

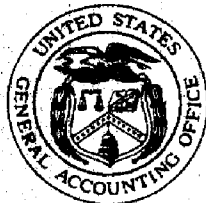
GAO

Report to the Chairman, Subcommittee
on Oversight of Government
Management, Committee on
Governmental Affairs, U.S. Senate

August 1994

DEFENSE INVENTORY

Changes in DOD's Inventory, 1989-93





United States
General Accounting Office
Washington, D.C. 20548

**National Security and
International Affairs Division**

B-257881

August 17, 1994

The Honorable Carl Levin
Chairman, Subcommittee on Oversight
of Government Management
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

This report concludes our response to your request that we provide information on changes in (1) the Department of Defense's (DOD) secondary item inventory since fiscal year 1989 and (2) inventory funding. In February 1994,¹ we provided you with information on inventory data for fiscal years 1989 to 1992 and inventory budget figures for fiscal years 1992 to 1994. This report provides information on fiscal year 1993 inventory data and updated inventory budget figures, including figures for fiscal year 1995. As requested, we also provided selected information on military force levels for fiscal years 1991 through 1995.

Background

DOD maintains stocks of spare and repair parts, clothing, medical supplies, and other support items that are referred to as secondary inventory items. DOD reports the amount of its secondary item inventory annually in its Supply System Inventory Report. In the report, DOD also identifies the amount of inventory that has the potential for reuse by other DOD components or government agencies or that may be disposed of through sale to the public. This category of inventory is known as potential reutilization/disposal stock. Before fiscal year 1991, DOD referred to it as potential DOD excess inventory.

The Supply System Inventory Report shows the value of inventory as of the end of each fiscal year. In this sense, it provides a "snapshot" of on-hand inventory levels. The report does not show inventory changes such as purchases, issues, and disposals. While our prior work has shown accuracy problems in the systems providing data for this report, it is the best data available on DOD-reported inventory values.

¹Defense Inventory: Changes in DOD's Inventory Reporting, 1989-92, (GAO/NSIAD-94-112, Feb. 10, 1994)

Results in Brief

According to DOD's Supply System Inventory Reports, the nominal value of the secondary item inventory decreased \$31.9 billion between fiscal years 1989 and 1993, from \$109.4 billion to \$77.5 billion. However, because of accounting changes that have taken place since 1989, these inventory values are not comparable.² After adjusting DOD's secondary inventory for the changes and valuing it all at the latest acquisition cost, we estimate that the total inventory decreased by \$11.2 billion between fiscal years 1989 and 1993. We also used the acquisition cost to estimate that the value of items in the potential reutilization/disposal category increased by \$7 billion.

However, by revaluing the latest acquisition value of DOD's inventory to reflect needed repair costs and scrap values of potential reutilization/disposal stock, we found that inventory values decreased by \$15 billion between fiscal years 1989 and 1993 and potential reutilization/disposal stocks increased by less than \$200 million. Appendixes I through IV update inventory information in our February 1994 report.

Funds are appropriated to the military services to purchase secondary inventory items from the Defense Business Operations Fund (DBOF) and non-DBOF sources. Supply managers are then responsible for obtaining the items from suppliers. Actual obligations for secondary item inventory were \$35.6 billion in fiscal year 1991, \$27.9 billion in fiscal year 1992, and \$24.7 billion in fiscal year 1993. According to a DOD official, the fiscal year 1991 amount was higher than subsequent years because of high fuel costs and funding for Operation Desert Storm.³ Current budget estimates for secondary inventory for fiscal years 1994 and 1995 are about \$25 billion for each year. Appendixes V and VI show the secondary inventory funding levels for fiscal years 1991 through 1995.

Appendix VII shows that actual and estimated DBOF obligational authority for purchasing secondary inventory items is more than \$19 billion for fiscal years 1993, 1994, and 1995.

DOD uses secondary item inventory to support military forces such as military personnel, Army divisions, attack and fighter aircraft, and ships. These forces have all decreased since fiscal year 1991 and are projected to

²Recognizing that the reported figures were not comparable, DOD included in its September 1993 Supply System Inventory Report tables comparing the reported inventory amounts to amounts revalued using the latest acquisition cost.

³Allied contributions were sufficient to cover most of the incremental cost of Operation Desert Storm.

continue decreasing through fiscal year 1995, as shown in appendixes VIII through XI.

