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July 1988

DEFENSE INVENTORY

Growth in Secondary Items

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National Security and
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July 19, 1988

The Honorable Lawton Chiles
Chairman, Committee on
the Budget
United States Senate

The Honorable John Glenn
Chairman, Committee on
Governmental Affairs
United States Senate

As you requested, we are providing the results of our preliminary analysis of growth in the Department of Defense's (DOD) secondary item inventories. You also requested a detailed analysis of inventory growth not related to growth in force structure or increased operations and of inventory increases that could be curtailed with no detrimental effect on readiness. (See app. I.) As agreed with your Offices, we are performing more detailed analyses on these issues and will report on them separately.

Secondary Inventory Value Doubles Between 1980 and 1987

DOD classifies its material inventories as principal items (aircraft, tanks, and ships) or secondary items. DOD defines secondary items as minor end items; replacement, spare, and repair components; personnel support and consumable items. Examples of secondary items include aircraft, tank, and ship components; construction, medical, and dental supplies; and food, clothing, and fuel.

The value of DOD's secondary inventories increased about $51 billion between 1980 and 1987, from about $43 billion to about $94 billion. Navy and Air Force inventories grew the most, with increases of about $19 billion and $18 billion, respectively. The greatest growth Defense-wide was in aircraft components and parts, which grew $30.6 billion. Construction, industrial and general supplies grew $9.2 billion, and ship and submarine parts grew $8.2 billion.

Required stocks grew about $27 billion between 1980 and 1987, while stocks in excess of requirements grew about $19 billion. About $5 billion of the inventory growth was unstratified. The percentage increase in unrequired stocks (186 percent) was more than double the percentage increase in required stocks (84 percent). (See app. II.)

Causes of Growth

Military officials attributed much of the inventory growth to such factors as inflation, modernization, and increased lead time and war reserves. A Logistics Management Institute study attributed 64 percent of inventory growth between 1979 and 1984 to price growth. Military officials also stated that as DOD phased out older equipment, items supporting the equipment shifted from required to unrequired stocks.

We believe that some of the inventory growth may also be attributable to such problems as inaccurate requirements computations that have been the subject of previous audit reports. (See app. III.)

To address your request for a detailed analysis of unrequired growth, we are focusing our continuing efforts on aircraft and ship parts. These categories represent about $39 billion of the $51 billion in secondary inventory growth between 1980 and 1987, and about $12 billion of the $19 billion increase in stocks with no requirements.

Agency Comments

DOD concurred with the findings in this report. (See app. V.)

As arranged with your Offices, unless you publicly announce its contents earlier, we plan no further distribution of this briefing report until 30 days from the date of issue. At that time, we will send copies to the Chairmen, Senate and House Committees on Armed Services and Appropriations; the Secretaries of Defense, the Army, Navy, and Air Force; the Director, Defense Logistics Agency; the Director, Office of Management and Budget; and other interested parties.

If you have any questions, please call me at 275-8412.

Martin M Ferber
Senior Associate Director

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Abbreviations

DLA	Defense Logistics Agency
DOD	Department of Defense
GAO	General Accounting Office

Objectives, Scope, and Methodology

The Chairman, Senate Committee on the Budget, requested that we study the growth in the Department of Defense's (DOD) secondary inventories. He asked that our study include (1) a macro-analysis of the growth, (2) aspects of the growth not related to force structure and increased operating tempos, and (3) growth that could be curtailed with no detrimental effect on readiness or sustainability. The Chairman, Senate Committee on Governmental Affairs, has also expressed an interest regarding these issues.

This briefing report provides a macro-analysis of the inventory growth. We are continuing with additional analyses to address the second and third issues. Our efforts will focus on aircraft and ship parts because they represent about $39 billion of the $51 billion in inventory growth between 1980 and 1987, and about $12 billion of the $19 billion increase in stocks with no requirements.

Our work was performed at the Office of the Assistant Secretary of Defense (Production and Logistics); the Army, Navy, Air Force and Defense Logistics Agency (DLA) headquarters; and the Logistics Management Institute. We obtained DOD-wide inventory data for 1980-87 from DOD's Supply System Inventory and Real and Personal Property reports. We did not verify the accuracy of this data. All inventory amounts cited in the report are as of September 30 of each year.

Subsequent to receiving DOD's comments on the draft report, we obtained and incorporated fiscal year 1987 data into this final report. The 1987 data did not affect the findings.

We analyzed the inventory data to identify the areas in which growth had occurred (such as aircraft and ship parts) and in the types of stocks (required or unrequired). We grouped Approved Force Acquisition Objective[1] stock and Approved Force Retention Stock together because they are categories of required stocks. According to DOD officials, the term "long supply" is used to describe stocks in excess of acquisition requirements. However, DOD's long supply includes Approved Force Retention Stock. These stocks include materials that are not budgeted for but can be used to equip and support U.S.-approved forces from the day war begins until production equals requirements. Our values for stocks with no requirements do not include Approved Force Retention Stocks because they are defined by DOD as required stocks, even if they

[1]The Approved Force Acquisition Objective includes current operating stocks and war reserves.

are not in the budget. Thus, our values for unrequired stocks are less than DOD's values for long supply.

We also interviewed officials and examined documents to identify causes of the growth. We reviewed prior audit reports by DOD and us to identify reported inventory management problems that in the past have contributed to inventory growth.

