



Highlights of [GAO-06-113T](#), testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

Since 1990 the Department of Defense's (DOD) supply chain management processes have been on GAO's list of high-risk areas needing urgent attention and fundamental transformation to ensure that they function in the most economical, efficient, and effective manner possible.

Recently in collaboration with the Office of Management and Budget (OMB), DOD developed a plan to address some of the systemic weaknesses as a first step toward removing supply chain management from the list. DOD's plan focuses on three areas for improvement: accuracy of supply requirements forecasts, distribution of material, and asset visibility.

GAO was asked to provide its views on (1) the importance of supply chain management in DOD, (2) why GAO listed it as a high-risk area, (3) GAO's assessment of DOD's plan to improve supply chain processes, and (4) GAO's plans to follow up on DOD's efforts.

This testimony contains GAO's views on what remains to be done to improve DOD's supply chain management and bring about lasting solutions. Continued efforts to complete and implement DOD's plan as well as continued oversight by Congress are essential.

[www.gao.gov/cgi-bin/getrpt?GAO-06-113T](http://www.gao.gov/cgi-bin/getrpt?GAO-06-113T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact William Solis at 202 512-8365 or [solisw@gao.gov](mailto:solisw@gao.gov).

## DOD'S HIGH-RISK AREAS

### High-Level Commitment and Oversight Needed for DOD Supply Chain Plan to Succeed

#### What GAO Found

It is important for DOD to have effective supply chain management because of (1) its impact on military readiness and operations and (2) the substantial investment in inventory. While DOD maintains military forces with unparalleled capabilities, timely supply support is critical to sustaining them. For example, to support Operation Iraqi Freedom, DOD moved more than 2 million tons of cargo, but shortages of items such as vehicle track shoes and tires hampered operations. In addition, DOD spends billions on supplies. For example, its supply inventory levels have grown in recent years from \$62.3 billion in fiscal year 2001 to \$77.4 billion in fiscal year 2004. DOD expects to spend approximately \$50 billion in fiscal year 2005 for such items and associated operations.

In 1990, we identified DOD's inventory management processes as "high risk" because of long-standing problems such as excess inventory levels, inadequate controls, and cost overruns. Since then, GAO's work has shown that the problems adversely affecting supply support to the warfighter involved the entire supply chain. As a first step toward removing supply chain management from GAO's high-risk list, DOD in cooperation with OMB prepared a plan to address weaknesses in three key areas: accuracy of supply requirements forecasts, distribution of material, and asset visibility.

DOD's plan to improve supply chain management provides a good start and framework for addressing long-term systemic weaknesses and in focusing the multiyear effort to improve supply support to the warfighter. However, successful resolution of DOD's supply chain management problems will require continued efforts to complete and successfully implement the plan. Based on GAO's criteria for removing programs from the high-risk designation, it is important for DOD to sustain top leadership commitment and long-term institutional support for the plan; obtain necessary resource commitments from the military services, the Defense Logistics Agency, and other organizations; implement proposed improvement initiatives across the department to address root causes; identify performance metrics and valid data to use in monitoring the initiatives; and demonstrate progress toward meeting performance targets.

As part of GAO's periodic reassessment of high-risk areas across the federal government, GAO will be assessing DOD's progress in resolving supply chain management and its other high-risk areas. GAO plans to follow up on DOD's actions to improve supply chain management in three ways. First, GAO will assess DOD's progress in implementing recommendations made in prior GAO reports. Second, GAO anticipates evaluating several of DOD's supply management activities as part of our planned engagements over the next 2 years. Third, GAO expects to work with other audit agencies, as well as DOD and OMB, to coordinate audit coverage of the initiatives, metrics, and data system validity.