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EXCLUSION CRITERIA - MARINE CORPS STOCK FUND.

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EXCLUSION CRITERIA
MARINE CORPS STOCK FUND

By

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A Thesis Submitted to the School of Government,
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Master of Business Administration

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PREFACE

This paper has provided me with an opportunity to investigate in depth a situation that has been a source of concern to the Marine Corps and the Department of Defense for many years. The problem is the operation and function of the "Marine Corps Stock Fund," a working capital fund established within the Marine Corps and the Department of Defense upon authority of the Congress of the United States. Since its inception the Marine Corps Stock Fund has continued to grow in size and scope, without definitive criteria as to what items should or should not be included in the stock fund.

Various research papers have been compiled on the "History and Functions of the Stock Funds," but little if any, reference has ever been made to the controlling principle that has determined its effectiveness, the "Exclusion or Inclusion Criteria."

The objectives of this paper are three fold:

1. To trace the evolution of the Marine Corps Stock Fund Exclusion Criteria from the beginning to the present.
2. To relate its effect on the operation of the fund and compare it with the other military services.
3. To evaluate the effectiveness of the past and current exclusion criteria.

To attain these objectives necessitates a review of the history and origin of the stock fund, its purpose and aims, and a close examination of the inclusion and/or exclusion criteria under which the Marine Corps Stock Fund operates. Of special interest are the different philosophies of the various services with respect to the exclusion of material from the stock fund.

This paper will also examine the problems created in the management of the stock fund and combat activities as a result of the wholesale inclusion of items by category.

In general, the information and situations in this paper are supported by and are a matter of official government administrative or financial records, reports or staff studies. A valuable link in available data was provided from the responses received to the questionnaire shown in Appendix II.

The efforts required of the writer to complete this paper have made a significant contribution to his understanding and appreciation for the problems and benefits of utilizing a working capital fund to finance consumable material in the Marine Corps. May it also be of value to those who have an interest in why and how a "regurgitating gastinator" is designated as a Stock Fund Account (SFA) or Appropriated Stores Account (ASA) item.

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CHAPTER I

HISTORY AND INITIAL STOCK FUND

CRITERIA CONCEPT

The stock fund used in the military services of the United States is a method of financing specified materials for use in military departments. The concept, although called by various names, is one of financing material through a revolving fund. The first of such funds was established in the United States Navy in 1878. Designated as the "General Accounting of Advances," it derived its capital through the annual appropriations made to the Navy and each year temporarily ceased to "revolve" until it was replenished. This concept was restricted to the Navy until passage of the "National Security Act Amendment of 1949, Public Law 216," which authorized the use of the revolving fund in all Military Departments.

During the period its use was restricted to the Navy, the Stock Fund concept underwent several changes in its evolution, involving inclusion criteria and identifying titles. An early step in the evolution was an Act of Congress passed on March 3, 1893, creating "The Naval Supply Fund," which was credited with the sum of \$200,000 for the purchase of ordinary commercial supplies.

And the Secretary of the Treasury is hereby authorized and directed to cause general account of advances to be charged with the sum of two hundred thousand dollars, which amount shall be carried to the credit of a permanent naval supply fund to be used under the direction of the Secretary of the Navy in the purchase of ordinary commercial supplies for the naval service, and to be reimbursed from the proper naval appropriations whenever the supplies purchased under said fund are issued for use.¹

Three features of this Act merit special attention.

The first was the fact that money was appropriated or transferred from the "General Account of Advances," (a fund consisting of the sum total of all Naval appropriations) and not from the general fund of the Treasury. Second, it stipulated that only ordinary commercial supplies could be purchased with the fund, thus for the first time defining inclusion criteria. And finally, reimbursement from the proper appropriation was to be made upon issue of stock from the fund.

The success of this management concept is attested to by the fact that seventy years later in 1963 revolving funds in the military establishments had increased to approximately \$7.5 billion.² Even allowing for price level changes the increase was considerable.

By 1898 the fund had increased to \$1,500,000 and by the end of the year purchases had amounted to \$1,834,190.10.

¹U. S., 27 Statutes, 723, Act of March 3, 1893.

²U. S., Department of Defense, Working Capital Funds of the Department of Defense, 30 June, 1963, p. 68.

Between 1893 and 1942 the fund continued to increase in size and scope, and the criteria expanded to include ship repair parts and other technical materials.

The term stock fund was first introduced in 1942 when certain technical items were removed from the supply fund to enable it to function like a storekeeping account and its name was changed to "The Naval Stock Fund."³ This concept of financing material was not extended to the Marine Corps or the U. S. Army, however.

After World War II greater efficiency in inventory control and financial management became necessary in the entire military establishment. Since the Navy had been successful with the use of its stock fund, this concept of management was extended to the other services by the creation of working capital funds under Section 405 of Title IV of the National Security Act, authorizing the establishment of the Department of Defense Stock Funds.

In order more effectively to control and account for the cost of programs and work performed in the Department of Defense, the Secretary of Defense is authorized to require the establishment of working capital funds in the Department of Defense for the purpose of: (1) Financing inventories of such stores, supplies, materials, and equipment as he may designate; . . .⁴

³History of Naval Stock Fund and Naval Supply Account Bureau of Supplies and Accounts, 1945, p. 63.

⁴U. S. Congress, 81st Congress, 1st Session, National Security Act Amendments of 1949, Public Law 216, (Washington Government Printing Office, 1949).

Of the two types of working capital funds (industrial and stock) established under the National Security Act, this paper will be devoted to the discussion of stock funds.

A stock fund is a working-capital fund established to finance the acquisition and maintenance of materials, supplies and equipment for sales within a military department or to other military agencies and personnel. Its purposes generally are to achieve more effective management of inventories, materials, supplies and equipment, realize greater economy in utilization of such materials through budgetary and fund control, and to improve the supply support to combat organizations through its flexibility and revolving characteristics.

These purposes may be attained through several operational characteristics and advantages which are inherent in a successful revolving capital fund.

Current cash assets will be provided automatically for replenishment of stocks through reimbursement of the stock fund for material consumed or sold, as obligations may be placed without being restricted by the appropriation process. The procurement of stock fund items can be accomplished on a more timely basis to take advantage of market trends and changes.

This method of financing provides an efficient means for consolidating procurements of the various services under one agency and facilitates buying and selling between the services. Flexibility in the management of inventories can be realized because stocks may be readily procured from the stock funds by

reserve units and civilian agencies of the Defense Department.

Under this system, reserve stocks of consumables are less likely to be depleted because when they are diverted to meet current needs, the fund is reimbursed for replacement.

The stock fund concept also promotes greater cost consciousness, economy, and efficiency in the use of material that does not exist when financial control over material is confined to procurement requirements.

One result of use of the stock fund is the fact that budget estimates and reported costs of materials, supplies and equipment issued from the stock fund are stated upon the basis of consumption rather than purchase. The use of this accrual basis of accounting for appropriations provides control of the costs of operating all activities, including budgetary reviews of all programs.

The stock fund operates generally through the use of permanently appropriated capital. Items of supply are purchased or capitalized and distributed to users upon demand. Upon withdrawal of items from stock, the stock fund is reimbursed. This generates funds for procuring additional material to be placed in inventory for another cycle of distribution and withdrawal. There are at least three methods by which the stock fund may be reimbursed.

1. Funds are appropriated by Congress for the purpose of procuring new items of equipment under "Procurement and Production" appropriations. Items may be procured from the

stock funds to satisfy specific requirements of new items of equipment being procured or produced and the appropriate procurement appropriation charged.

2. Congress also appropriates funds for the cost of "operating and maintaining" the defense establishments. Costs under this heading include the repair and overhaul of vehicles, ships, aircraft and equipment, cost of force or fleet operations, medical care and supply distribution. The "maintenance" portions of these appropriations include, but are not necessarily limited to, the cost of maintaining the established facilities within the Department of Defense. Upon the receipt of an item from the stock fund, the "operation and maintenance allocation" of the organization will reimburse the stock fund for the cost of the item. Figure I illustrates the concept of the operation and maintenance appropriation flow of funds and material.

3. The stock fund maintains inventories of commissary stores and troop uniform clothing, and is automatically reimbursed when a Marine buys an item of clothing from the Marine Corps Clothing Cash Sales Store or when a dependent purchases an item from the sales commissary store. The principle followed in the conduct of stock funds is similar to that of a commercial merchandising enterprise except that there is no sales promotion and operations are conducted on a break-even basis.

For convenience and efficiency the Marine Corps Stock Fund operates supermarkets called "self-service-centers." These are stock fund outlets that carry inventories of high usage items

ILLUSTRATION OF THE OPERATION OF THE STOCK FUND - CONSUMER FUND SYSTEM
 AS IT PERTAINS TO A TANK UNIT AT AN ARMY INSTALLATION IN THE UNITED STATES

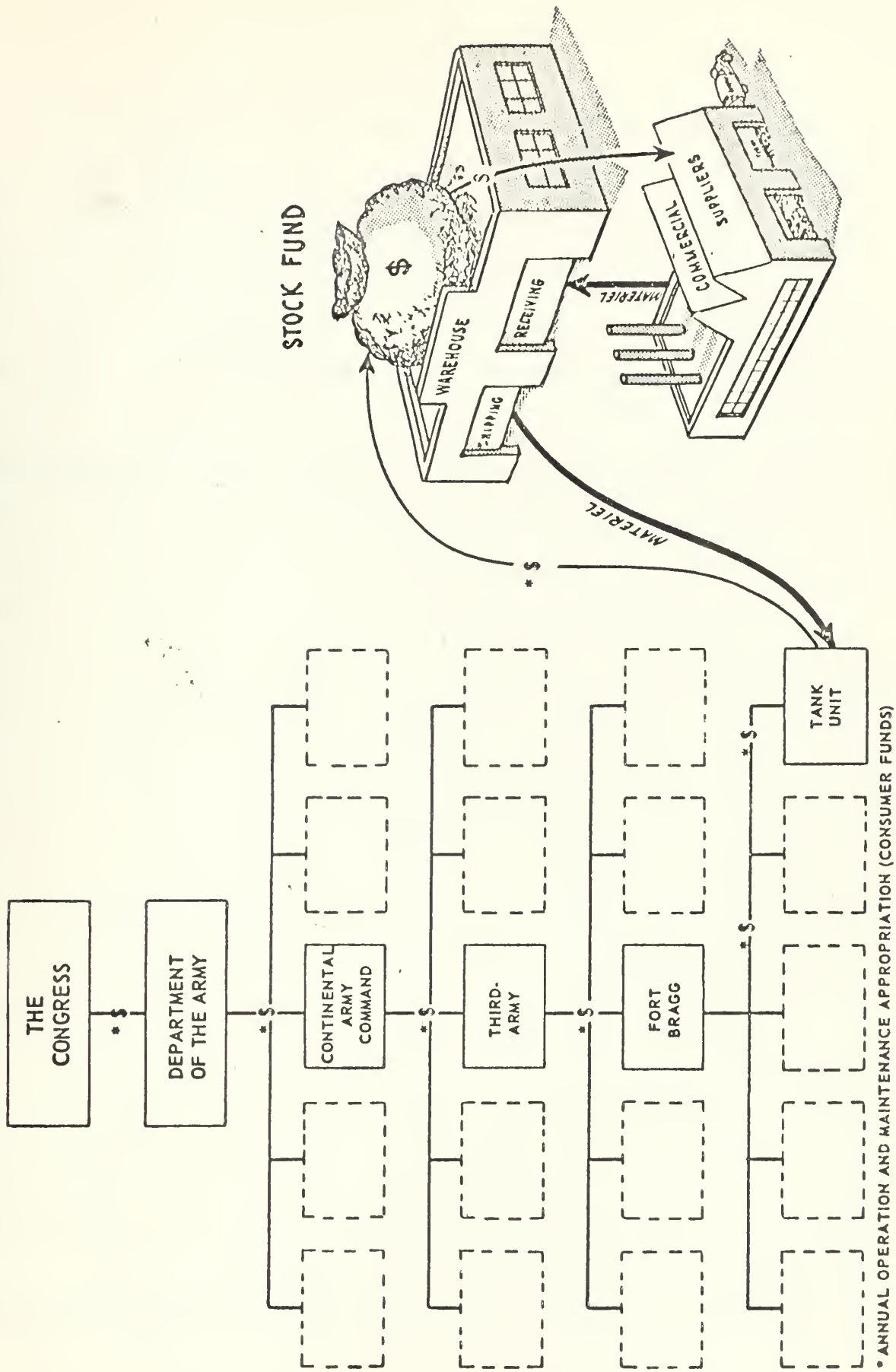


Figure 1

such as hand tools, rope, paint, brushes, stationery supplies and other commercial type items. Through the use of credit cards an organization can purchase the items desired and charge its operation and maintenance fund for the amount of the sale. Although no records are kept of what items were purchased, the cash register reflects the amount of each purchase and the account number of the purchaser.

Establishment of Department of Defense Stock Funds. When the stock funds for the four military services were established under legislation enacting section 405 of Title IV to the National Security Act of 1947 as amended in 1949, discretionary powers were given to the Secretary of Defense for their implementation. The Secretary was empowered by the law to make the use of stock funds mandatory in the individual departments. To date, he has authorized but not required the services to install stock funds in certain selected areas. This flexibility permits broad interpretations of the criteria for these funds which accounts for the difference in concepts between the services and will be discussed in detail later.

By a Department of Defense Directive the Secretary of Defense established in the military departments consolidated working-capital funds known as the "Army Stock Fund," "Navy Stock Fund," "Marine Corps Stock Fund," and "Air Force Stock Fund."⁵

⁵U. S., Department of Defense, Regulations Governing Stock Fund Operations, DOD Directive 7420.1 of February 1, 1954.

The directive further specified:

When it is believed by one of the military departments, or by the Assistant Secretary of Defense (Comptroller), that the objectives of the use of Stock Funds will be achieved in one or more specific areas of supply operations, a charter shall be prepared by the military department to govern such operations, subject to the provisions of these Regulations. Approval of the charter by the Assistant Secretary of Defense (Comptroller), with the advice of the Assistant Secretary of Defense (Supply and Logistics) shall be required before commencement of operations.⁶

The establishment of a stock fund does not in itself solve any problems or create efficiency. Before any management efficiency can be realized, one basic question must be answered what are the criteria that will determine the types of material to be included in or excluded from the stock fund? It is not difficult for a retail firm to determine what products will be included in their line, since success is measured by the profits realized. A military stock fund, however, must be based on a zero profit operation by item, and cannot offset losses of one item with higher profits on another.