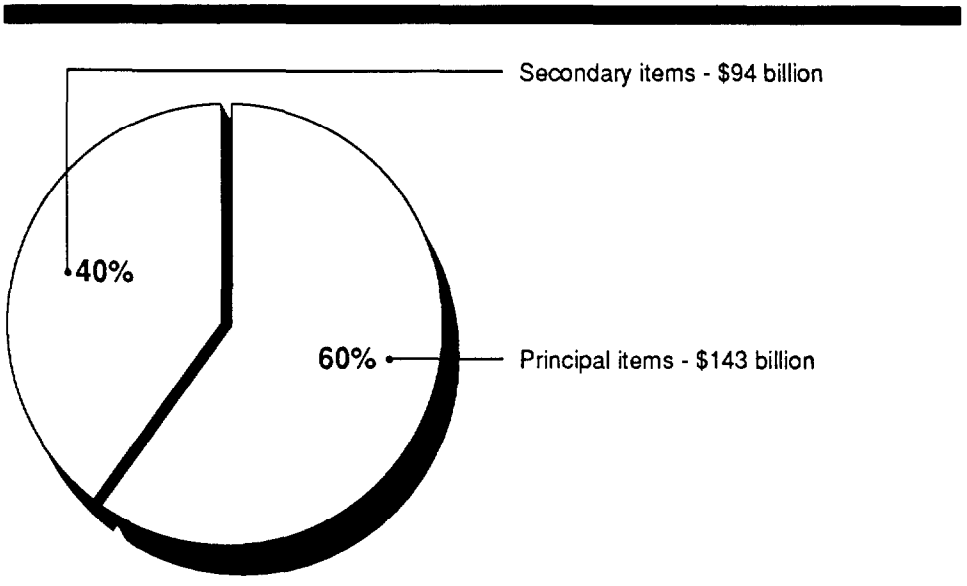
We conducted our review from May 1987 through June 1988 in accordance with generally accepted government auditing standards.

Growth in DOD's Secondary Item Inventory

As of September 30, 1987, DOD reported secondary item inventories valued at $94 billion.[1] Secondary inventories include wholesale inventories, which are controlled at the national level, and retail inventories, which are controlled at lower levels. Supplies aboard ships and issued to troops are generally not included in secondary inventories.

As shown in figure II.1, secondary items represented 40 percent of DOD's reported $237 billion inventory.

Figure II.1: DOD's $237 Billion Inventory of Principal and Secondary Items, September 30, 1987



DOD's inventory of secondary items increased from about $43.4 billion in 1980 to $94 billion in 1987, an increase of about $50.6 billion. During this period the number of different items in the inventory increased from about 3.9 million to about 4.6 million items. Figure II.2 shows the dollar change in DOD's secondary inventory between 1980 and 1987.

Figure II.3 shows the change in inventory by DOD organization. The growth ranged from about $4.1 billion (57 percent) for DLA to about $19 billion (167 percent) for the Navy.

[1]These inventories are primarily at the wholesale level. In addition, there are inventories at the retail level that cannot be analyzed because no detail data on them are available.

Figure II.2: DOD's Secondary Inventory (1980-87)

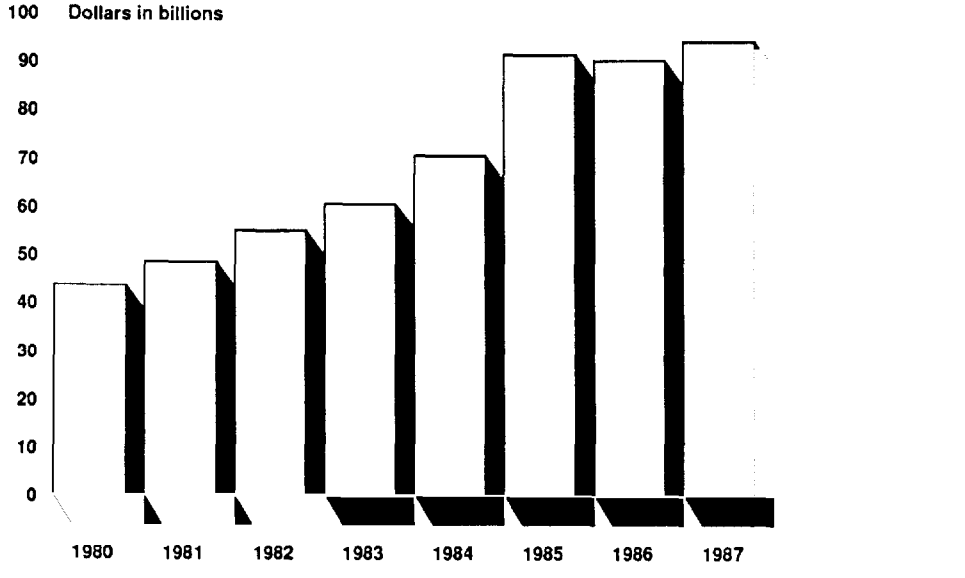
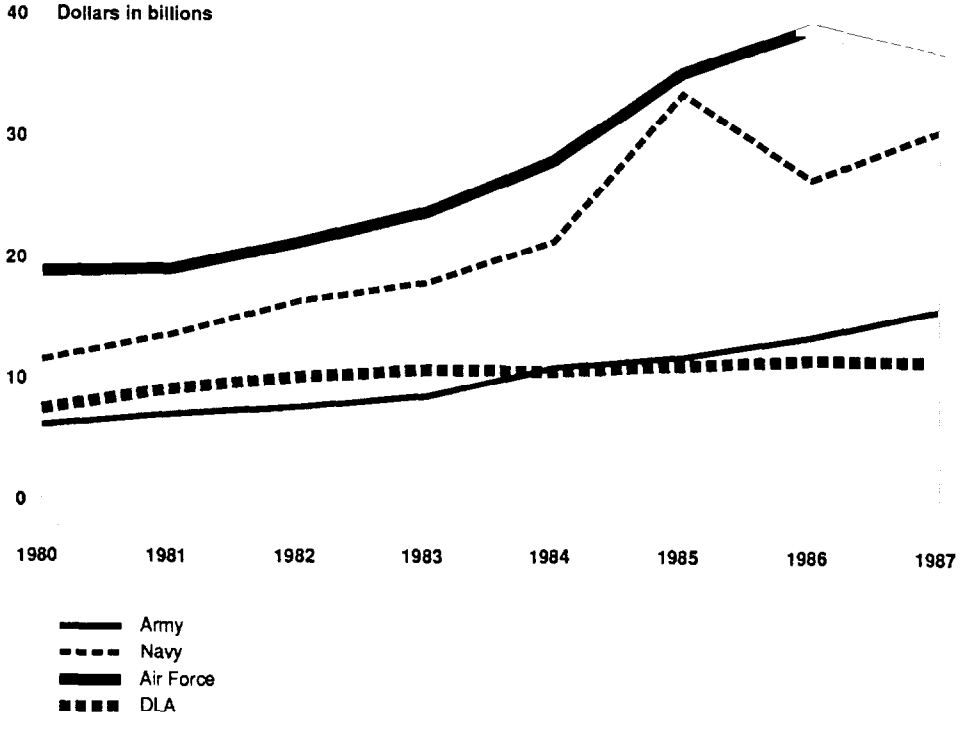