Scope and Methodology

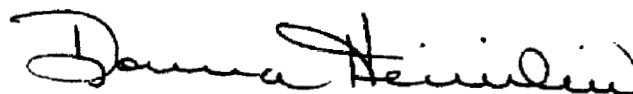
We used DOD's Supply System Inventory Reports to determine the value of the secondary item inventory as reported by DOD. We took accounting changes and reporting inaccuracies into account to estimate the latest acquisition value of both the total inventory and the potential reutilization/disposal stock and to estimate the effect of changes in inventory valuation methods. We used DOD budget justification documents, the budgets for the U.S. government, and other budget documents to update the information on inventory spending levels. The information on military forces was taken from DOD's January 1994 Annual Report to the President and the Congress.

We performed our work between May and July 1994 in accordance with generally accepted government accounting standards. We did not obtain written DOD comments on this report. However, we discussed the results of our work with DOD officials from the Office of the Comptroller and the Office of Material Resource Management Policy and included their comments where appropriate.

We are sending copies of this report to the Secretaries of Defense, the Army, the Navy, and the Air Force; the Directors of the Defense Logistics Agency and the Office of Management and Budget; and other interested parties. We will also make copies available to others upon request.

Please contact me at (202) 512-8412 if you or your staff have any questions concerning this report. The major contributors to this report were John Klotz, Assistant Director, and Louis Modliszewski, Evaluator.

Sincerely yours,



Donna M. Heivilin
Director, Defense Management
and NASA Issues

Value of Secondary Item Inventory, as Reported by DOD (Fiscal Years 1989-93)

Dollars in billions

Fiscal year	DOD-reported value of total inventory	DOD-reported value of potential reutilization/disposal stock
1989	\$109.4	\$10.1
1990	101.7	8.1
1991	88.1	0.2
1992	80.2	0.3
1993	77.5	0.3
Overall change	\$(31.9)	\$(9.8)

Note: Parentheses indicate a decrease.

Acquisition Value of Inventory, Estimated by GAO (Fiscal Years 1989-93)

Dollars in billions

Fiscal year	Acquisition value of the total inventory	Acquisition value of potential reutilization/disposal stock
1989	\$108.0	\$ 7.0
1990	106.8	8.0
1991	103.6	9.4
1992	100.4	14.0
1993	96.8	14.0
Overall change	\$(11.2)	\$ 7.0

Note: Parentheses indicate a decrease.

Total Inventory Revalued to Reflect Repair Costs and Scrap Values, as Estimated by GAO (Fiscal Years 1989-93)

Dollars in billions

Fiscal year	Inventory at acquisition value	Revaluation	Revalued inventory
1989	\$108.0	\$(15.6)	\$92.5 ^a
1990	106.8	(15.1)	91.7
1991	103.6	(15.4)	88.1
1992	100.4	(20.2)	80.2
1993	96.8	(19.3)	77.5
Overall change	\$(11.2)		\$(15.0)

Note: Parentheses indicate a decrease.

^aThe actual figure is \$92.46 billion and has been rounded to \$92.5 billion.

Potential Reutilization/Disposal Stock Revalued to Reflect Scrap Prices, as Estimated by GAO (Fiscal Years 1989-93)

Dollars in billions

Fiscal year	Inventory at acquisition value	Revaluation	Revalued inventory
1989	\$ 7.0	\$ (6.8)	\$0.154
1990	8.0	(7.8)	0.175
1991	9.4	(9.2)	0.207
1992	14.0	(13.7)	0.321
1993	14.0	(13.7)	0.286
Overall change	\$ 7.0		\$0.132

Note: Parentheses indicate a decrease.

Obligations for Secondary Item Inventory (Fiscal Years 1991-95)

