



National Security and
International Affairs Division

B-278780

February 27, 1998

The Honorable Tom Harkin
The Honorable Richard Durbin
United States Senate

The Honorable Peter DeFazio
The Honorable Carolyn B. Maloney
House of Representatives

Subject: Department of Defense In-Transit Inventory

In response to your September 9, 1997, request, we are providing interim information from our ongoing analysis of the Department of Defense's (DOD) management of its in-transit secondary item inventory.¹ This information was briefed to your offices in December 1997. This work is part of our continuing effort to address defense inventory management as a high-risk area in the federal government because of vulnerabilities to fraud, waste, and abuse. Inadequate management of such assets may also result in the procurement and accumulation of unnecessary supplies and may adversely affect readiness of military equipment if needed supplies are not available when they are required.

As agreed with your offices, this letter provides information on the value and composition of in-transit inventory among DOD components. We are also providing our preliminary observations on the controls used to minimize fraud, waste, and abuse of such inventory. In this connection, our ongoing work provides some indication that adequate information was not available to confirm that inventory shipped from various locations was received by requisitioning activities. As agreed with your offices, we are reviewing this issue in more detail and will report to you on our findings later this year.

¹DOD defines in-transit inventory as materiel that is between storage locations, materiel shipped from vendors after acceptance by the government but not yet received by the inventory manager, material temporarily in-use or on loan with contractors or schools, or materiel that cannot be otherwise categorized.

BACKGROUND

DOD operates a massive logistics system that contained, as of September 1996, about 4.9 million types of items, comprised of more than 4.3 million types of consumable items (such as food, clothing, and hardware supplies), and over 500,000 types of reparable parts (such as hydraulic pumps, navigational computers, and landing gears). DOD stores and distributes these parts using a logistics system involving hundreds of DOD warehouses and numerous repair facilities. As a result, a large amount of DOD inventory is shipped within and between DOD organizations, contractor facilities, manufacturers, and vendors.

Generally, DOD customers order items from an inventory manager who directs the shipment of the items from a DOD storage facility or a commercial vendor. When an item is shipped, a shipping notification is to be prepared and sent to the receiving unit. Upon receipt of the item, the recipient is required by DOD guidance to notify the inventory manager that the item was received or that a discrepancy exists between the item ordered and the item received. This notification of receipt is intended to ensure that what was ordered was received completely and in good condition. It is a significant internal control feature designed to account for all assets that are in-transit.

RESULTS IN BRIEF

DOD reported that as of September 30, 1996, it had \$5.2 billion in in-transit inventory. However, the accuracy of that figure is questionable and may be understated because the services use different definitions as a basis for reporting in-transit inventory. For example, the Army and the Air Force do not report items being shipped between bases. In addition, DOD does not have visibility over all in-transit items. DOD plans to have improved visibility over in-transit inventory when the Global Transportation Network is scheduled to be fully operational in 1999.

Our preliminary data also raises concerns about the vulnerability of in-transit inventory to fraud, waste, and abuse. According to records reviewed to date, DOD initiated about 21 million shipments in fiscal year 1997, but only 8.3 million shipments (40 percent) had a corresponding notification of receipt, with an average shipping time of 13 days. The remaining 12.4 million shipments (60 percent) did not have a specific notification of receipt and had been outstanding for an average of 145 days. These outstanding shipments contained a total of approximately 1.4 billion items. The absence of a specific notification of receipt does not necessarily mean that a shipment was not received. Additional audit

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work is needed to complete an analysis of this situation and determine whether problems have occurred.

VALUE AND COMPOSITION OF IN-TRANSIT INVENTORY

The value of DOD's secondary inventory, which included spare parts for weapon systems and consumable items, was reported by DOD to be \$68.5 billion as of September 30, 1996.² Of that amount, \$5.2 billion was reported as in-transit inventory. However, as discussed below, the accuracy of this reported value is questionable.

²Department of Defense Supply System Inventory Report, September 30, 1996.

Table 1 summarizes the total amount of inventory each component reported, the portion of that inventory components reported as in-transit, and the type of inventory included in the reported in-transit amounts.

Table 1: Reported In-Transit Inventory Value as of September 30, 1996
(Dollars in billions)

DOD component	Total reported inventory	Amount reported as in-transit	Percent reported as in-transit	Type of in-transit inventory
Air Force	\$29.3	\$0.3	1	Consumable items
Army	10.8	1.9 ^a	18	Consumable items, reparable parts, and other items
Navy ^b	18.8	2.4	13	Consumable items and reparable parts
Defense Logistics Agency (DLA)	9.5	0.6	6	Consumable items
Total	\$68.5 ^c	\$5.2	8	

^a According to Army records, other material represented \$1.1 billion of this amount.

^b Includes Marine Corps.

^c Does not add due to rounding.

Our work shows that DOD components are inconsistent in reporting the type of inventory it classified as in-transit. For example, the Air Force's in-transit inventory included only consumable items, whereas the Navy inventories included consumable and reparable items and the Army inventories included consumable, reparable, and other items. Because the Air Force's in-transit inventory only included consumable items, an additional \$1.3 billion worth of reparable parts, according to Air Force records, that were in-transit as of September 30, 1996, were not included in the \$5.2 billion total. The Air Force classified and reported these items in other inventory categories. Also, the Air Force and the Army do not report items being shipped between base locations as in-transit, thereby increasing the likelihood that reported in-transit inventories are understated.