Figure II.3: Army, Navy, Air Force, and DLA Secondary Inventories (1980-87)



The Navy inventory increased by $19 billion (167 percent), from about $11.4 billion in 1980 to about $30.4 billion in 1987. As shown in figure II.3, however, the $26.4-billion 1986 inventory represented a $7-billion decrease from the $33.4-billion 1985 level. The Navy attributed the decrease to such factors as

- reducing stock fund[2] prices as a result of increased competition and the Buy Our Spares Smart program,
- transferring aviation depot level repairable inventories to users, and
- excluding shipboard inventories that were erroneously included in secondary inventories.

The Air Force's inventory grew by $17.8 billion between 1980 and 1987. However, its $36.4 billion 1987 inventory represents a $2.3-billion decrease below its 1986 inventory. According to an Office of the Assistant Secretary of Defense supply official, the decrease was the result of an Air Force effort to correct inaccuracies in previously reported inventories. He explained that the $2.3 billion-decrease was the net result of changes in several inventory categories. For example, the reported inventory of aircraft components and parts decreased by $3.5 billion between 1986 and 1987 while construction, industrial, and general supplies increased by $5 billion.

Growth in Secondary Inventory Categories

DOD has developed standard categories so that service and DLA secondary inventories can be aggregated at the DOD level. Figure II.4 shows the current categories for the secondary inventory and the changes in the inventory from 1980 to 1987.

Three of the categories in figure II.4 represent about 96 percent of the $51 billion increase in the secondary inventory from 1980 to 1987.

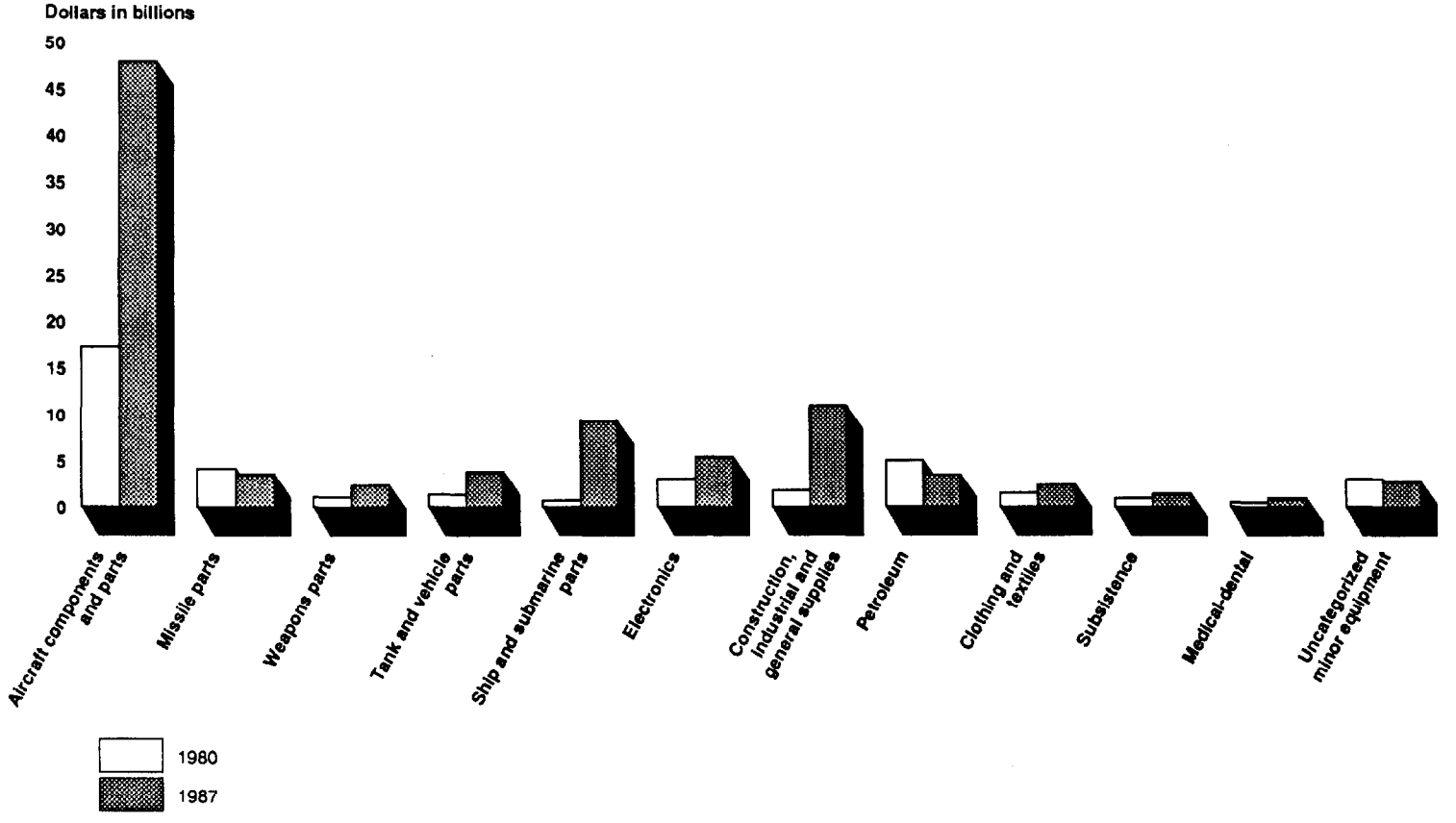
1. Aircraft components and parts increased by $30.6 billion (177 percent).