In an attempt to fulfill the purposes and objectives desired of the stock fund, the Department of Defense established criteria to be observed by the services in determining what material would be included in the funds. Basically the instructions specified that the material would be included by categories rather than by individual items, such as motor transport, clothing and textiles, communications and electronics. The categories must be used in a number of consuming activities and have a recurring demand to insure the investment will not become

⁶Ibid., par. V.

frozen. This is referred to as "the general prudential rule." Items within these categories that were authorized to be excluded from the stock fund include major items of equipment, capital investments, nonstandard items and items still in a stage of research and development. Use of this criteria, although broad in definition, applies equally to all services. Consequently in practice it is applied in varying degrees of uniformity between the services. One service may include a widget and exclude a genastator from its stock fund, another may include the genastator and exclude the widget, while the Marine Corps may in all probability include both items in its stock fund. It was inevitable that this situation would create management problems within the Department of Defense. Corrective action was not initiated by the Department of Defense until late 1962 and as of January 1965 the 1956 Department Directive 7420-1 had not been officially revised; however, the military departments by special authorization from the Department of Defense have effected some inclusion criteria changes.

The Marine Corps Stock Fund. The Marine Corps in fulfilling its role as "a police force for the Navy" in Korea, was delayed in establishing a stock fund. Then under great pressure and with insufficient time, the Marine Corps obtained a charter and commenced operation of a stock fund on July 1, 1953, selecting broad categories of items to be included in the fund.

The charter for the Marine Corps Stock Fund was re-established March 12, 1956, and included the following major

categories of material, clothing and textiles, electronics, engineer, fuel, general supply, motor transport, ordnance, subsistence, and commissary stores. The fund is still operating under this charter. (See Appendix I) The Corps' inclusion criteria had two distinctive features it was clear and all inclusive. No further clarification of the criteria was required because the charter clearly stated that all secondary items within the categories of material approved for financing under the stock fund should be included in the fund as expeditiously as possible. Shortly thereafter, over 90% of all line items within the Marine Corps Supply System were included.

The Marine Corps, Army and Navy through June 30, 1962 followed the general criteria published in the Department of Defense Directives. The Air Force on the other hand, took an entirely different point-of-view which will be discussed later. Re-alignment and evaluation programs to clarify the criteria were initiated about July 1, 1962 and will be discussed in subsequent chapters. In summary, the criteria for inclusion or exclusion of items as of 1956-1958 were:⁷

1. Determination is generally made by standard material groupings used by the military departments.
2. Cost of items when issued for use are chargeable to a number of consuming activities or items are

⁷U. S., Department of Defense, Regulations Governing Stock Fund Operations, DOD Directive 7420.1 of December 19, 1956, p. 8.

held primarily for sale to personnel.

3. In general, there must be a recurring demand for the items so that investment shall not become frozen ("the general prudential rule").

4. Items included shall be those held for issue for supply purposes and not those held for capital investment or for use. The following types of items are excluded:

a. Real estate, installed equipment, industrial or similar machinery in use, or in stock.

b. Air craft, ships, tanks, military-type vehicles, artillery and similar items.

Components of such items or relatively minor items of equipment are not excluded if they are in stock and are subject to recurring demand.

5. Individual items shall be excluded if not fully developed and are not expected to be stocked as standard material for continuing use.

6. Normally, the items should be standardized or constitute substitutes for standard items.

7. Stocks for resale to personnel of the Armed Services shall be included only to the extent legislation authorizes.

8. When a category of material is stock-funded, mobilization reserve stocks will be included.

9. "Consumable" items are to be included when the material is expected to be expended to operating and

maintenance appropriations. However no hard and fast definition may be drawn.

10. Generally, for stock-funded categories, also included are all local purchase of such material.

The basic principle of the stock fund is its revolving characteristic, without which it ceases to be a working-capital fund. Therefore, the exclusion criteria and their interpretation have serious implications for this principle. There are basically two ways to approach the criteria principle:

1. That all items are to be included except those that can be justifiably excluded or,

2. No items will be included except those that will enhance the revolving aspects.

The above approaches are complicated in that the exclusion or inclusion determination will be by category and not by individual items.

The Marine Corps, Army and Navy generally included a maximum number of secondary items in their stock funds; whereas, the Air Force took the second approach and has taken the position that there are no characteristics of stock fund operation per se, which provide more effective supply management.⁸ Their objective is to use the revolving fund concept of financing whenever this method is the most practical, efficient, and economical means of insuring highly responsive and effective logistical

⁸U. S., Congress, Senate, The Operation of Stock Funds in the Military Establishment, 86th Cong., 2nd Sess., 1960, S. Res. 261 p. 7.

support. Therefore, the Air Force excludes the following type items from its stock fund:⁹

1. Mission essential items (i.e., technical repair parts) and those that cannot be subjected to administrative constraints at the consumer level.
2. Items over whose rate of demand or utilization the local managers have little or no control and items peculiar to a weapons system which are procured at a higher level.
3. Items subject to high obsolescence and those that may be repaired or rebuilt.
4. Items that defy demand prediction and those locally procured from sources outside the Department of Defense.

It is obvious that the Air Force's criteria is quite different from that of the Marine Corps and considered by many to be incompatible with the Department of Defense policies. In 1959 Mr. John M. Spargue, Deputy Assistant Secretary of Defense wrote in this connection:

The Department of the Air Force has installed the use of stock funds at all levels for categories of material which are generally known as "common use," but it has not used the stock fund to finance inventories of spare parts or other categories of technical material. It has not yet utilized the stock funds to finance "general supplies" below the depot level nor local procurement of common commercial consumption-type material. In this respect, it is likely that the Air Force will find useful some of the

⁹U. S., Department of Defense, Operating Fund/Stock Fund Study, October 5, 1962, p. 22.

methods of operating stock funds developed in the Army and Navy.¹⁰

Table 1 reflects the categories of items and their values that are included in the stock funds of the Marine Corps, Army and Air Force as of June 30, 1962, further illustrating the variance in scope of the stock funds among the departments.

Table 2 illustrates the impact of the exclusion criteria on the principle of a revolving fund. The Marine Corps' turnover of capital and operating stocks for 1962 were .46 and 1.5 respectively, while those of the Air Force were 2.3 and 8.4. Does this indicate the revolving aspect of the Marine Corps Stock Fund is unsatisfactory or does it indicate that the exclusion criteria for the Air Force is improperly managed? Answers to these and other questions will be dealt with in subsequent chapters. Even with the problems that stem from the need to manage a large and sluggish technical inventory, and at the same time retain the self-perpetuating characteristics of the revolving fund, the Johnson Committee made the following statement in relation to the overall effectiveness of the stock fund:

Effective supply management has been achieved as evidenced by the recoument of nearly \$5 billion of excess cash balances which has been or is scheduled for transfer by authorization of the Congress to the Treasury or to other Defense appropriations through Fiscal Year 1960. This

¹⁰Letter from Assistant Secretary of Defense Comptroller, to Committee on Appropriations, House of Representatives, Washington, D. C., October 20, 1959.

TABLE 1

INVENTORY VALUATION BY CATEGORY^a
FISCAL YEAR 1962

Categories	Marine Corps		Army		Air Force	
	Number Line Items	Value Millions	Number Line Items	Value Millions	Number Line Items	Value Millions
Chemical						
Engineer	34,425	\$ 22.7	2,037	\$ 24.4		\$
Medical-Dental			109,574	266.9		
Ordnance, Tank & Auto	68,574	100.5	7,400	43.7		
Clothing & Equipage	4,524	22.9	132,097	1,114.2	2,000	15.6
General Property	102,492	58.4	1,846	123.3	35,400	48.0
Fuel	252	1.3	13,949	144.1	11	182.3
Subsistence	330	3.3	167	99.4		
Signal, Electronic	79,500	40.3	*	124.0		
Transportation			212,225	292.3		
Defense Supply Service			17,989	50.9		
ZIID			859	0.5		
Commissary Stores	5,500	2.1	*	38.2	4,500	51.9
Air Force Academy					3,000	.4
Total	293,597	\$251.5	498,143	\$2,321.9	44,911	\$298.2

^aU. S., Department of Defense, Working Capital Funds of the Department of Defense,
30 June, 1962.

* Held by single manager

TABLE 2

CAPITAL AND INVENTORY TURNOVER*
FISCAL YEAR 1962

Items	Marine Corps	Army	Air Force
Sales (reimbursable issues) (millions)	\$124.0	\$2,274	\$1,314
Total inventories (millions)	\$251.0	\$2,322	\$ 298
Operating stocks (millions)	\$ 83.0	\$ 804.	\$ 157
Operating stock percentage of total inventory %	33%	35%	53%
Operating stock turnover based on sales (times)	1.5	2.8	8.4%
Total capital (end of period)	\$567.8	\$2,750.8	\$1,866.2
Capital turnover based on sales (times)	.46	.89	2.3

*U. S., Department of Defense, Working Capital Funds of the Department of Defense, 30, June, 1962.

constitutes tangible evidence on the merit of the stock fund program.¹¹

Ironically as it may seem, the most definitive and easily understood exclusion and inclusion criteria established for a military revolving fund was done in 1893 with the words "ordinary commercial supplies." Since that time the funds and their criteria have become increasingly complex and difficult to understand until open controversy has developed between the

¹¹U. S., Congress, Senate, loc. cit., p. 19.

Department of Defense and some of its departments.

The subsequent chapters will deal with the criteria problem and controversies to relate their significance and implications to the financial management and operational readiness of the Marine Corps.

CHAPTER II

SCOPE AND PERFORMANCE

1953-1962

During the period between 1953 through 1962 little change was effected in the operation of the Marine Corps Stock Fund and its inclusion or exclusion criteria. Items were included by category with little or no attention directed toward those items that might be in conflict with the objectives of the stock fund as a revolving capital fund; however, the wholesale inclusion of items was in accord with the Department of Defense policy which specifically stated;

The determination of which items or materials, supplies and equipment shall be included or excluded from a Stock Fund shall be made by category of material and not by individual items, subject to such exceptions as are hereinafter set forth. The term "category" shall be considered to mean the standard material groupings or subgroupings which may be used by the military departments for assignment of supply management responsibilities or organizational elements.¹

The order described the types of materials that were to be included and generally allowed only these exclusions: Capital type items such as real estate, buildings, installed equipment and major items of aircraft, weapons or vehicles,

¹U. S., Department of Defense, Regulations Governing Stock Fund Operations, DOD Directive 7420.1 December 1956.

and items still in a research and development stage.

Under this policy and other required procedures, the Marine Corps drafted its interpretation in the form of the revised Charter found in Appendix I, which places a greater restriction on the Marine Corps Stock Fund than seems to be required by the Department of Defense. Section IV of the Marine Corps' approved stock fund charter says that all materials procured and/or stored in the Marine Corps supply system to be used for maintenance and operating purposes are authorized to be carried in the Marine Corps Stock Fund, which normally would include all consumable types of material and relatively minor items of equipment, including parts and components used in the manufacture, assembly, maintenance or rebuild of end-items for the military supply system. The major categories of material approved for financing by the Marine Corps Stock Fund are set forth in the charter. All secondary items within these categories of material (including spare parts) that were otherwise financed were to be included in the fund as expeditiously as possible.

By 1958 and 1959 the Marine Corps Stock Fund had capitalized or absorbed approximately 99% of the total line items of supply within the Marine Corps Supply System, which amounted to some 278,000 line items valued at \$406.6 million as of June 30, 1959.² The approximate number of line items and the value of

²U. S. Department of Defense, Working Capital Funds of the Department of Defense, 30 June 1959, pp. 75-76.

the inventories for each of the eight stock fund categories as of June 30, 1959, were as follows:

	Approximate Number of Line Items	Value of Inventories (in Millions)
General Property	87,000	\$121.3
Clothing & Textiles	5,000	38.1
Ordnance, Tank, Automotive	79,000	150.0
Subsistence	1*	5.1
Fuel	1*	2.2
Construction Supplies & Related Equipment	29,000	36.0
Commissary Stores	5,000	2.0
Communication, Electronic & Electric	<u>73,000</u>	<u>51.9</u>
Total	278,000	\$406.6

*Less than 1 thousand items.

One might observe that the above categories practically cover the spectrum of Marine Corps material; however, there were item exceptions and exclusions that seem not to have been based on any particular authorized exclusion criteria from 1956 through 1960, such as fire control equipment and armament items of ordnance tracked vehicles. With no guidance relative to the exclusion criteria beyond that contained in the Marine Corps Charter which was not adhered to in all cases, newly assigned managers to Marine Corps Headquarters were hard pressed for answers.

New items enter the supply system generally by one of three methods. A new item may be procured as a replacement of another item already in the supply system that was stock-funded; therefore the new item would be procured by and thus be a part of the stock fund. This could be either a secondary item or a relatively minor item of equipment. The second method under which a new item may enter the Marine Corps Supply System is through the major procurement appropriations program and thus will not be included initially in the stock fund, and third, an item may be bought as a support or secondary item to a major item procured under the second method. An item procured under the third method must be designated as either an appropriated stores account or stock fund item.

Unfortunately, on occasion an essential support item will not be procured because of an assumption by one management system that it will be bought by the other. The procurement selection method was arbitrary through 1963, even though some clarification instructions were issued that year. Had one made an inquiry to a number of different technical program managers of the Marine Corps as late as 1962 relative to what criteria determines whether an item will be procured from appropriated funds or from the stock fund, the answers would have been as varied and different as the number asked. It is doubtful that any reference would have been made to any official directive, Marine Corps or Department of Defense that specified such criteria. This can be contributed to the fact that the guidance

sheets utilized in the procurement processes made no reference to such criteria.

Before it can be explained how a secondary item is designated for procurement by either method, there must be an understanding of the process by which support items are procured and how it is related to the exclusion criteria.

Upon or before the development of a major item of equipment (i.e., combat tank, cargo truck) a procurement plan is included in the Marine Corps procurement program budget. When the equipment is authorized for procurement the Marine Corps Major Procurement Program Managers initiate a "Procurement Work Order" which indicates the quantity to be procured and the funds authorized to be obligated along with other related information. A technical engineering expert will prepare the engineering data and specifications required in issuance of the contract. Concurrently he will also prepare a provisioning guidance document which will reflect those secondary items and equipment that will be centrally managed and procured from appropriated funds rather than stock funds. Provisioning is the process of determining the range and quantity of items (i.e., spares, repair parts, special tools, and test equipment) required to support and maintain an end item for a specified period of time. Secondary items refer to replacement assemblies, components and repair parts of a major item of equipment.

The procurement method was usually determined through the analogy that a similiar item for another piece of equipment

is so designated, for personal reasons of the engineer or another senior executive, or through passive action allowing all the secondary items to be automatically funded by the stock fund. Seldom would the decision be weighed against any published exclusion criteria. As inefficient and as inconsistent as this may seem there was relatively little confusion in the process. There are two significant points that should be reviewed:

1. The provisioning guidance documents should reflect the criteria or reference the official directives containing such criteria.

