

at inventory control points and the depot stocks physically on hand. Between December 1965 and September 1966 these two depots took scheduled physical inventories of 26 lots by prescribed statistical sampling methods. An inventory lot generally comprises a number of items of the same Federal supply class. Of the 26 lots, 20 failed to meet the prescribed accuracy objective. For these 20 lots, 7 to 40 percent of the items sampled did not agree with the stock record balances. The overall average error rate for the 20 lots was about 15 percent.

The Naval Supply Systems Command monitors the system-wide accuracy of Navy stock records through quarterly reports of physical inventory performance which are submitted by Navy stock points. For fiscal years 1965 and 1966, these reports showed that an average overall stock record error rate of about 21 percent was experienced by all Navy stock points. However, the Navy's actual system-wide stock record error rate may be significantly higher than this reported 21-percent rate since this statistic included the number of Defense Supply Agency (DSA) items that were inventoried but excluded those which required adjustment.

For example, at one supply center included in our review, the quarterly reports of physical inventory performance for fiscal years 1965 and 1966 showed that about 28 percent of the Navy line items inventoried required stock record adjustments. The quarterly reports showed that stock record adjustments, totaling \$33 million, were required for about 145,000 Navy items of the total 507,000 items physically inventoried in fiscal years 1965 and 1966.

We found that 268,000 DSA-owned items at this Navy stock point had been included in the total number of inventoried line items. Any adjustments required for these items were made by DSA and were not included in the 145,000 adjustments made by the Navy. Elimination of the DSA line items from the computation of the percentage of inventoried Navy items requiring stock record adjustments would then show that stock record adjustments were required for about 61 percent of the Navy line items inventoried at this supply center. On the basis of this result, we believe that the total reported error rate for the Navy does not present a true picture of existing conditions.

During our review at the DSA supply activities, we found that in fiscal year 1966 one of the Defense depots conducted scheduled statistical sample physical inventories of 42 lots representing 541,012 line items managed by five Defense Supply Centers. The results of these inventories showed that 22, or 52 percent, of the lots sampled failed to meet the statistically acceptable accuracy criteria.

Exceedingly large number of special inventories

DOD supply activities, in an effort to locate stocks required for accomplishment of their supply support mission, depend to a great extent on an exceedingly large number of special inventories to resolve suspected differences between stock record balances and items on hand. In our opinion, the widespread use of such inventories, in lieu of improved inventory control practices, is costly and ineffective. Furthermore, the excessive workload associated with taking these special inventories frequently restricts accomplishment of scheduled systematic physical inventories.

Scheduled physical inventories, unlike special inventories, provide for systematic selection and scheduling of items for physical inventory on the basis of priorities established according to the characteristics of the items, such as dollar value, criticality, or classified sensitivity. The objective of regularly scheduled physical inventories is to achieve and maintain an acceptable degree of accuracy for each item in store rather than just to give attention to those item balances that are suspect or in an emergency situation.

The data furnished to us by the Army Materiel Command indicate that its depots, which are responsible for 514,000 line items of depot stocks, conducted over 900,000 special inventories between January 1965 and June 1966. From this it appeared that, in addition to regularly scheduled physical inventories, it was necessary to count each item an average of 1.7 times during the 18-month period. However, some items were counted many times. For example, one depot conducted, within a 30-day period, five or more special inventories for each of 92 items.

For fiscal year 1966, the Air Force Logistics Command indicated that its five active Air Materiel Areas (AMA) had conducted special inventories of 277,254 line items. This number of special inventories are equal to about 30 percent of the total items in their inventories. At the two Navy supply centers included