

orders cannot be filled. On the other hand, when the inventory records do not reflect all of the stock that is actually available, unnecessary procurements may be made and potential excesses generated. Since either of these conditions represent an unsatisfactory condition requiring management attention, it seems more appropriate that gross inventory adjustments be used as a measure of the effectiveness of the stock control practices and records.

Since the purpose of maintaining inventory records is to have accurate information available as to the quantities and location of stock on hand, an excessively high ratio of gross adjustments to average inventory is a strong indication that such inventory records are not accomplishing the purpose for which they are maintained and that necessary controls over the inventories are absent or inadequate.

NEED FOR STANDARDS FOR EVALUATIONS

Chairman PROXMIRE. This makes a lot of sense to me and I think it is a very good response to the position taken by the Defense Department.

I wonder, again, if you can give us some standard. Is there any basis for determining whether or not a 25-percent gross error is bad? It sounds terrible, but how do we know?

Mr. STAATS. I have been raising the same question with members of our staff. I think the only answer we can give you here is that it would be difficult to establish an overall standard. We think it is quite clear that this rate of gross inventory adjustment is higher than necessary and higher than we ought to live with.

Chairman PROXMIRE. Can you do it on the basis of consultation with the biggest and most competitive entrepreneurs? Sears, Roebuck has been brought up here. How about their gross adjustment? Do you know what that is?

Mr. STAATS. I am advised we are making this check. This is something which I have been pushing quite a lot. I do think we need, in this area as in many others, standards against which we can make a judgment as to the adequacy of an agency's operations.

In an organization as big as the Defense Department, you also have the risk of overall figures, either overstating or understating the problem in a particular vital operation in the Defense Department. That is another factor.

Chairman PROXMIRE. Once again, we can't compare it with a standard. Can we get anywhere by considering whether or not this is a deterioration of performance or whether, as bad as it is, it is an improvement?

Mr. STAATS. We do not have that information.

Chairman PROXMIRE. I hope we develop this over time.

Mr. STAATS. It would be very useful to have this, and we certainly want to move in that direction. I don't know at this point of time whether we can commit ourselves as to the feasibility of doing it. But I agree with you that it is a desirable thing to do, if we can do it.

Senator SYMINGTON. Mr. Chairman, I have to leave. If I may, I would like to congratulate you on these very constructive hearings, and also congratulate Mr. Staats and Mr. Weitzel, and the staff. I have known Mr. Staats over a quarter of century now, and I think he