driven by changes in international alliances, vast economic and military changes in Eastern Europe, and internal economic and social concerns, will result, among other things, in smaller more flexible military forces and fewer resources. In response to this changing environment, DoD is implementing many initiatives from its Defense Management Report (DMR). These initiatives are designed "to improve the performance of the defense acquisition system, and to manage more effectively the DoD and its defense resources."[1] As a part of the DMR, finance and accounting functions of the Services have been consolidated, depot-level reparables (DLRs) have been stock funded, and changes are occurring to the logistics support system.

The Army desires to analyze and change, as appropriate, the Army Stock Fund (ASF) to ensure that it is the most effective and efficient structure to provide future logistics support. We are tasked to update our 1987 study on the ASF structure.[2] The update needs to consider the DMR initiatives and resultant changes in stock fund and logistics system operations.

The DoD stock funds are working capital (revolving) funds established by authority of Section 2208, Title 10, United States Code; and DoD Instruction 7420.11; and DoD Directive 7420.1. Army Regulation (AR) 37-111, *Working Capital Funds*, establishes stock funds for the Department of the Army (DA) and delineates the Army policies, principles, and procedures that govern ASF operations.

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[1]Department of Defense, *Implementation of the Secretary of Defense's Defense Management Report to the President – Progress Report*, March 1991.

[2]LMI Report AR502, *The Army Stock Fund: A Structure for the Future*, Will Horn, George Slyman, and John Olio, January 1987.

The original purpose of the stock fund was to finance consumable items of supply for resale to user/customers and other stock funds. This original purpose has undergone changes such as, for example, the addition to the stock fund of reparables that were previously funded as procurement appropriation Army-secondary item (PA-2). DA publications identify four specific purposes for the ASF:

- To finance inventories
- To impose financial orientation on supply operations
- To create a financial mechanism for analysis and evaluation of supply operations
- To communicate logistics decisions and results in the common denominator language of the dollar through financial inventory reporting.

The sale of stock fund materiel to customers generates cash for the stock fund and allows it to replenish its stocks. The stock fund can procure most materiel without dependence on the annual congressional appropriation of funds but rather on the availability of Obligation Authority (OA) that is approved by the Office of Management and Budget (OMB) and the Assistant Secretary of Defense (Comptroller) [ASD(C)]. Since the annual congressional appropriations fund the customers who buy from the stock fund, appropriated money refreshes the stock fund from the bottom up. [Stock funds do use congressional-appropriated funds to procure war reserve (WR) stocks.]

In DoD, the stock funds are classified as vertical or horizontal. In a vertical structure, like the Navy and Air Force, the wholesale division buys service-managed materiel from commercial sources for ultimate sale to the user and other Service's stock funds. Some materiel is transferred without sale to its depots or installations, but the item remains in the wholesale stock fund division until it is sold to the user. The retail division buys non-Service-managed materiel from other wholesale sources for ultimate sale to the user. In a horizontal structure, like the Army, the wholesale division buys Service-managed materiel and sells it to the retail division for its resale to the user. The retail division also buys non-Service materiel from other wholesale sources for sales to the user. Thus, a vertical organization does not have Service-managed materiel in the retail division and the horizontal organization does. This inclusion of Service-managed materiel in the horizontal structure requires an additional financial sale.

The term, Single Stock Fund (SSF), is used in this study for two reasons. First, it is used to identify this study while not mentioning a vertical or horizontal structure that might have prejudged the final recommendation or caused a stereotype solution in the interviewee's mind. Second, it is used to keep the flexibility of an Army-unique system that may be a combination of, or a different form of, vertical and horizontal structures as used by the other Services.

There is officially only one stock fund in each Service. However, in the Army, the horizontal structure and command control makes the wholesale division and retail divisions of the ASF appear to some people to be separate stock funds. The term, Single Stock Fund, also helped correct this misperception.

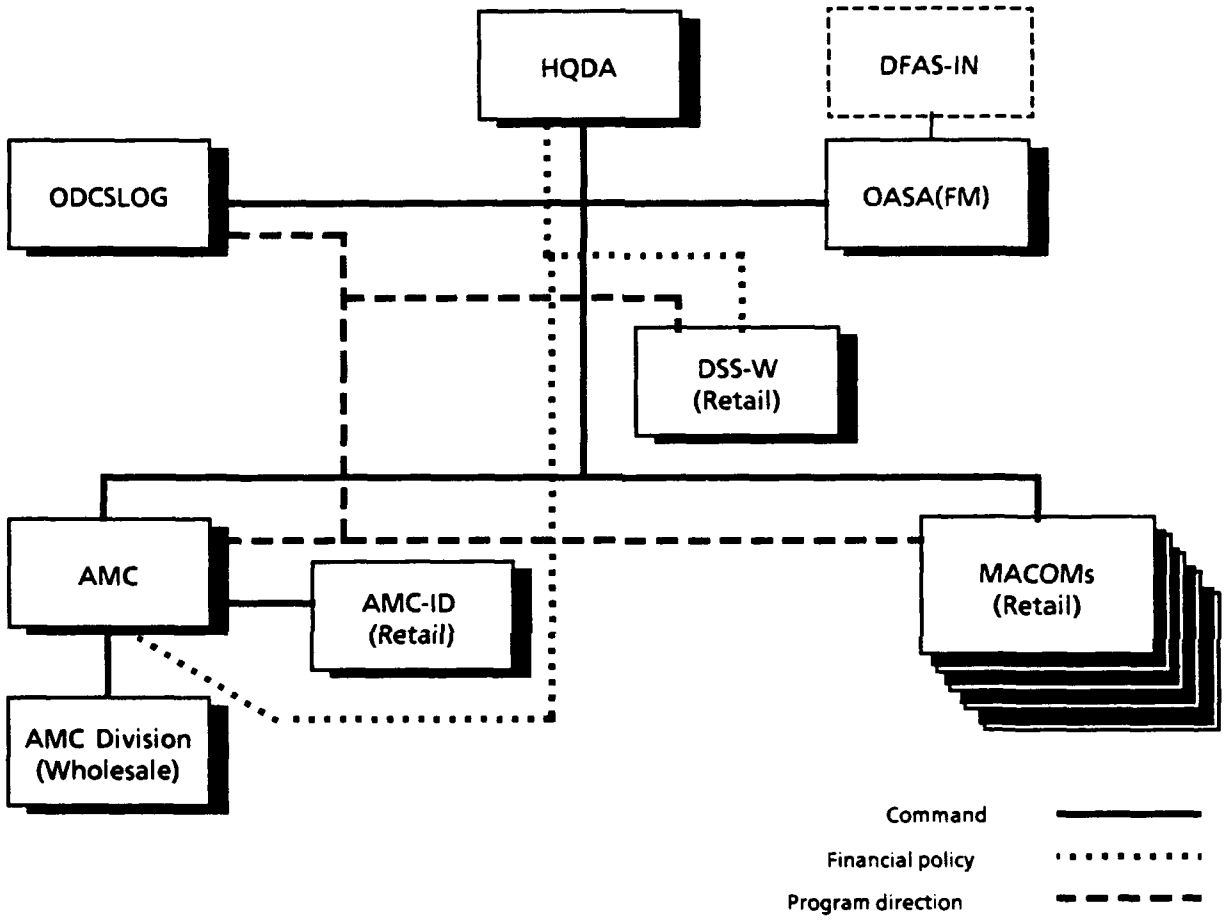
The current Army horizontal stock fund[3] is organized along major command (MACOM) lines. The various retail divisions of the stock fund follow the command lines of seven of the Army's MACOMs. Each MACOM headquarters is designated as the *home office* of a particular stock fund division; a large subordinate command of the MACOM may be designated as a *subhome office*, and a smaller installation or activity would be established as a *branch office*. The wholesale division is operated by the Army Materiel Command (AMC). The major subordinate commands (MSC) under AMC are commodity-oriented wholesale subhome offices.

The Deputy Chief of Staff for Logistics (DCSLOG) is the program director with DA staff responsibility for the stock fund program. Through his staff, the DCSLOG establishes policy to ensure that requirements are properly determined; that ASF budgets are formulated according to guidance provided from the ASD(C); that operating programs are reviewed and approved for the Army before Secretary of Defense review; that stock fund materiel is procured, distributed, and maintained according to Defense and Army guidance; and that stock fund materiel is processed for disposition when no longer required.

The Assistant Secretary of the Army for Financial Management [ASA(FM)] is the financial manager of the ASF responsible for accounting, reporting, and fund-control policy. The ASA(FM) also prepares and reviews ASF budget schedules and analyses and distributes fund-control documents. The Defense Finance and Accounting Service – Indianapolis (DFAS-IN) provides accounting and cash

[3]This explanation is based on the FY91 Army organization and structure. Significant changes occur in FY92 due to DMRDs and other consolidations.

management services and manages the automated retail-level stock fund accounting systems: the Standard Financial System (STANFINS), Standard Army Financial Inventory Accounting and Reporting System (STARFIARS), and the Tactical Uniform Financial Management Information System (TUFMIS) (see Figure 1-1).



Note: HQDA = Headquarters, Department of the Army; DCSLOG = Deputy Chief of Staff (Logistics) (Army); ASA(FM) = Assistant Secretary of the Army (Financial Management); DSS-W = Defense Supply Service – Washington.

FIG. 1-1. ASF STRUCTURE

The ASF consists of one wholesale division, with six subhome offices, and nine retail divisions; some retail divisions have numerous subhome and/or branch offices. The wholesale division is operated by AMC and the six wholesale subhome offices are AMC's commodity-oriented MSCs. Each MSC is the National Inventory Control Point (NICP) for Army-managed items for a specific commodity. The MSCs procure

stock-funded items from commercial vendors and manage their distribution through the Army's depot system.

The nine retail divisions of the ASF are operated by the MACOMs; by the Troop Support Agency (TSA), the field operating agency (FOA) of the DCSLOG; and by the Defense Supply Services – Washington (DSS-W) under the Administrative Assistant of the Secretary of the Army. The retail divisions buy materiel from wholesale stock funds [Army, other Military Services, and the Defense Logistics Agency (DLA)], the General Services Administration (GSA), and local manufacturers and distributors.

PROBLEMS IN EVALUATING ALTERNATIVES

In evaluating stock fund alternatives, three factors should be kept in mind: the need to look at both peacetime and wartime operations, the incompatibility between the supply and finance functions of many automated data processing (ADP) systems, and the lack of uniformity in the nine retail divisions in organization and operations.

The ASF is an instrument of Army logisticians; in peacetime, it is designed to provide supply support from the commercial vendor to the front line soldier and to provide a means for the Army to report to Congress on its stewardship of government funds. It is not designed to function in combat. By policy, it ceases to function in combat theaters of operation[4] and all financial inventory accounting (FIA) is performed at DFAS-IN. The optimum ASF structure is one that fulfills peacetime responsibilities and eases the transition to wartime support.

The supply functions and finance functions of ADP systems are not always compatible below the wholesale level. Currently, six major ADP systems are involved in the management of the retail stock fund supply and finance procedures. These multiple systems have caused serious problems for many stock fund managers and finance and accounting personnel. Emerging supply systems and redesigned financial systems have not totally resolved these difficulties.

While the ASF wholesale division is structured the same and is operated in a standard manner at all six AMC MSCs, no standardization exists in the structures and routine operations of the nine retail divisions. For example, some retail divisions

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[4]Department of the Army, *Army Mobilization and Operations Planning System (AMOPS)*, Appendix P to Vol. IV, 1 March 1984.

buy and sell petroleum products through their stock fund while others do not; still others only process heating fuels through the stock fund and use Operations and Maintenance, Army (O&MA) funds to purchase mobility fuels used to operate aircraft, vehicles, and other petroleum-consuming equipment. Internal structures of the various retail divisions differ, as do reporting and approval channels for their programs and budgets. Thus, while the Army has nine retail divisions that comply with the same guidance, it is difficult to compare them with each other or as a common retail stock fund. These diversities are further complicated by the Army's supply distribution system, Direct Support System (DSS), that is implemented in varying degrees of units supported by the different retail stock funds.

ARMY SUPPLY SYSTEM ELEMENTS

The Army supply system is very complex, consisting of multiple functions at multiple levels of operation. Figure 1-2, should help the reader to understand the interrelationships between the different elements of the supply, financial, management, and ADP systems that comprise the supply system. Although there are many interrelated functions in the supply system, the objective of this study is the review of financial functions.

In the left-hand column of Figure 1-2, the organizational levels of the Army are shown in descending order from wholesale to the consumer/user. The top level shows the ICP/NMPs and depots. At this level, logistics and supply personnel procure stocks from industry and manage items Army-wide. Below the inventory control point/national maintenance point (ICP/NMP) and depot level, the MACOM/installation/corps manages supply above the division level. The third level provides direct support and operates at the division level and below. The lowest level is the consuming units, both Modification Table of Organization and Equipment (MTOE) and Table of Distribution and Allowances (TDA) units.

The columns, reading to the right, group functions across these organizational levels. The second column, levels of logistics, shows how logistics is officially divided into two main parts: wholesale (WHSL) and retail. Wholesale operates only at the top – ICP/NMP and depot level – but retail is considered to cover a combination of all the levels from MACOM/installation/corps down to the using units. The third column, labeled sublevel of logistics, shows that retail is subdivided into two parts – intermediate and user or consumer. Intermediate includes stock at both

ORGANIZATION	LEVELS OF LOGISTICS	SUBLEVEL LOGISTICS	SUPPLY LEVELS	FINANCIAL LEVELS	MANAGEMENT & OWNERSHIP OF SUPPLIES				SUPPLY ADP SYSTEMS	FINANCIAL ADP SYSTEMS
DEPOT / ICP/ NMP/	WHSL	WHSL	WHSL	WSF	AMC				CCSS	CCSS
MACOM/ CORPS/ / INSTL'N		INTERMEDIATE	ASL	RSF	MACOM	INSTALLATION/CORPS			SAILS/SARSS 2A & B	STAR-FIARS
DIVISION / SSA/DSU	RETAIL			CONSUMER FUNDS			DIVISION		DS4/ SARSS 1	STAN-FINS
BATT'N / MTOE/ TDA UNITS		USER	PLL					BN	ULLS	TUFMIS

FIG. 1-2. ARMY SUPPLY SYSTEM ELEMENTS

installation/corps and supply support activity/direct support unit (SSA/DSU) levels. The fourth column renames the same functions with supply-level terminology: wholesale level of supply is wholesale, the intermediate level of supply is authorized stockage list (ASL), and the user supply is prescribed load list (PLL).

The financial levels column shows the funding systems that support the organizational structure. Wholesale is supported by the wholesale stock fund (WSF) and the MACOM/installation/corps is supported by the retail stock fund (RSF). However, consumer funds support both DSU and user levels. In actual practice, three sales transactions occur: one between the WSF and the RSF, one between the RSF and the SSA/DSU, and the third between the SSA/Direct Support Unit Standard Supply System (DS4) and the user. This report provides our analysis and recommendations for the financial functions. The management and ownership of supplies in each of the levels is shown in the next block. Wholesale is managed only by AMC, but many organizations manage retail supplies. The MACOMs manage the retail supply within their commands, but no one organization collectively manages all the different retail stock funds. The installation/corps, division, and battalion commanders under the MACOM manage everything under their commands.

The last two columns, supply and financial ADP systems, show the automated systems that support supply and finance. As the figure shows, each level has its own system for finance and supply, and only wholesale has the same system for supply and finance.

The Army chose to operate with a horizontal system and does it very well. However, the system does not perform vertical integration very well because it was never designed for this purpose. Figure 1-2 displays this difficulty. Any time a vertical function on the chart extends from one level into another, duplication or conflicting management is created in another function. The retail level of logistics extends vertically from the MACOM to the user, causing four organizations to be listed in the management and ownership columns. Although retail covers many levels, management and ownership is performed independently at each level. The MACOM commander, installation/corps commander, division commander, and battalion commander each owns and manages all the supplies in his organization. Each bought and paid for them and is currently storing them. As a result, many organizations own and manage the same supplies.

Intermediate ASL also crosses two lines. In order to manage ASL at two levels, the ASL has been broken up into two funding categories: retail stock fund and consumer appropriation. As a result, the value of the Army ASL cannot be determined easily, because it is divided into two funding categories and among many organizations. Because consumer funds cross two lines (column 5), two financial systems were established to account for the consumer funds at each of the two levels (column 8). STANFINS reports the total consumer-appropriation funding level of funding, and TUFMIS provides the individual user level of funding.

