

We found in our review 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. We found that the inventory records were adjusted up or down, that is, gross adjustment, an average of \$2.4 billion annually in fiscal years 1965 and 1966.

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.

Following are examples of some of the conditions noted in our review and included in our report. A draft of this report was submitted to the Department of Defense for comments prior to its issuance to the Congress. These examples, we believe, demonstrate the extent and significance of inventory control problems and the impact that loss of inventory control has on the functioning of the military supply systems.

Significant differences between stock records and actual inventories:

One. The Navy Supply Center, Norfolk, had an average inventory of \$442 million. Approximately 61 percent of the records for the 239,000 items physically inventoried during fiscal year 1965 and 1966 contained significant errors requiring gross inventory adjustments totaling \$33 million.

Chairman PROXMIRE. Does this mean they are off by 8 or 9 percent?

Mr. STAATS. That is right. As to the dollar relationship to the total inventory, but it would be somewhat higher with respect to the value of the items actually inventoried.

Two. As a result of special physical inventories taken in fiscal year 1966, the Oklahoma City air materiel area found it had over \$37 million worth of assets in store which were not reflected on either the stock records or the locator records.

Chairman PROXMIRE. Are these typical or how were they selected?

Mr. STAATS. These were selected on the basis of the different kinds of situations, Mr. Chairman. I think that was it, and to go into different services.

Chairman PROXMIRE. It wasn't because there was a complaint, that you thought perhaps this was a bad situation that ought to be investigated?

Mr. STAATS. No; I don't believe there was any background of that kind that was involved here. I think it was more an effort to try to get into different kinds of situations.

Chairman PROXMIRE. So there is no reason to suspect that this was atypical.

Mr. BAILEY. No. We tried to take representative areas, in each one of the services, depots or air materiel areas, where we felt we could get an indication of what the situation was with respect to inventory.