2. That unless the procurement of the items, selected as appropriated stores account items, is planned on a timely basis consistent with the budgeting process, funds may not be available.

The lack of definitive criteria in the Marine Corps has been recognized, according to available records, since 1958. Although many attempts were made to clarify the criteria, there were only two significant policy decisions promulgated prior to May 1964.

By an order of the Commandant of the Marine Corps, instructions were issued in 1961 that all repairable electronic modules would be funded with appropriated funds in lieu of stock funds:

All repairable electronic modules will be ASA regardless of the type of equipment in which they are used. A module platter or circuit board is classed as repairable when one or more components mounted on or in the module, platter or circuit board may be replaced or repaired resulting in a module, platter or circuit board that meets all

essential original specifications.³

Another effort was made in early 1963 to clarify and establish workable inclusion and exclusion stock fund criteria; however, the operation and functioning of the Marine Corps Stock Fund had changed little by July 1963 as evidenced by the inclusion percentages shown on page 26. .

Department and Agency Stock Fund Performance.

To analyze the revolving aspects of the Marine Corps Stock Fund, it must be understood that the organization, mission and requirements of the Marine Corps are different from those of the Army or Air Force. The Marine Corps' requirements may necessitate that a greater percentage of its capital be invested in mobilization reserves, which influences the criteria that determines what will be included in the stock fund.

The mobilization reserve stocks will be excluded from the statistical information and tables shown in this chapter because of the differences in the levels required by each service. However, peacetime operating, economic retention, contingency retention, and excess and surplus inventories are included in the inventory figures upon which the turnover rates are based. Certain financial managers object to projecting the turnover rates in this manner to measure the effectiveness or efficiency

³Letter from Commandant of the Marine Corps, to Commanding General, Marine Corps Supply Activity, Philadelphia, Penn., CSN - bjp, 28 September, 1961.

of a stock fund. It is a fact that stock funds reflecting low inventory to sales ratios generally have less difficulty in supporting their budgets, whereas those systems with high ratios have had to justify budgets in greater detail to obtain funds with potential jeopardy to operations and programs.

As a result of the stock fund exclusion criteria established by the services, there is a wide dispersion in the percentage of their total line items included therein. The approximate percentage of the total line items stocked by the Army, Marine Corps and Air Force that were financed by their respective stock funds in the fiscal years 1959 through 1963 are:

Service	Percentages for years. ⁴				
	1959	1960	1961	1962	1963
Marine Corps	99%	97%	98.8%	98%	98%
Army	90%	85%	85%	85%	85%
Air Force	8%	5%	3%	2%	1%

These percentages illustrate the scope of stock funded items within each service. Table I, page 16 reflects the major categories that make up the above percentages.

There are certain categories of items in Marine Corps and other service stock funds that meet all the desirable characteristics of the inclusion criteria. These items have a relatively high rate of turnover and require a smaller amount of capital investment. They include the categories of clothing

⁴U. S., Department of Defense, Working Capital Funds of the Department of Defense, 30 June, 1959-1963.

and textiles, fuel and subsistence commissary stores.

Table 3, page 28 illustrates the desirability of utilizing a working capital revolving fund to finance items of this nature. The inventory values shown include all stocks except the mobilization reserves. The table reflects the sales and average annual inventory for the items of the Marine Corps for the fiscal years 1959, 1960 and 1961. The average annual inventory was calculated by adding the beginning and ending mobilization reserve stocks and dividing by two. Table 3 also includes, for comparison purposes, the turnover rate of these categories experienced by the Army and Air Force. The turnover of the inventory is computed in relation to the reimbursable issues at the standard price (sales). This turnover or ratio of sales to inventory shows the number of dollars of net sales for each dollar of inventory, exclusive of the mobilization reserve stocks.

It can be noted that the Air Force has only one other category in its stock fund other than those reflected in Table 3, whereas the Marine Corps and Army carry three and thirteen additional categories respectively. The additional category in the Air Force Stock Fund is called Air Force Academy.

In reviewing the turnover rate of the categories in Table 3, it can be concluded that the basic principles and objectives of the stock fund are being attained, which are to provide more effective management of inventories of consumable material and greater economy in the utilization of such materials.

TABLE 3

TURNOVER RATE FOR SELECTED CATEGORIES
OF MARINE CORPS, ARMY AND AIR FORCE STOCK FUND MATERIAL^a

Inventory and Sales Values in (000)

Category	Fiscal Years		
	1959	1960 ^b	1961
Fuels & Lubs.			
Inventory	1896		1034
Sales	5769		3825
Turnover (Times)			
Marine Corps	2.6		3.7
Army	1.7	2.7	2.1
Air Force	8.5	8.6	8.4
Clothing & Textiles			
Inventory	26220		13254
Sales	22215		21735
Turnover			
Marine Corps	.8		1.6
Army	1.4	1.9	2.9
Air Force	1.3	1.6	2.4
Subsistence and Commissary Stores			
Inventory	6457		6430
Sales	44562		48296
Turnover			
Marine Corps	6.9		7.5
Army	5.5	5.2	5.8
Air Force	8.1	9.0	9.8

^aU. S. Department of Defense, Working Capital Funds of The Department of Defense, 3 Reports 30 June, 1959 pp. 93, 103, 108, 1960 pp. 101, 116, 1961 pp. 108, 119, 124.

^bCategory inventory and sales information not available for the Marine Corps for the year 1960.

This is accomplished through fund controls and the buyer-seller relationship. This enhances the revolving characteristic of

the fund. Even though these items are included by category rather than on an individual basis, they are compatible with the inclusion criteria shown on page 10.

The official position of departments and agencies within the Department of Defense, the Army, Navy, Marine Corps, Air Force and The Defense Supply Agency concerning the inclusion of those categories, shown in Table 3, in the stock funds was cited in a 1962 Department of Defense Stock Fund Study Report.⁵ They indicated that these categories generally have all the advantages connected with stock-funding items, there appears to be no disadvantages and in fact historically these are the types of items which led to the establishment of the stock fund.

The apparent differences in turnover within a given category among the three services reflected in Table 3 involve the basic principles of merchandising such as sales volume, demand and stock level objectives. As an example, the Air Force understandably will have a much greater turnover in fuels and lubricants than the Marine Corps or Army because of its high usage rate.

In relating the total Marine Corps Stock Fund turnover rate, which is .3 for 1959-1960 and .4 for 1961, to the turnover rates of Table 3, it is obvious that these categories of supplies are making a significant contribution to the revolving nature of

⁵U. S. Department of Defense, Operation Fund/Stock Fund Study, October 5, 1962, pp. 27-28.

the total stock funds. Determining the items of the Marine Corps Stock Fund that are jeopardizing its revolving characteristic, necessitates a review of the technical categories.

The information in Table 4 has been developed on the same basis as that of Table 3 but includes the years 1959 and 1961 only, because the Marine Corps reports for 1960 were not broken down by categories. Table 4 also does not include any information relative to the other services.

The low turnover rates reflected in Table 4 indicate why the total stock fund turnover rate is lower than the rates shown in Table 3, page 28. The turnover rates in Table 4 point out, that for each dollar invested in the categories listed, less the mobilization reserves, sales have been only ten percent per year. It has been determined that many items in these categories do have a relatively high recurring demand; however, the revolving characteristic of the stock fund is not enhanced by the inclusion of all the items in these categories. Under the Department of Defense Directive 7420.1 dated December 19, 1956 individual items may not be excluded except those not fully developed for use or application, or there is a major contingency that an item will not be stocked as standard material for continuing use.

There are several situations some of which are discussed below, that contribute to the incompatibility of including items by category. The data reflected in Tables 5 page 34 and 6, page 35 relates to Fiscal Year 1964, and may not be completely

TABLE 4

TURNOVER RATE FOR SELECTED CATEGORIES
OF ARMY AND MARINE CORPS STOCK FUND MATERIAL

In Thousands (000)		
Category	Fiscal Year	
	1959	1961
Ordnance Tank & Automotive		
Average Inventory	137613	119755
Sales	15482	14348
Turnover rate		
Marine Corps	.1	.1
Engineer Supply		
Average Inventory	27745	25760
Sales	3173	5156
Turnover rate		
Marine Corps	.1	.2
Total Marine Corps Stock Fund Turnover Less Mobilization Reserve Stocks	.3	.3

conclusive in all respects; however, it is considered to be sufficiently accurate to illustrate the contribution of specific classifications of material to their respective categories shown in Table 4. The percentages and turnover rates indicated have not changed significantly since 1961.

Insurance type items - In the procurement of repair parts to support a new major item of equipment, some items are procured for which no failure is predicated through normal usage; however, if a failure is experienced or loss occurs through

accident, lack of a replacement item would seriously hamper the operational capability of a weapon or weapon system. Therefore, such items are purchased on a limited quantity basis primarily because of the consequences of failure or loss rather than because of the probability of such an occurrence. To help illustrate the foregoing, Mr. Dale Willbrandt cited the following statistics related to the Navy Electronics Supply Office Stock Fund:

In Fiscal Year 1962, some 80,000 items experienced no demand whatsoever. In addition, there were some 70,000 items which experienced demands of less than \$500 each for the fiscal year. In spite of what might be assumed of such raw statistics, the bulk of these items are not candidates for disposal as excess. Rather, they are required for insurance purposes, reserve fleet applications, etc. Also, it must be recognized that thousands of these items are so new to the system that they have had no opportunity to experience a significant demand. In short, the non-moving and slow-moving portion of the technical inventory will always remain high under the existing concept of operations.⁶

Mr. Willbrandt's statement has been verified by a study conducted in the Marine Corps shown in Table 5, that of 8914 insurance type items reviewed, only 7% have reflected any demand at all and in some cases less than 1% of the total investment had revolved during a year. To some degree this accounts for a portion of the low turnover rates reflected in Table 4 page 31.

Slow moving items - These are items that have a very low predictable demand rate and whose future sales are not

⁶Dale Willbrandt, "Stock Funding in Transition", Navy Comptroller Review, "Vol. X, No 4. (1963)", p. 16.

likely to maintain the fund's revolving characteristic. They differ from insurance items in that their impact upon the operational capability of weapons, weapon systems and equipment is not as critical as the insurance items. Some of the items falling within this criterion are discussed below.

Items procured and issued for a specific activity and not planned to be replenished or available for general use are purchased by the stock fund as a result or anticipation of a bill-of-material (B.O.M.) required to rebuild or repair major end items at the 5th echelon depot level.

In Table 6, page 35 there are no turnover rates or expected sales in FY-64 of any items contained in the B.O.M. class which indicates that the B.O.M.'s are not to be utilized in the current fiscal year. Through calculation it can be determined from Table 6 that an investment of approximately \$233,900 will be frozen with no probability of any sales during Fiscal Year 1964.

Class IV and chemical warfare items - These are items procured and held for a specific application under specified conditions; for example, vehicle winterization kits, personnel arctic clothing, equipment and gas protective masks. Stock-funding these items violates the consumable, recurring demand and "the general prudential rule" criterion established by the Department of Defense Directive 7420.1.⁷ The chemical warfare entry in Table 6 reflects a turnover rate of .22 which is

⁷U. S. Department of Defense, Regulations Governing Stock Fund Operations, DOD Directive 7420.1 December 1956, p. 9.

TABLE 5
 STOCK FUND M. C. INSURANCE ITEM STATISTICS^a
 Fiscal Year 1964 (in thousands)

Category	Total FSN	Number Items No Demand	Total Inventory Value	Value Items with no Demand	Demand FY 64	Turnover Rate
Ordnance-Tank-Automotive	1981	1868	4132.3	3907.9	46.1	.01
Engineer	2274	2161	1207.8	1105.9	16	.01
Communications, Electronics	3881	3558	5125.8	4420	65.1	.01
General Property	773	718	642.4	394.6	8.5	.01
Total	8914	8305	11112.7	9828.4	135.7	

^aConversion Program Stock Fund Items to Appropriated Stores Accounts Statistics", Prepared by, Financial Management Branch Headquarters Marine Corps, Washington, D. C. May 1964, Enclosure (3).

Note: The table is presented for illustrative purposes only, due to a slight error detected in the reporting procedure.

TABLE 6

 STATISTICS OF SELECTED SLOW MOVING STOCK FUND ITEMS^a
 Fiscal Year 1964 (Values in thousands)

Category	Total FSNs	No. Items with no Demand	Total Value of Inventory	Value of Items No Demand	Demand FY-64 Value	Turnover Rate
Ordnance-Tank- Automotive						
Class IV	27	24	1504.9	562.5	21.4	.01
Modification kits	71	56	318.1	98.1	37.1	.12
Sets, kits & chests	5	1	78	000	9.6	.12
B.O.M. Items	516	516	155	155	00	.00
Engineer						
Class IV	10	7	566	270.9	14.2	.02
Modification kits	20	11	11.1	8.8	1.9	.17
Sets, kits & chests	48	25	458.3	289.8	129.2	.29
B.O.M. Items	269	269	36.2	36.2	000	.00
Communications & Electronics						
Modifications	57	43	98.4	58	5.1	.05
B.O.M. Items	821	821	3.5	3.5	00	.00
General Property						
Class IV	366	256	11432.5	2249.7	70.5	-.01
Chemical Warfare	54	21	2581	565.8	569.7	.22
Sets, kits & chests	164	119	1079	469.8	151	.14
B.O.M. Items	187	187	39.2	39.2	00	.00
	2615	2356	18361.2	4807.3	1009.7	.06

^aConversion Program Stock Fund Items to Appropriated Stores Accounts Statistics, "Prepared by, Financial Management Branch, Headquarters, United States Marine Corps, Washington, D. C., May 1964. Enclosures 5,6,7,8, and 9.

considerably higher than the average or median rates of the remaining classifications. The class IV items while having a much higher inventory value, are quite low in their turnover rate. By combining all the class IV and chemical warfare items and FY-64 demands, it can be seen that the aggregate inventory value is approximately \$16,084,400 with an estimated total annual sales anticipation of \$675,800, which leaves approximately a \$15,408,600 investment or 96% of the total frozen and non-revolving.

There are items designed for one-time installation on an end item; i.e., modification kits which are purchased on a basis of one per piece of equipment and after application all stocks should be exhausted. Table 6 indicates that 89% of the total amount invested in modification kits will not be issued during Fiscal Year 1964. Although higher than some of the other classifications in the table, it is somewhat lower than the total Marine Corps Stock Fund turnover rate of about .4.

These slow movers-depot rebuild, class IV, chemical warfare, modification kits, sets, kits and chests find themselves to some degree, in each of the supply categories; i.e., ordnance-tank-automotive, engineer, communications-electronics, etc. However, only the significant classes of these items are reflected in Table 6. For example, the ordnance-tank-automotive category does not include slow moving chemical items because the number of chemical items and the values thereof are small.