COMPARISON OF SERVICE STOCK FUNDS

A look at how stock funds operate in the other Services can identify potential alternatives for the Army. The Navy and Air Force both operate vertical stock funds. Figure 1-3 compares the stock fund operations of the three Services. The processes are generalized to display the overall concept and omit unique organizations, missions, and procedures that do not relate to the Army or do not apply across all three Services.

The basic structures of the Navy and Air Force are similar, but there are also many significant differences. They have a stock fund that extends from the wholesale level through the intermediate ASL with a single sale to the consumer units. They both maintain stock fund cash at the Service headquarters and they both have materiel manager organizations to operate their stock funds. They manage their service-managed materiel in the wholesale stock fund, other Service-managed materiel, DLA, and GSA items in a retail stock fund division. The Navy and Air Force manage both weapon system items and commodities. They allot the stock fund obligation authority (OA) between all the claimants. The OA for Service-managed materiel is managed by the ICP who determines what items to purchase or repair and stores them either at depots or installations. The OA for non-Service-managed materiel is centrally controlled but managed by local commanders or major commands. After these parallels, the Navy and Air Force operations begin to deviate.

The Air Force changes management of supplies at the installation level. Although still part of the stock fund, the supply operation is run by major command (MAJCOM) personnel at the installation. After a consumable item arrives at an installation, it is not normally available for redistribution to other installations.

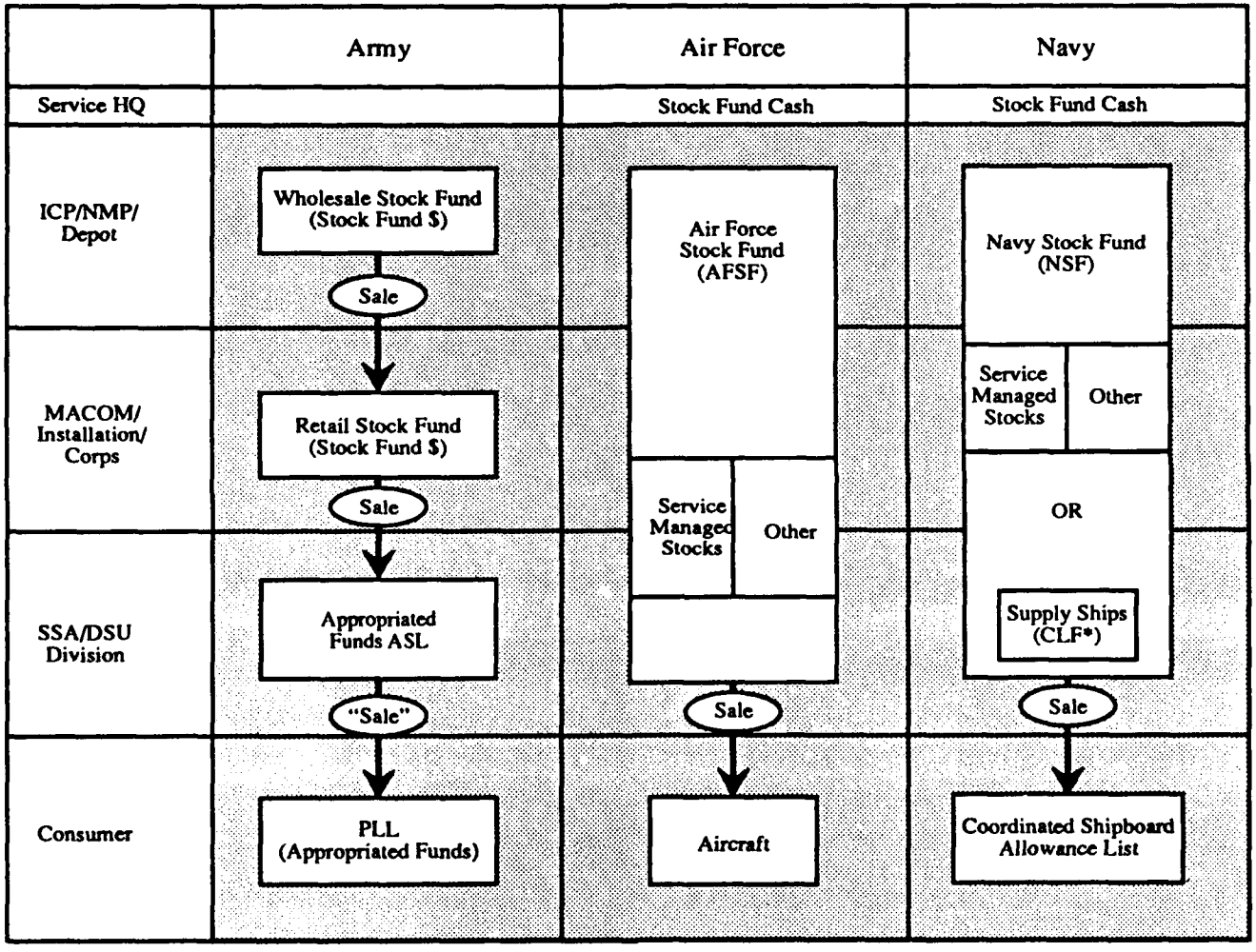

FIG. 1-3. COMPARISON OF SERVICES STOCK FUNDS

The Air Force only uses one retail supply level, base supply, because it does not need a second one. When an aircraft takes off, it comes back to an air base. Because it does not land away from the support of an air base, it does not need a second retail level of supply. The Air Force does not require PLL-type stockage either. The base supply is located in close proximity to the flight line with the aircraft; another level of supply is unnecessary although there may be some minimal levels of "bench" stock. However, the squadrons do carry part of their war reserve stocks (WRS) with the unit like the Army's Forward Position War Reserve Materiel Requirement (FPWRMR) stocks. These stocks called war readiness spares kits (WRSK) travel with the squadron when it deploys creating another level of stockage at the unit level.

The Navy is more like the Army in some sense because it also deploys to non-fixed support areas that requires a second level of intermediate-level stockage and PLL-like stockage. The Navy's two intermediate levels of stockage operate in parallel, not serially. When a ship is in port, it draws from base supply a part of the stock fund, creating one sale to the customer. At sea, the ship draws from the supply ships of the Combat Logistics Force (CLF), also part of the stock fund and again makes only one sale to the customer.

The Army's horizontal stock fund consists of stock fund organizations at two levels and a second intermediate-level stockage. The WSF sells to the RSF, it in turn sells to its ASL customer, and the ASL makes an unofficial OA "checkbook" sale to the user. This three-sales system requires more financial personnel than the one sale in the other two Services. (See Figure 1-3.) The Army distributes its stock fund cash for management by the MACOM. When MACOM cash problems occur, they involve at least a gaining MACOM, a losing MACOM, and DA. In the other Services, cash is handled centrally, thus avoiding the need for transfer among MACOMs.

When evaluating stock funds in the three Services, their differences in mission, capability, and structure must be considered. General consistency between Services may be beneficial for DoD, but sufficient flexibility must be allowed to accommodate basic differences. The Air Force mission does not require operation at unstructured locations around the world like the Army and Navy. Such missions require an additional stockage level. However, an additional level may not require a separate funding structure or separate command management. The Army should determine the most effective and efficient supply system to meet its mission and then determine

the best organization to manage it while attempting to maintain consistency within DoD.

STOCK FUND ALTERNATIVES

Many possible stock fund configurations have been considered in this report. In order to ensure that all basic options were covered, the options were systematically established using first horizontal structures and then vertical structures from the simple to the more complex. These options, displayed in Figure 1-4, are discussed in detail in Chapter 3, and are defined here:

- *Alternative 1, Direct Wholesale Support to Consumer* – A WSF level directly supporting consumer funds with no RSF at MACOM/installation/corps support. This alternative is similar to current Army National Guard (ARNG) funding.

- *Alternative 2, Retain the Present Structure* – A WSF managed by AMC, a MACOM RSF, and consumer-funded DSU and user level. This alternative matches the current Army stock fund system.

- *Alternative 3, Both Stock Fund Divisions Managed at the National Level* – A wholesale and retail stock fund each managed by AMC at a national level and consumer-funded DSU and user level. This alternative is similar to the current system, but all stock funds are managed by one organization.

- *Alternative 4, Extend Wholesale Stock Fund to Installation/Corps Level for Service-Managed Items* – With this alternative, the move to vertical structuring begins. The WSF is extended to the installation/corps level for management of Army-managed items only. One national-level organization would control Army-managed items at the wholesale and installation/corps ASL level under the WSF. MACOMs would still operate the RSF for items managed by DLA, GSA, or other Services and those procured locally. Consumer funds would still fund DSU and user levels.

- *Alternative 5, Combining Wholesale and Retail Stock Fund Division under a National Organization* – Combines the WSF and RSF forming a SSF under one organization at the national level. Consumer funds would support DSU and user levels. This would eliminate one stock fund and one accounting sale transaction.

- *Alternative 6, Consolidating the Stock Fund Through DSU Level* – Consolidates the WSF, RSF, and SSA/DSU level under one organization at the national level. Consumer funds would exist only at the user level.

- *Alternative 7, Extend the Retail Stock Fund* – Extends the RSF to the DSU level with the MACOMs controlling both ASL levels. The WSF would

	Horizontal Structures			Vertical Structures			
				Extend Wholesale			Extend Retail
Alternative	1	2 (current)	3	4	5	6	7
ICP/NMP/ Depot	WSF	WSF	WSF	WSF	SSF	SSF	WSF
MACOM/ Installation/ Corps		RSF (MACOM)	RSF (AMC)	WSF / RSF (MACOM)			RSF (MACOM)
Division SSA (ASL)	Customer Funds (MACOM)	Customer Funds (MACOM)	Customer Funds (MACOM)	Customer Funds (MACOM)	Customer Funds (MACOM)		
Consumer (PLL) Battalion						Customer Funds (MACOM)	Customer Funds (MACOM)

FIG. 1-4. ALTERNATIVE ARMY STOCK FUND CONFIGURATIONS

CHAPTER 2

RECOMMENDED COURSE OF ACTION

NEED FOR ARMY STOCK FUND CHANGE

Under its present structure, the ASF can function, but it does not completely fulfill its four purposes. (See page 1-2.) It finances inventories and it forces a financial orientation to supply operations, but it does not easily allow financial management information to be used for analysis and evaluation of supply operations nor has it been able to communicate logistics decisions in financial inventory accounting terms. A great deal of work is expended, particularly at the branch office level, to prepare budgets and recurring reports, but that effort is not matched by local supply managers using financial information to analyze and evaluate supply operations. Little evidence exists that stock fund financial information is used to communicate either supply policy or command decisions. The horizontal organization levels, each with its separate management information system (MIS), do not allow adequate interface for rapid identification of supply capabilities or status. No one in the Army has the complete picture: no one knows how much is stored nor where all the stores are. Each level has only fragmented parts. However, the inability of the current structure to achieve all the purposes of the ASF is not, by itself, enough to support change to a new system. Any replacement organization must improve the existing conditions and must provide benefits that the current system cannot offer.

In addition to internal shortcomings, the present ASF structure does not adequately contribute to the current Army effort to streamline logistics support and obtain better control of assets. The reduced force structure, reduction in funds for new equipment, and new multimission requirements demand that the ASF be evaluated to see if a restructured stock fund could serve the Army better.

Each of the seven alternative stock fund structures evaluated, if implemented, would provide some degree of efficiency for the Army. Each may appeal to a particular interest group or offer a solution to a present-day problem. However, LMI has been tasked to apply the prescribed criteria to recommend an optimum ASF

remain as it is now. Consumer funds would exist only at the user level. One accounting sale would be deleted.

Structure changes, such as specific placement of responsibility for financial and other management elements, can be used to modify each of these alternatives to design a system that meets specific goals. Financial responsibilities are ownership, accountability, and financial inventory accounting. Management responsibilities include control, requirements determination, visibility, and personnel. Variation within these alternatives can be used to obtain the level of support and oversight desired.

EVALUATION CRITERIA AND SIGNIFICANT FINDINGS

In order to evaluate each of the seven stock fund alternatives fairly, a comprehensive set of criteria was created. The criteria were selected to ensure adequate supply support to the units, to allow necessary management and reports, and to interface with other DoD or Army procedures, equipment, or policy. Each criterion is defined in Appendix B. Each of our alternatives is evaluated against these criteria:

- Support to the soldier in the field
- Facilitate transition to wartime operations
- Facilitate management improvements
- Chain-of-command involvement in management of stock fund/inventory
- Workload on commands
- Efficient accounting systems
- Adaptability to current logistics and accounting systems (or systems being developed)
- Cost
- Support budget execution
- Support strategic logistics initiatives
- Consistency with other Services
- Effective interface with customer budgets.

organization and operating structure that will best serve the Army today and into the next century.

Each option was evaluated against the selection criteria as shown on page 1-14. The detailed evaluation of each option is included in Chapter 3. Our evaluation suggests that the two alternatives that expand the wholesale stock fund provide the most benefits to the Army. These options will provide the vertical financial control and integration needed to manage reduced assets and to provide the flexibility to support any type of mission.

SUMMARY OF THE RECOMMENDED COURSE OF ACTION

An obvious but critical fact regarding any recommended stock fund alternative is that the financial system must support the supply system, not the other way around. The Army needs to develop a financial system flexible enough to support the future supply system. The financial system we recommend can effectively support many different supply systems.

One stock fund should support the entire supply system: wholesale, retail ASL, and consumer ASL. The Army does not need the three separate and individual financial levels. These separate financial levels create overlaps, duplication, interface problems, confusion, excess, lack of visibility, lack of accountability, and overstaffing. The Army does not need three separate financial ADP systems recording basically the same data. If necessary, supply stockage could physically remain at three levels, but it should all be accounted for in one ASF system. With one system, the Army would have financial visibility of all of its supply items in one MIS. At any time, the Army leadership could ascertain the exact value by materiel category (MATCAT) of what was in the Army supply system and where it was located. Everyone would get the same answer to the same question because it would query the same ADP system. One financial system for the total supply system is recommended. However, this is a huge step and may have to be taken in stages. Funding, personnel, coordination, or other problems might not allow complete vertical integration of the stock fund all at once. But the objective is to make a

start. Consequently, it is recommended that the Army undertake a two-phased approach as follows:

- *Phase 1*
  - Plan to combine the WSF and RSF under one national organization (Alternative 5).
  - Use only two points of sale: SSF to SSA/DSU and SSA/DSU to user.
  - Conduct a prototype test of the SSF at an installation supporting an active division.
  - Plan the extension of the SSF to the SSA/DSU level.
  - Implement the SSF.
- *Phase 2*
  - Expand the stock fund to the SSA/DSU supply level (Alternative 6)
  - Use only one point of sale: SSF to user.

DESCRIPTION OF APPROACH

Figure 2-1 shows the concept of the two-phased approach to extending the WSF to the other levels of supply. The first phase would combine the WSF and RSF. The wholesale system could operate as it does now, except it would treat the current installation/corps locations as forward storage points or depots. Each MSC would determine stockage levels of Army-managed items and preposition them where they would best support the mission. The national-level stock fund manager would allocate OA to subordinate organizations for their use to manage purchases from DLA, GSA, other Services, and local procurement. The supply manager and supply personnel at each installation/corps could be the same personnel performing that mission now and could be transferred to the national-level organization. The sale of Army-managed materiel from WSF to RSF would be eliminated requiring just two sales instead of three.

