

# GAO Highlights

Highlights of [GAO-14-495](#), a report to the Subcommittee on Readiness, Committee on Armed Services, House of Representatives

## Why GAO Did This Study

DLA manages about one-fifth of DOD's \$95 billion in secondary item inventory, such as spare parts to keep military equipment ready and operating. GAO has identified DOD supply-chain management as a high-risk area due in part to ineffective and inefficient inventory-management practices and weaknesses in forecasting the demand for spare parts. These factors have contributed to the creation of on-order and on-hand excess inventory.

GAO was asked to review DLA's inventory-management practices. GAO reviewed, among other things, the extent to which DLA has (1) developed and met goals to reduce on-hand inventory and on-order excess inventory while reducing backorders, and any challenges faced in doing so, and (2) implemented initiatives using a comprehensive management approach to improve inventory management. GAO analyzed inventory data from 2009 through 2013, evaluated DLA's inventory processes, and interviewed DLA and DOD officials.

## What GAO Recommends

GAO is making multiple recommendations designed to strengthen inventory management, including that DLA reassess its inventory-reduction goals and schedule for achieving them based on DLA's economic analyses; regularly monitor its progress in reducing on-order excess inventory; establish supply chain-specific on-order excess inventory goals; and take steps to improve its collaborative forecasting, such as regularly monitoring performance. DOD concurs with GAO's recommendations.

View [GAO-14-495](#). For more information, contact Zina Merritt at (202) 512-5257 or [merrittz@gao.gov](mailto:merrittz@gao.gov)

June 2014

## DEFENSE INVENTORY

### Actions Needed to Improve the Defense Logistics Agency's Inventory Management

## What GAO Found

The Defense Logistics Agency (DLA) developed and met goals for reducing on-hand inventory and on-order excess inventory (i.e., already purchased items that may be excess due to subsequent changes in the services' requirements) and has made progress towards its goals for reducing backorders (shortages of spare parts), but challenges remain. DLA disposed of \$4 billion in items for a net reduction of \$2.5 billion to its on-hand inventory after continued replenishments to achieve its fiscal year 2013 goal of \$11.7 billion. DLA used a risk-based approach to identify items to be disposed, resulting, for example, in a reduction of about \$657 million in items with no demand in 5 years. Also, DLA has reduced on-order excess inventory from 6.7 percent of the total value of on-order inventory in 2011 to 5.6 percent in 2013, which is progress toward the Department of Defense's (DOD) 4 percent goal by the end of fiscal year 2016. DLA has also reduced backorders by nearly 30 percent through monthly reviews. However, some challenges remain.

On-hand inventory: To meet its fiscal year 2013 goal, DLA disposed of \$855 million in items that DLA's economic analyses determined should be kept due to the risk DLA will need to buy the same items again in the future. The DLA Director stated that he was willing to accept the risk of needing to rebuy some inventory to reduce DLA's on-hand inventory. According to DLA's analysis, it will likely need to dispose of about \$1.9 billion more in economic retention stock to meet its \$10 billion goal for fiscal year 2014, increasing the likelihood of buying the same items again to meet future requirements. DOD guidance states that an economic analysis that balances the likelihood of repurchase with the cost of retention and disposal should guide retention decisions. In 2012, DLA estimated that it would have had to buy 42 percent of the dollar value of the items again over a 5-year period if it had disposed of all its economic retention stock. Without reassessing its goals and schedule for achieving them, DLA risks unneeded expenditures to buy the disposed of items again.

On-order excess inventory: Results across DLA's aviation, land, and maritime organizations—referred to as supply chains—have varied, with increases for land and maritime in fiscal year 2013. Also, DLA has not established supply chain-specific goals and does not regularly collect data or review on-order excess inventory performance for its supply chains, as it does with numerous other metrics, such as backorders. Although DLA has shown progress toward meeting DOD's goal for reducing on-order excess inventory, without establishing supply-chain goals and monitoring performance it may be challenged to meet its goal of reducing on-order excess to 4 percent by the end of fiscal year 2016.

DLA has implemented several improvement efforts, such as new methods for setting inventory levels and reducing procurement time. However, DLA data shows that its collaborative forecasting effort, which uses customer input to produce forecasts, has not improved aggregate forecast accuracy. DLA measures forecast accuracy, but lacks metrics for key aspects of performance, such as cost and return on investment, as required by DOD guidance, or regular performance meetings to monitor results and guide continued improvement. Without improved management of collaborative forecasting, DLA may not be using its resources efficiently and effectively to improve forecasting accuracy.