

Depot inventories

We agree that inventory control is one of our most important functions. Accuracy of stock records and physical inventories have an impact on the accuracy with which we are able to compute our requirements. The Department of Defense will continue to emphasize its review of this important function. We always welcome the suggestions of the Comptroller General. In many instances in the past his conclusions and recommendations have confirmed our own earlier findings and the improvement actions which we had already initiated. We shall make a full and detailed response to the Comptroller General within the 60-day review period.

We feel that one point especially in the Comptroller General's statement before your Committee gives a misleading impression of depot inventory management, and thus unfairly criticizes the performance of DOD supply managers. His statement referred to an average gross annual inventory adjustment of \$2.4 billion. This figure apparently comes from a statement on page 38 of the GAO draft report which shows gross adjustments of \$3 billion in 1965, and \$1.8 billion in 1966, for an average annual gross adjustment of \$2.4 billion. However, this table similarly shows that the net adjustments were only \$100 million in 1965 and \$166 million in 1966, or an average annual net adjustment of \$133 million, which is about 1% of the inventory sampled by the GAO staff. Private industry generally uses a net rather than a gross inventory adjustment figure in accounting for its material. Most of the large chain department stores have annual net inventory adjustments of from one to three percent. The GAO analysis shows that the Department of Defense net adjustment has been averaging only about 1%. This compares very favorably with the record of private industry. We intend to continue strong efforts to reduce the amount of required adjustments insofar as possible. It must be recognized that it would be virtually impossible to achieve perfection in this area but we do intend to seek to continue a record of performance that equals or excels that of private industry.

(The following pages contain answers to the questions forwarded by Chairman Proxmire on May 23, 1967:)

RELATIONSHIP OF NORFOLK AND OAKLAND NSC'S TO DSA AND GSA

Question. For some items, the Navy buys wholesale from the Defense Supply Agency (DSA) and the General Services Administration (GSA), then warehouses the supplies in their facilities at Norfolk and Oakland from where they supply the ships. Could not this overlap be eliminated or reduced?

Answer. The question mistakenly assumes that DSA and GSA commodities are managed identically at Navy Supply Centers (NSCs). They are not. DSA items are pre-positioned at the NSCs by the Defense Supply Centers (DSCs) which are integrated materiel managers for the Department of Defense (DoD). The stocks so positioned are carried on the books of the DSC, and have the same force and effect as if they were located at the Principal Distribution Depots (PDDs) of DSA. In DSA's distribution system, the NSCs are identified as Specialized Support Depots (SSDs). The operation of the SSD differs from the operation of the PDD in the important respect that while issues from PDDs are centrally directed from the DSCs, issues from SSDs may either be centrally directed from the DSC or may be released on requisitions submitted by customers directly to the NSC.

By contrast, the relationship between the NSCs and GSA is that of buyer-seller. Navy's requirements for GSA material are requisitioned from GSA, and ownership passes to Navy. GSA, as inventory manager, does not continue cognizance over the material and thus lacks "visibility" as to the current asset and demand position. This is the same relationship that exists between any wholesale and retail/supply system.

GAO REPORT PENDING

The GSA/Navy relationship is the subject of a current GAO letter report, "Navy's Practice of Stocking, for Further Distribution, Common-Use Material Managed, and also Stocked by the General Services Administration," (OSD case #2588). This case has not been thoroughly reviewed and no final position can be taken at this time.