

United States General Accounting Office

GAO

AD-A280 403



Report to the Chairman, Subcommittee
on Readiness, Committee on Armed
Services, House of Representatives

June 1984

ARMY INVENTORY

Opportunities Exist for Additional Reductions to Retail Level Inventories



94-18916



BEST AVAILABLE COPY

National Security and
International Affairs Division

B-237804

June 6, 1994

The Honorable Earl Hutto
Chairman, Subcommittee on Readiness
Committee on Armed Services
House of Representatives

DTIC
ELECTE
JUN 20 1994
S G D

Dear Mr. Chairman:

In prior reports,¹ we recommended that the Army reduce its inventory levels at its retail activities (divisions) by not stocking items that were requested infrequently. The Army generally agreed with our recommendations, and Army retail level activities reported to the Department of the Army that, between October 1992 and May 1993, they had reduced their inventory levels by about \$42 million.

This report evaluates the progress the Army has made toward reducing its inventory levels for infrequently requested items and determines whether additional actions are required to streamline the Army's inventory systems at the divisions. The scope and methodology of our review are discussed in appendix I.

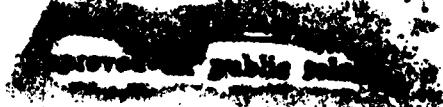
Background

As of September 1993, the Army had about \$3.3 billion of inventory at its retail level activities. This represents a decrease from about \$4 billion as of September 1991. The five divisions in our review had authorized inventory levels for common items valued at \$234.2 million. Common items refer to parts for track and wheel vehicles and other support equipment and accounts for the vast majority of a division's inventory.

Common items are categorized as either demand-based or nondemand-based. Demand-based items are those demanded by division customers at least 3 times in a 12-month period. Nondemand-based items do not need a minimum number of requests in order to be stocked. Nondemand-based inventory consists of items that the units stock (1) at the direction of the Army, (2) at their own discretion, and (3) to support newly fielded systems.²

¹Army Inventory: Fewer Items Should Be Stocked at the Division Level (GAO/NSIAD-91-218, July 24, 1991) and Army Inventory: Divisions' Authorized Levels of Demand-Based Items Can Be Reduced (GAO/NSIAD-93-09, Oct. 20, 1992).

²See appendix II for a breakdown of the \$234.2 million by demand-based and nondemand-based items.



Results in Brief

Accession For	
NTIS CRA&I	<input checked="" type="checkbox"/>
DTIC TAB	<input checked="" type="checkbox"/>
Unannounced	<input type="checkbox"/>
Justification _____	
By _____	
Distribution /	
Availability Codes	
Dist	Avail and / or Special
A-1	

The five Army divisions reduced their authorized inventory levels by about \$30 million between 1992 and 1993. These same divisions had about \$108 million of authorized inventory that contributed little toward meeting the needs of their customers because:

- \$46.9 million was invested in inventory items that had two or fewer demands during the previous 12 months.³ In fact, \$36.9 million of these items had no requests.
- \$61 million was invested in inventory that accounted for only 11 percent of the items issued to the divisions' customers. This raises the question of whether the Army can afford to invest millions of dollars in inventory at the retail level that contributes little toward satisfying the needs of its customers.

Studies performed by the Army have shown similar results concerning the large number of inventory items that are infrequently demanded and contribute little toward improving supply responsiveness. These studies recommended that infrequently demanded items be removed from the authorized inventories and that the criteria for determining what items should be stocked be reevaluated.

Divisions Are Continuing to Stock Many Items That Have Few or No Demands

Fiscal year 1993 data showed that the five divisions were authorized to stock 26,675 items valued at about \$234.2 million. This represents a reduction from fiscal year 1992 authorized inventory levels of 30,863 items valued at \$263.8 million, as shown in table 1.