An obstacle in the path of efficiency for the stock fund is the fact that the fund is limited by the dollar ceiling

apportioned by the Defense Department and the Bureau of the Budget. If sales appear to be exceeding projected levels and the buying program must be expanded to accommodate this future demand, joint approval of the Department of Defense and the Bureau of the Budget must be requested to obligate funds in anticipation of later reimbursement. Hence, one of the strategic concepts of stock funds, namely, to create a "true revolving fund" is impaired. The "Johnson Report" recommends corrective action by delegating more authority to the stock fund manager, and as the committee put it:

Either the stock fund manager is efficient or he is not. If he is not then he should be removed. If he is efficient then he should be vested with the authority to operate efficiently and not be hampered and restricted by budgetary control restrictions.⁸

The apportionment process relative to the stock fund is further criticized by each of the military departments:

The Department of the Army states the effectiveness of stock fund operation depends upon the management ability to forecast customer demands, maintain a minimum inventory position to meet these demands. This requires a responsive worldwide inventory distribution system. It emphasizes the evils of the apportionment process The Army states this impedes the revolving fund concept of financing and has served as a deterrent to timely procurement to meet customer sales during the year.⁹

The Department of the Navy, . . . says apportionment control is its most serious deterrent to a more effective use of the stock fund. The Navy believes apportionment control is unnecessary, . . . It also reports the income to the funds is already controlled by the fact consuming appropriations are controlled by the apportionment system.¹⁰

⁸U. S., Congress, Senate, The Operation of Stock Funds in the Military Establishment, 86th Cong., 2nd Sess., 1960, S. Res. 261 p. 15.

⁹Ibid., p. 17. ¹⁰Ibid., p. 17.

The Air Force concurs with the Army and Navy. It advocates elimination of apportionment control above Air Force level. It states that it prevents stock fund operations on a "true" revolving basis.¹¹

After reviewing the forces working against effective stock fund operations, Table 7 will be more meaningful. Table 7 contains inventory, net sales and total Marine Corps stock fund turnover rates less the mobilization reserve stocks for Fiscal Years 1958 thru 1963. This table reflects that the total inventory declined while sales and turnover rates increased, signifying that the Marine Corps Stock Fund's effectiveness and efficiency had improved during the period.

Over the years, food, fuel, clothing and general property items have tended to most completely satisfy the stock fund inclusion criteria in concept and operation. They have satisfied the criteria because of good demand characteristics and stability in design and specifications and also because they were actually the same or similar to commercial items. Even electronics parts and several other technical material items that were initially introduced into the stock fund tended to have the characteristics of general application, stability and adequate demand. It was not expected that in less than ten years of operation there would be categories of material where half the items would experience no sales during a fiscal year. This happened not because of a change in the concept, but because of wholesale inclusion of hundreds of thousands of technical items on the assumption that

¹¹Ibid., p. 18.

TABLE 7

STOCK FUND INVENTORY AND SALES STATISTICS^a
For Fiscal Years 1958 - 1963 (in millions)

Items	Fiscal Year					
	1958	1959	1960	1961	1962	1963
Inventories (closing)						
Long supply stocks	\$277	\$252	\$283	\$149	\$106	\$108
Mobilization reserve	71	71	58	56	62	35
Operating stocks	57	83	52	52	83	93
Total Inventories	\$405	\$406	\$393	\$257	\$251	\$236
A. Inventories less mobilization reserves	\$334	\$335	\$335	\$201	\$189	\$201
B. Net sales	\$105	\$106	\$105	\$110	\$124	\$124
Turnover rate B+A	.31	.31	.31	.55	.66	.62

^aU. S., Department of Defense, Working Capital Funds of the Department of Defense, 30 June 1963, p. 81.

they generally meet the criteria for stock-funding.

In response to a Congressional inquiry the Department of Defense forwarded what it considered to be the advantages of utilizing stock funding over that of appropriated (free issue) funds.¹² It also included statements of disadvantages prepared

¹²Assistant Secretary of Defense. "Letter to Committee on Appropriations, House of Representatives," Washington, D. C. 20 October 1959.

by other than department personnel, and attempted to disprove the statements as will be shown later.

Even with this special interest shown by Congress the Department of Defense did not indicate any intention to revise the inclusion criteria but instead strived to justify the current operation in all respects.

Some of the significant advantages of financing items through the stock fund over appropriated funds that were cited in the Department of Defense letter are shown below.¹³

Advantages of Stock Fund over Appropriated Funds.

Congress and the executive departments can more effectively control the cost of operating and maintaining the military establishment through the appropriation of funds for that purpose. When other appropriated funds are used to finance procurement material which will be issued free, control of operating costs is very difficult. Where stock funds are used, at least at the wholesale level, budgeting control and accounting for the total operation-and-maintenance costs is simpler, more economical, and effective at every level, than when there are free issues of consumable materiel and only the remainder of operating costs is subject to consumer fund control.

Where stock funds are used and consumers are funded for the total operation-and-maintenance costs, there are positive management incentives for economy and efficiency which are absent

¹³Ibid.

when materiel is issued free. This is because the consumers have limited funds and have the authority to decide for themselves how to apply the funds most effectively to accomplish their missions, for which objective they are militarily accountable. In this circumstance, first things must come first and cost-consciousness is engendered. Human nature will work for these objectives and not against them. When consumable material is issued free (because it is not financed under stock funds), consumers have no compulsion nor incentive not to be wasteful. In the past and at present there is no form of budgetary control over the unfunded cost of materiel which is issued free. This wastefulness would be minimized if additional budgetary controls were exerted over total costs (and therefore unfunded costs).

Stock fund financing of consumable materiel provides an incentive for a central inventory manager to manage his stocks and procurement more effectively than if procurement of the materiel is financed under appropriated funds. Effective inventory management means maintenance of well balanced stocks, effective distribution of stocks by location and liquidation of dead-stocks. Associated with effective inventory management is effective financial management in such terms as reasonably accurate sales or issue forecasts, determination of minimum financial requirements to finance inventories, determination of minimum amounts of on-order requirements and budgets for procurement requirements. The requirements for reimbursement for all issues of materiel from stock funds for purposes of

consumption, provides funds for procurement to replenish stocks commensurate with issues. If such issues are greater than forecast, the budget for procurement may be increased administratively during the fiscal year without processing a supplemental appropriation request as would be required if materiel were issued free. The stock fund will accommodate an increased turnover of stocks without increasing capital, within certain limits.

The operation of single supply systems for the entire Department of Defense at the "wholesale" level for common categories of materiel under "single-manager" assignments, has been facilitated by the use of stock funds. A separate unified supply system at the wholesale level has been created for the entire Department of Defense with respect to each of the several major common categories of materiel. In each case there is a single-manager assignment to the Secretary of a military department.

Disadvantages of the use of stock funds.¹⁴

Opponents of the stock fund have established what they believe to be specific criticisms of the utilization of the concept to finance certain materiel, the most important of which are discussed below. As mentioned before these criticisms are disproved by statements of the Defense Department.

One criticism is that the military forces risk to a greater degree the grounding of aircraft or nonavailability of

¹⁴Ibid.

equipment for lack of spare parts, if such materiel is financed by a stock fund. However, the degree of risk is proportionate to the quality of financial management, especially in the coordination of programming, budgeting and funding, and with good management the risk should not be significant. Military personnel generally fear impairing military readiness by reason of aircraft or other equipment being temporarily out of service for lack of parts. They are accustomed to free use of spare parts as long as they are in stock, and they fear the possibility of being unable to use parts actually in stock at an installation if such parts are financed under a stock fund which must be reimbursed by the consumer from his allotted funds. This fear is most acute in the area of aircraft operation and maintenance where spare parts have not yet been financed under stock funds.

Another criticism is that the use of stock funds results in increased paper work with greater administrative costs. In the main, paper work in the materiel area has increased in the Army and Air Force in recent years. It has been attributed to the introduction of financial accounting for all materiel whether or not it is financed under stock funds. It is believed that the results are worthwhile in reducing stock levels and procurement, especially in the area of consumable materiel, and that the increased discipline of stock funds has brought greater benefits than previously. Another reason for increased paper work in the consumer area is the budgeting and costing of the use of consumable materiel by responsibility area, but this is true

whether or not stock funds are used to finance the materiel. As indicated under the advantages, the use of stock funds and consumer funding of cost of materiel to be consumed actually reduces paper work as compared with the condition which exists when the materiel is issued free.

Cited as a disadvantage is the feeling that apportionment control of procurement obligations under stock funds tends to destroy the advantages of the stock fund from the standpoint of improving supply management. This is a criticism of a particular form of budgetary control employed at the level of the Bureau of the Budget and Office of the Secretary of Defense, and is not necessarily a criticism of the stock-fund system. It is believed by some officials that financing technical materiel, such as aircraft spare parts, under a stock fund is a mistake because of stock obsolescence losses which are bound to occur. They believe such losses might impair the solvency of the stock fund unless covered by specific appropriations to restore capital, and that requests for such appropriations would be looked upon unkindly and perhaps refused. While it is true that stock losses are bound to occur in the stock fund upon disposal of surplus obsolete spare parts, such losses should be minimized.

In case of all-out war, the use of stock funds and consumer fund control would have to be abandoned completely. In a limited war, the use of stock funds and consumer fund control would have to be abandoned in the combat area. Some experts believe that all financial controls should be the same in

peacetime and in all areas as in all-out emergencies; this view is considered to be erroneous. In all-out emergency areas, financial controls generally must be drastically reduced. However, it is not believed wise to use this fact as a basis for justification of avoidance of financial controls in peacetime or in areas not subject to emergency conditions. It is necessary to avoid waste and economize in order to use resources effectively in providing maximum military readiness.

Other advantages and disadvantages considered significant.

The Air Force contends that unless there is a buyer-seller relationship there are disadvantages to the use of stock fund financing.¹⁵ The buyer-seller relationship exists when distribution of inventories is made, for the most part, to agencies outside a service or to individuals reimbursing the fund from their own financial resources not subject to agency control. According to the Air Force, a buyer-seller relationship does not exist where a military department procures its requirements with stock funds and then buys them again with operation and maintenance funds from the stock fund. The stock fund financing, according to the Air Force, creates duplication of effort, works against maximum utilization of available assets and could impair supply responsiveness.

Upon the establishment of the stock funds within the Department of Defense it was intended that the principles would

¹⁵U. S., Congress, Senate loc. cit., p. 7.

would be uniformly applied throughout the military departments. Without issuing specific orders, the Department of Defense expected all consumable items to be financed through the use of stock funds. Consumable materiel is distinguished from capital-type materiel as follows:

Materiel, consumable. Materiel which after issue from stock is consumed in use or which, while having continuing life, becomes incorporated in other property, thus losing its identity (for example, spare parts). Excludes major components of equipment, such as aircraft engines, ship propeller shafts, and electronic "black boxes". It is impracticable to establish by definition a precise dividing line between consumable materiel and "capital-type" materiel with respect to components of equipment. However, any components of equipment which are susceptible to cost control upon the basis of budgeting and accounting for the cost of consumption should be considered to be consumable materiel, and all other components should be considered to be capital-type materiel.

Materiel, capital-type. All items of property, except real estate and consumable materiel (q.v.), necessary for the equipment, maintenance, operation and support of military activities without distinction as to their application for purposes of combat, logistical support, or administration.

Thus, by aircraft spare parts, is meant those items used in repair of aircraft and aircraft equipment, but excluding major components such as engines and electronic black boxes, which are presently considered to be capital-type materiel appropriate for financing under appropriated funds.¹⁶

This section discussed the performance of the stock fund from the policy-making point of view. It further reflected the divergent views as to what type of items should be included in or excluded from the stock fund from a department level. This divergence of standards among the services primarily

¹⁶Ibid., p. 20-21.

centers around the inclusion of technical materiel. The next section in this chapter will explore the performance of the stock fund within the combat and support activities.

Stock Fund Performance at Combat and Support Activity Level.

Since the Department of Defense and the Air Force could not agree on the inclusion of technical materiel in the stock fund and presumably for other reasons, Congress in March 1961 sent a letter to The Comptroller General of the United States stating in part:

During the past several years Congressional hearings have revealed a number of weaknesses in the concept and operation of the stock funds such as (1) divergence of standards of use among the services, (2) use at wholesale and retail levels, (3) items for inclusion and (4) reimbursement procedures.¹⁷

The subsequent inquiry by the General Accounting Office was directed primarily toward the technical materiel included in the stock fund which by its very nature eliminated the Air Force from review because, as previously established herein, the Air Force did not include technical materiel in their stock fund.

This approach to such a study has merit for two reasons:

1. It must be assumed that the combat readiness of the Marine Corps, Navy and Army is as essential and equally as difficult to maintain as that of the Air Force.
2. If the other services are effectively utilizing the revolving fund concept of financing technical materiel,

¹⁷Comptroller General of the United States. Review of Stock Funds and Related Consumer Funds in the Department of Defense Part I., Washington D. C., G.A.O., 1962, pp. 49-50

then it would be difficult to justify the current position of the Air Force.

The financial management related to administering the consumer accounts seems to have caused considerable difficulty in obtaining and maintaining the appropriate depth and range of repair parts, assemblies and components.

The General Accounting Office's review disclosed that the readiness of combat troop units and ships in the United States and overseas areas was jeopardized by the inability to obtain repair parts and other materiel that were available within the stock fund supply system. It was established that uneconomical and in some cases illegal practices occurred at certain support activities because of the lack of consumer funds.¹⁸ Thus the following conditions existed that could be eliminated or would have been avoided had the technical repair parts been furnished to the user on a free issue basis.

1. Uneconomical practices to overcome consumer fund shortages.
2. Illegal practices to overcome consumer fund shortages.
3. Combat equipment allowed to become or remain unserviceable.
4. Training of troops jeopardized.
5. Ships operating without required essential

¹⁸Ibid., Part I and II.

repair parts on board.

Each of the above situations will be individually discussed to illustrate the problems encountered when technical materiel is included in the stock fund. The illustrations of specific situations for the most part, do not directly relate to the Marine Corps but the implications and situations generally apply. These illustrations are not cited for the purpose of questioning the validity or necessity for the situations but merely for the purpose of evaluating the inclusion criteria problems encountered.

Uneconomical practices to overcome consumer fund shortages.

This situation exists especially in support activities such as a field or depot maintenance facility.