2. Ship and submarine parts increased by $8.6 billion (1,323 percent).

[2]A stock fund is a system to finance the purchase of material. Proceeds from sales to customers are used to purchase inventory for future sales.

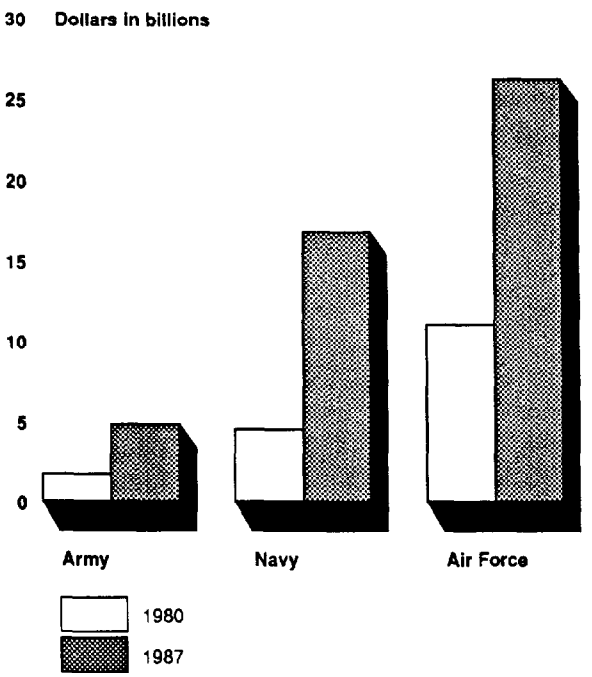
3. Construction, industrial, and general supplies increased by $9.2 billion (523 percent).

Figure II.4: DOD Secondary Inventory by Category (1980 and 1987)



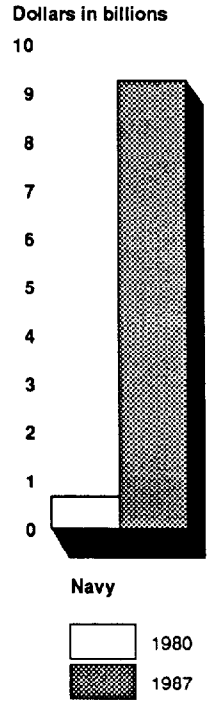
Figures II.5 through II.7 show the distribution of the growth in these four categories by DOD organization. Appendix IV shows the specific numbers for these categories.

Figure II.5: Aircraft Components and Parts by Service (1980 and 1987)



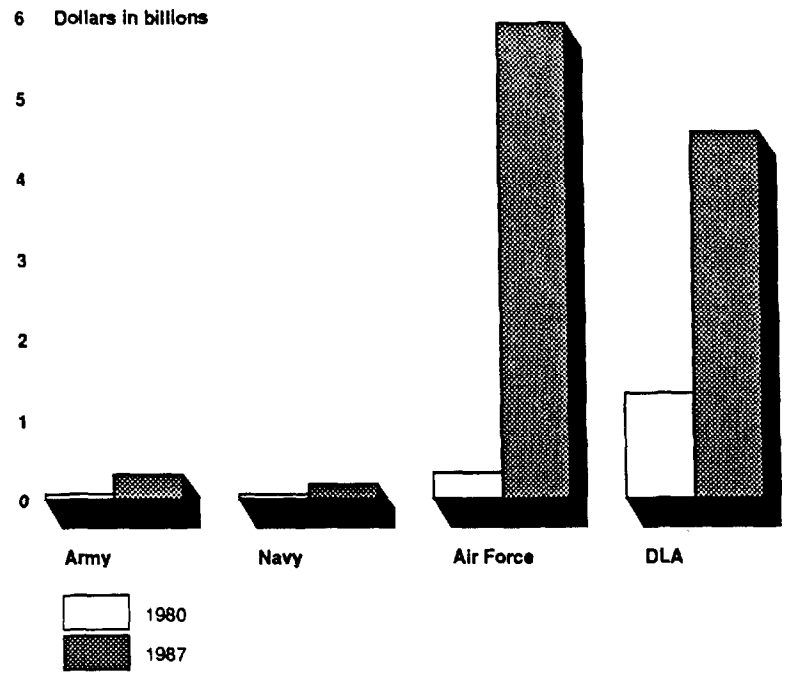
Note: DLA does not report aircraft components and parts in its inventories.

Figure II.6: Navy Ship and Submarine Parts (1980 and 1987)



Note: The Navy is the only Defense component reporting ship and submarine parts.