Dollars in billions

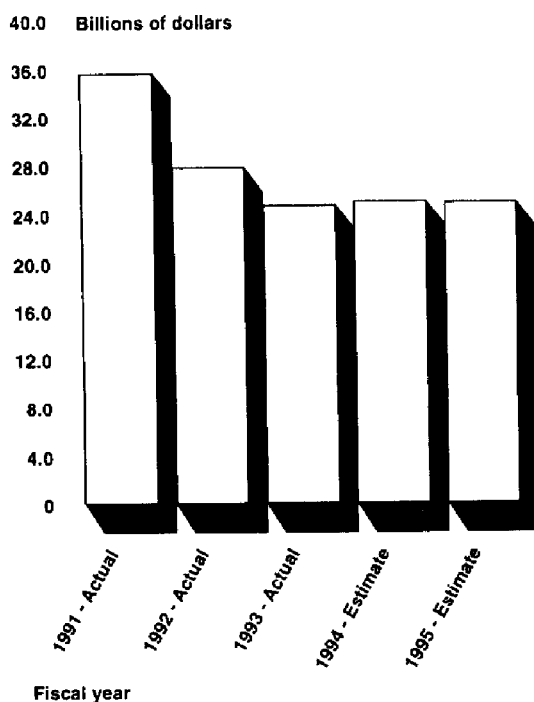
Accounts	Obligations by fiscal year				
	1991	1992	1993	1994	1995
	Actual	Actual	Actual	Estimate	Estimate
Operation and maintenance					
Supplies, materials, equipment, and other purchases	\$24.514	\$17.737	\$17.071	\$16.943	\$17.337
DBOF fuel	2.338	0.820	0.741	0.883	0.664
DBOF materials and supplies	3.563	3.566	3.602	4.155	3.867
Procurement	2.423	2.489	2.391	2.096	2.139
Personnel	0.555	0.461	0.496	0.518	0.535
Research and development	0.332	0.319	0.306	0.334	0.316
Family housing	0.029	0.027	0.033	0.066	0.066
Military construction	0.002	0.003	0.002	0.002	0.002
DBOF	1.861	2.441	0.017	0.012	0.005
Total^a	\$35.616^b	\$27.862	\$24.658	\$25.008	\$24.931

Note: The amounts for fiscal years 1991 through 1993 are actual obligations and the amounts for fiscal years 1994 and 1995 are fiscal year 1995 estimates.

^aTotals may not add due to rounding.

^bThe fiscal year 1991 amount is higher than subsequent year amounts because of higher fuel costs and because of Desert Storm funding.

Actual and Estimated Obligations for Secondary Item Inventory for Fiscal Years 1991-95



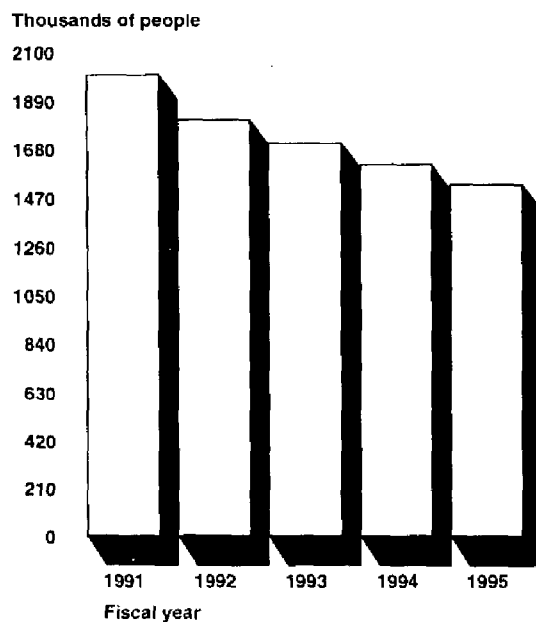
The fiscal year 1991 amount is higher than subsequent year amounts because of higher fuel costs and because of Desert Storm funding.

Actual and Estimated DBOF Obligational Authority for Secondary Inventory Items (Fiscal Years 1993-95)

Dollars in billions			
Cost category	Fiscal year		
	1993	1994	1995
	Actual	Estimate	Estimate
Inventory purchases	\$15.3	\$15.6	\$15.5
Cost of operations	4.2	4.1	3.7
Total	\$19.5	\$19.7	\$19.2