A field activity may exceed its echelon of maintenance by repairing an item that should have been evacuated to a depot facility. For example in a European Command 3,600 assemblies were reconditioned at a cost of \$221,000 that would have otherwise cost \$430,000. The net savings in consumer funds was \$209,000.¹⁹ Even though a local savings was realized there were undesirable implications in this practice. The failures and usage factors were not properly reflected in the supply system which would tend to cause an increase in inventory at the support level initially and then an inadequate inventory level if the duplicate rebuild facility should cease to operate. Under these

¹⁹Ibid., Part 1,, p. 23.

conditions the support facility may be underutilized to such an extent that operation would be uneconomical. If a field maintenance ship adequately accomplishes its normally required workload little time or labor should be available for assuming the duties of a high echelon activity.

Major end items that are not financed under the stock fund have been replaced to avoid spending operating and maintenance funds to effect the necessary repairs. As a result the Government has incurred in some cases unnecessary transportation expenses at a cost considerably more than the cost of repairing the unit.

On occasion, assemblies held have been needed to effect a repair but because of their high-dollar-value, they were turned in for credit to obtain funds for a higher priority job. When funds became more plentiful the materiel was repurchased.²⁰

Reports to Headquarters Marine Corps show that at times fund deficiencies have restricted requisitions to those items with a priority 5 designator or less. A priority 5 designator signifies the materiel being requisitioned or purchased is required for an overseas Marine Corps combat unit, and the lack of which will impair the operational capability (combat readiness) of the unit.²¹ Other priorities of less urgency must be held until sufficient funds become available. This creates an

²⁰Ibid., Part I., pp. 33-34.

²¹U. S. Marine Corps "Order 4400.16A CSN-4-baw,"
23 February 1962, Appendix c, Encl 1, p. c-2.

unrealistic demand picture and an inefficient sporadic workload throughout the supply channels.

Illegal practices to overcome consumer fund shortages - To overcome consumer fund shortages non-stock fund items have been disassembled and the repair parts and assemblies turned in to the stock fund for credit. Activities have obtained credit in the amount of \$1,075,000 for a single transaction.²²

Combat equipment allowed to become or remain unserviceable - Insufficiency of consumer funds has in many cases restricted procurement of materiel to high priority items and prevented units from obtaining necessary items resulting in combat equipment being in an unserviceable condition. Near the end of Fiscal Year 1961, a stock fund branch at one support activity could not provide needed materiel valued at \$1,154,190 to combat units because the units requesting the materiel did not have sufficient consumer funds to reimburse the stock fund, even though the materiel was available. In another case, \$1,045,668 worth of materiel was required, but could not be provided because the items requested were out of stock or enroute from other depots; however, had the items been available insufficient consumer funds would have prevented their delivery. The following is a valuation summary of the major items by category that were available in the stock fund but could not be furnished because of insufficient funds:²³

²²Comptroller General., loc. cit., p. 40.

²³Ibid., Part II., pp. 14-15

Category	Value of available materiel required but could not be issued
Ordnance items	\$ 405,925
Quartermaster general supplies	497,536
Signal items	148,956
Engineer items	81,644
Other	20,129
	<hr/>
Total value	\$1,154,190

Untimely receipt of operations and maintenance funds has often resulted in units being deployed without their required basic load of repair parts.

The Marine Corps has often let vehicles remain on deadline for extended periods of time awaiting a repair part rather than purchase a new major assembly at high cost. For example, the main engine of a tank recovery vehicle is a stock fund item and is priced at approximately \$35,000. Occasionally vehicles have been held deadlined for periods up to 60 days awaiting a repair part valued at approximately \$200.00 in lieu of turning in the unserviceable engine, receiving credit in the amount of about \$20,000 and buying a new engine at a net cost of approximately \$15,000. This procedure was considered to be an efficient use of available resources. Had there been an emergency combat operational plan there were sufficient back up vehicles and engine assemblies to prevent jeopardizing the operation.

Training of troops jeopardized - On occasion the Marine Corps, as well as other services, has temporarily experienced a

curtailment of training as a result of consumer funds.

During the first half of Fiscal Year 1961, the Army eliminated many troop training activities essential to combat preparedness to reduce the need for maintenance parts and thus conserve consumer funds. The following training activities, considered essential to combat effectiveness of forces in Europe, were curtailed or cancelled in Fiscal Year 1961.²⁴

1. Two division field training exercises which included all river crossing exercises, and all artillery road marches.

2. Gasoline allocations were reduced by 30 per cent which eliminated certain steps in progressive training and prohibited the maintenance of the training proficiency.

3. Armored battalions were prohibited from utilizing dry run tank crew proficiency courses with the result that their proficiency was reduced.

The lack of consumer funds not only curtailed the training but also prevented the procurement of needed repair parts. The demand and availability of certain items that were required by the Seventh Army are reflected in Table 8. In this case an inventory value of \$410,783 could not be purchased although adequate assets were held in the stock fund.

Ships operating without required essential repair parts on board - A General Accounting Office review of thirty-one ships disclosed that due to a lack of consumer funds nineteen ships had

²⁴Ibid., Part II pp. 22-23.

TABLE 8

DEMAND AND AVAILABILITY OF
SELECTED ITEMS REQUIRED BY
SEVENTH ARMY FISCAL YEAR 1961^a

Items	Unfilled orders due to lack of funds		Available in Europe Stock Fund	Unit Cost
	QTY	Value		
Periscope	49	3,087.	427	63
Oil cooler	3	402	135	134
Transmission	27	289,305.	245	10,715
Engines	6	5,190.	197	865
Winch	1	469.	251	469
Engine	14	31,332.	703	2,238
Transfer	53	30,051	1,641	567
Transmission	6	3,072	1,361	512
Wheel Assembly	13	2,444	414	188
Regulator	87	2,871	1,070	33
Engine	29	24,447	1,835	843
Differential	104	13,416	960	129
Generator	61	4,697	1,317	77
Total Value		410,783		

^aComptroller General of the United States. Review of Stock Funds and Related Consumer Funds in the Department of Defense, Part II., Washington, D. C., G.A.O. 1962, p. 25.

a repair parts shortage valued at approximately \$400,000.²⁵

One of the more significant examples disclosed how the lack of repair parts could affect the mission of a ship, this was the shortage on an aircraft carrier of three parts (a rod and 2 liners), items which were components of the carriers 12-gallons-per-hour liquid oxygen generator compressor. The purpose of this compressor is to produce liquid oxygen for jet aircraft to permit combustion in the jet engine at high altitudes. Although there were two four gallons-per-minute compressors on board they could not produce sufficient quantities of oxygen to meet normal flight requirements.

Four destroyers reviewed for the status of repair parts and consumer funds revealed a shortage of 805 line items of ships and electronic repair parts amounting to \$94,000 that could not be requisitioned from the stock fund because of insufficient consumer funds. In fact the fund shortage extended to the next higher level (Force Commander); therefore, the ships were informed that requests for augmentations could no longer be funded and that funds were already perilously overcommitted with little hope for future relief.

The Comptroller Generals Position. The Comptroller General has recommended that all technical repair parts and combat essential materiel be excluded from the stock fund or that a change in the financial management procedures be revised so as to discontinue

²⁵Ibid., Part II., pp. 27-39.

the use of operation and maintenance funds at the combat and service support level.²⁶

From the information presented thus far it could be concluded on the surface that the inclusion of technical materiel in the stock fund may be jeopardizing the operational readiness of our combat forces.

The Navy admits that neither stock funds nor operation and maintenance funds have been available in relation to its requirements. Consequently, fleets have operated on an austerity basis which has resulted in continuous depletion of endurance inventories.

However, to remove all repair parts and combat materiel from the stock fund because of these isolated funding problems would be comparable to grounding all aircraft because a small percentage failed to perform to expectations.

As an alternative, it might be suggested that unlimited operation and maintenance funds be provided which would in affect allow unlimited procurement. Either method would be incompatible with two of the purposes of the stock fund which are:

1. To provide a simplified means for consolidated management, financial control, and accounting for the procurement and inventories of those items of materiels, supplies and equipment, the costs of which are chargeable, when issued for use to a number of consuming activities.

²⁶Ibid., Part II., p. 11.

2. To facilitate improved financial control of consumption of materiel included in such stocks through budgeting, financing, and accounting for the use of such materiel at station level.

To promote efficiency in any operation it is considered essential to limit, to some degree, the resources available or else all goods will be considered free. This is accomplished through restriction of operation and maintenance funds by defense management officials. Thus limitation of funds will no doubt increase cost consciousness on the part of the consumer because he is required to pay for materiel as it is drawn from stocks. However, the consumer must continuously guard against the possibility of making savings at the expense of operational readiness.

Results of Questionnaire.

To obtain current information concerning the fund deficiency question, a questionnaire was forwarded to four major Marine Corps Commands (see Appendix II) containing a list of some 700 items being considered for transfer from the stock fund to appropriated accounts. This transfer in effect would make the items available for use on a free-issue basis.

The following question was asked: "To what degree, if any, will the migration of these items to appropriated stores account enhance the operational readiness of your command?"

The answers of all commands unanimously agreed that the migration of the items contained in the questionnaire out of the

stock fund would have no effect on the operational readiness of their respective commands from a materiel standpoint. According to the replies, availability of repair parts, not the lack of funds, is the principal factor in producing deadlined equipment.

The debatability of these answers cannot appropriately be explored in this paper; however, fund deficiencies have existed and do exist at the time of this writing. Whether or not the items contained in enclosure 1 to Appendix II are a part of the unfunded deficiencies is not known. It could be concluded, however, that had these items or all technical items been excluded from the stock fund, the available funds could have been utilized for other purposes. Conversely it could be stated that their budgets would not have included a corresponding amount of obligational authority and thus the deficiencies, percentage wise, would have been the same.

According to fiscal executives of the Marine Corps the reported deficiencies are normally the result of inefficient financial management, accounting and inventory control procedures on the part of field activities. Regardless of the circumstances that restrict procurement, the effect is the same - troops do not have the gear required.

During recent years several Marine Corps Commands were restricted from buying any materiel except essential items, the lack of which would impair combat readiness. Funds were available however, to cover day to day type requirements, but funds to maintain the fleet stock accounts at the desired "requisitioning

objective" were not sufficient. This is not to say that operation and maintenance funds were not available from higher authority, but it is presented to illustrate the difficulties experienced with stock-funded technical materiel.

Summary.

There appears to be no real difference as to the availability of funds and materiel under an appropriated account or stock fund system; however, materiel available from appropriated stores accounts permits the customer greater flexibility and therefore could improve actual readiness. Under the current situation and overall budgetary limitations consumer purchases from the stock fund are restricted. In such cases, operational readiness may be impaired. This is further aggravated by the fact that there are many items in the stock fund that are of high-dollar-value and usage is difficult to predict. One unanticipated failure of a component costing \$35,000 can throw a unit budget completely out of control in a current quarter or even a fiscal year.

The advantages and disadvantages of funding items through the stock fund over that of appropriated accounts, were discussed earlier in this chapter. Many facts have been brought out suggesting that perhaps all technical materiel should be excluded from the stock fund and procured with major procurement appropriations and furnished on a "free issue" basis.

An appropriation (free issue) system contemplates financing of inventories of technical repair parts under general

appropriation accounts with free issue from central supply depots to bases or commands for use or consumption. The system prevails for the most part in the Air Force, to a lesser extent in the Navy and only for a few secondary items in the Marine Corps.

From the field commander's viewpoint the free issue system provides him with the most flexibility and readiness because materiel may be requisitioned based upon his computed needs with no financial constraints. Constraints may exist at the procurement level due to fund limitations or supply level policies, thus restricting the availability of materiel. Experience shows that incentives to conserve materiel resources are relatively weak under a free issue system. As a result of the general atmosphere surrounding a free issue system, financial inventory accounting has not been generally as reliable as under stock funding. This situation has been repeatedly demonstrated where materiel has been transferred from appropriation to stock fund financing.

The appropriated account, "free issue" system is efficient when allowances are established by item at a relatively high organizational level and rigidly enforced. The best examples of this are major end items (i.e., combat tanks) and some high cost secondary components such as a rangefinder, a \$15,000 component of a combat tank. These types of items can be effectively managed at a central inventory control point because of their comparatively low density. They are usually issued as directed by higher

headquarters and requirements can be correlated with financial requirements at the level where the funds are managed.

Financial management of the remainder of the materiel in the supply system presents the principal problem. This includes items such as shovels, hammers, spark plugs, fuel pumps, gas caps, tent pegs, canteens and approximately 317,000 other line items. For all practical purposes the requirements for these items are established by the user, except for nominal controls established by supply policy. Therefore, where this materiel is not under financial control, the withdrawals from the supply system are not related to any financial decision. The needs determined by the user under supply policies are requisitioned from the proper supply point and, if stock is available it is issued; otherwise, it will be purchased by the central agency providing funds are available. Under the restrictions of an annual budgeting process, more inventory would have to be maintained than under the revolving stock fund concept.

While, at a given point in time it may appear that additional materiel resources are available under a free issue concept, this is not true for the system as a whole. The type of system does not increase total Department of Defense resources since these are fixed by assets owned, on order and financed under Congressionally approved budget programs, regardless of the system of management. Thus, materiel requisitioned by a user beyond real needs may deprive other users of needed materiel. Such imbalances have been considered as normal errors of a supply system,

and therefore do not get the same publicity as a supply shortage associated with consumer funds. Nevertheless, the shortages exist under any management system since resources do not meet total requirements as computed by all commands within a service or department.

It is clear that there is no single answer to the stock fund criteria question that meets all possible objectives to the exclusion of all others. It is a complex subject where advantages and disadvantages exist with respect to any individual course of action. Flexibility attained by an action in one area usually decreases flexibility in another area or may relax fund or supply control to an unacceptable degree. Conversely, controls or restraints applied to the use of funds always run the risk of unwise or inept administration and undesirable results. No system is perfect and the present system, be it appropriated stores accounts or stock fund accounts, is not.

Chapter III relates the methods utilized and revised exclusion criteria adopted by the Department of Defense and the Marine Corps. It will show how the Marine Corps and the Department of Defense have struggled with the various viewpoints to establish the revised criteria even though they realized that all departments, agencies or sections would not be completely satisfied with the finished product.

CHAPTER III
REVISION OF EXCLUSION CRITERIA

Through the years the Marine Corps Stock Fund has evolved into approximately a half-billion dollar operation without a clear policy as to whether or not a particular supply item should be financed through the fund. Although many problems have been generated by the wholesale inclusion of technical items, the exclusion of all such items from the stock fund would be undesirable. Somewhere in between there must be an optimum degree of exclusion, keeping in mind that Marine Corps policy prescribes the stock fund as the preferred method of financing retail items susceptible to cost control on the basis of consumption.

As early as 1958, action was initiated to clarify the vagueness of the inclusion and exclusion criteria that had plagued the Marine Corps Stock Fund since its inception. Through 1962, with one exception, no significant clarification of the criteria had been accomplished; although many attempts had been made by individual Headquarters Marine Corps Divisions, Departments, and joint committees.