Figure II.7: Construction, Industrial, and General Supplies by DOD Organization (1980 and 1987)



Classification of Secondary Inventories

DOD categorizes its secondary inventories into six classifications. Two classifications represent required stocks.

1. The Approved Force Acquisition Objective represents current operating stocks plus war reserves.[3]

2. The Approved Force Retention Stock is in addition to the Approved Force Acquisition Objective stock and is required to equip and support the U.S.-approved forces from the day war begins until production equals demand. Unlike Approved Force Acquisition Objective stock, DOD does not budget for retention stocks.

The remaining four classifications represent unrequired stocks, which are in addition to required stocks.

3. The Contingency Retention Stock has no predictable demand or quantifiable requirement and normally would be in the Potential Excess category. However, DOD has decided to retain the stock for possible contingencies.

4. The Economic Retention Stock also has no requirement and normally would be Potential Excess. However, DOD has decided to retain the stock for future peacetime use instead of satisfying possible future needs through procurement.

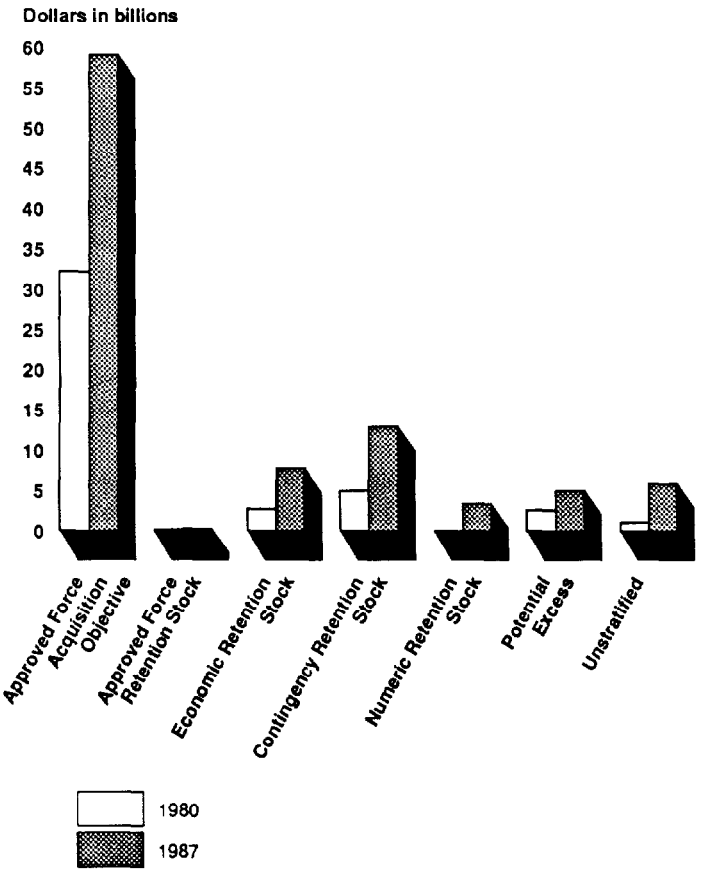
5. The Numeric Retention Stock is the stock for which disposal is currently infeasible or uneconomical, and management has decided to retain it in the supply system. DOD began using this classification in 1982.

6. The Potential Excess is material excess to all authorized retention levels, but DOD has not yet determined it to be excess.

In addition to the above classifications, DOD also has unstratified stocks. According to an Office of the Assistant Secretary of Defense supply official, unstratified stocks represent items in transit. Figure II.8 compares the secondary item inventory classifications in 1980 and 1987.

[3]War reserves are stocks that are stored in peacetime to satisfy increased wartime consumption; they are intended to sustain operations until resupply takes place.

Figure II.8: Classification of DOD's Secondary Item Inventory (1980 and 1987)



Note: DOD had minimal inventories of Approved Force Retention Stock in 1980 and 1987. DOD had no Numeric Retention Stock in 1980. It began using that classification in 1982.

Table II.1 shows that the dollar growth in required stocks exceeded the dollar growth in unrequired stocks for the Army and Air Force. For the Navy and DLA, growth in unrequired stocks exceeded growth in required stocks. However, the percentage increases for unrequired stocks were greater than those for required stocks for all DOD organizations except the Army.

Table II.1: Comparison of Growth in Required and Unrequired Stocks (1980-87)

Dollars in billions

	Increase in required stocks		Increase in unrequired stocks	
	Amount	**Percent**	**Amount**	**Percent**
Army	$6.7	176	$3.0	171
Navy	7.4	89	7.7	240
Air Force	11.2	78	5.7	133
DLA	1.7	29	2.5	283
Total	**$27.0**	**84**	**$18.8[a]**	**186**

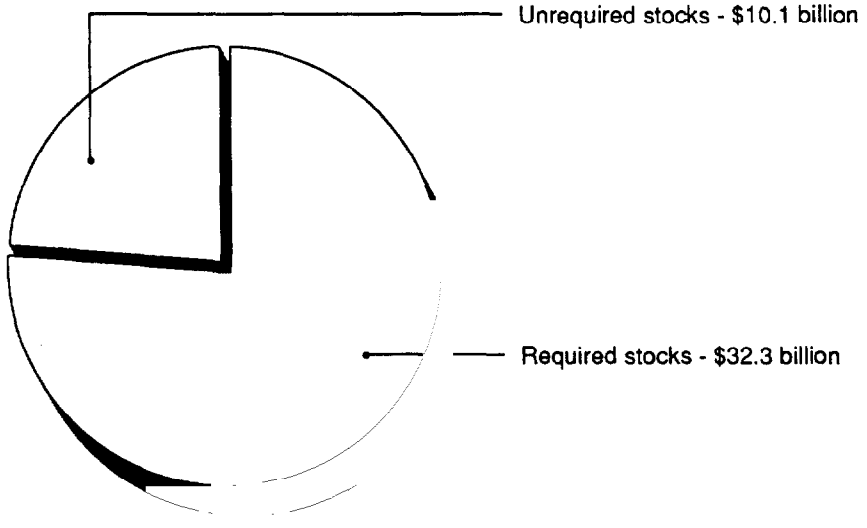
[a]Total does not add due to rounding.