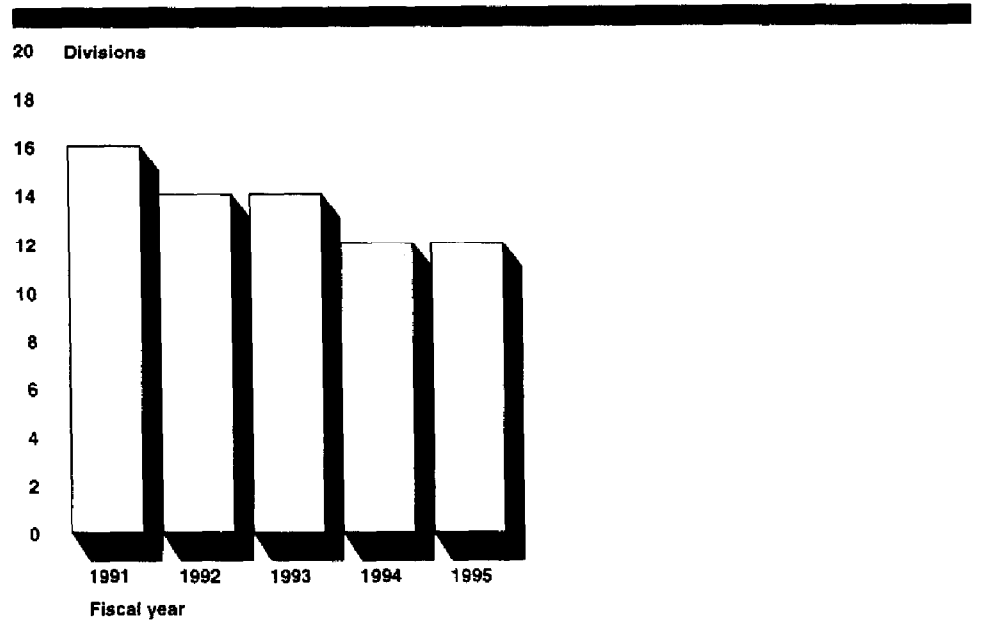
Source: Department of Defense.

Active Military Personnel (Fiscal Years 1991-95)



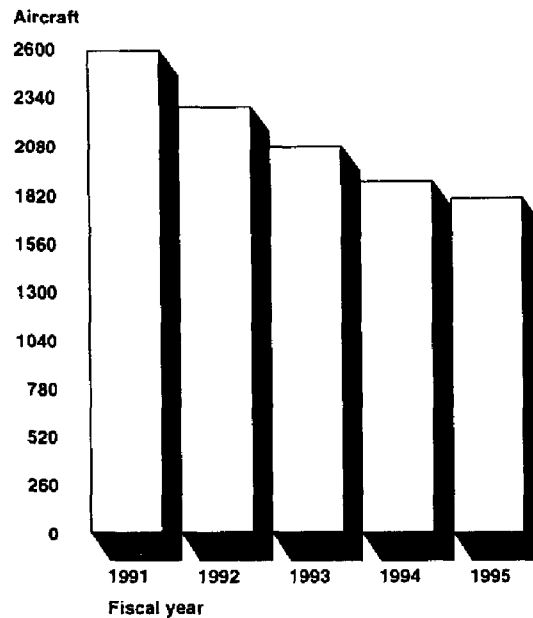
Source: DOD's Annual Report to the President and the Congress, January 1994.

Active Army Divisions (Fiscal Years 1991-95)



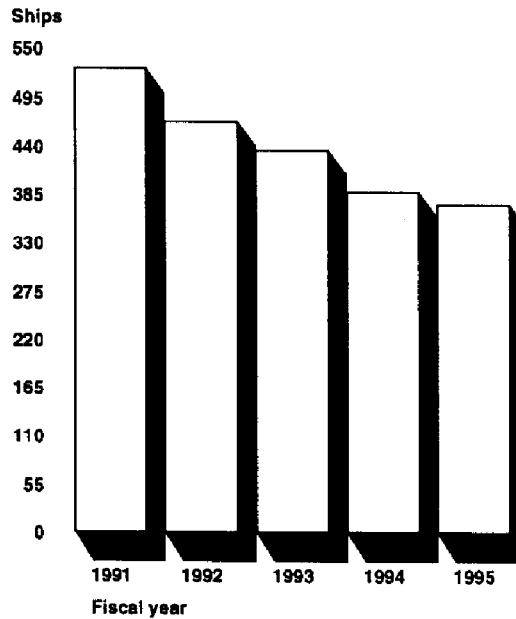
Source: DOD's Annual Report to the President and the Congress, January 1994.

Active Navy, Marine Corps and Air Force Attack and Fighter Aircraft (Fiscal Years 1991-95)



Source: DOD's Annual Report to the President and the Congress, January 1994.

Navy Ship Battle Forces (Fiscal Years 1991-95)



Source: DOD's Annual Report to the President and the Congress, January 1994.

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