Two Divisions (G-4 and Fiscal) and the Supply Department of Headquarters Marine Corps share the burden in determining what the inclusion or exclusion criteria should be. Numerous concepts

and recommended criterion have been the subject of various committee reports and stacks of memorandums that flowed between these executive groups. Their contents were revised, changed, and at times heatedly debated prior to being either ignored or rejected by one or more of the departments.

Senior executives of the Marine Corps have indicated that the responsibilities of the three divisions and departments in this case were not clearly delineated, and therefore had caused problems which became more acute as the stock fund grew in volume.¹

The problems involved can be more fully appreciated after reviewing the missions and functions of the three groups, as they relate to management and coordination of the stock fund.

The duties and responsibilities of the G-4 Division which is headed by the Assistant Chief of Staff, G-4, (a Major General) are:

1. Mission.--The Assistant Chief of Staff, G-4, under the direction of the Commandant is responsible for Marine Corps logistic plans and policies; determination of requirements, program objectives and programs relating to material readiness. He determines the material requirements and material program objectives of the Marine Corps. . . . He coordinates budget activities relating to the Procurement appropriation and the Operation and Maintenance appropriation.

2. Functions

.
b. Prepares guidance for formulation of Budget Estimate presentation to higher authority, . . . and serves as the general staff appropriation sponsor for the appropriations "Operation and Maintenance, Marine Corps" and "Procurement, Marine Corps."
.

¹Memorandum from Quartermaster General of the Marine Corps, to Fiscal Director and Asst. Chief of Staff, G-4., CSN-2-vjk 26 Feb., 1962, Washington, D. C.

d. Interprets logistic directives from higher authority and prepares Marine Corps directives or other policy statements of the Commandant, . . . in the following areas; . . . supply distribution, maintenance. . . .

f. Reviews pertinent point logistic policy, doctrine, guidance and legislation.²

With these missions and functions the Assistant Chief of Staff, G-4, must approve any policy or operational change that will affect the appropriations under his sponsorship. A change in the stock fund exclusion criteria would naturally have an effect on the operation and maintenance and procurement appropriations, both of which are under G-4 sponsorship.

The Supply Department under the Quartermaster General of the Marine Corps (a major general) is responsible for the management of the Marine Corps Supply System which includes the stock fund. The functions of the Supply Department are: to procure, warehouse, distribute, and sell all materiel, equipment repair parts and supplies for the Marine Corps and to supervise management of the stock fund.³ Therefore, any supply policy change, whether it be relative to the stock fund criteria or otherwise, could not be effected without the direct involvement of the Quartermaster General.

The Fiscal Director of the Marine Corps is not responsible for the policies established but is concerned with whether they are legal and conform to good financial practice. Thus any

²U. S. Marine Corps, Headquarters Manual Vol. I & II (not dated), p. 5-3.

³Ibid., p. 9-3.

decision dealing with a change in the inclusion criteria of the Marine Corps Stock Fund will fall within the mission and functions of the fiscal director, thereby requiring his concurrence. The Fiscal Director of the Marine Corps holds a civil service grade of GS-17 and carries the following duties and responsibilities as cited in the Headquarters Manual:

1. Mission.--The Fiscal Director of the Marine Corps is responsible to the Commandant of the Marine Corps for the formulation of fiscal policy and for fiscal and disbursing administration in the Marine Corps, to the end that fiscal and disbursing actions, policies, and procedures of the Marine Corps will be in conformity with law, good business practice, and applicable policies, procedures and regulations issued by higher authority.

2. Functions

b. Has complete responsibility for maintaining records, reporting and administering all appropriated funds and reimbursements thereto for the operation and support of the Marine Corps. . . . Is responsible for accounting for all appropriated funds allocated to subhead administrators at Headquarters Marine Corps.

Coordinates the execution of approved budget plans, including securing apportionment of funds, allocation or allotment of funds to subhead administrators, . . . and the exercise of financial administration and control.

Monitors execution of all Marine Corps programs to ensure that the administration of appropriated funds allocated to the Marine Corps⁴ complies with the law and the Commandant's Financial Plans.

Thus, positions taken by the separate departments in the Marine Corps will depend largely upon the scope and the implied implications of the recommended exclusion criteria. For example, an item entering the Marine Corps Supply System for the first

⁴ Ibid., p. 6-3.

time will have little effect upon the stock fund even if it is a secondary item and is classified as an appropriated stores account (ASA) item. Such a situation occurred when the electronic module repairable items were excluded from the stock fund.⁵ The situation becomes more complex and difficult when a recommendation is made to exclude items that are not consumed but are repairable and are usually evacuated to a 5th echelon depot for overhaul and subsequently returned to the supply system. Under the proposed new exclusion criteria all new engines, for example, would be obtained with procurement appropriations and classified as appropriated stores account (ASA) items. However, it is not feasible to carry inventories of the same line item in the stock fund account and in the appropriated stores account. It would be necessary then to decapitalize the stock fund assets and reclassify them (ASA). However, upon such a recommendation the Quartermaster General and the Fiscal Director would advise that the law establishing the stock fund and Department of Defense directives prohibit items from being withdrawn without reimbursement of the stock fund.⁶ It is possible to buy the engines out of the stock fund with procurement appropriations but the legality of this is highly questionable under the circumstances.

⁵Letter from Commandant of the Marine Corps, CSN-bjp, to Commanding General, Marine Corps Supply Activity, Philadelphia, Pa., 28 September 1961.

⁶U. S., Department of Defense, Regulations Governing Stock Fund Operations, DOD Directive 7420.1, December 1956, pp. 18-19.

While the Marine Corps had made little or no progress in overcoming the criteria problems, the Navy had achieved more success.

The Marine Corps received, from the Chief of Naval Material on about May 5, 1961, a proposed "Secretary of the Navy Instruction 7113" which contained revisions to the stock fund criteria. The proposed document represented two years effort by the Navy and had been completely staffed except for the Marine Corps. The last paragraph of the cover letter requested the Marine Corps to submit its comments within ten days.⁷ The Marine Corps was thus expected within ten days to reach a conclusion on a subject that had been beyond resolution since 1958. The proposed instruction contained criteria that had been the subject of previous recommendations offered by internal Marine Corps groups, and proposed that if an item met one or more of the following criteria it would be excluded from the Navy and Marine Corps Stock Fund.

1. Items in a stage of research and development, subject to frequent engineering or design changes, items procured and issued for specific installations and those not planned to be replenished or available for general use.

2. Items whose sales are not likely to maintain

⁷Memorandum from Chief of Naval Material, to Maj. General C.R. Allen, U.S.M.C., Subj: Stock Fund Criteria, May 2, 1961.

the revolving nature of the stock fund.

3. Items subject to high rates of obsolescence.

4. Repairable items subject to being rebuilt at a 5th echelon depot.

5. Items that are nonstandard.

6. Items which, if subjected to a funding constraint at the consumer level, could result in danger to personnel or equipment.

7. High cost items which are locally unpredictable in demand and the acquisition of which at the consumer level would place a heavy burden on the operating allotments.

The proposed criteria received general acceptance except for items 4 and 6, which were strongly opposed by the Supply Department and Fiscal Division. On June 9, 1961 the Chief of Naval Material was advised that the proposed criteria was acceptable. However, the Marine Corps did not concur in excluding repairable items and items which if subjected to a funding constraint at the consumer level could result in danger to personnel or equipment.⁸

In an attempt to satisfy the Marine Corps, the Navy revised the objectionable portions of the proposed exclusion criteria but it still was not acceptable to the Marine Corps. In 1962 the Supply Department urged that repairables and personnel

⁸Letter from Commandant of the Marine Corps, to Chief of Naval Material, CSS-1-als, Washington, D. C., 9 June, 1961.

safety items be excluded from the stock fund⁹, even though the official position of the Marine Corps had not changed. However, their recommendation was rejected because the wording gave the Quartermaster General too much authority relative to funds and operations, which was an assigned responsibility of the Assistant Chief of Staff, G-4.

It was not until August 1962 that the Commandant of the Marine Corps concurred in the exclusion criteria proposed by the Navy, and then only after he was given authority to make exceptions to the criteria as he deemed appropriate.¹⁰ The Navy published a Naval instruction "SECNAV INSTRUCTION 7113.4 of 8 August 1962," which contained the same exclusion criteria previously summarized herein. This order did nothing more than authorize the Marine Corps to exclude items that met the criteria contained therein, it did not direct such exclusion. At this time, the Marine Corps had to publish its own interpretation of the instruction.

On May 21, 1963 after five years of effort the Marine Corps officially published a directive that provided excellent guidance as to what items would or would not be financed by the stock fund.¹¹ Two significant characteristics of this document

⁹Memorandum from Q.M.G., to G-4, -CSN-2-vjk, 26 February, 1962, Encl.1.

¹⁰Letter from Commandant of the Marine Corps, to Chief of Naval Material, (CSS-1-baw) 4 August, 1962.

¹¹Commandant of the Marine Corps., Inventory Control Directive Number 70, (CSS-Ia-bw), 21 May, 1963, Encl. 3.

should be mentioned. The first is that it applies only to new line items entering the Marine Corps Supply System and therefore, the problem of deciding on the decapitalization of the items already in the system is deferred. The second significant characteristic involves the "in again, out again" repairable and personnel safety items. As can be observed below these items are not excluded from the stock fund by this directive. Since this is the first general policy directive concerning exclusion criteria, it deserves to be quoted:

CRITERIA FOR EXCLUSION OF ITEMS
FROM MARINE CORPS STOCK FUND

a. Items in a research and development stage or items for which budget and procurement requirements, quality control and/or assignment to use require continuing logistics engineering, or fiscal administration and control at Headquarters level. Items to be excluded under this criteria will be determined by Headquarters Marine Corps.

b. Items procured and issued for a specific activity and planned to be replenished or available for general use.

c. Items whose future sales are not likely to maintain the Fund's revolving nature by return of the stock investment because of little or no recurring demand. Items falling within this criteria include the following:

(1) Class IV items and Class II, Type I, Chemical Warfare Items.

(2) Items designed for "one-time" installation on an end item, i.e., modification kits (This kit is defined as one which meets the following requirements: (a) It is procured containing all material necessary to perform a modification. (b) Consists of 2 or more items, at least one of which is not in the MIR and not stocked in the Marine Corps supply system.)

(3) Items issued on an initial basis only with required upkeep accomplished through component replacements, i.e., sets, kits, chests.

(4) Items where replacement is usually necessitated because of accidental loss or damage, i.e., radar pedestal, motion picture projectors, cameras, desks, table, chairs, cabinets, lockers, wheels, seats, safety belts, fenders, hoods, bumpers, etc.

d. Peculiar items in support of high-cost end items

subject to a high rate of obsolescence. Headquarters Marine Corps will designate the end items meeting this criteria, i.e., Radar Set, AN/TPS-32, Tactical Operations Central, AN/TYQ-1 and AN/TY-2. Should it subsequently be determined that these items are no longer peculiar, then a review should be made to determine if a change in funding method is required.

e. Items in support of end items which have a predicted service or program life of less than three years because of technological improvement, continuing product improvement resulting in a limited program life due to lack of design stability. All questionable items will be forwarded to Headquarters (Code CS) for determination.

f. Items which cannot be assigned a firm standard price immediately upon entry into inventory or within a reasonable period thereafter.

g. Items of high-cost and low-density which are locally unpredictable in demand and the acquisition of which at the consumer level would place an inordinately heavy burden on operation allotments. Items of this nature should be determined only after full consideration of criteria a. through f. High item cost will not be the controlling factor for exclusion.¹²

The Marine Corps directive previously quoted created additional problems while eliminating others. Now a new combat tank engine not previously stocked by the stock fund could be coded to the appropriated stores account (ASA free issue) under criterion "g." This resulted in a unit paying for one engine and getting another free even though both were of the same type. Further there were other items presently in the stock fund that did not meet the inclusion criteria under this directive.

To establish a basis for the continued revision to the Marine Corps stock fund exclusion criteria it was necessary to review the steps taken by the Department of Defense, to reconcile the problems and situations discussed in Chapter II of

¹²Ibid.

this paper. Resolutions to the problems and controversies that had existed for many years within and outside the Defense Department were undertaken by a study group consisting of representatives from the Offices of the Assistant Secretary of Defense "Comptroller" and "Installations and Logistics" and a representative from the Bureau of the Budget.¹³ Their work commenced during the month of August 1962 and they submitted their report on October 10, 1962.

The group concluded that the criteria for including or excluding material from the stock funds must be in terms that leave a minimum of room for varying interpretations and that can be policed, with the differences resolved in terms of specifics-- in other words, exclude items from the stock fund on an item basis rather than by broad categories. After much study within the group as well as with the individual services, it was determined that all secondary items would be included in the stock funds except:

Insurance items.

Items directly related to the safety of personnel.

Items coded for repair through depot level.

Items in research and development stage.

Locally controlled items.

It is interesting to note the position of the Marine Corps and

¹³Office of Assistant Secretary of Defense. "Operating Fund/Stock Fund Study," By Joint Work Group of Office of Secretary of Defense and Bureau of the Budget, October 1962.

the other services relative to the above exclusion criterion. It must be understood that the positions cited here were as of September 1, 1962.¹⁴

Insurance Items- The Marine Corps and the Army did not concur with the exclusion of these items because their inclusion discouraged excess stock acquisitions at all operating levels. The Navy and Air Force agreed with their exclusion.

Items Directly Related to the Safety of Personnel - The Marine Corps and Army recommended these items remain in the stock fund whereas the Navy and Air Force encouraged their exclusion because of their impact on combat effectiveness. The Marine Corps expressed the thought that all essential items had some relation to safety of personnel.

Items Coded for Repair through Depot Level - Inclusion of these items, said the Marine Corps, Army and Navy, provides an incentive for the users to repair rather than draw a free replacement, and enables materiel to be available closer to the point of issue. The Air Force indicated they should be excluded from the stock fund because there is no advantage to their stock-funded.

Items in Research and Development - All four services concurred with their exclusion. The exclusion of these items had been a policy of the Department of Defense since 1956.

Locally Controlled Items - In this case the Marine Corps

¹⁴Ibid., pp. 17-22.

joined with the Air Force to exclude these items, but the Navy and Army indicated there were definite advantages to their being included.

A reduction in the wide variance in the utilization of the stock fund that exists between the different services was indicated in a letter sent by the Secretary of Defense to Congress on March 30, 1963:

Revised item definitions will permit a more specific determination of items to be funded by appropriations and by stock funds under the revised stock fund criteria, thereby establishing a policy that will lead to consistent practices within the department.