Table 1: Comparison of Authorized Inventory Levels in 1992 and 1993 for the Five Divisions

Divisions	Authorized stock items		Authorized stock value	
	1992	1993	1992	1993
1st Infantry	5,661	4,320	\$43.3	\$30.6
1st Cavalry	5,544	5,371	63.0	70.3
2nd Armored	6,121	6,669	41.5	43.1
4th Infantry	6,171	6,217	40.0	43.9
24th Infantry	7,366	4,098	76.0	46.3
Total	30,863	26,675	\$263.8	\$234.2

³See appendix III for a breakdown of the \$46.9 million by demand-based and nondemand-based items.

Although the divisions decreased the amount of infrequently requested items between 1992 and 1993, they continue to stock a significant amount of these items. In 1992, the five divisions had \$70.6 million of authorized inventory that was requested fewer than 3 times during the previous 12 months. Of this total, \$51.7 million was not requested at all during this period.

In 1993, the five divisions continued to stock \$46.9 million of authorized inventory that had been requested fewer than 3 times during the previous 12 months. Of the \$46.9 million, \$36.9 million of the items, or about 79 percent, had no demands during the previous 12 months. In 1993, three of the five divisions had about the same amount of inventory with fewer than three demands as they did in 1992. For one of the remaining two divisions, the amount in 1993 was about double that in 1992 (\$8.1 million versus \$4.3 million). For the other division, the amount in 1993 as compared with 1992 was significantly less (\$2.5 million versus \$26.3 million). Table 2 shows the number and value of items with fewer than three demands during 1992 and 1993 for the five divisions.

Table 2: Number and Dollar Value of Authorized Inventory Items With Two or Fewer Demands in 1992 and 1993 for the Five Divisions.

Divisions	Dollars in millions			
	Items with two or fewer demands			
	Number of Items		Value	
	1992	1993	1992	1993
1st Infantry	1,660	514	\$4.3	\$8.1
1st Cavalry	968	1,191	20.8	19.0
2nd Armored	1,719	2,031	4.1	3.8
4th Infantry	2,136	1,685	15.1	13.5
24th Infantry	2,669	596	26.3	2.5
Total	9,152	6,017	\$70.6	\$46.9

Stocking items at the retail level that receive few demands represent an inventory investment that could be avoided. As we previously reported, these items could be deleted from the divisions' authorized inventory, relocated to the wholesale level depots, and issued to the units as needed. Doing so would not impair supply responsiveness because (1) many of the items had no demands and (2) only about 8 percent of the items demanded were for items considered mission essential—meaning that nonavailability of the item could impact on a unit's mission capability. Additionally, with the advancements in transportation, such as overnight delivery, and expedited processing at the storage depots, the nonavailability of such a

small number of items at the division level should not significantly affect the ability of the units to accomplish their training mission. Furthermore, whatever additional transportation costs that might be incurred would be more than offset by the reduced inventory investment.

Criterion for Determining What Items Should Be Stocked Needs to Be Reevaluated

In our 1992 report, which dealt only with demand-based items, we found that 59 percent of the items had 13 or more demands during the 12-month period reviewed. These items accounted for 78 percent of the authorized inventory and 92 percent of the item issues. Not much has changed since our last report. At the five divisions in our current review, 54 percent of the inventory items with 13 or more demands during the past 12 months represented 67 percent of the inventory value and 89 percent of the inventory issues to the divisions' customers.

As shown in table 3, the 11,104 items with 13 or more demands accounted for \$126 million of the \$187 million of authorized inventory and \$432 million of the total issues. Conversely, the remaining 9,554 items, with 3 to 12 demands, had an inventory value of \$61 million, but accounted for only \$51 million, or 11 percent, of the issues. The question that arises is should the Army invest \$61 million in inventory that only results in satisfying \$51 million, or about 11 percent of its customers' needs.

Table 3: Authorized Inventory and Issues by Number of Demands During a 12-Month Period Ending in 1993 for the Five Divisions

Demands	Number of Items	Value of authorized inventory (millions)	Value of issues (millions)	Percent of issues
3 to 12	9,554	\$61.0	\$50.9	11
13 or more	11,104	126.3	431.9	89
Total	20,658	\$187.3	\$482.8	100

Increasing the criterion for determining which items to retain from 3 demands during a 12-month period to 13 demands during a 12-month period would allow the Army to reduce its inventory by 9,554 items and its investment at the five divisions by \$61 million. Doing so would not materially affect supply responsiveness as evidenced by the fact that these items only accounted for 11 percent of the total issues. Additionally, as previously discussed, the number of items that are requested that could affect readiness is also small—about 8 percent.

