



Highlights of [GAO-06-512](#), a report to the Subcommittee on Readiness and Management Support, Committee on Armed Services, U.S. Senate

Why GAO Did This Study

Maintaining the right amount and types of items in its inventory—a key aspect of supply chain management—has been a long-standing challenge for the Department of Defense (DOD) and has been on GAO's list of high-risk areas since 1990. DOD retains inventory above its normal operating requirements for various reasons including for contingency purposes or because it is more economical to keep items than dispose and repurchase them later. DOD's inventory levels have grown in recent years to almost \$80 billion in fiscal year 2005. GAO was asked to assess the management of contingency retention inventory to determine whether (1) the Army, Air Force, Navy, and Defense Logistics Agency have followed inventory guidance and (2) DOD is providing oversight of inventory across these components. Also, GAO provided an update on the progress DOD has made in implementing GAO's past recommendations on the components' management of economic retention inventory.

What GAO Recommends

GAO recommends that DOD direct the inventory centers to take the steps necessary to follow existing inventory management policies and procedures and provide oversight to ensure the components' compliance. In reviewing a draft of this report, DOD generally agreed with GAO's recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-512.

To view the full product, 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.

DEFENSE INVENTORY

Actions Needed to Improve Inventory Retention Management

What GAO Found

Some DOD inventory management centers have not followed DOD-wide and individual policies and procedures to ensure they are retaining the right amount of contingency retention inventory. While policies require the centers to (1) use category codes to describe why they are retaining items in contingency inventory, (2) hold only those items needed to meet current and future needs, and (3) perform annual reviews of their contingency inventory decisions, one or more centers has not followed these policies. For example, the Army's Aviation and Missile Command is not properly assigning category codes that describe the reasons they are holding items in contingency inventory because the inventory system is not programmed to use the codes. GAO found that items valued at \$193 million did not have codes to identify the reasons why they were being held, and therefore GAO was unable to determine the items' contingency retention category. GAO also found that some inventory centers have held items such as gears, motors, and electronic switches, even though there have been no requests for some of them by the services in over 10 years. Moreover, some centers are not annually reviewing their contingency retention decisions. Navy Inventory Control Point Mechanicsburg's officials, for example, were unaware that program managers had not conducted the required reviews until GAO brought this to their attention. Since GAO's work only focused on the centers it reviewed, it is unknown if these issues are occurring at other DOD inventory centers. By not following policies for managing contingency inventory, DOD's centers may be retaining items that are needlessly consuming warehouse space, and they are unable to know if their inventories most appropriately support current and future operational needs.

DOD has provided insufficient oversight of inventory retention management across the components. DOD's *Supply System Inventory Report*, which DOD uses to oversee the components' inventory management, only requires the components to report to DOD financial information about their inventories and does not capture if the components are following management policies. Without sufficient oversight of the components' inventory retention practices, DOD cannot be certain that the components have the correct amount or type of items in contingency retention inventory.

Lastly, DOD has made no progress to implement GAO's 2001 recommendations requiring the components to (1) establish milestones for reviewing their approaches for making economic retention inventory decisions, and (2) conduct annual reviews of these approaches, as required by DOD policy. At the time GAO issued its report, DOD agreed with the recommendations but stated that further review was necessary before it implemented changes. While subsequent studies reaffirmed the recommendations, DOD has still not taken action. GAO continues to believe that DOD should implement the recommendations to make meaningful improvements to its economic retention management practices.