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UNITED STATES GENERAL ACCOUNTING OFFICE

Washington, D. C.

STATEMENT OF

MARTIN M FERBER, ASSOCIATE DIRECTOR

NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION

BEFORE THE

TASK FORCE ON INVENTORY MANAGEMENT

SENATE COMMITTEE ON ARMED SERVICES

ON

PROBLEMS IN ACCOUNTABILITY

AND SECURITY OF DOD SUPPLY INVENTORIES



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Mr. Chairman and Members of the Task Force:

We are pleased to be here today to discuss the Department of Defense's (DOD's) inventory-management practices. At your request, we reviewed these practices throughout DOD and in May 1986 issued a report on what we found. We are including our report as an attachment to this statement.

OVERVIEW

Efficient and effective inventory management within DOD is a major challenge because of its magnitude. The Office of the Secretary of Defense (OSD) has recently estimated the value of DOD's inventory at \$162 billion. Furthermore, the inventory is located in numerous places worldwide.

During our review, we found that significant supply-management problems exist within all DOD supply systems--the Army, Air Force, Navy, Marine Corps, and Defense Logistics Agency (DLA). These problems have existed for years, and various aspects have been frequently reported on both within DOD and by us. Concurrently, while conducting our review, we researched and identified well over 300 prior reports which addressed supply system problems and recommended improvements. While DOD has continuously worked to improve its systems and has implemented some corrective actions in response to these reports, it has not been able to correct the root causes of the repetitive problems. The Deputy Assistant Secretary of Defense for Logistics and Material Management has now made physical inventory control and security a top concern and has laid out an action plan for the next several years. The plan addresses many of the problems we

noted, and we have offered to work closely with DOD in its efforts.

Effective inventory management is dependent on strict accountability for and adequate physical security over the items in the supply systems. Accountable inventory-management records at all levels must accurately reflect the availability of supplies in order to better serve the needs of military units, ensure their readiness, and provide controls to prevent waste or abuse. At the same time, supplies must be protected from theft and diversion.

Annually, the military services and DLA buy billions of dollars of supplies which are stored as wholesale inventories and subsequently distributed to military units throughout the world. To gain a perspective on each level of the supply chain, we conducted analyses at 15 management and storage activities in the United States and 15 user activities in the United States and Germany. By tracing issue and receipt transactions for a sample of supply items, we were able to evaluate each supply system's internal controls. We primarily selected controlled items to sample--classified, sensitive, or pilferable items, which require a higher degree of inventory accuracy and protection than general merchandise items.

Since it was not possible to statistically sample items, our findings cannot be projected to the universe of military supplies or users. However, because we found problems at almost all locations visited, we believe that our findings are representative of supply-system problems. Furthermore, the Army's Criminal

Investigation Command, the Air Force's Inspector General and the Navy's Judge Advocate General have all recently completed supply-system investigations which, while directed primarily at system vulnerabilities, found inventory-management and other problems which parallel our findings very closely.

While the supply systems will never be perfect due to their size, complexity, and large volume of business conducted, there are significant problems that should be corrected. I will now summarize the problems we found at each service and at DLA.

ARMY


Within the Army supply systems, the major problems we found dealt with

- (1) loss and lack of accountability over large quantities of ammunition and explosives;
- (2) excess repair parts shipped to Europe, which are later returned to the United States;
- (3) inaccurate inventory records;
- (4) inadequate causative research on the reasons for discrepancies between records and inventory counts; and
- (5) inadequate physical security.

Losses of Ammunition and Explosives

First, with regard to losses of ammunition and explosives, the Army Inspector General conducted a special investigation of ammunition and explosives accountability from May to September 1985 at the request of the Army Chief of Staff because of thefts of ammunition and explosives and injury to personnel by stolen ammunition. The Inspector General concluded that (1) the

amount of ammunition and explosives lost by the Army each year cannot be determined, and (2) controls are inadequate to detect diversion. The Bureau of Alcohol Tobacco and Firearms has reported that military explosives were used in 445 explosive incidents in the last 10 years. Moreover, this number has been increasing from 21 in 1982 to 43 in 1984 to 54 in 1985.



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