Growth in Required and Unrequired Stocks

Between 1980 and 1987, stocks with no requirements grew at a faster rate than required stocks. Stocks with no requirements grew $18.8 billion (186 percent), while required stocks grew $27 billion (84 percent).[4] In 1980 there was about $3 of required stock for every $1 of unrequired inventory. By 1987 the proportion had decreased to about $2 to $1, as depicted in figure II.9.

[4]The required and unrequired stocks do not include unstratified stocks, which were valued at $1.0 billion in 1980 and $5.8 billion in 1987.

Figure II.9: Comparison of Required and Unrequired Stocks (1980 and 1987)



Note: Unstratified stocks are not included.

Specific material categories had similar growth patterns. As shown in table II.2, dollar growth in required stocks for selected categories was

greater than the growth in stocks with no requirements. Table II.2 also shows that all three of the categories had larger percentage increases in unrequired stocks than in required stocks.

Table II.2: Comparison of Growth in Required and Unrequired Stocks for Selected Material Categories (1980-87)

Dollars in billions

	Increase in required stocks		Increase in unrequired stocks	
	Amount	Percent	Amount	Percent
Aircraft components and parts	$18.1	141	$8.8	184
Ship and submarine parts	4.1	1,084	3.3	1,419
Construction, industrial, and general supplies	5.2	467	3.7	694

Explanations of the Growth in Secondary Item Inventories

In a 1984 study, the Logistics Management Institute attributed 64 percent of the growth in DOD's secondary inventory between 1979 and 1984 to price growth. The study cited support for new weapons systems and increased operations as causing less than half of the remaining growth. The study focused on increases in requirements, which generally precede increases in inventory, to identify factors causing growth. It also cited such contributing factors as longer lead times and safety levels and efforts to increase support for all weapons systems.

Army officials said that during the 1980s, an effort to increase the level of war reserves resulted in increased secondary inventory levels. Additionally, new equipment entering the military forces required more sophisticated and expensive support items, thus increasing the value of the secondary inventory.

Navy officials cited such factors as inflation, support for the 600-ship Navy and fleet modernization, and price changes. The price changes resulted from adding a surcharge for transportation and financing reparable items through the stock fund. The officials explained that when the Navy began financing reparable items through the stock fund, it repriced the items to reflect replacement costs rather than acquisition costs.

DLA and Air Force officials identified increases in lead times as contributing to inventory growth. A DLA official noted that longer lead times result in increased requirements, including increased safety levels. Air Force officials also attributed growth to force modernization, increases in war reserves, a moratorium on disposal of excess items, and inflation.

All the officials said that phasing out older equipment contributed to the growth in stocks with no requirements. They said that items that supported equipment being phased out shifted from required to unrequired stocks as the need for support decreased.

The causes of secondary inventory growth can include both avoidable and unavoidable factors. Inflation, a major unavoidable factor cited by military officials, affects both required and unrequired inventories. Also, previous audits by DOD and us have identified many management weaknesses that have contributed to avoidable increases in secondary inventories. As discussed in appendix III, such weaknesses as inaccurate inventory requirements computations and inadequate inventory controls can be corrected. Opportunities exist to reduce inventories without reducing military capability where these weaknesses have not been corrected.

Prior Audit Reports Highlight Problems Contributing to Inventory Growth

Since the 1970s, DOD's internal audit groups and we have documented problems affecting secondary item inventory growth. The problems were in such areas as computing inventory requirements, unrequired stocks, and using existing stocks inefficiently.

DOD accepted many recommendations contained in the reports and proposed or initiated corrective actions. However, many of the problems continue. Under the Federal Managers' Financial Integrity Act, DOD components continue to report weaknesses involving secondary inventories.

Inaccurate Requirements Computations Contribute to Inventory Growth

Audit reports from 1974-87 show that inaccurately computed inventory requirements contributed to unnecessary growth in the secondary item inventory. Over 30 reports identified errors or inaccuracies in requirements computations that result from

- disregarding material returns and cancellations,
- using inaccurate lead times and duplicate requirements,
- using a methodology for computing initial spare parts that overstated requirements,
- overstating special stock level requirements, and
- not validating equipment authorizations adequately.

Disregarding Returns and Cancellations

In May 1980, we reported that four of the five Army inventory control points did not fully offset demands with serviceable returns.[1] We concluded that the Army could save tens of millions of dollars by following its regulation that requires using returns to offset demands when computing requirements. DOD concurred with our findings and advised us that the Army had directed each inventory control point to use 100 percent of serviceable returns to offset requirements. In February 1977, we also reported that the Army could save millions of dollars annually by removing invalid demands related to requisition cancellations from its requirements computations.[2]

[1] The Army Can Save Millions Annually by Properly Considering Serviceable Returns in Its Requirements Computations (GAO/LCD-80-64, May 15, 1980).

[2] Procedures and Practices Used by Army and Navy Inventory Managers and Their Shipping Activities to Respond to Requests for Cancellation of Requisitions for Material (GAO/LCD-77-201, Feb. 17, 1977).