Phase 2, the preferred complete solution, would expand the stock fund further to include the final level of supply – SSA/DSU. Implementation through this phase would support a seamless supply system that provides support directly to the customer. It would consist of one sale from the supply system to the customer similar

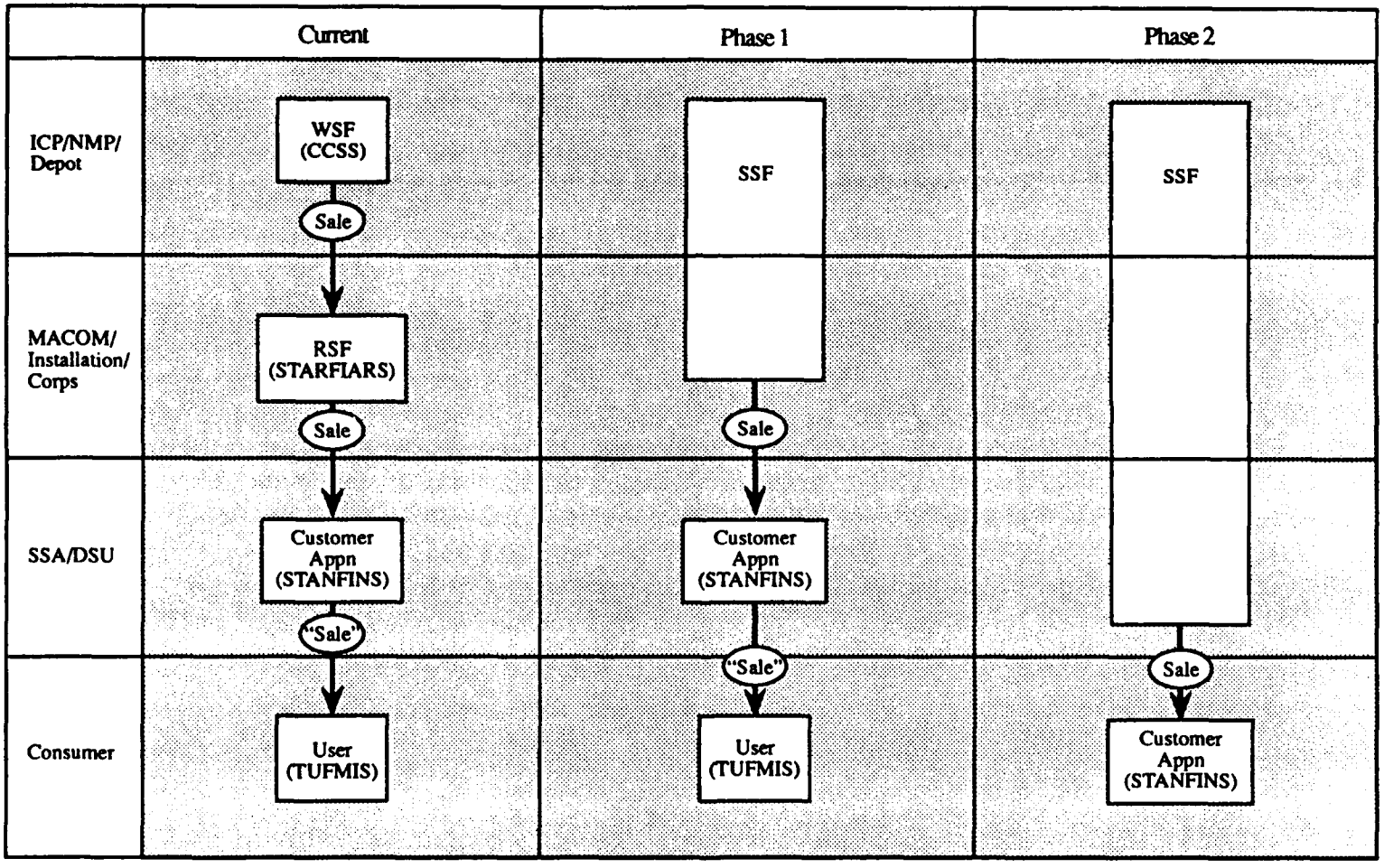

FIG. 2-1. RECOMMENDED CONCEPT FOR ARMY SINGLE STOCK FUND

to the other Services. The SSA/DSU personnel could remain assigned to their current organization. All stock fund accounting would be done by the ICP.

POSITIVE AND LIMITING CONSIDERATIONS

Both Phase 1 and Phase 2 have basically the same positive and negative considerations. The main difference is that Phase 1 only provides those considerations to two levels of supply, while Phase 2 provides them to three levels. The following are the main positive considerations for the SSF are:

- The SSF facilitates transition to wartime operations. The ICP would handle all financial accounting during both peacetime and wartime. Personnel would not have to change their financial procedures as they do now when the retail stock fund is disestablished. The SSF would also facilitate the movement of supplies between MACOMs or organizations because the materiel could just be repositioned in the stock fund without any need for financial transactions.

- The SSF would provide more complete and accurate financial data on the supply system. All the financial information of the SSF would be on one integrated MIS instead of three separate and nonintegrated MISs under the current structure. This would allow commanders immediate access to all the necessary data from the same data source. It would also allow the elimination of duplicate financial MISs that have evolved to support the current horizontal supply structure. This will reduce and simplify the number of software programming changes and reduce training requirements.

- The transferring of materiel between levels versus selling will reduce the financial workload resulting in reduced requirements for financial personnel.

- The SSF would simplify budget preparation. There would only be one retail budget instead of nine with the wholesale budget. Each installation/corps retail budget would be prepared by the local branch office and consolidated at the national level. There would be no need to integrate the installation/corps budgets at the MACOMs. These consolidated budgets would be better integrated and consistent; thus, they would provide better justification to Congress.

- The SSF could reduce the workload on commanders. All stock fund budget preparation could be accomplished under the national organization using the commanders consumer's budget and guidance. All stock fund cash and OA responsibilities would be under the national organization. The SSF also provides a structure to support the major strategic logistics initiatives.

The considerations that limit the appeal of an SSF are mainly the changes in relationships between the commander and supply system. There may be the perception that commanders are losing some control over the operation of their command. New policies and procedures need to be established to ensure the requirements and concerns of the commanders are incorporated into the supply system. The implementation of the SSF will require a comprehensive coordination effort to ensure all interfaces and concerns are covered.

CHAPTER 3

DESCRIPTION OF THE ALTERNATIVES

INTRODUCTION

In Chapter 1, we presented the seven alternative ASF organizational structures that we evaluate. This chapter describes those options in more detail.

Although many aspects of a stock fund structure could be addressed to describe the options emphasized, we have the financial operations of the budget process, requirements determination, performance analysis, finance and accounting, and relationship of the MACOMs with the stock fund.

ALTERNATIVE 1: DIRECT WHOLESALE SUPPORT TO CONSUMER

Overview: A WSF level directly supporting consumer funds with no RSF at MACOM/installation/corps support. This alternative is similar to current Army ARNG funding.

In this option, the wholesale stock fund organizational structure remains unchanged and the current retail stock fund divisions are eliminated. The interrelationship between the wholesale division and customers, however, is considerably different. The fundamental restructuring is the dissolution of the MACOM retail divisions of the ASF. That dissolution requires today's retail stock-funded operations, including installation of retail stock-funded supply levels to revert to customer funding. All customer-funded requisitions are submitted directly to the wholesaler who manages the item or to the purchasing agent for local purchase.

In the past and in certain circumstances today, the Army can operate without a retail stock fund. Before the simultaneous obligation (SIMOB) policy in 1984, Army customers often requested stock fund bypass authority from Headquarters, Department of the Army (HQDA) at the end of the fiscal year in order to immediately obligate their dollars directly to the wholesale system. Furthermore, many operational exercises are supported by direct purchases by funded customers from wholesale stock funds. ARNG units are supported through United States Property

and Fiscal Officers (USPFOs) who obligate operation and maintenance dollars directly to the wholesale system and local procurement.

Under this alternative, routine retail stock fund budgeting, execution, and periodic reporting terminates – and the finance and accounting system becomes the source of financial data.

Adoption of this structure requires linking of the customer budget and the wholesale stock fund budget at the DA level, as well as reporting by the MACOMs to HQDA to ensure that the wholesale system is aware of the funding budgeted for supplies by commodity. It necessitates a more disciplined approach to program changes that cause increases or decreases to customer funds budgeted for wholesale stock fund items. It converts a level of inventory that is currently funded by the RSF to O&M funding, thus eliminating visibility into financial inventory accountability.

ALTERNATIVE 2: RETAIN THE PRESENT STRUCTURE

Overview: A WSF managed by AMC, a MACOM RSF, and a consumer-funded DSU and user level. This alternative matches the current Army stock fund system.

This alternative retains the present horizontal, command-channeled stock fund with separate wholesale and retail divisions. (This is the structure that is described in Appendix A.) If this alternative were selected, the current configuration would be maintained.

In this alternative, financing remains with the wholesale and retail stock funds; the wholesale stock fund is managed by AMC and its MSCs, and the retail stock fund, by the MACOMs and DSS-W. Wholesale budget submissions flow from the MSCs to AMC, and retail budgets follow command channels from branch to subhome office to MACOM and DA.

For wholesale operating level and mobilization stocks, inventory requirements are computed and managed by the MSCs. The buyer/seller relationship remains the same with the MSCs selling to retail stock funds, the AIF, and customer-funded Army organizations and other Service customers.

Retail requirements are computed by installations/theaters/corps materiel management centers (MMCs). The retail stock funds buy from the Army's wholesale divisions and also from DLA, GSA, and other Services and make local purchases.

Item and dollar value visibility terminate at the installation/branch office of the retail stock fund.

Retail stock funds are serviced by their installation Finance and Accounting Office (F&AO), which pays interfund bills from wholesale sources and invoices from commercial vendors and collects from customer funds.

ALTERNATIVE 3: BOTH STOCK FUND DIVISIONS MANAGED AT THE NATIONAL LEVEL

Overview: A wholesale and retail stock fund each managed by AMC at a national level and consumer-funded DSU and user level. This alternative is similar to the current system, but all stock funds are managed by one organization.

The wholesale division performs its mission as an independent entity, procuring and selling Army-managed items. The retail division purchases items from the Army wholesale system as well as from other Defense stock funds and from local vendors; the present retail divisions are eliminated. Branch office operations are an integral part of the retail stock fund for all commodities. The retail stock fund budget and the customer budget are linked at the branch office level. The MACOM's DCSLOG provides technical support to the retail stock fund program and budget activities of the branch office.

Budgeting is directed at the national level, which provides the wholesale and the retail budget to DA and the Office of the Secretary of Defense (OSD).

ALTERNATIVE 4: EXTEND WHOLESALE STOCK FUND TO INSTALLATION/CORPS LEVEL FOR SERVICE-MANAGED ITEMS

Overview: With this alternative, the move to vertical structuring begins. The WSF is extended to the installation/corps level for management of Army-managed items only. One national-level organization would control Army-managed items at the wholesale and installation/corps ASL level under the WSF. MACOMs would still operate the RSF for items managed by DLA, GSA, or other Services and those procured locally. Consumer funds would still fund DSU and user levels.

The vertical commodity stock fund alternative is a structure in which the wholesale stock fund and MACOM retail stock fund retain their current structure but have a different content. The retail-level requirements for Army-managed items

are incorporated into the wholesale system. Retail divisions established under MACOMs procure non-Army-managed items, while Army-managed items are transferred from the wholesale ASF subhome office to the branch offices for sale to customer funds.

Budgeting and execution reporting will be performed by branch offices and the retail stock fund. Obligation authority for purchase of non-Army-managed items would be issued to the installation/corps. A relationship continues to exist between the MACOMs and the national level for interfacing the customer budgets with the stock fund budget. This alternative requires the same basic budgets that are currently produced, but the dollar values for the retail budgets will decrease.

ALTERNATIVE 5: COMBINING WHOLESALE AND RETAIL STOCK FUND DIVISIONS UNDER A NATIONAL ORGANIZATION

Overview: Combines the WSF and RSF forming an SSF under one organization at the national level. Consumer funds would support DSU and user levels. This would eliminate one stock fund and one accounting sale transaction.

This alternative would establish the national organization as the ASF home office and subhome offices, and branch offices would continue to exist. The existing MACOM retail divisions would be dissolved. In this alternative, the current retail stock fund inventories would be financed by the stock fund under the national organization.

One possible management structure for this alternative is the MSCs continue to buy wholesale-level inventories from commercial vendors; however, they transfer Army-managed items required by the branch office accounts rather than selling them. It is this transfer by MSCs to the branch office that creates the level of Army-managed items at installation/corps. The branch offices are also responsible for procuring non-Army-managed items from GSA, DLA, other Services, and local purchase by using allotted wholesale funds. The branch offices sell all items to the customer funds. In this alternative, MACOMs continue to interact within the stock fund structure, but with different procedures. Their primary roles shift to providing input to the wholesale managers for special requirements, reviewing supply-related financial management reports, coordinating the Command's customer fund budget requirements for stock-funded supplies with the subhome offices, and evaluating performance of the SSF. Program and budget input would come up from the branch

offices through stock fund channels to be consolidated and integrated at the national level.

With a single stock fund division with all stock fund financial control at a national level, liability for any over obligation lies at the national level. This alternative also supports the establishment of a single account code for the stock fund, facilitating easier finance and accounting operations.

ALTERNATIVE 6: CONSOLIDATING THE STOCK FUND THROUGH DSU LEVEL

Overview: Consolidate the WSF, RSF, and SSA/DSU level under one organization at the national level. Consumer funds would exist only at the user level.

This alternative would continue the national organization as the ASF home offices, the subhome offices, and branch offices established in Alternative 5. The existing MACOM retail divisions would be dissolved. The ASF would be expanded to the SSA/DSU level for accounting and management. The existing SSA/DSU would operate and remain part of their current organization but would use the policies and ADP systems of the ASF.

This alternative would create a stock fund operation similar to that of the Navy and Air Force. It would include all the inventories of the wholesale system and all ASLs under the national organization. It would provide comprehensive, integrated financial inventory accounting for the wholesale system and all ASLs and would result in a single stock sale.

Some fundamental actions are required to implement the alternative: the transfer of customer-owned inventories in the hands of General Support Units (GSUs) and DSUs to the stock fund; changes in the budget preparation and reporting structures; modification of the requisitioning and receipt processing system; expansion of general ledger accounts; and revisions of financial inventory reconciliation and reporting procedures.

ALTERNATIVE 7: EXTEND THE RETAIL STOCK FUND

Overview: Extends the RSF to the DSU level with the MACOMs controlling both ASL levels. The WSF would remain as it is now. Consumer funds would exist only at the user level. One accounting sale would be deleted.

The current horizontal command-channel stock fund with the modification of inventory ownership could accommodate this alternative best. With this alternative, current customer-owned inventories at SSAs become stock-fund owned and FIA for those inventories would be established.

Some fundamental actions are required to implement the extension: the transfer of customer-owned inventories in the hands of GSUs and DSUs to the stock fund; changes in the budget preparation and reporting structures; modification of the requisitioning and receipt processing systems; expansion of general ledger accounts; and revisions of financial inventory reconciliation and reporting procedures.

CHAPTER 4

EVALUATION OF THE STOCK FUND ALTERNATIVES

INTRODUCTION

For the 1987 LMI stock fund study, the Army Study Advisory Group reviewed and approved 12 criteria for use in evaluating alternative structures for stock fund organization to determine the one that provides the most effective and efficient ASF.[1] In updating our earlier study, we reviewed and modified those criteria to reflect recent DoD developments and the changes that these developments will bring to the Army in the near term.

We have defined seven alternative structures and they are described along with the evaluation criteria in Chapter 1 and Appendix B. Appendix B is particularly important since it specifies the evaluation elements of each criterion that is used to analyze the various stock fund structures. In this chapter, we measure the degree to which each alternative satisfies each criterion and the criteria overall. Although the method we use embodies a weighting, we do not rely on a mathematical sum to choose the ideal stock fund structure. The criteria add objectivity to the assessment since each alternative is evaluated against the criteria and not against each other; nor are the new alternatives evaluated against the existing stock fund system. Some subjectivity has entered our evaluation from our field interviews and from the ideas we formed while conducting research into past studies and reports. Our approach satisfies our mandate not to focus on solving today's problems but rather to develop a stock fund operational structure that will meet the logistics manager's future needs.

Lastly, we believe that a crucial element of the optimum stock fund structure is its inherent capacity to convert item data to monetary terms. Having made that conversion, it then must be able to provide objectives, plans, and program execution results in dollar language that business-oriented supply managers at any level can use to analyze current operations, to measure the effects of policy changes, or to estimate their ability to meet future demands.

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[1] LMI Report AR502, ibid.

Our analysis of each alternative is presented in narrative form, which emphasizes those evaluation criteria that the alternative supports the most or the least. Table 4-1 summarizes the results of our analysis.

TABLE 4-1

EVALUATION OF CRITERIA

Criteria[a]	Alternatives[a]						
	1	2	3	4	5	6	7
A: Support to the Soldier in the Field	–	/	/	/	+	+	/
B: Facilitate Transition to Wartime Operations	+	/	/	/	+	+	–
C: Facilitate Management Improvements	–	/	/	/	/	+	+
D: Chain-of-Command Involvement in Management of Stock Fund Inventory	/	/	/	/	–	–	+
E: Workload on Commands	+	/	/	/	+	+	–
F: Efficient Accounting Systems	–	/	/	/	/	+	/
G: Adaptability to Logistics and Accounting Systems (or Systems Being Developed)	+	/	/	/	/	/	–
H: Cost	+	/	/	/	/	/	–
I: Support Budget Execution	–	/	/	/	+	+	+
J: Support Strategic Logistics Initiatives	/	–	/	/	+	+	/
K: Consistency with Other Services	/	–	/	/	/	+	/
L: Effective Interface with Customer Budgets	–	/	/	/	+	+	+
Total	– 1	– 2	0	0	+ 5	+ 8	+ 1

Note: + most supports; – least supports; / neutral.

