

Why GAO Did This Study

The Army, Navy, and Air Force are responsible for about \$78 billion of DOD's \$98 billion in secondary item inventory, such as spare parts needed to maintain military equipment. GAO identified DOD supply chain management as a high-risk area due in part to ineffective and inefficient inventory management practices that have contributed to high levels of excess inventory relative to total inventory. DOD established goals to reduce the percentages of both on-hand and on-order excess inventory.

GAO was asked to review DOD's inventory management practices. This report assesses the extent to which the services have (1) reduced on-hand excess inventory consistent with DOD goals, (2) reduced on-order excess inventory consistent with DOD goals, (3) balanced the timely availability of spare parts with supply chain costs in their inventory management metrics, and (4) implemented and monitored key improvement efforts. GAO analyzed inventory data from September 2009 through March 2014; evaluated the services' inventory processes; and interviewed service and OSD officials.

What GAO Recommends

GAO is making seven recommendations to OSD and the services to improve the effectiveness and efficiency of inventory management practices, including addressing reporting issues that limit visibility of inventory and identified management weaknesses. DOD concurred with GAO's recommendations.

View [GAO-15-350](#). For more information, contact Zina Merritt at (202) 512-5257 or merrittz@gao.gov.

DEFENSE INVENTORY

Services Generally Have Reduced Excess Inventory, but Additional Actions Are Needed

What GAO Found

The Navy and Air Force reported meeting the Department of Defense's (DOD) goal of reducing on-hand excess inventory (i.e., items categorized for potential reuse or disposal) to 10 percent of the total value of inventory, but the Army had not met the goal, as of March 2014. Reporting issues hinder full visibility of on-hand excess inventory and progress against DOD's goal. For example,

- the Army's calculation of its inventory to meet requirements was not in accordance with Army guidance and resulted in potentially underreporting its amount of on-hand excess inventory to the Office of the Secretary of Defense (OSD);
- the Navy's and Air Force's calculations of on-hand excess inventory included contractor-managed inventory at the direction of OSD, which resulted in the appearance that these services had made greater progress in reducing their on-hand excess inventory than they actually had;
- an internal Army goal for reducing its total inventory was not based on an analysis of inventory data consistent with standards for internal control, potentially misguiding Army efforts to dispose of inventory; and
- the Air Force identified about \$2.6 billion in inventory that was retained without proper economic justification and plans to continue to retain it until late 2016, resulting in the Air Force paying to store inventory that may not be needed.

The Air Force has reported generally meeting DOD's goal of reducing on-order excess inventory (i.e., already purchased items that may be excess due to subsequent changes in requirements) to 6 percent of the total value of on-order inventory, but the Army and Navy had not met the goal, as of March 2014. Army and Navy management weaknesses pose challenges in reducing on-order excess inventory and meeting DOD's goal. For example,

- the Army has not established goals for reducing on-order excess inventory in accordance with standards for internal control; and
- the Navy does not use management reviews of potential on-order excess inventory based on dollar thresholds, as required by DOD guidance, resulting in a lack of oversight of on-order excess inventory.

In accordance with DOD guidance, the services use metrics that generally balance availability of spare parts with supply chain costs to assess their overall performance. The services' metrics balance several areas, including customer service, cost, and internal efficiency. Their customer-service metrics center on the availability of spare parts and backorders (i.e., part shortages). Their cost metrics measure financial aspects of inventory management, such as monthly sales of spare parts. The services also monitor internal efficiency metrics, such as the accuracy of demand forecasts (i.e., predicting future customer demand so managers can develop requirements to satisfy demands when they occur) for spare parts.

The services have efforts to improve and monitor demand forecasting and acquisition lead times (i.e., the time interval between identifying a need to purchase an item and delivering that item to the customer). The services have taken different approaches in these areas, and their efforts are in various stages of implementation.