

In our opinion, the widespread use of special inventories in lieu of improved inventory control practices is costly and ineffective. The extensive workload associated with taking these special inventories frequently restricts the taking of systematically scheduled physical inventories.

INADEQUATE INVESTIGATION OF DISCREPANCIES

We noted instances in which a series of offsetting adjustments to the records on individual items of supply were made without adequate investigation to determine the reasons for the discrepancies.

Chairman PROXMIRE. I remember when Mr. Morris testified, he said that the Defense Department wasn't much different than private industry. He said that the almost 25-percent error which you pointed out in their overall inventory, \$10 billion, roughly, and \$2.5 billion off, he said these balanced out and the actual discrepancy was only actually between 1 and 2 percent which compared favorably with Sears, Roebuck. Is this the appropriate time for you to deal with that?

GAO DISAGREES WITH DOD ON DISCREPANCIES

Mr. STAATS. We deal with that a little later.

The short answer is we don't agree with him for reasons which we spell out later. (See p. 220.)

I will repeat myself a little bit.

We noted instances in which a series of offsetting adjustments to the records on individual items of supply were made without adequate investigation to determine the reasons for the discrepancies. For example:

One. At one Defense Supply Agency center, we noted a series of six adjustments made in about a 1-year period to the records for water chlorination kits. These six adjustments ranged from a minus adjustment of 9,404 units to a plus adjustment of 11,829 units. The result of this series of adjustments was a net increase to the records of 1,225 units.

Personnel of the center concluded that no further investigation or corrective action was necessary on this item inasmuch as the series of adjustments appeared to be offsetting.

EXAMPLE OF INVENTORY ADJUSTMENTS

Senator SYMINGTON. Would you give the sequence of that? Over what period of time did you go from a minus 9,400 to a plus of 11,800?

Mr. BAILEY. Senator, I will give you the sequence in which these adjustments were made.

In May 1965, on the basis of a physical inventory of the item they increased the quantity by 11,829 units. In September, they made an additional plus adjustment; in other words, added to the number, 640 units. There is no reason given for that adjustment.

Then in 1966, in January, they took a physical inventory and they decreased the item by 8,341 units.

Senator SYMINGTON. They found 8,000 less than they thought were there?