[a] Criteria and alternatives are defined in Chapter 1, Chapter 3, and Appendix B.

ALTERNATIVE 1: DIRECT WHOLESALE SUPPORT TO CONSUMER

This option eliminates the retail stock fund and leaves the Army with only the wholesale division. Precedence exists in the Army for operating without a retail stock fund; currently, the ARNG requisitions directly from wholesalers and purchases locally through the U. S. Property and Fiscal Officers (USPFOs) who

control appropriated funds for their activities. The ARNG, in fact, has no interface with any retail stock fund.

Criterion A: Support to the Soldier in the Field

This alternative has some adverse effects on the soldier in the field. Since the retail stock fund can purchase replenishment supplies with stock fund dollars, its elimination could require the Army consumer funds to finance all levels of inventory below wholesale; thus, commanders would have to compete for appropriated dollars much more than they do now. Furthermore, there would be no stock fund reports at installation/corps level, meaning that valuable management information would not be available for analysis. Basically, this alternative would eliminate a useful and rapid communications link within the Army.

Alternative 1, however, has two distinct advantages for the soldier in the field: few purchase or sale transactions are required from in-service acquisition to consumption and few budget, funding, and accounting transactions are required in that cycle.

Criterion B: Facilitate Transition to Wartime Operations

Alternative 1 readily facilitates the transition from peacetime to wartime operations since its operation will not change. No automated systems changes have to be made; the same information is available to commanders, supply managers, and finance and accounting personnel in wartime as well as in peacetime. This alternative does not require any retraining of personnel at the time of mobilization and it creates very low dependency between logistics and financial systems.

Criterion C: Facilitate Management Improvements

The items formerly within the retail supply sector will be absorbed into the command's O&MA inventories in Alternative 1. This shift will reduce financial visibility and reduce overall management of those items formerly in the RSF.

Criterion D: Chain-of-Command Involvement in Management of Stock Fund/Inventory

Alternative 1 allows limited chain-of-command involvement in the stock management. There is no physical collocation of the two elements for ease of communications.

Criterion E: Workload on Commands

This approach would not significantly reduce the command's workload. Instead, a more disciplined approach to understanding supply demands and their effect on the commodity budget would have to be adapted. Since all retail stock fund accounts will be dissolved, commanders will be responsible for handling the funds to cover O&MA as well as the traditional retail stock fund accounts.

Criterion F: Efficient Accounting Systems

When considering the benefit of stock fund accounting, this alternative has little importance; there would be no stock fund accounting below the wholesale level.

Criterion G: Adaptability to Current Logistics and Accounting Systems (or Systems Being Developed)

Since Alternative 1 is not systems-dependent, it would not be affected by transition to emerging systems. While this characteristic may be viewed as a positive, Alternative 1 does not provide the Army with the benefits and capability for more intensive management offered by any new automated system interface between logistics and finance. In fact, this alternative does not provide the commander in the field with a link between the logistician and the comptroller; there is no financial inventory accounting system.

A further complication is the lack of a stock fund budget with its inherent ability as a management aid to quickly determine erratic changes in customer-funded orders to wholesale stock funds. Sales history to buy forecasts, which can be determined from stock fund records, will be lost to installation/corps managers as well as the commander's ability to articulate Battalion Training Management System (BTMS) in a financial, commodity-oriented document.

Criterion H: Cost

There would be minimal costs to implement this alternative. A very positive factor is the recurring personnel cost saving that accrues with this alternative. There is a potential for cutting over 400 civilian personnel spaces and salaries for an annual cost saving of approximately $18 million. Additional savings are possible from the elimination of the current retail stock fund systems and personnel required to administer them.

Criterion I: Support Budget Execution

This alternative may not provide as much financial inventory information as available under the current structure, because the financial inventory accounting at the RSF would not be produced. The flexibility to handle mission changes, special inventory build-up requirements, and short-term customer fund reductions would not be available. If the stockage at the RSF level would still be required, it would have to be funded with customer funds. This would increase inventories at customer levels and not support the same year's "buy and consume" funding.

Criterion J: Support Strategic Logistics Initiatives

This alternative is consistent with a single logistics system between the supplier and the customer. However, it is accomplished by expanding the responsibilities of the user. This increases the burden on the tactical commanders versus giving that responsibility to the national supply organization which could decrease the burden on tactical commanders.

Criterion K: Consistency with Other Services

This approach is similar to those of the Air Force and Navy in one way: it would require one sale from the stock fund to the consumer. However, because all retail inventories are in O&MA thus eliminating any intermediate level of supply, the approach would actually depart from the structures of the other Services.

Criterion L: Effective Interface with Customer Budgets

This structure would not provide for an RSF budget. It would lose the benefits of the transition, consolidation, and evaluation of the customer budgets into an RSF budget. All the work of converting the customer requirements into the stock fund would have to be undertaken by wholesale personnel. There would be a physical

separation of wholesale and consumer personnel, whereas every other alternative has these two groups physically located at the same installation. This physical proximity to one another provides for better relationships and better understanding.

Summary of Criteria for Alternative 1

Alternative 1 supports the build-up of customer-funded inventories since all inventories are financed by appropriated funds. It gains most of its benefits by the elimination of a system and the resources committed to that system's operation. Even though it offers savings in personnel pay and spaces and a recovery of the retail stock funds' cash, it could result in the loss of logistics and financial management information and controls inherent in the stock fund accounting system unless data are brought forward from consumer funds' ADP systems.

ALTERNATIVE 2: RETAIN THE PRESENT STRUCTURE

This alternative envisions retaining the present command-channel, horizontal structure.

Criterion A: Support to the Soldier in the Field

The present structure, while supporting the current Army structure, does not have the flexibility to support major strategic logistics initiatives, DMR changes, and force structure changes. The complexity of the structure, with nine retail divisions operated by nine different commanders, does not lend itself to policy compliance nor to effectiveness of communication in the field. The horizontal stockage and lack of cross-leveling may result in supplies not being issued in a timely manner because the available stock is in another MACOM or supply level.

Criterion B: Facilitate Transition to Wartime Operations

Alternative 2 does not lend itself to a transition to war. Army policy directs the elimination of the retail stock fund operations in a war zone with all financial activities to be carried out by DFAS-IN. Much of the financial workload is accomplished at the RSF level in peacetime, but with this alternative, the RSF operation would be disestablished in wartime. The information in the main supporting system would then disappear. The present system, which is staffed almost exclusively by civilian personnel, has stock fund divisions in overseas areas where war is most imminent. In addition to requiring the Army to change systems,

this alternative also adds a burden on the Army to evacuate more civilian personnel from a war zone.

This alternative does not facilitate movement of stocks to the war theater because they are owned by different organizations. A buy/sell transaction is required, and it may cause confusion and difficulties because of obligation threshold problems, additional workload, and changing procedures.

Criterion C: Facilitate Management Improvements

Because the horizontal structure is retained in this alternative, improved management of Army items is not provided. The Army's need to achieve greater vertical control and visibility of items as directed by the DMRDs is restricted by the lack of integration and communication between the horizontal levels.

Criterion D: Chain-of-Command Involvement in Management of Stock Fund/Inventory

Alternative 2 rates very high for allowing field commanders to influence the program as well as to own and to manage the inventory. However, this capability may not be fully used at all levels. In some cases, there is limited chain-of-command interest in the stock fund's management.

This alternative structure integrates and translates commander's BTMS requirements into budget format extremely well and that additionally facilitates integration of consumer budgets and stock fund budgets. It allows managers to compare sales history with buy forecasts as well as to control customer-funded orders to the stock fund.

Criterion E: Workload on Commands

This alternative will retain the status quo of the command workload. However, when moving from peacetime to wartime, this alternative requires more effort to make the transition.

Criterion F: Efficient Accounting Systems

Naturally, this alternative requires no changes to the accounting system. However, it is labor intensive and does not provide the most effective or efficient system. The current system still requires three accounting buy/sell transactions to

move items to their final user. There is limited interface between the financial inventory accounting systems at different supply levels, making it difficult to use the data for Army-wide analysis or management. Interface problems exist at the same supply level between the financial and supply ADP systems.

Criterion G: Adaptability to Current Logistics and Accounting Systems (or Systems Being Developed)

The alternative permits timely reporting of matching finance and logistics resource data and provides a back-up during priority processing. It also maximizes the use of current systems but only because those systems were designed for this alternative. For that reason, it is also extremely adaptable to all logistics and finance developmental systems. It requires multiple systems to operate – Standard Army Intermediate Level Supply (SAILS) cannot talk to STANFINS and requires STARFIARS to interface between them. This interfacing is even less desirable in light of the numerous problems that still exist between SAILS and STARFIARS and require continuing redesign efforts for STARFIARS and STANFINS.

Criterion H: Cost

Alternative 2 requires no development cost because it already exists; however, from the personnel and dollar aspect, it is expensive to operate. The current alternative maintains the current level of personnel who spend much of their time preparing reports, programs, and budgets. While that work produces a great amount of data, little formal review or analysis takes place that affects logistics operations or causes changes in supply policy.

Criterion I: Support Budget Execution

This alternative has in place most of the procedures needed to provide execution support to the commanders. However, it does not produce the most efficient supply operation because of its limitations in visibility and management.

Criterion J: Support Strategic Logistics Initiatives

This alternative does not support the new initiatives attempting to provide greater vertical integration of the supply system by forming a seamless logistics system from wholesale to the user. The current independent, horizontal structure impedes these goals.

Criterion K: Consistency with Other Services

This alternative does not match the operation of stock funds by the other Services. The Army system operates like two separate stock funds compared to the single system in the other Services. The Army requires three accounting sales versus one in the other Services. The Army stock fund is more expensive to operate and provides less supply system management data.

Criterion L: Effective Interface with Customer Budgets

This alternative maintains the complex relationship of a wholesale budget and nine diverse retail budgets. The MACOMs receive budget inputs from installation/corps based on the original budget guidance and then integrate these inputs into their budgets. This is a time-consuming effort. Each MACOM RSF is unique – items included in each MACOM RSF are not consistent. This condition makes budget integration at DA difficult. Consequently, time constraints and changing guidance make it impractical to receive input based on the latest guidance for budget preparation. Therefore, most of the Army wholesale budget input is generated by the Department of the Army and AMC staff and does not use a roll-up of MACOM RSF input.

The MACOM retail stock fund budgets are not consolidated at DA but retain their separate identities when forwarded to OSD and Congress. Consequently, the Army stock fund budgets do not provide a coordinated, comprehensive view of the status of Army supplies at retail. The recent inclusion of depot-level reparables (DLRs) into the stock fund will create more analysis and evaluation of the stock fund budget by OSD, OMB, and Congress. It is reasonable to assume that Congress, OMB, and OSD may not continue to accept nine retail stock fund budgets from the Army when they receive only one from the Air Force and Navy.

Summary of Criteria for Alternative 2

This alternative is the current Army system. It operates fairly satisfactorily. However, it does not have the flexibility to easily solve the current challenges to the Army occasioned by DMRDs, Congressional reductions, or mission changes. The alternative makes a cumbersome transition to wartime because it operates differently during peacetime. It is expensive to operate because it requires and supports three financial sales to process each item through the supply system. The

other Services require only one. The supply system is difficult to manage properly because the different financial systems cannot be integrated quickly enough to provide essential information.

ALTERNATIVE 3: BOTH STOCK FUND DIVISIONS MANAGED AT NATIONAL LEVEL

Alternative 3 structure provides a wholesale stock fund to finance the MSC's acquisition of Army-managed items and a single retail stock fund that purchases Army and non-Army-managed items for retail sale to customer funds. The wholesale stock fund subhome offices provide the MSCs with data on their programs and budgets, execution reviews, and financial inventory accounting support. A single subhome office reviews programs, budgets, and execution of branch offices' retail stock fund support with financial inventory accounting, billing, and collecting and disbursing services support.

Criterion A: Support to the Soldier in the Field

This alternative structure integrates the branch office local command chain into the retail stock funds program and budget process and moves the MACOM logistics management office into a technical channel for review and analysis of financial information for management of policy and operations. It establishes a mechanism that presents the requirements of the soldier in the field without adding to his administrative burden.

Criterion B: Facilitate Transition to Wartime Operations

This structure must change during the transition to wartime operations. Theater's branch office-level stock fund operations will be closed. The link between the wholesale and retail stock funds and the link to the customer funds must be realigned,with the single home office coordinating changes directly with DFAS-IN.

Criterion C: Facilitate Management Improvements

This structure begins to facilitate management improvements by increasing the financial visibility over more of the supply system for the responsible organization. It will eliminate the differences between the MACOM RSF, which will result in uniform and comparable RSF operations. These improvements will provide more and

consistent information for evaluation by the decision makers. This should result in a more efficient supply system.

Criterion D: Chain-of-Command Involvement in Management of Stock Fund/Inventory

The strength of this stock fund alternative is its capability to include both command and commodity managers in logistics and financial operations by

- Interfacing the wholesale and retail levels at a single home office
- Correlating the retail stock fund and customer fund budgets at the local command level
- Releasing the MACOMs from the formal stock fund budget preparation and reporting process
- Retaining the MACOMs in a technical logistics management channel for command input to the stock fund subhome and home offices
- Providing the retail stock fund budget and execution information to the MACOMs for technical review and analysis of branch office-level supply operations.

The single retail stock fund provides a balance between the operational requirements of the command and the financial management responsibilities of the subhome office. It has ready access to data for rapid and up-to-date determination of the stock fund's retail-level investment and provides the opportunity to apply standard financial data analysis to branch office-level supply operations.

Criterion E: Workload on Commands

The assumption of RSF management at the national level will remove those responsibilities from the MACOM commanders. They will not take part in stock fund budget preparation, stock fund OA, stock fund policy, or retail ASL stockage. Commanders would be free to use their time as well as staff time for other tasks. However, they would still coordinate their customer-funded requirements with the branch offices to ensure that proper support is included in the stock fund budget.

Criterion F: Efficient Accounting Systems

With only one home office for both wholesale and retail stock funds, the interface between the levels should improve. Although the MSCs have no direct item

visibility of their commodities at the branch office level, financial inventory information would be readily available through the financial inventory accounting reports provided to the retail stock fund subhome office.

Criterion G: Adaptability to Current Logistics and Accounting Systems (or Systems Being Developed)

Systems currently in use, particularly those at the wholesale level, require little change. The greatest system change occurs in the organization of automated files and reporting procedures for branch office alignment to the home office and the establishment of a single subhome office program, budget, and execution reporting system for the retail stock fund.

Criterion H: Cost

The major costs for adopting this alternative are establishing the retail stock fund subhome office, creating an automated budget preparation and reporting system directed by a single subhome office, and establishing a stock fund (SF)/FIA operating and financial management reporting network to process and direct information to supply and financial managers. There would be some savings in recurring costs due to the simplification of the budget and execution process.

Criterion I: Support Budget Execution

The direct channel from the branch offices to the subhome office permits rapid information distribution during program execution. Budget variances from mission changes, special inventory build-up requirements, or short-term customer fund reductions must be communicated and adjudicated with full consideration for their effects on the customer and the supply system. Procedures must be established to handle such problems or customer funds would be needed to support these requirements. The home office interface for the wholesale and retail stock funds promotes responsiveness and aids in minimizing the effects of dramatic changes in execution. The subhome office has the opportunity to use Army-wide program execution results to validate the budget process and to implement methods that improve accuracy in the timing and amount of OA that has been distributed.

Criterion J: Support Strategic Logistics Initiatives

This alternative structure does not support the new DMRD initiatives and Congressional reductions that mandate greater vertical visibility, better integration of software, standardization of stockage levels, and business-like operations.

Criterion K: Consistency with Other Services

The assumption of management of the WSF and RSF under a single organization would be an appropriate start toward consistency with the other Services. However, the Army would still need to maintain two separate stock fund divisions and require three sales of the same material.

