

I would say that the extent of the problem, as far as DSA is concerned, is not as great in actual, practical effect as the dollar value of the arithmetic total of the inventory adjustments cited in the report indicate, and by that I mean this:

We have in the past pursued a practice that when a depot receiving a shipment order from an inventory control point was unable to locate the material, either because the storage location records were inaccurate or because there was a new and recent receipt that had not been placed in its proper location in the storehouse, denied the order, saying, "I don't have the material", our inventory control points enter an inventory adjustment to reduce the stock record balance to zero. This would result in our records showing a loss by inventory of that amount, of whatever the stated balance was. We would then institute, under our regular practice, a special inventory to find the material which we were sure was there, and when we found it, we would pick it up in our records as an inventory gain. So you would have in effect, a loss and a gain and arithmetically you would have double—

Chairman PROXMIRE. Yes, but do you think if that is the only problem this, in general, would be only inclined to wash out because you would make, as you say, a reduction and later on a restoration?

Admiral LYLE. That is true algebraically but arithmetically it results in a very large total of adjustments.

Chairman PROXMIRE. I can see the difference, but the difference he raises here of \$2.4 billion which is how large your inventories are—is it \$40 billion?

Admiral LYLE. He is speaking of adjustments in one direction or the other; this is the point I am getting at.

Mr. IGNATIUS. May I comment on that. On page 38 of the GAO's report, which I did look at, they showed that in the net. The Comptroller General reported a gross adjustment of 2.4, but on page 38 of the draft report the net adjustment is given, and the net adjustment over the 2-year period is \$66 million, or less than 1 percent of the inventory value that he is talking about. So that the net does tend to cancel out as I read this.

Chairman PROXMIRE. From the point of view of the record it is inadequate.

"We believe that the organizational structure of the supply system contributes substantially to the difficulties in control of inventories."

In other words, he feels that there is a weakness and a deficiency here that should be corrected.

Admiral LYLE. There is no question about that. I just wanted to let you know that our situation in DSA is not as bad as the gross figure indicates.

Chairman PROXMIRE. I see.

Admiral LYLE. Now, I am not at all satisfied with our situation, as I previously indicated, and we now have going into effect for fiscal 1968, this next fiscal year, a new approach to our formal inventory system.

INVENTORY DISCREPANCIES

Chairman PROXMIRE. Let me just interrupt one more time, to say that there is such a discrepancy between the services. For instance, the Navy had a percent of gross physical adjustment of 13 percent. The Air Force had 35 percent and the Army about 60 percent.