According to Department of Defense officials, the criterion for retaining the item on the authorized stock list—3 demands in 12 months—is the

minimum criterion and Army major commands, as part of the Total Army Inventory Management program, have the authority to increase the number of demands required to retain the item on their authorized stockage list.

Army Studies Have Also Identified the Need to Reduce Stock Levels at Retail Activities

The Army has also recognized the problem of maintaining inventories that contribute little toward meeting the needs of its customers. In one study conducted in May 1992, the Forces Command analyzed 12 months of demand data from 4 divisions and found that 68 percent of the 38,155 items stocked had 3 or fewer demands during the 12-month period. On the basis of its analysis of the demand data, the Command concluded that the divisions' inventory investment could be significantly reduced and readiness would not be adversely affected.

The results of another study conducted at seven divisions by the Army's Quartermaster Center and School and the Army Materiel Systems Analysis Activity in October 1992 showed that about 75 percent of the items had fewer than three demands during a year. The study recommended that the Army apply the demand-based retention criterion to nondemand items and eliminate from inventory those items that do not meet the criterion.

On the basis of the above studies and our prior reports, in October 1992, the Army directed its retail activities to delete demand-based items from their authorized stockage list that did not meet the retention criterion—at least 3 demands during a 12-month period. The retail activities reported that by May 1993, they had reduced their inventories by about \$42 million.

In July 1993, the Commander, Forces Command issued instructions to the installations that only demand-supported items should be stocked and that the criterion for retaining items on the authorized stock list should be increased. Our review showed that while the number of items that are not demand-based have decreased, there was no indication that the item retention criterion had been increased.

Recommendations

In our prior reports, we recommended that the Secretary of the Army reduce the inventory levels at retail activities by only stocking those items—demand-based and nondemand-based—that meet the demand-based criterion. We also recommended that the inventory stocking criterion be reevaluated in view of the large investment in

inventory items that contribute little to meeting the needs of the retail activities' customers. These recommendations are still valid.

Agency Comments

The Department of Defense agreed with our findings and our recommendations that the criterion for determining what inventory items should be stocked at the divisions needs to be reevaluated. The Department said that there is a continuing need to reevaluate stockage policy and procedures and that the Department has ongoing efforts through formal and informal studies, work groups, conferences, and discussions that center on ways to improve the arena of repair parts management.

The Department did not fully agree, however, that all the items authorized for stockage at the division level should be based on a specific number of demands. They said that while nondemand-based inventories should be reduced, the stockage of nondemand-based inventory that only meets the demand-based criterion is not feasible at this time. Furthermore, nondemand-based items are stocked according to Army regulations and, therefore, may not have had any demands within the past 12 months. In the Department's view, commanders need the flexibility to stock those items that otherwise would not qualify for stockage if a demand-based criterion was imposed.

Our analysis showed that items categorized as nondemand-based items are not necessarily items that are not demanded. In fact, over 55 percent of the items thus categorized had sufficient demands that would have qualified them for stockage under the demand-based item criterion. Our point is that regardless of whether an item is categorized as demand-based or nondemand-based, if it is requisitioned infrequently, it represents an investment in inventory that provides little toward meeting the supply responsiveness needs of the Army. This point was clearly demonstrated by our review, which showed that items requested infrequently represented about 20 percent of the total inventory investment (\$49.6 million of the \$234.2 million authorized). See appendixes II and III. However, these infrequently requested items contributed insignificantly to meeting the needs of Army customers. Therefore, we believe our recommendation that divisions only stock those items that meet the demand-based criterion remains valid. The Department's comments appear in appendix IV.

We are sending copies of this report to the Director of the Office of Management and Budget; the Chairmen of the House Committee on Government Operations, the Senate Committee on Governmental Affairs, the House and Senate Committees on Appropriations, and the Senate Committee on Armed Services; and the Secretaries of Defense and the Army. Copies will also be made available to other parties on request.