Criterion L: Effective Interface with Customer Budgets

The operations of local branch offices require close and continuous interrelation between customer fund and stock fund budgets. The MACOMs may have to access the subhome and home office directly for input of late-changing special customer support requirements. Integration of the Army's retail and wholesale stock fund budgets and communication of requirements to the other DoD wholesale managers occurs at the ASF home office. The process avoids MACOM-unique policies when coordinating the customer fund budget with the branch office. Although the retail stock fund imposes a budget preparation, submission, and execution reporting workload on the branch offices, the cost of the resources to perform the tasks is offset by greater consistency in the budget policy and procedures emanating from the home office for implementation by the subhome office.

Since this structure would tie together both wholesale and retail financial inventory accounting systems, it could better accommodate late changes in budget guidance or decisions and still provide the necessary input to DA. This would also provide one integrated retail stock fund budget to OSD, OMB, and Congress. However, this alternative still requires the three accounting sales to get the supplies into the hands of the troops.

Summary of Criteria for Alternative 3

In summary, this alternative provides many improvements to the current system. It will provide a consistent policy on the stock fund, will reduce the stock fund budget preparation and execution workload on the commanders, and will

maintain most of the current supply and financial systems. However, it will still require three sales to get an item to the user and will operate differently in wartime than in peacetime. This structure will still not be consistent with the other Services and will not adequately support strategic logistics initiatives.

ALTERNATIVE 4: EXTEND WHOLESALE TO INSTALLATION/CORPS LEVEL FOR SERVICE-MANAGED ITEMS

Alternative 4 embodies the concept of wholesale stock fund ownership of Army-managed items from acquisition to sale to customer funds with a MACOM retail stock fund for the branch offices to purchase non-Army-managed items for sale to customer funds.

Criterion A: Support to the Soldier in the Field

The fact that the wholesale stock fund links the home, subhome, and branch offices provides a direct channel for financial visibility of Army-managed items positioned for quick response to the requirements of the soldier in the field. A clear technical channel exists for two-way communication of financial management information and, when necessary, for the conversion of the information back to item data that the item managers can use in the wholesale operation. The RSF is retained by the MACOMs, and that is how they currently operate.

Criterion B: Facilitate Transition to Wartime Operations

The part of the structure that supports the Army-managed items can make a relatively uncomplicated transition to wartime operation. The MSC subhome offices and their branch offices would continue under existing procedures. The MACOM retail stock fund would be disestablished in favor of the war-zone branch offices. The dual-funding procedure makes supply transaction processing more complex and requires input from two sources to produce complete cost data for a particular customer or customer fund.

Criterion C: Facilitate Management Improvements

National control of Army-managed items at both the wholesale and retail ASL level will improve management of those items. However, there would be neither control nor visibility of the items at the DSU level nor would there be control or

visibility for any of the non-Army-managed items. This alternative will provide only partial management improvements.

Criterion D: Chain-of-Command Involvement in Management of Stock Fund/Inventory

The retail stock fund budget preparation, submission, and execution review includes the influence of the branch office's local command chain in the decision process. The customer fund and stock fund budgets can be coordinated from preparation through execution and the stock fund used to absorb variances in availability or use of the customer funds. The local command's participation in the operating targets/ceilings for Army-managed items is constrained to identifying special requirements for funding support, and the use of the wholesale stock fund to buffer customer fund variances is limited as well.

Criterion E: Workload on Commands

This alternative would cause only minor changes to the workloads of commands. The commands would maintain their retail stock fund budget and stockage levels. The numbers of items to be stocked in retail under the commanding control would decrease, but the process would remain the same.

Criterion F: Efficient Accounting Systems

This alternative provides traditional budget and SF/FIA management information. Financial management information on Army-managed items is obtained from the vertical commodities' subhome offices. Non-Army-managed items information is provided by the MACOM. This system eliminates one of the three financial sales of materiel from wholesaler to user. This alternative could create some additional confusion in accounting reports because of the dual nature of the operation.

Criterion G: Adaptability to Current Logistics and Accounting Systems (or Systems Being Developed)

This alternative produces timely reporting of matching finance and logistics resources data and provides a back-up capability during priority processing. It also maximizes use of current systems, but solely because those ADP systems were

designed for this alternative. This alternative has all the same interface problems that exist in the current system.

Criterion H: Cost

The primary costs of adopting this alternative are those necessary to establish and operate the dual-financing mode of branch office operations. They include data for the operating targets/ceilings issued by the vertical commodities' subhome offices and transactions to adjust the branch office dollar value of transfers, issues, and remaining balances of vertical commodities.

Other costs are incurred to develop procedures for vertical commodity managers to review and analyze the financial information from the branch offices for management direction on assets, requirements, excesses, stock relocations, and acquisitions. Since both the current wholesale and retail systems would be used, limited savings would recur.

Criterion I: Support Budget Execution

This alternative provides for item quantities of the vertically managed commodities to be transferred to the branch offices based on sales history. This continues wholesale ownership of stocks at the branch office level. For the non-Army-managed items, the linking of the stock fund and the customer fund budgets at the branch office brings the local command into the decision and priority setting process.

Criterion J: Support Strategic Logistics Initiatives

This alternative is more complex than the current stock fund structure. Although the Army-managed items will have increased vertical financial accounting visibility and control, the installation/corps level will have both the Army-managed items under the wholesale system and the non-Army-managed items under the MACOM. This arrangement will complicate achieving the strategic logistics initiatives.

Criterion K: Consistency with Other Services

This alternative is a further step toward adopting the approach used by the other Services that started with Alternative 3. It begins to extend financial inventory accounting from wholesale to retail. However this extension is for Army-

managed items only – not all items – and includes only the retail ASL and not the customer ASL.

Criterion L: Effective Interface with Customer Budgets

This alternative creates a more complex budget process than currently exists. Two organizations would manage the installation/corps stockage: the MACOM for non-Army-managed items and wholesale for Army-managed ones. This approach would complicate both budget preparation and program execution. Customer and RSF budgets would remain closely linked, but special efforts would be required to ensure that requirements are adequately supported for the Army-managed items.

Summary of Criteria for Alternative 4

This alternative is a hybrid that splits stock fund responsibilities. Minimal consistency and improved management of Army-managed items would be reached. These minimum achievements would be compromised by the budget, policy, and coordination complications brought about by this alternative.

ALTERNATIVE 5: COMBINING WHOLESALE AND RETAIL STOCK FUND DIVISIONS UNDER NATIONAL ORGANIZATION

Alternative 5 embodies the concept of wholesale stock fund ownership of all materiel for sale to customer funds. The WSF and the RSF would be combined into one SSF.

Criterion A: Support to the Soldier in the Field

Combining wholesale and retail stock fund divisions under one organization allows the stock fund investment and financial status to be viewed in both depth and breadth. The single-channel home office/subhome office/branch office structure for financial reporting focuses technical logistics support on financial operations and releases command logistics managers to concentrate on supply support to the soldier in the field. The structure allows quick messages and responses on financial implications of new or changing supply support programs; it also provides fast access to branch offices when financial review and analysis raises questions of policy compliance. Retaining stock fund ownership of inventory down to the customer level provides the MSCs/ICPs with direct access to the branch offices and, through the branch offices, provides an interface to the supply managers for item or commodity

information and assistance. Because the MSCs/ICPs financial link to the branch offices allows them to obtain data on supply system performance, one of this alternative's stronger points is its support to the soldier in the field.

Criterion B: Facilitate Transition to Wartime Operations

The peacetime operation of this structure is similar to its wartime operation, making transition uncomplicated. In wartime, the theater's branch offices are closed and financial information is redirected to DFAS-IN. Home and subhome office operations are relatively unchanged from peacetime except for discontinuing the distribution of operating targets/ceilings.

The movement of the stockage from wholesale and retail ASL supplies to the war theater is easier because it requires only a standard redistribution of existing stock by the stock fund managers. No accounting transactions are required. The MSC/ICP can direct the redistribution from their depots/installations to new forward depots in the theater of operation. The stocks are transferred but remain in the stock fund so no financial transaction is necessary.

Criterion C: Facilitate Management Improvements

Putting the ownership and financial support of both wholesale and retail stock fund ASLs at a national level will provide the capability for vertical financial inventory visibility and information that will allow improved supply management. The home office will have a better appreciation of what supplies need to be bought, repaired, or redistributed. It can preposition supplies where they will be needed. This alternative can improve the consolidation of supplies by

- Interfacing the wholesale and retail ASL levels at a single home office
- Correlating the stock fund and customer fund budgets at the local command level
- Releasing the MACOMs from the formal stock fund budget-preparation and reporting process
- Retaining the MACOMs in a technical logistics management channel for command input to the stock fund subhome and home offices
- Providing the retail stock fund budget and execution information to the MACOMs for technical review and analysis of branch office-level supply operations

- Providing accurate and consistent Army-wide information to DA and MACOMs to assist in better management decisions.

Criterion D: Chain-of-Command Involvement in Management of Stock Fund/Inventory

The combination of RSF and WSF restricts the role the stock fund customer's chain of command in stock fund management. Because this alternative issues stock fund operating targets/ceilings developed from historical issue data plus special requirements, the stock fund customer chain of command

- May not be deeply involved in a stock fund budget preparation
- Has little direct control over constraint or expansion of stock fund OA to influence compliance with supply policy
- Is somewhat dependent on the technical channel for the flexibility to absorb variances occurring during execution of the customer's program
- Should be included in the stock fund's financial management information system
- Has slight opportunity to directly relate the customer fund program to the branch office's operating target/ceiling and little capability to influence the home or subhome offices to gain favored treatment.

Criterion E: Workload on Commands

The assumption of RSF management at the national level will reduce the supply responsibilities of the MACOM commanders. Their role will decrease in stock fund budget preparation, allocation of stock fund OA, and stockage determination. Command and staff time would be available for other projects. However, they would still coordinate their customer-funded requirements with the branch offices to ensure proper support is included in the stock fund budget.

Criterion F: Efficient Accounting Systems

This alternative provides only one home office for all wholesale and retail ASL-level transactions. There would be no sale between wholesale and installation/corps for Army-managed items, thus reducing the accounting workload. Financial reports would combine both wholesale and current retail ASL information. This would make for better use of reports and analyses. The MSCs/ICPs would not lose direct financial visibility into their retail ASL commodities as they would under Alternative 3.

Criterion G: Adaptability to Current Logistics and Accounting Systems (or Systems Being Developed)

The national-level management of this alternative permits adaptation to new supply and finance systems with minimum effect on supply support during conversion. This capability stems from the absence of meeting MACOM-unique supply and finance system requirements. The consolidation of the WSF and RSF would mean using one existing ADP system, thereby reducing the number of ADP systems. The alternative can absorb and execute system changes more quickly and more uniformly through its standardized branch offices.

Criterion H: Cost

This alternative requires funding to develop the following three capabilities:

- A methodology for reporting the information needed to determine the branch office's operating target/ceiling
- A methodology for recording the transfer of inventory from the MSC/ICP to the branch office and recording the value of non-Army-managed items bought by the branch office
- A methodology for reporting the sale of branch office stocks and updating of the value of the remaining balance at the branch office.

Recurring savings are potentially available by reduction of formal branch office stock fund budget preparation and periodic updates, replacing accounting sales with inventory transfers, eliminating a part of the retail stock fund levels of inventory and allowances, and eliminating duplicative ADP systems. The elimination of the sale between WSF and RSF would also save some financial personnel.

Criterion I: Support Budget Execution

The direct channel from the branch offices to the subhome office permits rapid information distribution during program execution. Budget variances from mission changes, special inventory build-up requirements, or short-term customer fund reductions must be communicated and adjudicated with full consideration for effects on the customer and supply system. Procedures must be established to resolve these conditions or customer funds would be required to support these requirements. The subhome office has the opportunity to use Army-wide program execution results to

validate the budget process and to implement methods to improve the accuracy in the timing and amount of OA that has been distributed.

Criterion J: Support Strategic Logistics Initiatives

This alternative is the first step to providing effective support for the new strategic logistics initiatives to improve supply operations. Having all wholesale and retail ASLs in one financial system is the first step in support of TAV, requirements-based maintenance (RBM), usage-based requirements determination (UBRD), and the objective supply capability (OSC). Funding and financial inventory accounting are necessary functions in all of these initiatives. Having a consistent, accurate financial system is essential for management improvements.

Criterion K: Consistency with Other Services

This alternative establishes one stock fund for the Army that is consistent with the other Services. However, unlike the other Services, this stock fund only extends to the retail ASL level, not the customer ASL level.

Criterion L: Effective Interface with Customer Budgets

This alternative will provide a consistent budget, one that is more justifiable. Instead of nine separate and different RSF budgets, there will be only one. Integration of the Army's retail and wholesale stock fund budgets and communication of requirements to the other DoD wholesale managers occurs at the ASF home office. The process would be free of MACOM-unique policies except for those applicable to the coordination and correlation of the customer fund budget with the branch office. This one budget will be consistent with the wholesale budget to preclude any reductions due to inconsistencies. The effects of late budget guidance or decision changes may be able to be included in the detailed budget because of the automated interface.

Summary of Criteria for Alternative 5

This alternative is very supportive of the financial aspect of the stock fund operation. It will allow for the elimination of many of the current ADP systems with resulting personnel and program savings. It provides easy transition to wartime operations because the stock fund will operate the same way under wartime or peacetime conditions. It will provide consistent policy because the entire stock fund

will be under the same organization. This alternative will also provide an integrated budget and reduce the workload on MACOMs for budget-preparation and stock fund operation. However, it may reduce their capability to influence stockage levels for unique requirements. This alternative is a significant step toward making the Army's stock fund consistent with the other Services.

ALTERNATIVE 6: CONSOLIDATING THE STOCK FUND THROUGH DSU LEVEL

Alternative 6 installs one stock fund for the entire supply system. This stock fund would finance the present WSF, RSF, and DSU/SSA customer level.

Criterion A: Support to the Soldier in the Field

Consolidating the stock fund ownership to encompass inventories of the entire Army supply system expands the management's ability to view the stock fund investment and financial status in both depth and breadth. This alternative carries the advantages of Alternative 5 one step further beyond the RSF level. It also avoids disadvantages that occur with Alternative 7 when RSF is expanded to the SSA/DSU level. The single-channel home office branch office structure for financial reporting focuses technical logistics support on financial operations and releases command logistics managers to concentrate on supply support to the soldier in the field. The structure allows quick communication and response to the financial implications of new or changing supply support programs. It also provides fast access to branch offices when review and analysis of financial management information raises questions of policy compliance.

Having stock fund ownership of inventory down to the DSU level provides the MSCs with direct access to the branch offices, and through the branch offices, an interface to the supply managers exists for item or commodity information and assistance. The ASF would provide the MSC with the complete financial picture of the Army supply status that will enable supply support to be improved. This structure will ease the across-leveling process and support the rapid induction of requisitions into the wholesale system for prompt support from the entire Army's stockage. This procedure will provide faster response and filling of requisitions. However, numerous physical inventory counts will be necessary both for initial capitalization into the stock fund and for additional periodic inventories at the SSA/DSU level to meet the stock fund manager and finance and accounting officer's requirements. It may also be less responsive to the requirements of the field units

since control and ownership of the inventories is vested in higher levels instead of lower echelon commanders.

Criterion B: Facilitate Transition to Wartime Operations

The peacetime operation of this structure is similar to its wartime operation. The transition is uncomplicated. The ICP will handle the financial operations in both wartime and peacetime. During peacetime, the ICP will operate through the installation/corps F&AO for customer fund payments, and once the stock fund is disestablished, it will deal with DFAS-IN. Home, subhome, and branch offices are relatively unchanged from peacetime, except for discontinuing the distribution of operating target/ceilings. This alternative will greatly facilitate the movement of stocks to the war zone because all Army stockage will be able to be redistributed without financial transactions, OA restraints, or procedure changes. The MSC can direct the redistribution from depots, installations, or SSAs/DSUs to forward depots in the theater of operation. The stocks are transferred but remain in the stock fund eliminating financial transactions. This alternative best supports the transition to wartime operations.

Criterion C: Facilitate Management Improvements

This alternative will finance the entire supply system with a single stock fund. Putting the ownership and financial support of wholesale stocks, retail stock fund ASLs, and customer ASLs under a national organization will allow for vertical financial visibility and information that will allow improved materiel management of supplies. The Army will have better knowledge of the amount and location of materiel. It will have a better appreciation of what supplies need to be bought, repaired, or redistributed. Both command and commodity managers in logistics and financial operations can participate in the process by

- Interfacing the wholesale and retail ASL levels at a single home office
- Correlating the stock fund and customer fund budgets at the local command level
- Releasing the MACOMs from the formal stock fund budget preparation and reporting process
- Retaining the MACOMs in a technical logistics management channel for command input to the stock fund subhome and home offices

- Providing the retail stock fund budget and execution information to the MACOMs for technical review and analysis of branch office-level supply operations
- Providing accurate and consistent Army-wide information to DA and MACOMs to assist in better management decisions.

