

Mr. BAILEY. Less than they thought were there; yes, sir.

Then in March they took another physical inventory, a special physical inventory, and added 5,201.

Senator SYMINGTON. Was that because they didn't find the 5,000?

Mr. BAILEY. They found 5,000 more than they thought they had.

Senator SYMINGTON. These were not additional purchases?

Mr. BAILEY. No, sir.

Chairman PROXMIRE. None of these represent purchases, I understand. These are all adjustments.

Mr. BAILEY. These are adjustments to the stock records; yes, sir.

Then in April, they added another 1,300 units. The reason for this adjustment was not stated.

Then in June, they took another special physical inventory, apparently because of some discrepancy or other, and reduced the inventory by 9,440 units.

Senator SYMINGTON. How could they do that? They probably put all identical items in one part of a shop. How could they have gone up and down and sideways that way, five, nine, 11?

Mr. BAILEY. All of these items are not necessarily in the same location in a warehouse. They may have them in separate locations in a warehouse.

Senator SYMINGTON. You are not speaking about any particular group of items?

Mr. BAILEY. This is one line item; a water chlorination kit.

Senator SYMINGTON. Then why wouldn't they put them all in one place or reasonably close to one place? Why would they spread them around?

Mr. BAILEY. Sometimes they may have all of a particular place filled with this item and may have to put it in another place.

Senator SYMINGTON. But you say this is at one Defense Supply Agency center—one place.

Mr. BAILEY. Yes; but the locations in the warehouse may be several locations.

Mr. WEITZEL. It may be the locations where these are supposed to be kept are filled up when another shipment comes in and they have to have a place to put it, so it goes somewhere else rather than reshuffle everything else.

Our problem there was that they didn't seem to follow up on why these adjustments were necessary and what should be done to prevent them.

Mr. STAATS. Two. As a result of physical inventories taken in four Army depots during 1966, inventory adjustments totaling about \$197 million were made to the stock records without research and reconciliation of major stock variances. Our tests of some of these adjustments showed that the adjustments were in error. If reconciliations had been made of the discrepancies, it would have become clear that the differences could have been accounted for by transactions in process.

Senator SYMINGTON. Just to be sure I understand, what do you mean without research and reconciliation of major stock variances?

Mr. BAILEY. In other words, attempting to find out why they have these differences between the physical inventory on hand and what the