Please contact me at (202) 512-5140 if you or your staff have any questions. Other major contributors to this report are listed in appendix V.

Sincerely yours,



Mark E. Gebicke
Director, Military Operations
and Capabilities Issues

Contents

Letter	1
Appendix I Scope and Methodology	10
Appendix II Demand and Nondemand Authorized Inventory Levels in 1993 for the Five Divisions	11
Appendix III Demand and Nondemand Authorized Inventory Items and Value With Two or Fewer Demands in 1993 for the Five Divisions	12
Appendix IV Comments From the Department of Defense	13
Appendix V Major Contributors to This Report	20

Tables

Table 1: Comparison of Authorized Inventory Levels in 1992 and 1993 for the Five Divisions	2
Table 2: Number and Dollar Value of Authorized Inventory Items With Two or Fewer Demands in 1992 and 1993 for the Five Divisions.	3
Table 3: Authorized Inventory and Issues by Number of Demands During a 12-Month Period Ending in 1993 for the Five Divisions	4

Scope and Methodology

To accomplish our objectives, we reviewed Army policies and regulations instructing retail activities on how to determine which and how many items to stock. Also, we reviewed Army studies and reports concerning its inventory reduction efforts.

We discussed inventory practices with Army officials in

- the Office of the Deputy Chief of Staff for Logistics, Department of the Army, Washington, D.C.;
- the U.S. Combined Arms Support Command, Fort Lee, Virginia;
- the U.S. Quartermaster Center and School, Fort Lee, Virginia; and
- the Headquarters Forces Command, Fort McPherson, Georgia.

We performed a detailed analysis of the availability balance files and demand history files at five divisions located in the United States. To measure changes in inventory levels, we compared supply data from fiscal year 1992 with the same type of data for fiscal year 1993. Our work focused on the five divisions that had been the subject of our earlier reports on inventory investment in common items:

- 1st Infantry (Mechanized), Fort Riley, Kansas;
- 1st Cavalry, Fort Hood, Texas;
- 2nd Armored, Fort Hood;¹
- 4th Infantry (Mechanized), Fort Carson, Colorado; and
- 24th Infantry (Mechanized), Fort Stewart, Georgia.

At each division, we determined (1) the types and value of items authorized for stocking, (2) whether the items were stocked in accordance with Army retention criteria, (3) the requisitioning priorities used by the division's customers when requesting stock, and (4) the frequency of requests for all items.

We tested the reliability of data that showed the types, number, and quantities of items authorized for each of the five divisions. This was done by reconciling data abstracted from GAO data files to similar data reported to Forces Command during a similar time period. To ensure consistency of pricing data for each item, we used the Army's Master Data File catalog.

Our review was performed from July 1993 to February 1994 in accordance with generally accepted government auditing standards.

¹Formerly the 5th Infantry Division (Mechanized), Fort Polk, Louisiana.

Demand and Nondemand Authorized Inventory Levels in 1993 for the Five Divisions

Dollars in millions

Division	Demand-based		Nondemand-based		Total	
	Items	Value	Items	Value	Items	Value
1st Infantry	3,770	\$13.6	608	\$17.0	4,378	\$30.6
1st Cavalry	4,741	62.5	659	7.8	5,400	70.3
2nd Armored	2,266	31.9	4,840	11.2	7,070	43.1
4th Infantry	4,124	4.1	2,117	39.8	6,241	43.9
24th Infantry	3,927	43.4	312	2.9	4,239	46.3
Total	18,828	\$155.5	8,536	\$78.7	27,364	\$234.2

Note: The total items in 1993 may not agree with the totals shown in table 1 because the same item could be categorized as demand-based at one supply activity and as nondemand-based at another activity within the same division. Therefore, for the purpose of this table, the item would be counted in each category.