Criterion D: Chain-of-Command Involvement in Management of Stock Fund/Inventory

This alternative lacks the stock fund customer's chain-of-command participation in its management. The stock fund customer's chain of command

- May not be deeply involved in a stock fund budget preparation
- Has little direct control over constraint or expansion of stock fund OA to influence compliance with supply policy
- Is somewhat dependent on the technical channel for the flexibility to absorb variances occurring during execution of the customer's program
- Should be included in the stock fund's financial management information system
- Has slight opportunity to directly relate the customer fund program to the branch office's operating target/ceiling and little capability to influence the home or subhome offices to gain favored treatment.

Criterion E: Workload on Commands

National management of the stock fund down to the SSA/DSU level will significantly reduce the workload on commands. Commands may no longer need to take part in stock fund budget preparation, stock fund OA, stock policy, or any ASL stockage-level determination. They would be required to define their supply requirements to their local branch office for inclusion in the stock fund budget and stockage levels. This will free time for the commanders for other tactical or operational activities.

Criterion F: Efficient Accounting Systems

This alternative would provide the greatest benefits of a single ASF accounting system. There would be only one home office and one accounting system for wholesale, retail ASL, and consumer ASL supplies. Financial inventory accounting for the entire supply system would be available to commodity managers,

commanders, and staffs. The information would be consistent, complete, and exact. The number of accounting transactions for supplies would be reduced from three to one, thereby saving time, funds, energy, and personnel.

Criterion G: Adaptability to Current Logistics and Accounting Systems (or Systems Being Developed)

This alternative would change the current logistics and accounting systems method of operation for the entire ASL level. This structure requires the fewest ADP systems and allows for the fastest adaptation to new systems. This structure will require modification of one of the Army's current ADP systems or require development of a new financial system. One of the biggest problems to overcome is the large number of SSAs (approximately 1,000) that have to be added on to the system. This one system will become the standard, and therefore, others can be eliminated as redundant. However, this alternative will take the longest time to develop, but once it is on line, it will provide the greatest improvement to the financial system.

Criterion H: Cost

Alternative 6 could cost the most to implement and could create the greatest savings in operational costs. The costs are needed to develop the capabilities for

- Reporting the information needed to determine the branch office's operating target/ceiling
- Recording the transfer of inventory from the MSC to the branch office and the value of non-Army-managed items bought by the branch office
- Reporting the sale of branch office stocks and updating the value of the remaining balance at the branch office
- Obtaining enough ADP capability to handle all installations, corps, and SSAs/DSUs in the Army.

These costs should not be high because existing systems that already perform these basic functions could be modified.

The alternative will save the recurring costs of personnel and support required for two accounting sales: WSF to RSF; and DSU O&MA to user O&MA. Additional savings would be created by simplified workload in preparing the RSF budget,

reduction in current levels of supply stocks through greater visibility and information, and the elimination of redundant ADP systems.

Criterion I: Support Budget Execution

The direct channel from the branch offices to the subhome office permits rapid information distribution during program execution. Budget variances from mission changes, special inventory build-up requirements, or short-term customer fund reductions must be communicated and adjudicated with full consideration for their effects on the customer and supply system. Procedures need to be established to handle these conditions or customer funds would be required to support them. This alternative supports the same year "buy and consume" funding because it shortens the supply line from consumer to wholesale stock fund, reduces the amounts purchased and stocked with customer funds, and supports the requisitioning and replenishing of the whole supply system inventory. The subhome office has the opportunity to use Army-wide program execution results to validate the budget process and to improve the accuracy in the timing and amount of OA that has been distributed.

The MACOMs need to ensure that they keep the stock fund personnel aware of program or mission changes in this alternative because the stock fund personnel are not part of the MACOM and should be made aware that new information is necessary to ensure proper support.

Criterion J: Support Strategic Logistics Initiatives

This structure fully supports the strategic logistics initiatives by providing a complete and integrated financial system that provides financial visibility and support within the entire supply system.

Criterion K: Consistency with Other Services

This alternative is the only one that completely conforms to the structure of the other Services. Its adoption would allow comparison between the Services by OSD and could possibly prevent OSD from imposing a stock fund structure on the Army that could be inappropriate to the Army mission.

Criterion L: Effective Interface with Customer Budgets

This alternative will provide the most complete and consistent budget. In light of the increased interest in the stock fund budget caused by the addition of DLRs, this approach will produce the most justifiable budget. This will best protect both the stock fund and consumer funds. Integration of the Army's retail and wholesale stock fund budgets and communication of requirements to other DoD wholesale managers occurs at only one place – the ASF home office. The process would be free of MACOM-unique policies except for those that are applicable to the coordination and correlation of customer fund budgets with the branch office. This one budget would be consistent with the wholesale budget to prevent any reductions caused by inconsistencies. Late budget guidance for decision changes may be included in the detailed budget input because of the automated interface between the current wholesale and retail.

Summary of Criteria for Alternative 6

In summary, this alternative supports the financial aspect of the stock fund well but will require that one financial system be selected for the entire stock fund operation. Adopting a single system will allow several current systems to be eliminated with savings in personnel and program. This alternative will allow requisitions to be supported and filled from the entire Army supply system instead of wholesale alone. This alternative provides the best transition to wartime operation because it operates the same way as in peacetime. It also allows the most flexibility in positioning supplies to the war theater. It will provide the most consistent policy because the stock fund will be under one organization. This approach will generate the most integrated and justifiable budget that can be delivered to Congress.

The workload for budget preparation, stock fund administration, and requirements determination will be reduced for the commanders and their staffs. Their limited time can be spent on operational efforts. However, their capability to influence stockage levels may be reduced. This is the only alternative that is consistent with the stock fund structures of the other Services. However, there will be limited ability to use consumer funds to influence one-time build-ups in inventories to support exercises. The level maintained for any specific supply mission, especially a tactical one, could be subject to diversion to satisfy a high-priority requirement for a lower priority unit.

ALTERNATIVE 7: EXTEND THE RETAIL STOCK FUND

Under this alternative, the DSU and GSU inventories would be capitalized into the retail stock fund, and the SSAs would be storage sites for the local branch office of the stock fund. Hence, ownership of the inventories would revert from local commanders to the stock fund.

Criterion A: Support to the Soldier in the Field

This alternative provides additional financial inventory accounting by expanding the RSF to include the stockage at the SSA/DSU level. This can assist in better supply management and materiel demand satisfaction. However, it requires that the tactical elements – divisions and corps – conduct numerous physical inventory counts both for initial capitalization into the stock fund and for later periodic inventories to meet the stock fund manager and finance and accounting office's requirements. It is also less responsive to the requirements of the field units since control and ownership of the inventories is vested in the installation/corps instead of with the lower echelon commanders. The additional layer of management/ownership lengthens the communication lines to the field elements. As a consequence of this, compliance with stock fund policy would be required for field units, a burden that they currently do not have.

Criterion B: Facilitate Transition to Wartime Operations

Alternative 7 has an adverse effect on the transition to wartime operations for the field commanders because it does not operate in wartime as it does in peacetime. In a wartime scenario, the stock fund is eliminated and all financial inventory accounting is accomplished at DFAS-IN based on special signal and fund code entries in requisitions by the customer. The wartime commander would have a problem because he does not have the data in his command's systems that he needs to provide the information to determine the basis for the range and depth of his ASL. This alternative will not help to move stockages to the war zone because of the financial transactions, OA restrictions, and lack of visibility.

Criterion C: Facilitate Management Improvements

This alternative would remedy the current inability to determine the financial status of supplies located at the SSA/DSU level. This significant inventory would be brought under the stock fund with all its inherent controls and visibility. This would

provide the MACOMs with improved management of their supply operation. However, it would not assist the management of the overall Army supply system. It would make the current RSF budget more complex without improving wholesale operations.

Criterion D: Chain-of-Command Involvement in Management of Stock Fund/Inventory

Alternative 7 extends the involvement of the chain of command to a lower level. It requires that commanders of supply companies and commanders of maintenance companies with repair parts supply missions become more familiar with the supply-related financial processes and pay more attention to the execution of the stock fund program. Thus, the financial aspects of the program would probably receive more command and staff attention than they do now. The reports generated by the stock fund under this alternative would have to be useful as a command management tool and for a lower level commander.

Criterion E: Workload on Commands

This alternative would redirect the command's workload by requiring more emphasis on the RSF than is currently being exercised. The SSA/DSU ASL is significant to commanders because it is the supply support they take with them when they deploy. The inclusion of the customer-funded ASL in the RSF will require the commander to put the same level of effort into reviewing the RSF budget as he does for the O&MA budget. This additional supervision will be beneficial to the MACOM but will increase the commander's already significant workload and will distract from operations and training.

Criterion F: Efficient Accounting Systems

This alternative provides the traditional budget and SF/FIA management information. The main difference would be that the current customer-funded ASL of the SSA/DSU would be included in the RSF, eliminating the sale between RSF and DSU. This structure would replace the current intracustomer fund sale between the DSU and user that is normally reflected in a Tactical Unit Financial Management Information System (TUFMIS)-like report with the STANFINS sale between RSF and the customer. Consequently, TUFMIS would no longer be required.

Criterion G: Adaptability to Current Logistics and Accounting Systems (or Systems Being Developed)

This alternative would impose difficulties in using current ADP systems and adapting to emerging systems. It would eliminate redundant systems. The designs of the current logistics systems – direct support unit standard supply system (DS4) and SAILS – are based on the interface of the SAILS-supported stock fund with consumer funds by the supported DS4/equivalent. The role of DS4 as the commanders' primary logistics system is diluted and SAILS would require changes in order to provide supply management information to the SSA commanders. To accommodate this alternative, major changes may be required in the Standard Army Retail Supply System (SARSS) before fielding worldwide.

Considering the number of SSAs in the Army (approximately 1,000), SAILS in its present configuration is unable to identify storage locations for all of the SSAs. This major shortcoming in this alternative is compounded by the fact that many of the SSAs are not now automated.

Criterion H: Cost

The cost of implementing this alternative arises primarily from the need to develop

- Methodology to record the transfer of inventory from the branch office to the SSA/DSU
- Methodology to report the sale of the stock from the SSA/DSU to the customer and to update the value of the remaining balance at the SSA/DSU
- Methodology to operate and report the information needed to control the SSA/DSU.

The recurring costs will be reduced by eliminating redundant ADP systems and one financial sale.

Criterion I: Support Budget Execution

This alternative combines the advantages of close MACOM control with additional vertical control for program execution. It permits control of customer orders by including MACOM personnel directly at every retail level. This also helps to integrate special inventory build-ups, mission changes, or short-term customer fund reductions. It would support same year "buy and consume" funding because this

structure would shorten the supply line and finance more inventory through the stock fund.

Criterion J: Support Strategic Logistics Initiatives

This alternative does not support the new strategic logistics initiative of greater vertical integration of the supply system by forming a seamless logistics system from wholesale to the consumer. Although this alternative creates vertical control of the intermediate level of supply, there remains an interface requirement between the procurers and the users. This would create a disconnect between supplies on hand and requisitions.

Criterion K: Consistency with Other Services

This alternative does not match the operations of the other Services' stock funds. It retains the problems now experienced with the current dual stock fund divisions. Although this approach has a number of advantages, its implementation would highlight to OSD the Army's modification of its stock fund operation and call attention to lack of consistency with the other Services. It could create a red flag that would encourage OSD to impose an unsatisfactory solution on the Army.

Criterion L: Effective Interface with Customer Budgets

This alternative has the potential for maximum integration of consumer budgets and stock fund budgets if both are prepared at the general support/direct support (GS/DS) SSAs. It offers optimum control of customer-funded orders to the stock fund.

This alternative maintains the complex relationship inherent to a wholesale budget and nine diverse retail budgets. The MACOMs must integrate each installation/corps into their budgets. MACOM RSFs are not operated consistently and do not include the same items. The MACOM stock fund budgets are not consolidated at DA, but retain separate identities that OSD and Congress must contend with. Consequently, they do not provide a comprehensive view of the retail status. The recent inclusion of DLRs into the stock fund will induce more scrutiny of the stock fund budgets by OSD and Congress. It is reasonable to assume that Congress and OSD will not be content to put up with nine retail stock funds from the Army, while receiving only one each from the Air Force and the Navy.

Summary of Criteria for Alternative 7

In summary, this alternative supports the financial aspect of the stock fund well and requires virtually no change from the accountant's standpoint. It relieves the need for the finance and accounting community to make major changes in STARFIARS and STANFINS but will require logisticians to implement significant changes in SAILS, DS4, and SARSS. Commanders will be constrained in the transition to wartime operations by a system that operates counter to wartime methods. They will have little ability to use their consumer funds to influence one-time build-ups in inventories to support exercises without assistance from the installation/corps. The levels maintained for any specific supply mission, especially a tactical mission, could be diverted to satisfy a high-priority requirement from a lower priority unit, and the ability to maximize DSS procedures would be reduced.

APPENDIX A

THE ARMY STOCK FUND

APPENDIX A

THE ARMY STOCK FUND

INTRODUCTION[1]

This appendix presents an overview of the operations of the Army Stock Funds (ASF) based on documents and directives as well as visits to many Army activities, from major commands (MACOMs) to installations. While the aim of this appendix is to inform, we do include some value judgments and assess the effects of major changes in the supply and financial accounting systems since the mid-1970s on the ASF.

Chapter 1 offers an overview of the ASF's management and operational structure at the departmental level. This appendix presents detailed descriptions of the wholesale and retail divisions of the ASF. The following areas are discussed for both divisions:

- Operations management
- Financial management
- Office organization
- Performance analysis
- Personnel.

THE ARMY WHOLESALE STOCK FUND

Operations Management

The wholesale stock fund (WSF) division of the ASF, managed by the Army Materiel Command (AMC) through its six commodity-oriented major subordinate commands (MSCs) and the AMC Military Assistance and Mobilization Requirements Budget (MOB) program, is responsible for the wholesale management of all Army-managed stock-funded items. Each MSC has a national inventory control point

[1]This explanation is based on the FY91 Army organization and structure. Significant changes occur in FY92 due to DMRDs and other consolidations.

(NICP) and a national maintenance point (NMP). The commodity-oriented MSCs are Aviation Systems Command (AVSCOM); Troop Support Command (TROSCOM); Tank Automotive Command (TACOM); Missile Command (MICOM); Armament, Munitions, ana Chemical Command (AMCCOM); and Communications and Electronics Command (CECOM). The AMC MOB program meets war reserve requirements for the Defense Logistics Agency (DLA) and the General Services Administration (GSA) commodities.

The Commodity Command Standard System (CCSS) is used throughout AMC to manage items in the wholesale supply system and to provide visibility to war reserve and intensively managed items at the retail level. That ADP system provides the inventory item manager (IM) with the information necessary for making decisions.

Materiel procured from manufacturers is directed to depots or depot activities (subdepots) that are not under the command of MSC commanders. In order to provide maximum support to the Army in the field, which is organized both by command and territory, certain depots have been designated as Defense Distribution Regions (DDRs).

The current DDRs are Defense Distribution Region East (DDRE) in Pennsylvania; and Defense Distribution Region West (DDRW) in California. Each of these depots supports a certain overseas geographic area, and a particular continental United States (CONUS) geographical area. When stock-funded materiel is procured by the MSCs, vendors are provided shipping instructions to ensure that materiel is allocated to DDRs that match the demand history of the geographic area they support. Thus, if the demand for repair parts for tanks is higher in Europe than it is in the Pacific, more tank parts are positioned at DDRE than at DDRW.

The IMs at the NICPs maintain an on-hand Sector 05 in the national stock number master data record (NSNMDR) of stock-fund-owned materiel on hand in depots. The depot also maintains a custodial NSNMDR for stock-fund-owned materiel in its storage activity. The depot may also hold stocks of the same item under ownership of the Army Industrial Fund (AIF), that is, materiel purchased by the AIF from the ASF to support the depot-level maintenance program. All stocks located at the depots, regardless of ownership, are commingled and any inventory adjustments are prorated between the ASF and AIF.

