DEFENSE INVENTORY

Overall Inventory and Requirements Are Increasing, but Some Reductions in Navy Requirements Are Possible

Why GAO Did This Study

Changes in the Department of Defense's (DOD) mission can lead to changes in inventory requirements, which, in turn, determine the size of DOD's inventory. Since 1990, GAO has identified DOD's management of inventory as a high-risk area because levels of inventory were too high and management systems and procedures were ineffective. Furthermore, DOD has attributed readiness problems to parts shortages. In this report, GAO (1) provides information on changes in and make up of the department's inventory and (2) analyzes changes in inventory requirements, focusing on the Navy.

What GAO Recommends

Because the long-standing logistical problems associated with inventory excesses and shortages have been addressed in prior reports as well as in GAO's *Performance and Accountability Series* reports, GAO is not making any additional recommendations in regard to those issues. However, to improve the accuracy of the Navy's inventory requirements, GAO recommends that the Secretary of Defense require the Navy to ensure that the most current data available for computing its administrative lead time requirements are being used. DOD generally concurred with GAO's report, and stated that the Navy formally updated its system to begin using the most current data available to compute administrative lead time

www.gao.gov/cgi-bin/getrpt?GAO-03-355.

To view the full report, including the scope and methodology, click on the link above. For more information, contact William M. Solis at (202) 512-8365 or solisw@gao.gov.

What GAO Found

DOD reported a $5.6 billion increase in inventory on hand and a $1.7 billion increase in inventory on order between September 30, 1999, and September 30, 2001. The reported inventory increases were primarily due to the Navy reporting aviation parts held by ships and air squadrons that were previously not reported and to overall DOD inventory requirements increases. In addition, GAO identified large imbalances in the department's inventory; as of September 30, 2001, over 1.7 million items had $38 billion of inventory that exceeded the items' current inventory operating requirements of $24.9 billion (see table below). At the same time, there were 523,000 items that needed an additional $10.4 billion of inventory to meet the items' current inventory operating requirements.

Generally, inventory increases are the result of increases in inventory requirements. DOD's overall inventory requirements increased by $10.6 billion, or 26 percent, between the end of fiscal years 1999 and 2001, with some of the Navy's requirements being overstated. The Navy was responsible for the largest dollar increase, $4.7 billion of the $10.6 billion increase. A large part of the Navy increase, $3.4 billion, was attributable to a change in the way the Navy accounted for aviation parts held by ships and air squadrons. The remaining Navy increase was attributable to a variety of reasons, such as price increases; increased demand and item wear-out rates; and, in some cases, inaccurate data. Also, since 1997 the Navy has reduced the amount of administrative lead time it takes to place inventory orders (the period between when the need to replenish an item through a purchase is identified and when a contract is let), yet it has not formally updated the data used to compute those requirements. For example, the Navy reduced the administrative lead time for medium-sized sole-source contracts for repairable items from 200 days to 130 days, but it did not recognize the reduction in its requirements computations. As a result, those requirements are inaccurate and overstated.

Value of DOD's Inventory On Hand and On Order for Items That Had Too Much Inventory by Military Component as of September 30, 2001

Dollars in billions

Military component	Inventory satisfying requirements	Inventory exceeding requirements
Army	$2.8	$3.7
Navy	7.3	8.8
Air Force	10.5	19.4
Defense Logistics Agency	4.3	6.1
Total	**$24.9**	**$38.0**

Source: DOD.