Demand and Nondemand Authorized Inventory Items and Value With Two or Fewer Demands in 1993 for the Five Divisions

Dollars in millions

Division	Demand-based		Nondemand-based		Total	
	Items	Value	Items	Value	Items	Value
1st Infantry	184	\$0.3	334	\$7.8	518	\$8.1
1st Cavalry	836	13.8	360	5.2	1,196	19.0
2nd Armored	219	0.8	1,820	3.0	2,039	3.8
4th Infantry	490	0.6	1,197	12.9	1,687	13.5
24th Infantry	535	2.3	98	0.2	633	2.5
Total	2,264	\$17.8	3,809	\$29.1	6,073	\$46.9

Note: The total items in 1993 may not agree with the totals shown in table 2 because the same item could be categorized as demand-based at one supply activity and as nondemand-based at another activity within the same division. Therefore, for the purpose of this table, the item would be counted in each category.

Comments From the Department of Defense



ACQUISITION AND
TECHNOLOGY

(L/MRM)

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

19 MAY 1994



Mr. Mark E. Gebicke
Director, Military Operations and
Capabilities Issues
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Gebicke:

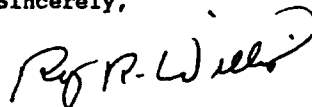
This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "ARMY INVENTORY: Opportunities Exist for Additional Reductions to Retail Level Inventories," dated March 31, 1994 (GAO Code 703019/OSD Case 9631). The DoD partially concurs with the report.

The DoD agrees that reductions to retail level inventories can be achieved--progress toward that objective is continuing. Over the past year, the Army has issued new instructions to improve inventory management and has significantly reduced inventory levels for retail items. The DoD utilizes various continuing mechanisms to identify improvements, such as both formal and informal studies, workgroups, and conferences.

With the exception of new and recently modified/upgraded systems, DoD agrees that stockage for non demand-based items should be reduced to the same levels as demand-based items. For new and recently modified/upgraded systems, minimal non demand-based stockage to support readiness and operational usage is appropriate until sufficient data (normally one year) is available to determine demand-based stockage requirements.

The DoD detailed comments to the draft report findings and recommendations are provided in the enclosure. The DoD appreciates the opportunity to comment on the draft report.

Sincerely,

For 
James R. Klugh
Deputy Under Secretary of Defense
(Logistics)

Enclosure



GAO DRAFT REPORT--DATED MARCH 31, 1994
(GAO CODE 703019) OSD CASE 9631

"ARMY INVENTORY: OPPORTUNITIES EXIST FOR ADDITIONAL
REDUCTIONS TO RETAIL LEVEL INVENTORIES"

DEPARTMENT OF DEFENSE COMMENTS

* * * * *

FINDINGS

- **FINDING A: The Army Inventory At Its Retail Level Activities.** The GAO reported that, as of September 1993, the Army had about \$3.3 billion of inventory at retail level activities. The GAO noted that represented a decrease from about \$4 billion as of September 1991. The GAO reviewed the 1st Infantry, the 1st Cavalry, the 2nd Armored, the 4th Infantry, and the 24th Infantry. The GAO noted that the five divisions had authorized inventory levels for common items valued at \$234.2 million.

The GAO explained that common items are categorized as either demand-based or non demand-based. In addition, the GAO pointed out that demand-based items are those which are demanded by division customers at least three times in a 12-month period. The GAO noted that non demand-based items do not need a minimum number of requests in order to be stocked. The GAO further noted that non demand-based inventory consists of items that the units stock (1) at the direction of the Army, (2) at their own discretion, and (3) to support newly fielded systems. (pp. 1-2/GAO Draft Report)

DOD RESPONSE: Concur. The September 1993 Supply System Inventory Report identified a total of \$3.281 billion, comprised of \$2.399 billion for retail inventory in Defense Business operating Fund, and \$.882 billion for Operations and Maintenance, Army.

Now on p. 1.

- **FINDING B: Divisions Are Continuing To Stock Many Items That Have Few Or No Demands.** The GAO reported that FY 1993 data showed that the five divisions were authorized to stock 26,675 items, valued at about \$234.2 million. The GAO noted that amount represented a reduction from FY 1992 authorized inventory levels of 30,863 items, valued at \$263.8 million.