Some items in Army and Navy Stock Funds (particularly insurance items and repairables) will be transferred to appropriated funding.

Some parts in Navy and Air Force will be stocked funded that are not now in stock funds.¹⁵

On the basis and authority of this letter, the Marine Corps received authority not only to further revise their criteria but also to commence planning the decapitalization or migration of items from the stock fund to appropriated stores accounts.

Upon receipt of this new guidance the Marine Corps initiated action to establish another set of exclusion criteria. Whether it was experience or pressure from higher echelons, agreements were reached sooner. By December 1963 the current criteria for exclusion of items from the stock fund had been agreed upon by the G-4, Fiscal Director and the Quartermaster General and approved by the Commandant of the Marine Corps.

¹⁵Letter from Assistant Secretary of Defense to Comptroller General of U. S., Washington, D. C., 30 March, 1963.

In the past the Marine Corps had projected a conservative attitude toward the exclusion of items from the stock fund, but the current criteria excludes a broader scope of items than appears to have been the intention of the Secretary of Defense.

The current exclusion criteria in Marine Corps Order 7113.1 dated 28 May 1964 contains all the features of the criteria shown on page 71 and also excludes items coded for repair through depot level and locally controlled items purchased for immediate use (i.e., office furniture, office machines, etc). The complete criteria is shown in (Appendix III).

The six year struggle since 1958 produced the most definitive stock fund exclusion criteria ever produced, with the exception of the first criteria that was established in the Navy in 1893.

The selection of items for stock funding now becomes a task of identifying items obviously suitable or unsuitable for stock-funding, and makes easier a judgment on those items which are not so clearly identified.

Equally important to the advantage of being able to properly classify an item is, what are the management implications of this new criteria? Chapter IV looks at the situation from the overall stock fund point of view and also from the view of the user.

CHAPTER IV
MARINE CORPS MANAGEMENT
IMPLICATIONS

The decision to establish new stock fund exclusion criteria created two reactions: one, an immediate reaction involving the decapitalization of various items from the stock fund, and the other, a series of long-range implications of the decision on the stock fund account, appropriated procurement stores account, and operational effects on combat and field activities.

Immediate Management Implications

The immediate implications of the criteria as reflected in MCO:7113.1 (Appendix III) are in relation to new items entering the supply system; however, immediate action also involves the planning and initiation of the decapitalization of non-criteria conforming items from the stock fund account to the appropriated stores account.

The most important considerations are to insure that the migration does not disrupt availability or replenishment continuity of the affected items and the financial integrity of the Marine Corps Stock Fund during the transitional period.

According to stock fund managers of the Marine Corps,

all items selected for migration will be accomplished without reimbursement which includes the items under contract but not delivered (dues). The information in Table 9 was collected and summarized to show the total inventory value of the items being considered for migration from the stock fund to the appropriated stores accounts. The table further shows the portion of the total value of items due that must be paid for with stock fund cash and the estimated value of the total sales in each category for Fiscal Years 64 thru 66. The information while not absolutely accurate, is adequate for planning purposes. At the time this paper is being submitted, the data is being verified or revised as required.

Immediate Implications to the Stock Fund.

Under the new exclusion criteria there are approximately 12 million line items that have an average turnover rate of .11. This will allow the remaining capital investment to revolve at a more rapid rate.

If the items are transferred to the appropriated account about July 1, 1965, the stock fund procurement budget may be reduced by the amount of sales expected from these inventories, which, according to Table 9, are approximately \$6,626,000.

A significant and immediate impact on the cash position could occur if the cost of the items "due in" consumes too much of the cash on hand. The value of the "dues" for Fiscal Year 64 was estimated at \$7,538,000 which is 31% of the cash on

TABLE 9

STATISTICAL DATA FOR ITEMS BEING
MIGRATED TO APPROPRIATED ACCOUNTS^a
(In Thousands)

Exclusion Category	Total Number Items	Total ^b Value Inventory	Items Due In	Total Estimated Sales Fiscal Years 1964, 1965, 1966
Principal Items Repairables U/C \$500. Recoverability Code R 2/29/64	27	3245	229	228
Insurance Items	184	1366	283	441
Class IV	8914	11293	536	140
Chemical warfare	420	19846	2545	1375
Modification kits	61	2706	1294	437
Sets, kits, chests	155	481	123	76
No RD but requirements	217	1620	395	370
Maintenance float repairables	1793	374	39	0
5th echelon repairables (RC 60 7/1/64)	72	15495	1515	1739
TOTALS	212	6438	579	1820
	12055	62864	7538	6626

^aHeadquarters U. S. Marine Corps, Financial Division Statistical data, Conversion Program SFA to ASA, Revision, 18 Sept., 1964.

^bTotal inventory includes current physical inventory and items due in.

hand (\$24,419,000) in the stock fund as of 30 June 1964.¹ In the event the projected replenishment for Fiscal Year 1965 should exceed the amount of cash remaining plus what will be received from sales, the stock fund managers have a choice of either requesting an increase in capital from Congress or, delaying the decapitalization of certain items until the cash position improves. Headquarters Marine Corps financial managers have indicated the cash position for FY-66 will be adequate for the migration without resorting to either of the above alternatives.

To reduce confusion to a minimum the items being transferred will continue to be managed by the current inventory control points.

With all the problems and actions involved in the task, useful fringe benefits are being realized. A physical inventory is being taken in an effort to accurately determine the status of each item.

Immediate Implications to the Field or Operating Activities.

Again as in the case of the stock fund account the immediate problems and administrative actions are numerous, and it will be the long-run effects that prove the worth of the decision.

The first consideration should be; Will the current year procurement appropriations in which the migration takes place

¹U. S., Department of Defense, Working Capital Funds of the Department of Defense, 30 June, 1964, p. 82.

withstand the cost of the estimated replenishment demand forecast by the stock fund (i.e., \$6,626,000 FY-66 Table 9)? Even if the \$6.6 million is available, will the demand remain the same under the free issue system? It would be naive to assume that an engine would be held in an inoperative state awaiting a repair part under the free-issue system to the same extent it would under the purchase system. According to the Department of Defense Study Group,² it was estimated that repair parts financed under the stock fund and consumer fund system amounted to about 12% of the value of the major item supported. Conversely under the appropriated stores account (free issue) system the same support would amount to about 25%. This is due to the fact that an economical allocation of limited resources (money) is not required by the consumer activities. More will be said about this when the long range implications are reviewed.

Adjustments to the operation and maintenance appropriations should be reduced in the current budget year and allocations to the consumer activities should also be reduced but the question is by how much. The questionnaire shown as Appendix II containing a list of the repairables, maintenance float and principal items classified in Table 9, was forwarded to all Marine Corps major combat commands and contained the question: "Had the items contained herein been migrated to ASA prior to submission

²Office of Assistant Secretary of Defense., Operating Fund/Stock Fund Study, By Joint Work Group of Office of Secretary of Defense and Bureau of the Budget, October, 1962, p. 64.

of your FY-66 budget estimates, what would have been the estimated reduction in the budget?"

Before considering the estimates received in response to the above question, it is necessary to refer back to Table 9 and calculate the projected sales of these items Marine Corps wide, which are \$4,228,000. This sales estimate includes all sales to the above commands plus sales to the repair and rebuild projects at the Marine Corps Supply Centers. It is safe to estimate that more than 50% of the sales will be made to major Marine Corps Combat Forces. Assuming that 2.1 million of the migrated items would be sold to the operating forces, one would expect their Fiscal Year 1966 operation and maintenance allocations to be reduced by the same amount. This is assuming of course, that all the items were transferred to the appropriated stores account. Thus, it was not surprising when these Commanders responding to the questionnaire estimated that their FY-66 budgets could be reduced by only 1.3 million. This indicates one of two situations; either the estimates were deliberately low to offset fund deficiencies or the estimates projected by the operating forces or the stock fund were unreliable. In either situation, the executives involved must exercise care in this area, especially the first few years after migration of the items.

Long Range Management Implications

Upon the efficient and effective transfer of the non-criteria conforming items from the stock fund account to appropriated stores account, various situations and new operational

characteristics will develop. The most significant of these are discussed below.

Exclusion of insurance and items having insufficient recurring demand will make a significant contribution to the revolving principle of the stock fund which has been frequently stressed. This alleged contribution can be realized because of less loss through obsolescence which generates an unacceptable surcharge rate.

Exclusion of items coded for repair through depot level is advantageous even though these items have a reasonably acceptable inventory to sales turnover ratio. However, it is not economical to stock-fund these items because of the accounting requirements (pricing, credit procedures and accounting while in a repair status). An item of this type may be illustrated with combat tank transmissions which cost approximately \$18,000 each. Upon a failure, the unserviceable item is turned into the local stock fund branch and the user receives about 50% credit or \$9,000 for the old item and in turn buys a serviceable one for the total cost. The stock fund will then repair the item at whatever cost required and return it to the serviceable asset ledger awaiting sale. Thus the administration involving the consumer is to some degree eliminated.

There is another area involving the repairables which is called "maintenance float" items. The administration connected with these items will be eliminated from the stock fund because

nearly all items so classified are being decapitalized out of the stock fund.

The greatest impact of this migration will be on the policy management of the appropriated account. Overall, the management will generally be the same in that a change in the inventory control points will not be affected. However, a standard secondary items procurement allotment or appropriation will have to be established to insure effective and immediate response to replenishment demands.

The recognized advantages of the free-issue system reflected on page 60 indicate that usage will be higher under this system than when the items were financed under the stock fund, especially for the high cost repairable items. In response to the usage question (in Appendix III) there is a general consensus of opinion that usage will increase unless adequate controls are established. Controls and restraints applied to the use of "free issue" requisitioning authority or consumer funds can equally be unwise. Certainly controls are required in this situation because incentives to conserve material resources are relatively weak under a "free issue" system when compared with those inherent in the buyer-seller relationships of stock fund and consumer fund financing. However, controls should not be such that obtaining material through the use of consumer funds is less difficult.

Under the previous stock fund criteria, provisioning was accomplished almost completely with stock fund monies. At

present the appropriated procurement programs will assume a much wider scope in this area. To insure availability of funds there must be an estimate for provisioning the procurement type items for each new major item of equipment contained in the future procurement programs.

On the consumer level, the budgeting process will be simplified because the slow moving, unpredictable and repairable items have been excluded from the stock fund. Conversely, because of no budget requirement, more difficulty will be experienced in financially evaluating logistical decisions of the combat forces. Therefore, total program costs from the headquarters level will be more difficult to develop since material costs are separately budgeted on a net procurement basis rather than on a use or consumption of resources basis.

Basically the implication for field activities is more flexibility in material positioning, and operational and program changes. Since there is no requirement to reprogram consumer funds, administrative costs will likely be less. These are favorable implications and can be developed into an effective support system providing their advantages are not neutralized by excessively rigid controls.

CHAPTER V
SUMMARY AND CONCLUSIONS

Although the term "stock fund" was coined in 1893 the revolving fund concept of financing reaches back into the days of Joseph, the Biblical storekeeper. Regardless of where or who started this management technique, it has been in operation long enough so that the specifications of scope and operation should be as easy to follow as a road map. However, from the day it became a general Defense Department program, the exclusion criteria has been a constant source of controversy. The system of management and permissive type policy under which the stock fund operates has contributed to broad variances among the services.

Within this framework, each of the military services maintain the sincere conviction that its current methods, procedures, and policies for supply and financial management are best suited to support its operational needs. The experience gained by each service, familiarity with the advantages and disadvantages of its method of operation and possible resistance to change, all tend to reinforce and solidify these feelings. There is little logic in a situation that allows inclusion of all technical material and repair parts in the stock fund for one service and none in another, especially since both are subject to the

same directives and controls.

The Department of Defense criteria that specified which items would or would not be included in the stock fund were indefinite until revised in 1963. As a result many problems were created in all echelons of management and consumer activities.

As reflected in Chapter II restraints on consumer funds or the desire to be as efficient as possible resulted in many operational deficiencies of combat and support activities.

Not until the General Accounting Office investigated the situation was any positive effort made to revise the criteria which had proven to be inadequate and in some cases jeopardized combat efficiency.

For the lack of a better excuse to justify inefficient management, consumer fund deficiencies are blamed for the total violation. However, it should be clearly understood that the Marine Corps operates within overall financial limitations that are subject to the provisions and penalties of the "Anti-Deficiency Act." Financial resources will never meet the total stated requirements of all departments in the Marine Corps; Therefore requires the use of judgement in the application of resources to the approved requirements. No system can guarantee against bad administration or judgement, even though it can and should be designed to provide incentives for better management.

The purpose of the stock fund as outlined in 1963 is to provide a simplified means for consolidated management, financing,

control, and accounting for the procurement and inventories of those items of material, supply and equipment, the cost of which are chargeable to a number of consuming activities. Such financing maximizes sound financial management of the fund through the revolving principle. It is a simple, effective method for enforcing cost consciousness and supply discipline at the consumer level through the buyer-seller relationship.

To accomplish the above purpose the selection of items for the stock fund should take into consideration that:

1. To enforce cost consciousness and supply discipline requires that financial restraints be applied. To be effective the restraints must result in a saving yet allow the customer to control consumption based on a recurring demand that can be forecast effectively.

2. Since the stock fund provides financing for replenishment of inventories from sales to its customers, it is necessary that such inventories be those that will sell. To the extent stock-fund sales' proceeds are invested in material that does not sell, or is sold at an abnormally slow and uncertain rate, the financial capability of the fund may be impaired. Thus, ideally stock fund inventories should consist of items which have frequent, recurring, and a predictable demand.

There are two major classifications of materiel in relation to the method of funding:

1. Principal Items. The definition is provided in (Appendix III). These items should be excluded from the stock

fund for two reasons:

- a. Management procedures adequately provide for close control of material and financial resources at policy and inventory control point echelons.
- b. To establish further constraints through a stock fund/consumer-fund system would serve only to complicate management of the items.

2. Secondary items are minor end items replacement assemblies, parts and consumables that are centrally managed and station, base, and depot stock levels are established by using net issue experience. These items represent a field where management controls are enhanced by the buyer-seller relationships, thus promoting a more effective management of resources. However, all secondary items are not in every case adaptable to this technique of financing, and some exclusions are required.

The Marine Corps very effectively translated the above concepts into the "Criteria for Exclusion of Items From the Marine Corps Stock Fund" shown as Appendix III. The scope is broad yet definitive in explanation. The Marine Corps Order 7113.1 of which Appendix III is a part, clearly indicates who will determine how the items are to be classified, when it should be accomplished, as well as how the selection will be made.

The criteria excludes a greater range of items than allowed in the charter, which states, that all secondary items of the categories financed under the stock fund will be so included. It is assumed the Marine Corps will apply for a new charter from

the Department of Defense.

