Maybe rebuttal isn't exactly the right word, but your comments on their observations will be very helpful because some of these things are in conflict.

I feel that you will enable us to go into more critical detail on some of the serious errors which I feel, and some of the rest of us feel, the Defense Department and others may have made in their procurement and inventory management policies.

STATEMENT OF ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES; ACCOMPANIED BY FRANK H. WEITZEL, ASSISTANT COMPTROLLER OF THE UNITED STATES; CHARLES M. BAILEY, DEPUTY DIRECTOR, DEFENSE DIVISION; J. EDWARD WELCH, DEPUTY GENERAL COUNSEL; STEPHEN P. HAYCOCK, ASSISTANT GENERAL COUNSEL; JEROLD K. FASICK, ASSOCIATE DIRECTOR, DEFENSE DIVISION; JAMES H. HAMMOND, ASSOCIATE DIRECTOR, DEFENSE DIVISION; AND CHARLES KIRBY, ASSOCIATE DIRECTOR, DEFENSE DIVISION

Mr. Staats. Thank you very much, Mr. Chairman.

As you have indicated, we are appearing here again today to comment on and to follow up on some of the points which were raised both in our testimony and in the testimony of the other agencies on the general subject of Government procurement and supply management.

My statement today will cover three areas: Inventory management, agency audit rights and recovery from subcontractors, and, third, the Government property in possession of Defense contractors.

We are also prepared, Mr. Chairman, to respond to other questions which we know you have in mind, which are not included in our formal statement.

But I hope we will be able to add to the record on several points about which, we have been informally advised, the committee has an interest in our views.

Inventory Management

Turning first to the subject of inventory management:

The primary objective of inventory management in the military departments is to provide adequate material support to their organizations and to avoid the accumulation of excesses. If this objective is to be attained, no more money should be invested in inventories than is necessary for effective support.

Therefore, accurate and current records of quantities of specific items in the inventory must be available for use in determining whether user requisitions can be satisfied and whether, on the basis of requirements computations, procurement actions are necessary. This entails controlling and accounting for the massive volume of transactions which daily affect the status of the over 4 million items in the inventory.

As a part of inventory control and accounting, the Department of Defense has directed that all items held in stock be physically inventoried not less than once each year either by full count or by statistical sampling techniques; however, exceptions are permitted for slow-moving items and other items, provided that storage con-