The GAO found that the five divisions it reviewed decreased the amount of infrequently requested items between 1992 and 1993; however, the divisions still continued to stock a significant amount of the items. For example, the GAO reported that, in 1992, the five divisions had \$70.6 million of authorized inventory requested fewer than three times during the previous 12 months--while \$51.7 million of authorized inventory was not requested at all during the period. The GAO stated that, in 1993, the five divisions continued to stock \$46.9 million of authorized inventory--inventory that had been requested fewer than three times during the previous 12 months--with \$36.9 million of the items, or about 79 percent, not requested at all during the period.

The GAO pointed out that stocking items receiving low demands at the retail level represented an inventory investment that could be avoided. As the GAO previously reported (GAO/NSIAD-93-09), the GAO concluded that the items could be deleted from the authorized inventories of the divisions and relocated to the wholesale level depots and issued to the units as needed. The GAO further concluded that deleting the items would not impair supply responsiveness, because (1) many of the items had no demands and (2) only about 8 percent of the items demanded were for items considered mission essential, meaning non-availability of the item could impact on the mission capability of the unit. The GAO also concluded that the advancements in transportation, such as overnight delivery and expedited processing at the storage depots, could be used to minimize the impact on the training mission.
(pp. 3-5/GAO Draft Report)

DOD RESPONSE: Concur. The Department does not dispute the figures cited by the GAO. It should be recognized that divisions are authorized to stock non demand supported items according to the current Army regulation. Therefore, it is possible that items may not have a demand within the current

12 month period. The inventory investment that could be avoided, as pointed out by the GAO, represents a dollar amount that has already been expended. Dollar saving, if any, would be realized only by the divisions turning-in the item to the wholesale level for credit to their Operations and Maintenance accounts or the retail portion of the Defense Business Operating Fund. Some of those items could conceivably be directed to the Defense Reutilization and Marketing Office for disposal. If there are few or no demands for those items in the divisions it is unlikely they are routinely spending additional funds to restock the items. A reduction in unneeded asset posture, as achieved from 1992 to 1993, is continuing. Turning in the items would reduce the on-hand inventory in the divisions, eliminate the time spent on managing that portion of the inventory, and improve their authorized stockage list asset posture. Those are all desirable actions which the Department supports. It is the DoD intent not to invest dollars in inventory that is unneeded. As such, the Department continues to develop policy and procedures towards that objective.

- **FINDING C: Criteria For Determining What Items Should Be Stocked Needs To Be Reevaluated.** The GAO pointed out that its 1992 report (OSD Case 9135), which dealt only with demand-based items, found 59 percent of the items had 13 or more demands during the 12-month period reviewed. The GAO pointed out that those items accounted for 78 percent of the authorized inventory and 92 percent of the items issued. The GAO noted that not much had changed since the prior report. In the current review, the GAO found 54 percent of the inventory items with 13 or more demands during the past 12 months, represented 67 percent of the inventory value, and 89 percent of the inventory items.

The GAO concluded that, by increasing the criteria for determining which items to retain from three demands during a 12-month period to 13 demands during a 12-month period would allow the Army to reduce the inventory by 9,554 items and the investment at the five divisions by \$61 million.

The GAO concluded that doing so would not materially affect supply responsiveness, as evidenced by the fact that the items only accounted for 11 percent of the total issues.

Appendix IV
Comments From the Department of Defense

Furthermore, the GAO stated the number of items that are requested that could affect readiness is also small--about 8 percent. The GAO noted that the criteria for retaining the item on the authorized stock list--three demands in 12 months--was the minimum criteria and that, as part of the Total Army Inventory Management Program, Army major commands had the authority to increase the number of demands required to retain the item on their authorized stockage list. (pp. 5-6/GAO Draft Report)

DOD RESPONSE: Concur. There is a continuing need to reevaluate stockage policy and procedures for the authorized stockage lists. The Department has a continuous, ongoing effort, through formal and informal studies, workgroups, conferences, and discussions, that center on ways to improve the arena of repair parts management.