Using Inaccurate Lead Times

In a December 1981 report, we identified problems with requirements computations in the Army.[3] The Army Missile Command had overstated requirements for certain items by $12.2 million because of inaccurate lead time data. We recommended that methods for determining lead time for requirements computations be improved. In response, the Army directed the Army Inventory Research Office to determine a more representative lead time value. It also planned to allow inventory control points the flexibility to determine representative administrative lead time.

In January 1987, the DOD Inspector General recommended that air logistics centers improve forecasting lead time by using actual historical lead time.[4] The Inspector General had found that one center had used a longer administrative lead time than necessary to determine worldwide requirements. As a result, the center overstated requirements for F-100 engine spare parts by $28.8 million. The Air Force agreed to direct the centers to use actual historical administrative lead time unless deviations could be justified.

Duplicate Requirements

Five air logistics centers used duplicate requirements, which resulted in unnecessary inventory investment and increased holding costs. In October 1984, we recommended that the Air Force limit inventory investment to the level needed to support mission requirements.[5] By doing so, the centers could reduce inventories and delay obligating about $119 million and reduce holding costs about $21 million. DOD officials agreed that depot-level maintenance requirements were counted twice. However, they disagreed that this practice overstated requirements and resulted in excessive inventories, and they did not implement our recommendations.

Provisioning Method Overstated Requirements

An Air Force provisioning method for F-16 C/D aircraft spares resulted in requirements being overstated by approximately $4.4 million.[6] The Air Force Logistics Command approved the method without verifying

[3]The Army Should Improve Its Requirements Determination System (GAO/PLRD-82-19, Dec. 1, 1981).

[4]F100 Aircraft Engine Spare Parts (Department of Defense Inspector General 87-069, Jan. 16, 1987).

[5]Excessive Air Force Inventories Result From Duplicative Spare Parts Requirements (GAO/NSIAD-85-7, Oct. 25, 1984).

[6]Spares Support for the F-16 C/D Aircraft (Air Force Audit Agency 4126121, Apr. 4, 1985).

whether it was consistent with Air Force and DOD policy. In April 1985, the Air Force Audit Agency concluded that the Air Force Logistics Command should revise procedures to review and approve alternative provisioning methods. By doing so, it could improve the accuracy of spares requirements and provide weapons systems with consistent initial spares support. In response, the Air Force said it would revise Air Force Logistics Command regulations to include improved procedures for reviewing and approving alternative provisioning methodologies.

Overstating Special Stock Level Requirements

In December 1986, we reported that two air logistics centers had overstated special stock levels by $27.9 million due to deficiencies in the method used to compute the amount of stock needed to support operations and to errors by item managers.[7] We recommended that air logistics centers program the recoverable item system to determine special stock level requirements. We believed this action would ensure more accurate requirements and minimize procurement of unneeded material. DOD responded that the Air Force had revised its system for computing stock levels.

Inadequate Validation of Equipment Authorizations

In July 1982, we reported that Air Force supply officers were not monitoring equipment authorizations and revising authorizations when allowances changed.[8] We also noted that the lack of expertise to verify equipment requirements hindered the supply officers in carrying out that role. DOD auditors had identified more than $26 million in invalid Air Force equipment authorizations in 1980. We recommended that the Air Force increase attention to monitoring and validating equipment authorizations. Air Force officials agreed with our recommendations and began mandatory on-site surveillance by major command equipment management teams.

Excessive Inventories

Since the 1970s, many audits have identified excessive inventories. We found 21 audit reports issued between 1974 and 1987 that identified causes of overstocking, such as not cancelling excess stocks on order, not returning material to the wholesale level, unnecessarily procuring materials, and having duplicate demands and inventories.

[7] Military Logistics: Improvements Needed in Managing Air Force Special Stock Levels (GAO/NSIAD-87-34, Dec. 23, 1986).

[8] The Air Force Needs To Exercise More Control Over Equipment Authorizations (GAO/PLRD-82-100, July 27, 1982).

Not Canceling Excess Stocks on Order

In October 1979, we reported that the two air logistics centers had $27.2 million of excess stocks on order. We found that the two centers could have canceled as much as $6.2 million of the orders. However, few of the orders were being canceled because of untimely or ineffective actions by item managers.[9] In February 1983, we reported that if the Air Force did more to correct weaknesses previously reported, it could further increase potential cancellations by $58 million or more.[10]

In August 1987, we reported that two air logistics centers had excess on-order stocks of $103.2 million. We found that out of a $74.2 million sample of excesses on order, the centers had terminated only $1.8 million. We concluded that it would have been cost-effective for the centers to have terminated an additional $24.9 million of the $103.2 million universe. DOD agreed that improvement was needed in the procedures and practices governing terminations of on-order material.[11]

Not Returning Unneeded Material

In January 1981, we reported that Navy fleet policies allowed ships to retain unneeded parts.[12] For example, ships completing supply overhauls could retain parts not used during the previous 5-year interval between supply overhauls. We noted that the Navy could have reduced purchases and repairs, thus saving up to $37 million in 5 years. An additional $34 million could have been saved by identifying and redistributing unneeded stocks. We recommended that the Navy strengthen controls over parts retained on ships. The Navy disagreed with our recommendations because it believed that shipboard spare part inventories are not demand-oriented and that they ensure that a ship can carry out its mission.

In September 1987, we reported that the Army could have used excess items to offset $35.9 million of $41 million in purchases.[13] The excess items were held at nine Army installations. DOD generally agreed with

[9]DOD Can Save Millions Of Dollars By Improving The Management Of Air Force Inventories (LCD-80-6, Oct. 25, 1979).

[10]Continued Improvements Needed In Air Force Procedures and Practices For Identifying and Canceling Excess On-order Stocks (GAO/PLRD-83-36, Feb. 7, 1983).