Requisitions for ASF items are received by NICPs through the Defense Automatic Addressing System (DAAS). These requisitions originate from many sources, such as the retail stock funds, depot maintenance programs, Operation and Maintenance, Army (O&MA)-funded activities, foreign military sales, or other government agencies. If the NSNMDR at the NICP indicates that adequate stock is on hand, CCSS directs a materiel release order (MRO) to the appropriate depot. Upon receipt of the MRO, the depot ships the supplies and the wholesale IM loses all visibility of the materiel. IMs may retain visibility of a limited number of stock fund items that are designated as intensively managed items.

If, on the other hand, the IM's NSNMDR indicates no stock is on hand at any depot to fill a requisition, the request for supplies is declared a backorder and is filled when materiel is received from the vendor or from depot maintenance. If a warehouse denial is received from the prime Defense Distribution Region (DDR) after it receives an MRO, the IM may redirect the MRO to another DDR that has the requested materiel. In that case, the alternate DDR ships the required materiel to the prime DDR so that it can be incorporated in a truckload lot or containerized configuration for the customer.

Financial Management

Budget estimates for the wholesale stock fund are developed by the individual MSCs and by AMC Headquarters for the AMC MOB program. The wholesale ASF budgets are developed from the budget stratification table from DoD Instruction 4140.24, *Requirement Priority and Asset Application*, as directed by OSD. Requirements developed from stratification are adjusted with transition statements that include provisioning requirements, financial inventory adjustments, returns adjustments, Defense Reutilization and Marketing Office (DRMO) adjustments, level(s) adjustments, and other appropriate adjustments not accounted for in the stratification. In the wholesale ASF budget-formulation process, estimates of projected retail ASF purchases are provided to each MSC by the retail divisions. The first estimate is provided before the retail divisions have completed their own budgets, and a more sophisticated estimate is forwarded after budget formulation. Unfortunately, the better estimate often arrives too late to be included in the MSC's ASF budget requests, which are submitted for AMC and Headquarters, Department of the Army (HQDA) initial review. This failure can cause some changes to be made during the final review by the Office of the Deputy Chief of Staff for Logistics

(ODCSLOG) before submission to the Office of the Secretary of Defense (OSD). For this review, ODCSLOG conducts Army staff-level budget hearings with the Assistant Secretary of the Army (Financial Management) [ASA(FM)] for all of the MACOMs and represents them at the OSD and Office of Management and Budget (OMB) stock fund budget hearings.

The format for the budget requests is specified by the Office of the Assistant Secretary of Defense (Comptroller) [OASD(C)] in the annual update of the budget guidance. The Comptroller's format, however, does not provide the level of detail required by DA and AMC for internal management, so more detailed budget information, including stratifications and transition from stratification to budget statements, is provided by the MSCs and forwarded with the OSD-required budget formats. After AMC review, the budgets are then forwarded to DA where they are reviewed and receive Army staff approval from both the DCSLOG and ASA(FM); after that, only the OSD-directed documentation is submitted to OASD(C).

When OSD and OMB approve the obligation authority (OA) for the ASF, ODCSLOG and ASA(FM) are notified and ODCSLOG forwards the budget back to AMC by message with guidance and rationale for adjustments. OA is forwarded to AMC by ASA(FM) through the use of a funding authorization document (FAD). In turn, AMC forwards FADs to MSCs where revised execution plans are formulated based on the changes. AMC consolidates the revised execution plans and sends them to DA.

Treasury cash management for both DA and AMC is retained by the comptroller. DA has established a target of 5 days of operating cash for AMC. The Defense Finance and Accounting Service – Indianapolis (DFAS-IN) provides many wholesale stock fund financial services to the AMC Comptroller and the MSCs. DFAS-IN receives monthly updates from the NICPs. DFAS-IN also provides monthly trial balances showing collections, disbursements, and ending Treasury cash balance to both DA and AMC. Legal responsibility for overobligation rests with DCSLOG.

Office Organization

Each MSC has a stock fund office, normally subordinate to the Directorate of Materiel Management, that is supervised by a stock fund manager responsible for programming, budgeting, and analysis. Stock fund managers frequently coordinate

with the Finance and Accounting Office, materiel managers, other elements of the NICP and NMP, retail and wholesale customers of all Military Services, and the AMC home office. Technical advice to MSC stock fund offices is provided by the stock fund office at AMC and by the Secondary Items Division, ODCSLOG, HQDA.

Performance Analyses

Analyses of the performance of stock fund operations are normally limited to observations on obligation rates, cash balances and comparisons of obligations-to-demands and obligations-to-sales, and stockage availability or fill rates. These comparisons are made to identify deviations from the program if a 5 percent variance occurs. While these analyses are important and provide managers with some measure of performance, they are not broad enough to provide management with sufficient data. Other useful performance indicators such as requisition delay time, backorder delay time, requirements-to-demands comparisons, inventory-to-sales ratio, percentage of inventory growth, and percentage of returns-to-sales can be derived from stock fund budget estimate submissions (BESs), routine stock fund reports such as the Statement 7, ASF Monthly Management Reports, and periodic Military Supply and Transportation Evaluation Procedures (MILSTEP) report data.

The BESs are, in fact, estimates, with the exception of those for the current year, which are composed of 6 month's actual information and 6 month's projections. Although the data in the BES cannot be used to track performance through the execution year, they do, however, provide an excellent measure of programming and budgeting accuracy and future performance trends when used with the actual execution data available in the Statement 7 and MILSTEP reports.

Personnel

Our research indicates that the majority of wholesale stock fund managers are usually selected from within the materiel management field at their own MSC.

Technical training of stock fund managers and budget analysts, however, is normally received on the job; few, if any, formal courses are available.[2]

THE ARMY RETAIL STOCK FUND

Operations Management

The retail stock fund consists of nine divisions, seven of which follow command channels, one that is oriented to subsistence commodities, and one that supports Defense operations in the National Capitol Region (NCR).

The command-channel divisions are Eighth U.S. Army, Europe (EUSA) division located in Korea; U.S. Army Forces Command (FORSCOM) division, which serves FORSCOM units in the United States and Central America; U.S. Army Training and Doctrine Command (TRADOC) division, mainly their elements in the United States; the AMC Installations Division (AMC ID), which supports AMC installations and some of the Army's smaller MACOMs; U.S. Army Europe (USAREUR) division, U.S. Army Pacific (USARPAC) division; and U.S. Army Southern Command (SOUTHCOM).

The one commodity-oriented division is the Troop Support Agency (TSA) division,[3] which has the worldwide responsibility for the stock fund operations at all Army commissary retail stores. TSA is not a MACOM, but a field-operating agency (FOA) of the Army DCSLOG. Defense Supply Service – Washington (DSS-W) supports DoD activities in the NCR.

Each of these divisions operates independently of the other; however, the organization supports Army elements along territorial lines as well as command lines. An example of this is Fort Knox, Kentucky, a TRADOC installation, that is the host to a FORSCOM brigade. While the brigade receives its O&MA funds from FORSCOM, it uses those funds to purchase materiel from the local TRADOC stock fund. This situation can be found at almost any Army installation. It requires close coordination among MACOMs, installation stock fund managers, and finance and accounting activities to ensure that adequate tenant O&MA funds are available to

[2]Some commands have established command-unique training systems; however, these systems are usually limited to training in budget development.

[3]TSA will be abolished as of 1 October 1991.

reimburse the host stock fund for materiel as well as to have OA available to support the tenant organization's requirements for materiel.

Army retail stock fund divisions operate independently from the wholesale division. They procure supplies from five sources: the ASF wholesale division, DLA (including DRMOs), GSA, other Military Service stock funds, and local procurement.

Although several command-unique inventory management systems are in operation, the predominant system used for requirements computation is the Standard Army Intermediate Level Supply (SAILS) System. Financial inventory accounting is performed by the Standard Army Financial Inventory Accounting and Reporting System (STARFIARS), and appropriated fund financial management is performed by the Standard Financial System (STANFINS). Retail demands, while reflecting the true dollar transactions, do not reflect the levels of items stocked by the retail stock funds since supply levels are not maintained by the retail stock fund in support of Direct Support System (DSS) customers.

Financial Management

Financial management of the retail stock fund divisions includes managing both stock fund and customer fund dollars as is evidenced by the budget-building process for all retail stock fund divisions except TSA. (See Figure A-1.)

In preparing the budget, the retail stock fund manager at the branch office relies on four sources of input: the accountable supply officer, the projected budget requirements by materiel category, the "off-post" or non-DSS customer, and the local comptroller. The non-DSS customer estimates purchases from the retail stock fund for the budget period; the comptroller provides additional data for DSS customers based on the customers' budget-projected funds in elements of expense (EOE) 2600 and 3100. These data are then developed into the retail budget and forwarded to the MACOM where they are consolidated with other subhome and branch office budgets to produce the MACOM retail stock fund budget. That budget is forwarded to HQDA and, eventually, to OSD. During this process, the MACOM stock fund manager provides estimates of purchases to Army and Defense wholesale stock funds. These estimates are possible because the budget estimate provides a materiel category (MATCAT) or commodity-oriented breakout. Unfortunately, the retail stock fund budgets do not receive the same attention as the customer fund budgets in the review-and-approval process at the installation and MACOM level.

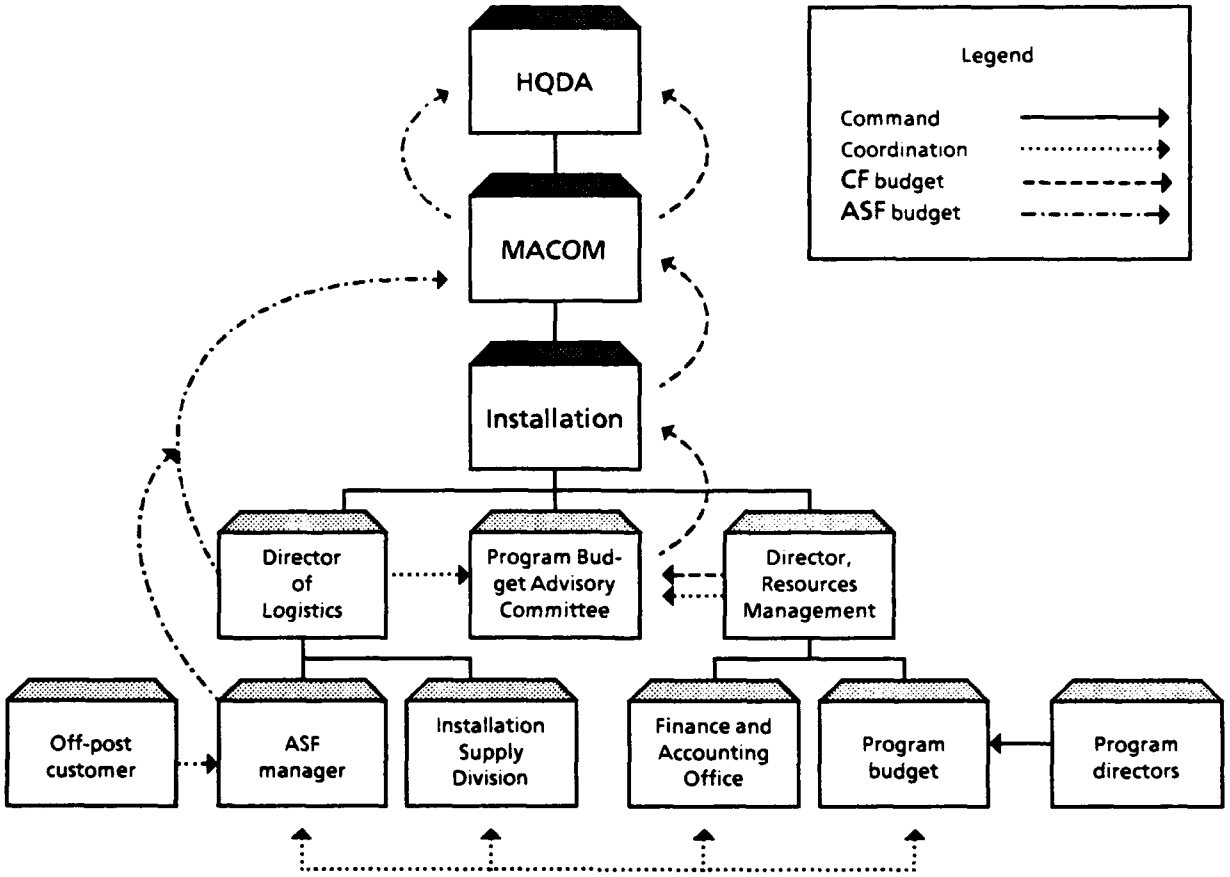

FIG. A-1. ASF/CUSTOMER FUND (CF) BUDGET PROCESS

While the customer fund budgets are usually subjected to close scrutiny by senior-level managers, Program Budget Advisory Committees (PBAC), and commanders, the ASF budget is normally approved by the Director of Logistics (DOL) or, in some cases, by the Deputy DOL or the stock fund manager. This level of approval does not imply that the budget has not been extensively coordinated during the formulation process nor that the budget lacks either quality or accuracy; it merely indicates that commanders are not as concerned about stock fund budgets as they are about appropriated funds.

One factor that could cause major deviations from budget during actual execution is the authority of program directors at Army installations to move customer fund dollars from one EOE to another. (The pay of personnel EOE cannot be moved.) Program directors may have a tendency to overstate supply requirements to maintain flexibility, secure in the knowledge that they can move funds

programmed for supplies into other EOEs during the fiscal year. This procedure can create unfinanced supply requirements at the mid-year review and poses a risk if additional funding is not provided. The risk level has been minimal in recent years since year-end customer fund increases have usually satisfied most requirements. The problem with this style of financing, however, is that supply purchases do not materialize as budgeted and essentially negate many of the benefits from having coordinated the installation operating budget and the retail stock fund budget.

Since 1 October 1983, customer funds were supposed to have been obligated at the time of requisition based on the policy of simultaneous obligation (SIMOB). In practice, SIMOB is effective for DSS units and nonstocked item requisitions since the obligation of both stock funds and consumer funds takes place at the time of requisition. However, this is not true for stocked items nor for locally procured (LP) items. Obligations of customer funds for stocked items still occur when the materiel is issued, and obligation of customer funds for LP materiel is made at the time a contract with the vendor is posted to the supply record or when the customer is billed and not when the requisition is submitted.

Financial data in support of the logistics system are passed from SAILS to STARFIARS where the actual financial inventory accounting takes place. Data are subsequently passed to STANFINS to finalize the customer fund financial transactions. The three systems are not compatible, so finance personnel must expend considerable time reconciling interface problems with the systems.

Records of stock fund cash and legal liability are maintained at the MACOM. "Command cash" and OA are allocated to subordinate elements of the retail divisions.

Office Organization

All ASF retail divisions are governed by OSD and HQDA guidance to operate their stock fund, but differences exist in all commands. The retail stock fund divisions are organized to meet the needs and missions of the particular MACOM/FOA they service. The number of subhome offices and branch offices varies with the territorial responsibility of the command. TSA and DSS-W are the exceptions to this rule. TSA has a home office at its command headquarters and subhome offices at each of its worldwide regions; however, stock fund financial accounting is carried out at each retail commissary store. DSS-W is designed only to

support the purchase and sale of common office supplies and equipment for the DoD in the NCR.

In the case of USAREUR, the branch offices are a function of both the geography and the logistics structure of the command. Both the 200th Theater Army Materiel Management Center (TAMMC) and the 21st Support Command, the largest logistics command in Europe, are branch offices. Other branch offices are command and territorially oriented with one at each tactical corps, one for medical and one in Italy. FORSCOM, TRADOC, and AMC have established branch offices at most Army installations they control.[4] EUSA, USARPAC, and SOUTHCOM are smaller stock funds and do not need numerous subhome or branch offices.

The retail stock fund budget development process has not been automated with a common system like the wholesale stock fund. Each command has made some effort at automation, usually at the MACOM level, by using small personal computers and a variety of software ranging from LOTUS 1-2-3 or other commercial programs to locally designed software.

Very often, branch/installation offices of the retail stock fund develop their budgets using the old OSD budget formats superseded in June 1984 and submit these to the MACOM. MACOM stock fund managers point out that the old budget format must be used to provide the level of detail required for internal management; the new OSD formats are not very useful. The MACOM uses its automated system to convert the old budget format to the current OSD format and provides the new formats to HQDA accompanied by execution plans and back-up data. Only the new OSD-formatted data are forwarded above Army Staff level unless a specific request is made for data in the old format.

