

Why GAO Did This Study

GAO has identified supply chain management as a high-risk area due in part to ineffective and inefficient inventory management practices that have caused DOD to accumulate billions of dollars worth of unneeded inventory. DOD reported that as of September 2010 it had \$8.4 billion worth of on-hand excess inventory, categorized for potential reuse or disposal, and \$940 million worth of on-order excess inventory, already purchased but likely to be excess due to changes in requirements. Under the National Defense Authorization Act for Fiscal Year 2010, GAO is required to assess DOD's implementation of the *Comprehensive Inventory Management Improvement Plan (Plan)* DOD submitted to Congress. GAO's objectives were to determine the extent to which DOD has (1) established and achieved targets for reducing excess inventory in the *Plan*, (2) made progress in implementing the overall *Plan*, (3) metrics to track progress in improving inventory management, and (4) identified and realized any cost savings or avoidance. GAO reviewed relevant data, assessed DOD's actions through January 1, 2012, and interviewed officials implementing the *Plan*.

What GAO Recommends

GAO recommends that DOD periodically re-examine its targets for on-hand and on-order excess inventory; and develop guidance to establish a set of metrics including standardized definitions and calculations that are then employed to monitor its inventory management practices. DOD concurs with GAO's recommendations.

View [GAO-12-493](#). For more information, contact Zina Merritt at (202) 512-5257 or merrittz@gao.gov.

DEFENSE INVENTORY

Actions Underway to Implement Improvement Plan, but Steps Needed to Enhance Efforts

What GAO Found

The Department of Defense (DOD) set two goals—reducing on-order and on-hand excess inventory—with percentage targets for each based on the best available data in fiscal year 2009 as part of its *Comprehensive Inventory Management Improvement Plan (Plan)*. Sustained management oversight led to reductions in on-order and on-hand excess inventory in fiscal year 2010 prior to the *Plan*'s implementation, and thus DOD may find the current targets are not meaningful in guiding improvement. Specifically, at the end of fiscal year 2010, DOD had reduced its percentage of on-order excess inventory to 5.5 percent, thereby achieving its 2014 target 4 years early. It also revised the definition and calculation of on-hand excess inventory, which resulted in DOD being below the fiscal year 2012 target of 10 percent. It is DOD policy to conduct periodic evaluations of its inventory management, and results-oriented management practices emphasize validating performance measures to ensure they remain appropriate. Without challenging, yet achievable targets, DOD's *Plan* will not be effective in guiding further improvement.

DOD has made progress implementing its *Plan* since implementation began in late fiscal year 2010, but DOD is only 18 months into a 4-year implementation effort and many planned activities still remain. Most but not all of the progress to date has been in gathering and analyzing data, and reviewing guidance and practices. In addition, DOD has made progress in particular areas, such as developing tentative sub-categories to further clarify its existing inventory categories. Overall implementation is generally on schedule, but some of the *Plan*'s efforts have experienced delays. Moving forward, DOD faces such challenges as adjusting demand planning to changing circumstances, and enforcing consistent implementation of guidance at the military service level.

As part of the *Plan*, DOD is developing metrics to assess the effectiveness and efficiency of its inventory management, but it has not determined if it will incorporate these metrics into guidance. This may hamper its ability to assess inventory management performance and sustain management attention on improvement. Materiel managers should evaluate and be capable of reporting on the performance of inventory management. Based on previous reporting, GAO has found that such metrics should be reportable in a consistent fashion. DOD is currently developing a portfolio of metrics that fall under five key areas: readiness, responsiveness, reliability, cost, and planning and precision. Some metrics that have been identified—such as customer wait time—are currently reported by DOD, while others would be new metrics that would require establishing a data source and methodology. However, the *Plan* does not include steps to incorporate the metrics, including their methodologies, into DOD guidance. Without guidance specifying standardized definitions, methodologies, and procedures for data collection procedures, DOD's efforts to employ metrics to monitor and evaluate inventory management performance may be hampered.

Finally, DOD achieved about \$710 million in cost avoidances reducing excess inventory in fiscal year 2010, and plans to reduce funding for the purchase of items by \$365 million between fiscal year 2012 and 2016. Additionally, DOD completed about \$140 million in lateral redistributions and procurement offsets in fiscal years 2010 and 2011, which prevented the acquisition of additional items.