[11]Military Procurement: Air Force Should Terminate More Contracts for On-order Excess Spare Parts (GAO/NSIAD-87-141, Aug. 12, 1987).

[12]Supply Support Costs Of Combat Ships Can Be Reduced By Millions And Readiness Enhanced (GAO/LCD-81-9, Jan. 15, 1981).

[13]Inventory Management: Army Needs to Reduce Retail Level Excesses (GAO/NSIAD-87-197, Sept. 2, 1987).

the findings presented in the report. DOD responded that the Army would advise its major commands to report all excess items to the wholesale level and eliminate retention levels for those items for which retention levels are not authorized.

Unnecessary Procurement

In December 1978, we reported that Atlantic and Pacific Fleet aircraft carriers had stock excesses averaging $154 million in 1976 and 1977.[14] One of the primary causes of the excesses was a lack of adequate management controls and supply discipline to prevent the ordering of excessive amounts of material. We concluded that the Navy should improve supply management aboard the carriers to avoid unnecessary inventory investments in the future. The Navy agreed with our findings and recommendations and planned to revise, reemphasize, and enforce its directives on inventory management.

Duplicate Inventories

In October 1986, we estimated that the Navy could reduce inventories up to $116.9 million by eliminating intermediate inventories that duplicate wholesale inventories.[15] Also, the Navy overstated requirements by $46.3 million because two control points erroneously used maximum intermediate inventory levels to set requirements. DOD agreed with our findings and recommendations and outlined in-process actions to correct shortcomings in the requirements determination and distribution systems.

Inefficient Use of Inventories

We identified eight audit reports issued between 1975 and 1984 that addressed inefficient utilization of existing inventories. The reports identified problems caused by

- inadequacies in automated and manual controls,
- lack of screening of existing stocks before new purchases were made, and
- war reserve requirements that were not verified.

[14]Millions of Dollars Can Be Saved By Improved Management Of Aircraft Carrier Inventories (GAO/LCD-78-221, Dec. 22, 1978).

[15]Navy Supply: Intermediate Inventories Can Be Reduced (GAO/NSIAD-87-19, Oct. 28, 1986).

Inadequate Controls

In November 1975, we reported that Army units had requisitioned and retained excess stock valued at tens of millions of dollars yearly.[16] Automated and manual procedures did not provide for identifying, canceling, or redistributing on-order or on-hand excess stocks.

Lack of Screening

In March 1981, we reported that the Air Force was purchasing modification kits from contractors even though many of the items contained in kits were available within the DOD supply system.[17] We noted that the Air Force Audit Agency had reported in 1979 that using Air Force- and DOD-managed items for the B-52 modification program could have saved the Air Force $21 million. We also reported that using the DOD supply system could have saved $9 million in the C-5A modification program. Air Force officials agreed that they should screen the DOD supply system to identify in-stock items that could be used to support the modification programs, and they stated that they planned to clarify program regulations and instructions.

Deficiencies in Prepositioned War Reserve Requirements

In a June 1982 report, the Defense Audit Service concluded that DLA could have made better use of $59 million worth of assets.[18] Items kept for war reserve requirements were available to satisfy deficiencies in the military services' higher priority needs for prepositioned items. DOD agreed to review alternatives for redistributing DLA stocks to fill prepositioned war reserve requirements.

DOD's Internal Control Reports Identify Similar Weaknesses

Effective internal controls ensure that funds used and activities conducted by agencies are consistent with laws, regulations, and policies and that resources are safeguarded against waste, loss, and misuse. Under DOD's internal control program, each DOD component is required to report internal control weaknesses to the Secretary of Defense annually. DOD components have reported many weaknesses involving secondary inventories.

[16]Improved Inventory Management Could Provide Substantial Economies For The Army (LCD-76-205, Nov. 21, 1975).

[17]Improved Management Of Air Force Modification Programs Can Save Millions (GAO/PLRD-81-5, Mar. 16, 1981).

[18]Report on the Audit of the Defense Logistics Agency War Reserve Program (Defense Audit Service 82-100, June 7, 1982).

- In 1983 the Army reported that its policy and procedures for managing war reserve stocks had not been implemented effectively. Items were stocked at low-priority U.S. locations when higher priority overseas sites were short on those stocks.
- In 1984 the Navy reported that shipboard inventories substantially exceeded authorized levels and that procedures were not in place to identify excess material supporting a missile program that had ended.
- In 1986 the Air Force reported that spare parts available from excess aircraft engines were not being properly matched to spare parts requirements. As a result, aircraft engines projected to be excess were not programmed to reclaim parts to satisfy requirements.

As part of the internal control program, DOD has implemented or has planned actions to correct the reported problems.

Inventory Data for Selected Material Categories

Category/DOD organization	Dollars in billions 1980	1987
Aircraft components and parts		
Army	$1.74	$4.83
Navy	4.52	16.79
Air Force	11.03	26.25
Ship and submarine parts		
Navy	0.65	9.25
Construction, industrial, and general supplies		
Army	0.07	0.31
Navy	0.06	0.18
Air Force	0.32	5.89
DLA	1.30	4.53

Comments From the Assistant Secretary of Defense (Production and Logistics)

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301-8000

PRODUCTION AND
LOGISTICS

(L/SD)

MAY [illegible]

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and
International Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "DEFENSE INVENTORY: Growth in Secondary Items," dated March 31, 1988 (GAO Code 391595/OSD Case 7582).

The Department has reviewed the report, concurs with the findings, and has no further comment. The DoD appreciates the opportunity to comment on this draft report.

Sincerely,

Merle Freitag, MG, USA
Military Deputy

*U.S. G.P.O. 1988-201-749:80192

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