Progress reports received from the Department of Defense indicate that corrective actions have been taken and are complete in 58 of the areas, and are in process in the other 24. We plan to conduct a follow-up review of the effectiveness of the improvement actions within the next few months.

ADEQUACY OF INVENTORY CONTROLS

There is approximately $10.4 billion in spare parts, components, and supplies held in 43 major depots of the military departments in the continental United States. Annual issues from these depots amount to over $7 billion.

During the past year, we have performed considerable work within the area of inventory controls at the U.S. depots of the military services and the Defense Supply Agency. Our findings indicate that increased emphasis and attention are needed at all management levels to improve the usefulness of stock records for control of inventories.

We found in our review, for example, that significant differences existed between stock record balances and the actual quantities of items in depot inventories throughout the supply systems. This was evidenced by frequent and voluminous adjustments being made to the stock records by the services. The depot supply activities in the Department of Defense adjusted inventory records up or down, that is, gross adjustment, an average of $2.4 billion annually in fiscal years 1965 and 1966. For instance, at one location with an average inventory of $442 million, approximately 61 percent of the records for the 239,000 items physically inventoried during fiscal years 1965 and 1966 contained significant errors requiring gross inventory adjustments totaling $33 million.

Factors which we feel contributed to the significant amount of inventory adjustments were (1) inaccurate stock locator cards; (2) physical inventories frequently made without proper control of documentation for receipts and issues occurring during the period of the inventory; (3) lack of proper reconciliations between the physical inventory counts and the stock records at the completion of these inventories and determinations as to the causes of the imbalances; and (4) failure of supply personnel to follow inventory control procedures.

We are suggesting to the Secretary of Defense that he establish a group, made up of representatives from the military departments and Defense Supply Agency, whose sole function would be to study inventory controls in depth. The objective of this study should be the determination of broad basic causes for inadequate inventory control with a view toward making recommendations for improvements. We plan to continue our work, also, and in order to avoid duplication of effort, we plan to coordinate our efforts with those of any such groups designated by the Secretary of Defense.

CONTROL OVER GOVERNMENT-OWNED PROPERTY IN THE POSSESSION OF DEFENSE CONTRACTORS

In the report of the Subcommittee on Federal Procurement and Regulation released in May 1966, it was recommended that the General Accounting Office cooperate with the Department of Defense in