The GAO suggested that the Army consider increasing the criteria for retention from 3 demands to 13 demands. The regulation, however, already allows Commands to set a stricter standard for authorized stockage list stockage. The criteria cited by the GAO are the minimum requirements. For low density items, three demands are required to add and one demand to retain. Under those circumstances, the minimum add and retain criteria both must be considered for change, because the retention criteria cannot exceed the add criteria if the system is to function properly. However, under the present demand criteria, all weapon systems, and all repair parts, are weighted the same for stockage purposes, within essentiality codes. The Department recognizes the need to differentiate and intensively manage some items more than others, and is, therefore, beginning to work towards that goal. For example, one item may be stocked using the 9/3 criteria, while another could be stocked using 13/13 criteria. That approach would help add "weight" to the more important items on the authorized stockage list. The authorized stockage list manager must be allowed to tailor the support to the high priority weapon systems of the Command.

- **FINDING D: Army Studies Have Also Identified The Need To Reduce Stock Levels At Retail Activities.** The GAO reported the Army recognized the problem of maintaining inventories that contribute little toward meeting the needs of

Now on pp. 4-5.

customers. The GAO noted that, in one study conducted in May 1992, the Forces Command analyzed 12 months of demand data from four divisions and found that 68 percent of the 38,155 items stocked had three or fewer demands during the 12-month period. The GAO also reported the Command had concluded that the inventory investment of the divisions could be significantly reduced and that readiness would not be adversely affected.

The GAO stated that, based on the Army studies and the prior GAO reports, in October 1992, the Army directed retail activities to delete demand-based items from their authorized stockage list that did not meet the retention criteria--at least three demands during a 12-month period. The GAO noted that the retail activities reported that, by May 1993, inventories were reduced by about \$42 million.

The GAO learned that, in July 1993, the Commander, Forces Command issued instructions to the installations that only demand supported items should be stocked and that the criteria for retaining items on the authorized stock list should be increased. The GAO observed that, while the number of non demand-based items had decreased, there was no indication the item retention criteria had been increased. (p. 2, pp. 6-7/GAO Draft Report)

Now on p. 5.

DOD RESPONSE: Concur. Based on prior Army studies, the U.S. Army Forces Command places internal management controls for authorized stockage lists in its Total Army Management Program. Progress towards inventory reduction is being made. For example, the 26,675 authorized lines of the authorized stockage list in the five divisions included in the GAO draft report was reduced to 20,924 lines by March 1994.

* * * * *

RECOMMENDATIONS

- **RECOMMENDATION 1:** As in prior reports, the GAO recommended that the Secretary of the Army reduce the inventory levels at retail activities by stocking only those items--demand-based and non demand-based--that meet the demand-based criteria. (p. 7/GAO Draft Report)

Now on p. 5.

- 5 -

Appendix IV
Comments From the Department of Defense

DOD RESPONSE: Partially concur. The DoD agrees that overall inventory levels should be reduced and is continuing to work toward that objective. With the exception of new and recently modified-upgraded systems, DoD agrees that stockage for non demand-based items should be reduced to the same levels as demand-based items. For new and recently modified/upgraded systems, minimal non demand-based stockage to support readiness and operational usage is appropriate until sufficient data is available to determine demand-based stockage requirements.

- **RECOMMENDATION 2:** As in prior reports, the GAO recommended that the inventory stocking criteria be reevaluated in view of the large investment in inventory items contributing little to meeting the needs of the retail activities customers. (pp. 7-8/GAO Draft Report)

DOD RESPONSE: Concur. As explained in the DoD response to Finding C, the Department has a continuous, ongoing effort to improve repair parts management. The DoD utilizes various mechanisms to identify improvements, including formal and informal studies, workgroups, conferences, and discussions. Progress is continuing towards improve management, as evidenced by the issuance of new instructions and reduced inventory levels over the last year. (Also see the DoD response to Finding D).

Now on p. 5.

Major Contributors to This Report

**National Security and
International Affairs
Division, Washington,
D.C.**

**Norman J. Rabkin
Robert J. Lane**

**Norfolk Regional
Office**

**Norman L. Jessup, Jr.
Bonita P. Anderson
Carleen C. Bennett
Nixon D. Williams
Patricia W. Lentini
Paul A. Gvoth, Jr.**