representing equipment and supplies held in major depots of the military departments. (See app. II.) This does not include inventories of vehicles and ammunition. The inventories included in our review are referred to as depot inventories throughout this report.

FINDINGS

Need for Improvements in the Control of Inventories

Increased emphasis and attention are needed at all management levels, in our opinion, to improve the reliability and usefulness of the inventory records for control of depot inventories within the Department of Defense. We found that substantive differences existed between stock record balances and the actual quantities of items in inventories throughout the depot supply systems.

The depot supply activities in the Department of Defense adjusted inventory records up or down an average of $2.4 billion annually in fiscal years 1965 and 1966, in order to bring the stock record balances into agreement with physical inventory quantities. The depot inventory for these 2 years averaged about $10.4 billion. The ratio of annual gross adjustment to total inventory for fiscal years 1965 and 1966 was approximately 29 and 18 percent, respectively.[1] The existence of this degree of inaccuracy and unreliability in the inventory records is not, in our opinion, conducive to the maintenance of effective and economical supply support.

The frequent and voluminous adjustments made to the stock records by the supply activities in an effort to correct the records were due, in large part, to an exceedingly large number of unscheduled special inventories. These special inventories, which were conducted primarily because of the lack of reliability of the records, frequently restricted the supply activities' capability to perform prescribed scheduled physical inventories. We found that, with the exception of the Air Force, the regularly scheduled physical inventories frequently were not taken and that, when taken, the results frequently revealed inaccurate stock records to an extent not considered acceptable by the supply activities' own standards.

Many factors have contributed to the existence of limited control over inventories. One of the primary factors, in our opinion, was the magnitude of inaccurate stock locator cards at the inventory locations. This not only had an adverse effect on supply actions but generated the need for conducting many of the special inventories. Other factors, which we feel contributed to inadequate inventory control, as reflected by the significant amount of inventory adjustments, were that:

1. Physical inventories were frequently made without proper control of documentation for receipts and issues occurring during the period of the inventory.
2. Proper reconciliation between the physical inventory count and the stock records was often not made at the completion of these inventories and causes of the imbalances were not determined.
3. Prescribed inventory control procedures were not always followed by supply personnel.

Details of the more significant conditions noted during our review are discussed in the following sections.

Significant differences between stock record balances and items in depot inventories

During our review we found that significant differences existed between stock record balances and actual quantities of items in depot inventories. This is demonstrated by the high ratio of gross dollar adjustments to the average annual inventory. In fiscal years 1965 and 1966 this ratio ranged from about 13 percent to 60 percent for Department of Defense (DOD) wholesale supply services. The percentages for each of the DOD services are shown in appendix II.

At the two Army depots included in our review, we found that significant imbalances existed between the accountable stock record balances maintained

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[1] One of the major factors contributing to this decline in percentage of gross adjustment was the Army Aviation Materiel Command's (AVCOM) reduction of gross adjustments from $817 million in fiscal year 1965 to $145 million in 1966. The gross adjustment in 1965 resulted in large part from complete inventories conducted at two depots that stored AVCOM items. Similar complete inventories were not conducted in 1966.