Performance Analysis

Retail stock fund performance is measured the same as the wholesale system, generally using the same wholesale fund-type performance indicators. Currently, budget execution receives much less formal review than budget submission. This review imbalance may be attributed to less interest by commanders in the stock fund system than in the appropriated fund operations. The major emphasis in retail stock fund management is Treasury cash and OA. Further, since Treasury cash and OA

[4]AMC has the Army-wide responsibility to support small MACOMs that do not warrant a retail stock fund division and, to provide this support, has established several subhome offices.

responsibilities are at MACOM and DA levels, managers at those levels have the authority to "bail out" subhome and branch offices that may encounter problems. "Loans" of cash between MACOMs and adjustments of OA by HQDA are also acceptable practices.

While several commands use periodic review-and-analysis techniques to apprise commanders of the status of logistics and financial programs, the stock fund portion of the analysis is usually limited to the ratio of OA-to-sales, OA-to-demands, and status of cash information. Supply performance and the status of customer fund dollars are not usually addressed in the context of the command's stock fund operation.

Products from the retail stock fund operation that can be of significant value to the supply manager are the ASF Monthly Management Report (Statement 7) and the quarterly stratification report (QSR), both of which provide extensive management indicators by MATCAT. The general comments of supply managers in the field indicate that the Statement 7 and the QSRs are seldom used, are not received, or contain data in financial terms, while supply managers prefer to deal in stock numbers and quantities or "eaches."

Personnel

As in the case of the wholesale stock fund, there is no Army-approved formal training program for retail stock fund managers, program and budget analysts, or financial inventory accounting specialists. On-the-job instruction and command-unique budget development programs constitute the only training available.

Effective management of a retail stock fund at the branch office/installation requires a knowledge of stock fund programming and budgeting, supply operations, and supply-related financial management. Retail stock fund managers are usually recruited from the supply field, but personnel with financial backgrounds are occasionally selected for these positions. It is not uncommon at branch offices to find that the incumbent stock fund manager previously served as an analyst in the same office. At the installation level, stock fund manager positions are usually stepping stones for further advancement in the supply or finance fields since there is usually no opportunity for advancement in stock fund management as no career program exists.

Based on MACOM reports in FY85, the retail stock fund is currently staffed with approximately 828 personnel at an estimated annual cost of $16 million. This number of personnel will change with the introduction of stock-funded depot-level reparables. These figures include logistics program and budget managers and finance and accounting technicians who devote the majority of their time each year strictly to retail stock fund matters. Strengths vary from command to command based on structure, mission of the command, and volume of business (e.g., number of transactions). Even though the retail stock fund supports the supply system and is the responsibility of logisticians, finance and accounting personnel outnumber logisticians by about a 3-to-1 ratio.

APPENDIX B

THE CRITERIA FOR EVALUATION OF ALTERNATIVE STRUCTURES

APPENDIX B

THE CRITERIA FOR EVALUATION OF ALTERNATIVE STRUCTURES

INTRODUCTION

In Chapter 3 of the main text, we discuss the criteria to be considered in evaluating the alternative structures of the Army Stock Fund (ASF). This appendix addresses them in greater detail and specifically lists the components that make up each and the questions that emanate from them.

In developing the criteria for eva'uation, we were faced with a need to articulate the subsets of each criterion to ensure that both the logistics and financial aspects were considered. This procedure results in each criterion being subdivided into a variety of elements, each of which must be considered in the overall evaluation of the alternatives discussed in Chapter 4 of the main text.

EVALUATION CRITERIA

These criteria are to be a consideration in our evaluation of the alternatives; they cannot simply be weighted and a mathematical sum used to decide the ultimate structure of the ASF. Originally prioritized by the Study Advisory Group, they are relative and not absolute; that is, the first-priority criterion is not twice as great in value as the second, and so on. Since that first group of criteria was developed, we have modified the criteria to meet new direction dictated by recent Defense Management Review Directives (DMRDs), budget adjustments, and changing Army missions.

The criteria, and their elements follow.

Criterion A. Support to the Soldier in the Field

Alternatives are evaluated to discover which one provides the organization and operations that give the most effective logistics support to the Army in the field. These elements are to be considered:

- Concentrates effort on logistics needs. Optimizes the whole system.
- Provides quickest response to requirements. Leveling can be achieved and items can be transferred among levels. High item visibility is supported.
- Provides efficiency of communication as one system comes into being.
- Creates shortest chain of control with the fewest transactions and sales.

Criterion B. Facilitate Transition to Wartime Operations

Choose the alternative that makes the transition from peacetime to wartime the most effortless. Consider these factors:

- Peacetime and wartime operations become interchangeable. No policy changes are required for transition.
- Facilitates data transfer and requires no automated data processing (ADP) system changes.
- There are no time delays during transition to war.
- Establishes personnel support base that does not require retraining during transition.
- Does not impede rapid mobilization and movement of stocks.

Criterion C. Facilitate Management Improvements

Choose the alternative that best facilitates management improvements. Use these elements:

- Helps to reduce the total Army supply inventory
- Improves visibility of supply assets
- Improves distribution of supply assets
- Produces fund savings to meet DMRD savings objectives
- Provides uniform and consistent data

- Achieves balance between operational requirements and financial management responsibilities.

Criterion D. Chain-of-Command Involvement in Management of Stock Fund/Inventory

Choose the alternative that best facilitates management of the stock fund as a command program, as a commodity program, or as a combination of both. Use this checklist:

- Commander is able to influence ASF budget preparation
- Commander executes stock fund program
- Supports review and use of recurring reports
- Able to handle special requests and customer fund variations
- Permits fulfilling of logistics and finance responsibilities.

Criterion E. Workload on Commands

Choose the alternative that provides the most reduction of the administrative workload on installation commanders. Use these elements to evaluate:

- Establishes effective review, analysis, and decision process
- Simplifies or removes stock fund budget preparation, obligation authority, or policy decisions from commanders
- Facilitates or relieves commanders of requirements and stockage determinations.

Criterion F. Efficient Accounting Systems

Choose the alternative that maximizes the efficiency of the ASF accounting system. These features should be examined:

- Reduces number of accounting transactions
- Utilizes dollar reports effectively
- Produces information for supply operations analysis
- Converts accounting terms to supply terms
- Creates transaction audit trail

- Improves the link between comptroller and logistician in budget and execution.

Criterion G. Adaptability to Current Logistics and Accounting Systems (or Systems Being Developed)

Search for the alternative that is most adaptable to current and planned systems, the one that causes the least impact on supply support during transition from the present structure, the one that requires the least cost and time for modification, and the alternative that minimizes the number of ADP systems for stock management. Consider these features of such a system:

- Requires fewest ADP systems
- Utilizes current systems
- Adapts to developing systems
- Least trouble evolving to a new system.
- Requires the least time or cost to adapt with minimum impact on supply system.

Criterion H. Cost

Ask which alternative is most cost-effective while providing equal or better support. Consider the alternative that requires the least personnel to manage retail stocks and finances [ASF and Operations and Maintenance, Army (O&MA)-owned]. Use this checklist:

- Achieves greatest cost and personnel efficiencies
- Requires least cost to develop or offers greatest recurring savings
- Requires least time and personnel to get on line.

Criterion I. Support Budget Execution

Which alternative minimizes the effects of reductions in ASF or customer-funds for supplies for inventory or consumption? Which alternative best supports a customer same-year-buy/same-year-consume funding program? Which alternative best supports retail stock level ASF and customer-fund build-up? To answer these questions, consider these factors

- Protects against reductions in ASF obligation authority available for inventory replenishment.
- Protects against reductions in appropriated funds available for operating supplies
- Supports same year buy-and-consume funding
- Does O&MA or stock fund financing buy items for inventory
- Simplifies budget preparation
- Provides comparisons between budget estimate and actual execution
- Consistency in budget input.

Criterion J. Support Strategic Logistics Initiatives

Determine which alternative integrates best with other Army strategic logistics initiatives. Use these considerations

- Supports and complements other logistics improvements
- Facilitates the integration of various logistics systems into an integrated logistics system
- Supports a seamless logistics system
- Provides an accounting system to support the integrated logistics system.

Criterion K. Consistency with Other Services

Choose the alternative that places the ASF in a structure most consistent with the other Services. Consider these aspects

- Facilitates data consistency
- Simplifies the consolidation of finance and accounting centers
- Allows DoD-wide comparisons
- Simplifies policy implementation
- Reduces likelihood of DoD-imposed system or procedures.

Criterion L. Effective Interface with Customer Budgets

Which alternative best supports interrelating stock fund and consumer budgets? Which alternative requires the minimum of accountability transaction

processing from acquisition to consumption? Which alternative requires the minimum budgeting and accounting transaction processing from acquisition to consumption? Use these elements to choose

- Facilitates integration of customer's budget estimate with stock fund budgets and comparison of budget execution results
- Permits control of customer orders
- Provides comparison of historical sales with predicted buys
- Supports translation of Battalion Training Management System to budget terms
- Requires least number of budget/accounting and buy/sell transactions.

APPENDIX C

GLOSSARY

APPENDIX C

GLOSSARY

AAA	=	Army Audit Agency
AAFES	=	Army and Air Force Exchange System
ABF	=	asset balance file
ADP	=	automated data processing
AIF	=	Army Industrial Fund
ALT	=	administrative lead time
AMC	=	Army Materiel Command
AMC ID	=	Army Materiel Command Installations Division
AMCCOM	=	Armament, Munitions, and Chemical Command
AMOPS	=	Army Mobilization Operations and Planning System
ANAD	=	Anniston Army Depot
AOD	=	area oriented depot
AR	=	Army Regulation
ARNG	=	Army National Guard
ASA	=	Assistant Secretary of Army
ASA(FM)	=	Assistant Secretary of Army (Financial Management)
ASC	=	administrative service center
ASD(C)	=	Assistant Secretary of Defense (Comptroller)
ASF	=	Army Stock Fund
ASL	=	authorized stockage list
AVSCOM	=	Aviation Systems Command
BDT	=	backorder delay time

BES	=	budget estimate submission
BLSS	=	base level self-sufficiency
BP	=	beginning of period
BTMS	=	Battalion Training Management System
CAC	=	Combined Arms Center
CCSS	=	Commodity Command Standard System
CDDB	=	Central Demand Data Base
CECOM	=	Communications and Electronics Command
CF	=	customer fund
CIIP	=	clothing initial issue point
CMD	=	command
CMDT	=	commandant
CMMC	=	corps materiel management center
COA	=	Comptroller of the Army
COMPT	=	comptroller
CONUS	=	continental United States
COSCOM	=	corps support command
COSIS	=	care of supplies in storage
DA	=	Department of Army
DAAS	=	Defense Automatic Addressing System
DAMPL	=	Department of Army Master Priority List
DCSLOG	=	Deputy Chief of Staff for Logistics
DCSRM	=	Deputy Chief of Staff for Resource Management
DDR	=	Defense Distribution Region
DESCOM	=	Depot Systems Command
DFAS-I	=	Defense Finance and Accounting Service center – Indianapolis
DIO	=	Director of Industrial Operations

DIR	=	director
DISCOM	=	division support command
DIV	=	division
DLA	=	Defense Logistics Agency
DLR	=	depot-level reparable
DMM	=	Directorate of Materiel Management
DMMC	=	division materiel management center
DMRD	=	Defense Management Review Directive
DoD	=	Department of Defense
DOL	=	Director of Logistics
DRM	=	Director of Resources Management
DRMO	=	Defense Reuitilization and Marketing Office
DS	=	direct support
DS4	=	Direct Support Unit Standard Supply System
DSS	=	Direct Support System
DSSC	=	Defense Subsistence Supply Center
DSS-W	=	Defense Supply Service – Washington
DSU	=	direct support unit
EOE	=	element of expense
EP	=	end of period
EUSA	=	Eighth United States Army
FAD	=	funding authorization document
F&AO	=	Finance and Accounting Office (Officer)
FIA	=	financial inventory accounting
FM	=	field manual
FOA	=	field-operating agency
FORSCOM	=	U.S. Army Forces Command

FPWRMR	=	Forward Position War Reserve Materiel Requirement
GLAC	=	general ledger account code
GMPA	=	General Materiel and Petroleum Agency
GS	=	general support
GSA	=	General Services Administration
GSU	=	general support unit
HQ	=	Headquarters
HQDA	=	Headquarters, Department of the Army
ICP	=	inventory control point
ID	=	identification
IM	=	item manager
ISA	=	Installation Supply Activity
ISD	=	installation supply division
ISSA	=	interservice support agreement
LCA	=	Logistics Control Activity
LMI	=	Logistics Management Institute
LOGCEN	=	Logistics Center
LP	=	locally procured
LSA	=	Logistics Support Activity
MACOM	=	Major Command (Army)
MAJCOM	=	Major Command (Air Force)
MATCAT	=	materiel category
MDW	=	Military District of Washington
MIC	=	?
MICOM	=	Missile Command
MILSTEP	=	Military Supply and Transportation Evaluation Procedures
MIS	=	management information system

MLS	=	multilevel source
MMC	=	materiel management center
MMR	=	Monthly Management Report
MOB	=	Military Assistance and Mobilization Requirements
MPA	=	Military Pay Appropriation, Army
MRO	=	materiel release order
MSC	=	major subordinate command
MTOE	=	modification table of organization and equipment
NCAD	=	New Cumberland Army Depot
NCR	=	National Capitol Region
NICP	=	national inventory control point
NMP	=	national maintenance point
NSN	=	national stock number
NSNMDR	=	national stock number master data record
OA	=	obligation authority
OASD	=	Office of the Assistant Secretary of Defense
OASD(C)	=	Office of the Assistant Secretary of Defense (Comptroller)
OCOA	=	Office of the Comptroller of the Army
ODCSLOG	=	Office of the Deputy Chief of Staff for Logistics
O&M	=	Operations and Maintenance
O&MA	=	Operations and Maintenance, Army
OJT	=	on the job training
OMAR	=	O&M Army Reserve
OMB	=	Office of Management and Budget
OP	=	operational project
OSC	=	objective supply capability
OSD	=	Office of the Secretary of Defense

OST	=	order-ship time
P7M	=	Program 7, Maintenance (OMA)
P7S	=	Program 7, Supply (OMA)
PBAC	=	Program Budget Advisory Committee (Council)
PLL	=	prescribed load list
PLT	=	production leadtime
PXs	=	Post Exchanges
QSR	=	quarterly stratification report
QTR	=	quarter
RBM	=	readiness-based maintenance
RC	=	Reserve Component(s)
RCT	=	repair cycle time
RDA	=	research, development, and acquisition
RDT	=	requisition delay time
RDTE	=	research, development, test, and evaluation
REFORGER	=	Return of Forces to Germany
RIMSTOP	=	retail inventory management/stockage policy
RQMTS	=	requirements
RRAD	=	Red River Army Depot
RSF	=	retail stock fund
SAILS	=	Standard Army Intermediate-Level Supply
SARSS	=	Standard Army Retail Supply System
SFDLR	=	stock-funded depot-level reparable
SHAD	=	Sharpe Army Depot
SICC	=	Service Item Control Center
SIMOB	=	simultaneous obligation
SIMS-X	=	Selected Items Management System-Expanded

SL	=	safety level
SLA	=	Strategic Logistics Agency
SOUTHCOM	=	U.S. Army Southern Command
SPT	=	support
SSA	=	supply support activity
SSF	=	single stock fund
STAMIS	=	Standard Army Management Information System
STANFINS	=	Standard Financial System
STARFIARS	=	Standard Army Financial Inventory Accounting and Reporting System
SUPCOM	=	Support Command
TACOM	=	Tank Automotive Command
TAEDP	=	The Army Equipment Distribution Plan
TAMMC	=	200th Theater Army Materiel Management Center
TAV	=	total asset visibility
TDA	=	table of distribution and allowances
TISA	=	troop issue subsistence activity
TRADOC	=	U.S. Training and Doctrine Command
TRFA	=	trust revolving fund account
TROSCOM	=	Troop Support Command
TSA	=	Troop Support Agency
TUFMIS	=	Tactical Uniform Financial Management Information System
UBRD	=	user-based requirements determination
USAMMA	=	U.S. Army Medical Materiel Agency
USAR	=	U.S. Army Reserve
USAREUR	=	U.S. Army Europe
USARJ	=	U.S. Army Japan

USARPAC	=	U.S. Army Pacific
USASA, Phil	=	U.S. Army Support Activity, Philadelphia
USPFO	=	U.S. Property and Fiscal Officer
VCSA	=	Vice Chief of Staff
WESTCOM	=	Western Command
WR	=	war reserve
WRS	=	War Reserves System
WRSK	=	war readiness spares kits
WSF	=	wholesale stock fund