The effect of the revised criteria on the stock fund. Movement of the following type of items from the stock fund will undoubtedly enhance its revolving characteristics: (i.e., Class IV, chemical warfare, principal items, sets, chests and kits, and slow movers). Their movement will enable the fund to increase its sales to inventory ratio, aid in eliminating and preventing a future build up of long supply and large excesses, and allow the fund to obtain the apportionments necessary to finance an inventory that will permit improved support to its customers. Conversely, the movement of these items out of the stock fund will require the Marine Corps to place controls over consumption that were inherent in the relationships between the stock fund and the operations and maintenance appropriations.

The revised criteria will tend to enhance the operational effectiveness of the combat forces. The exclusion of the items reflected in Table 9 page 78 will allow for more efficient budgeting because the items included are now more predictable in demand. There will be more flexibility in obtaining, positioning and maintaining the repairable items due to the elimination of the funding restraints. The maintenance float by components is being improved as a result of the revised criteria and migration of the items.

The overall cost to the Marine Corps will be greater. The increased usage of the more expensive items is indicated by statements in response to Appendix II and the following:

Where some consumable material is issued free, consumers have no compulsion nor incentive, not to be wasteful.¹

Further the Marine Corps stated in relation to stock-funding repairables that:

Inclusion of repairable items provides incentive for customer to repair component rather than draw a free replacement.²

Conclusion. A general observation as to the effectiveness, desirability and scope of the Marine Corp stock is based on the following policy factors:

1. The establishment of a working capital fund by Congress specifies that inventory investments should revolve.³
2. The Department of Defense gave the military departments authority to establish a stock fund for the purpose of providing a simplified means of financial management, improve control of consumption and to provide a means of procuring and holding supplies and materials. The objectives required to realize the purpose were also specified.⁴
3. The Marine Corps considers stock funding as

¹U. S. Congress, Senate The Operation of Stock Funds in the Military Establishment, 86th Cong. 2nd Sess., 1960, S. Res, 261, p. 25.

²Office of Assistant Secretary of Defense, "Operating Fund/Stock Fund Study," By Joint Work Group of OSD and BOB Oct., 1962, p. 25.

³U. S., Congress, 81st Congress, 1st Session, National Security Act Amendments of 1949, Public Law 216, (Washington, Government Office, 1949).

⁴U. S., Department of Defense, Regulations Governing Stock Fund Operations, DOD Directive 7420.1, December 19, 1956, p. 2.

the preferred method of financing retail item inventories susceptible to cost control on the basis of consumption.⁵ Conversely, the Air Force projects the following attitude toward the operation of the stock fund:

. . . The primary advantage in the use of stock funds is in those areas where distribution of inventories is made, in large measure, to agencies outside the Air Force or to individuals reimbursing the fund from their own financial resources . . .

The Air Force reports that where it is the sole or predominant user of the commodity there has been no demonstrative evidence that the stock fund system of management has any advantage over other management systems.⁶

After carefully evaluating the operational results, both past and present, of various stock funds within the Department of Defense, it is clear that there is no single answer that meets all possible objectives to the exclusion of all others. In each case, advantages and disadvantages exist in any individual course of action.

However, the policy concepts under which the Marine Corps Stock Fund currently operates as controlled by the definitive criteria recently established is more in consonance with the purposes and objectives intended by the authorizing legislation and directives, than has previously existed throughout the Department of Defense.

Although this objective has not been gained without difficulty, and at the price of much toil and time, it has demonstrated that "nothing of real value comes easy or at a low cost."

⁵U. S. Marine Corps, Stock Fund Exclusion Criteria, MCO 7113.1, 28 May, 1964, p. 2.

⁶U. S. Congress Senate, loc. cit., p. 7.

APPENDIX

APPENDIX I

DEPARTMENT OF DEFENSE DEPARTMENT OF THE NAVY CHARTER FOR THE MARINE CORPS STOCK FUND

I. AUTHORITY

The Marine Corps Stock Fund, established under charter approved 1 June 1953, is hereby re-established under the authority contained in Section 405 of the National Security Act of 1947, as amended, and Regulations Governing Stock Fund Operations (DOD Directive No. 7420.1) approved by the Secretary of Defense 1 February 1954.

II. PURPOSE

To provide a simplified and effective means of managing, controlling, financing and accounting, through the use of working capital funds, for such materials, supplies and equipment as are identified under Section IV hereafter.

III. MANAGEMENT

Under the direction of the Secretary of the Navy and the Commandant of the Marine Corps, the Quartermaster General of the Marine Corps will administer and manage the Marine Corps Stock Fund in conformity with such policy statements, appropriate regulations and procedures as may be issued by higher authority. The Marine Corps Stock Fund as covered by this charter excludes all material, supplies and equipment financed under the Navy Stock Fund which is established by separate charter and managed by the Chief of the Bureau of Supplies and Accounts.

IV. INVENTORIES

All materials procured and/or stored in the Marine Corps supply system for issue for maintenance and operating purposes are authorized to be carried in the Marine Corps Stock Fund. Normally, this will include all consumable types of material and relatively minor items of equipment, including parts and components used in the manufacture, assembly, maintenance or rebuild of end-items for the military supply system.

The major categories of material approved for financing by the Marine Corps Stock Fund are set forth in the Appendix attached to and made a part of this charter. All secondary items within these categories of material (including spare parts) currently otherwise financed shall be included in the Fund as expeditiously as possible.

V. DISTRIBUTION LEVELS

All material authorized to be purchased by the Marine Corps Stock Fund will be carried in the Fund at all supply centers, depots, and at designated stations and units as authorized and published in the Navy Comptroller's Manual, until sold or issued for use or until other disposition is made.

VI. OPEN ALLOTMENTS

Open allotments may be issued as authorized and published in the Navy Comptroller's Manual.

VII. EXCEPTIONS TO REGULATIONS GOVERNING STOCK FUND OPERATIONS

As an interim measure, the following exception is granted pending revision of the Regulations:

The requirements of paragraph 12(c) are waived to permit the Department of the Navy to determine whether direct expenses shall be charged to the gross proceeds of sale of excess and surplus property credited to the cash account of the fund.

SUBMITTED FOR APPROVAL _____

ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT)

APPROVED: MAR 12 1956

ASSISTANT SECRETARY OF DEFENSE
(COMPTROLLER)

Major categories of material authorized for financing under the Fund per Section IV of the Charter

Clothing and Textiles
Electronics
Engineer
Fuel
General Supply
Motor Transport
Ordnance
Subsistence
Commissary Stores

SUBMITTED FOR APPROVAL 1 JUN 1957

ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT)

APPROVED: JUN 13 1957

ASSISTANT SECRETARY OF DEFENSE
(COMPTROLLER)

APPENDIX II

DEPARTMENT OF THE NAVY

HEADQUARTERS UNITED STATES MARINE CORPS

WASHINGTON, D. C. 20380

From: Commandant of the Marine Corps .
To: Commanding General, Headquarters, Fleet Marine Force,
Atlantic, Norfolk, Virginia
Commanding General, Headquarters, Fleet Marine Force,
Pacific, c/o FPO, San Francisco, California
Subj: Graduate School Research Thesis: "Implications of the
Revised Stock Fund Criteria"
Ref: (a) MCO 7113.1, w/Ch 1
Encl: (1) Revised Stock Fund Exclusion Criteria Analysis Survey

1. In the application of the new Stock Fund Exclusion Criteria published in reference (a), certain stock fund items (SFA) are under consideration to be transferred to appropriation funding (ASA). A research thesis is being conducted by the Navy Graduate Financial Management Program relative to the effects of this exclusion criteria on financial management and operational readiness within the Marine Corps.

2. In support of this thesis, it will be necessary to obtain certain information as specified in enclosure (1). The requested data will not be the basis for Headquarters action nor will the final study make reference to any command; the completed study is expected to be of considerable value to the Marine Corps. A separate enclosure (1), complete in as much detail as practicable, will be submitted for each of the divisions and force troop commands in your force. This data will be forwarded not later than 1 February 1965 to:

The Senior Marine Officer (Attention Major Don D. Beal, USMC)
Navy Financial Management Program
Hall of Government
George Washington University
Washington, D. C.

L. F. Chapman, Jr.
Chief of Staff

Subj: Graduate School Research Thesis: "Implications of the Revised Stock Fund Criteria"

Copy to:

CG 1st MARDIV, FMFPAC
CG 2nd MARDIV, FMFLANT
CG 3rd MARDIV, FMFPAC
CG ForTrps, FMFPAC
CG ForTrps, FMFLANT
Major Beal

ENCLOSURE (1)

STOCK FUND EXCLUSION CRITERIA ANALYSIS SURVEY

1. This enclosure contains a partial list of stock fund (SFA) items being considered for migration to appropriation stores account (ASA).
2. The information submitted for reinforced commands should include the combined totals of the attached force units. Answer the following questions to the extent of available information and applicability:
 - a. To what degree, if any, will the migration of these items to appropriation stores account enhance the operational readiness of your command?
 - b. Comment on the following, being as specific as possible as to why it should be accepted as true or rejected as false. Make reference to specific items and situations where appropriate.

"It is estimated that the demand or usage for certain high dollar value (\$500 and over) items will increase significantly upon their migration to appropriation stores account."
3. In considering the effect of the items contained herein on your financial management, complete the information below and comment, on a separate sheet, as to the reasons for significant differences between the quarterly estimates and actual expenditures. The comments may be limited to the degree these items contributed to the differences and should consider but not be limited to the number of failures of high dollar value items in relation to the anticipated failures and the availability of funds in relation to the demand for these items.

PROJECT 11 O&M FUNDS
 timates versus actual expenditures

FY	Quarter	Budget Estimate	Actual Expenditures
63	1st		
	2nd		
	3rd		
	4th		
64	1st		
	2nd		
	3rd		
	4th		
65	1st		
	2nd		XXXXXXXXXXXXX
	3rd		XXXXXXXXXXXXX
	4th		XXXXXXXXXXXXX
66	1st		XXXXXXXXXXXXX
	2nd		XXXXXXXXXXXXX
	3rd		XXXXXXXXXXXXX
	4th		XXXXXXXXXXXXX

4. Had the items contained herein been migrated to ASA prior to submission of your FY 1966 budget estimates, what would have been the estimated reduction in the budget by quarters?

5. Make any general comments desired relative to the effect of migrating these items from SFA to ASA and the exclusion criteria published with reference (a).

APPENDIX III

CRITERIA FOR EXCLUSION OF
ITEMS FROM THE MARINE CORPS STOCK FUND

1. Exclusions. Items which meet one or more of the following criteria will be excluded from the Marine Corps Stock Fund:

a. Principal Items

(1) Definition. These are end items, replacement assemblies, and parts of such importance that individual item management throughout the supply system, to include depot level, base level, and items installed or in the hands of using units, is required. These specifically include items requiring central inventory control, including computation of requirements, central procurement, central direction of distribution, and central knowledge and control of all assets owned by the Marine Corps. Under this criterion are items for which budget procurement requirements, quality control, and/or assignment to use require continuing logistics engineering or fiscal administration and control at this Headquarters.

(2) Supplemental Criterion. Principal items are further defined as those items for which there is a requirement at this Headquarters for knowledge of condition, location, and quantity of all Marine Corps assets thereof.

Examples: Tank, radar, ammunition, magnetron, truck, radio, individual weapon.

b. Items Coded for Repair Through Depot Level

(1) Definition. These are not to be construed as all reparable items. These are major items--components/assemblies/end items--requiring mandatory exchange or return by users for fifth echelon repair by centers, cross-servicing, or contractors. Normally, these items would have the characteristics of principal items in that they require centralized individual management.

(2) Supplemental Criterion. In order to qualify under this criterion, a major item must have all of the following characteristics which would make it a logical candidate for planned fifth echelon repair to meet projected replenishment requirements for serviceable assets in the stores system:

(a) It is a maintenance-significant component, assembly, or subassembly; i.e., it qualifies for recoverability

Code R, as defined in paragraph 802.2a(14)(f), part H of MCO 4440.14.

(b) Its rebuild entails skills, repair parts, tooling, and testing not available in the Fleet Marine Forces or authorized by the maintenance allocation.

(c) It can be rebuilt within the resources of Marine Corps supply center cross-servicing or commercial sources.

(d) There is a 65% probability that the item, when unserviceable, can be rebuilt at less than 65% of the replacement cost, based upon best available technical opinion derived in conjunction with contractor engineering data and recommendations.

(e) The average serviceable use period of the item after rebuild is greater than 90% of the average serviceable use period of a new item.

c. Insurance Items

(1) Definition. These are items which are not certain to fail (no failure is predicted through usage); but, if a failure is experienced or loss occurs through accident, lack of a replacement item would seriously hamper the operational capability of the equipment affected. Therefore, such items are purchased on a limited quantity basis primarily because of the consequence of failure or loss, rather than the probability of such an occurrence.

(2) Supplemental Criterion. In this category are items which are stocked "just in case" of an accident, loss, or failure. These are items on which no replenishable demand is anticipated.

d. Items in Research and Development Stage

(1) Definition. These are equipment and supporting repair parts undergoing rapid design change or modification such that design will not remain stable through an adequate usage development period before being replaced by another item.

(2) Supplemental Criterion. Items subject to this criterion are those procured for research and development purposes only, and those for which a design change is anticipated within 1 year after their procurement for in-service use.

e. Items Having Insufficient Recurring Demand

(1) Definition. These are items whose future sales

are not likely to maintain the Fund's revolving nature by return of the stock investment because of little or no recurring demand. Items falling within this criterion include, but are not limited to, the following:

(a) Items procured and issued for a specific activity and not planned to be replenished or available for general use.

(b) - Class IV items and Class II, Type 1 chemical warfare items.

(c) Items designed for "one-time" installation on an end item; e.g., a modification kit. (Such a kit is defined as one which meets the following requirements: (i) It is procured containing all material necessary to perform a modification, and (ii) It consists of two or more items, at least one of which is not in the master inventory record (MIR) and not stocked in the Marine Corps supply system.)

(d) Items used on an initial basis only with required upkeep accomplished through component replacements; e.g., sets, kits, chests.

(2) Supplemental Criterion. None.

f. Locally Controlled Items Purchased for Immediate End Use

(1) Definition. These are items which are not used consistently and, therefore, do not require an operating level. These items will not be included in the stores system.

(2) Supplemental Criterion. This criterion includes those items not stocked in the Marine Corps supply system due to insufficient demand pattern.^{1/}

Examples: Musical instruments, office furniture, base maintenance items, office machines, quarters furniture, training aids, office machine repair parts, COSAL items.

^{1/} These items will be financed with end use funds.

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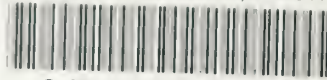
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