Developing an accurate estimate of in-transit material is further made difficult because DOD does not have visibility over all in-transit inventory. As a result, DOD officials could not quantify with a high degree of certainty the total amount of in-transit inventory DOD-wide. DOD officials stated that an accurate accounting of all in-transit inventory may not be possible because DOD does not have information systems that accumulate this type of information.

According to DOD officials, tracking and reporting of in-transit inventory should improve over the next several years with the implementation of the Global Transportation Network (GTN) information system, which has been in development since 1993. When fully operational in 1999, GTN is expected to track the identity, status, and location of DOD cargo, passengers, medical patients, and personal property from the point of origin to destination. As of December 1997, DOD officials stated that GTN was capable of providing data on shipments that used DOD transportation capabilities. GTN did not include data on shipments using commercial transportation, even though that mode represents at least 60 percent of DOD shipments. According to DOD officials, data regarding shipments using commercial transportation could be included in GTN by 1999.

CONTROLS OVER IN-TRANSIT MATERIAL

Our preliminary data also raises concerns about the vulnerability of in-transit inventory to fraud, waste, and abuse. According to records reviewed to date, DOD initiated about 21 million shipments in fiscal year 1997, but only 8.3 million shipments (40 percent) had a corresponding notification of receipt, with an average shipping time of 13 days. The remaining 12.4 million shipments (60 percent) did not have a specific notification of receipt and had been outstanding for an average of 145 days. These outstanding shipments contained a total of approximately 1.4 billion items.

The absence of a notification of receipt does not necessarily mean a shipment was not received. According to DOD officials, in many cases a shipment could have been received, but the paperwork that would indicate receipt was not completed in a timely manner. To determine if delayed paperwork was a significant cause of the unconfirmed receipts for the 12.4 million shipments, we examined the status of those shipments 60 days after the end of the fiscal year and found that only 500,000 shipments had subsequently received a notification of receipt.

While there may be some uncertainty about the status of individual shipments until a specific notification of receipt has been obtained, DOD officials stated

that, in 1997, DOD initiated a process whereby records of outstanding shipments would be considered closed, after a certain period of time, assuming receipt when, by all indications, the customer actually received the materiel but did not acknowledge receipt soon thereafter. We have not gathered data on the volume of shipments for which this situation exists or evaluated the adequacy of this new process.

In the past, we reported that DOD did not adequately protect its in-transit property because the systems for identifying, reporting, and recovering lost freight and for monitoring carriers' performance were in disarray.³ We also reported that DOD freight losses may be significantly greater than DOD recognizes because DOD does not always know when freight is missing and does not have accurate and reliable information on the extent of freight losses.

Because of incomplete data on in-transit inventory and the need for improved controls over property in-transit that we identified in prior work, we have agreed with your offices to review these issues in more detail.

SCOPE AND METHODOLOGY

As part of our ongoing review of DOD in-transit inventory, we are examining DOD policies and procedures, financial and inventory records and documentation, and other information related to the movement of DOD material between vendors, storage facilities, repair depots, and DOD operating locations. We did not independently verify the accuracy of the military services' and DOD's data.

We contacted officials at the Office of the Deputy Under Secretary of Defense for Logistics, Washington, D.C.; Army Headquarters, Washington, D.C.; the Naval Supply Systems Command, Mechanicsburg, Pennsylvania; the Air Force Material Command, Dayton, Ohio; and the Defense Automated Addressing System Office, Dayton, Ohio; the Defense Finance and Accounting Service, Denver, Colorado; the U.S. Transportation Command, Scott Air Force Base, Illinois; and the Defense Logistics Agency, Ft. Belvoir, Virginia.

³Defense Transportation: Ineffective Oversight Contributes to Freight Losses (GAO/NSIAD-92-96, June 18, 1992).

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AGENCY COMMENTS

In its written response to our draft report, DOD concurred with the information presented. DOD's comments are included as appendix I.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this letter until 30 days from its issue date. At that time, we will send copies of this letter to the Secretary of Defense and the Director, Office of Management and Budget. Copies will be made available to others on request.

Please contact me at (202) 512-8412 if you or your staff have any questions concerning this letter. Major contributors to this letter were Charles Patton, Kenneth Knouse, Robert Repasky, Matthew Lea, Frederick Naas, Robert Malpass, and Vijay Barnabas.


David R. Warren, Director
Defense Management Issues

COMMENTS FROM THE DEPARTMENT OF DEFENSE



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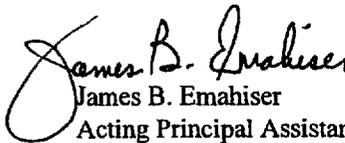
Mr. David R. Warren
Director, Defense Management Issues
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "INVENTORY MANAGEMENT: Information on DoD's Management of In-Transit Inventory," dated January 28, 1998 (GAO Code 709309/OSD-Case 1527).

The Department concurs with the draft report and appreciates the opportunity to comment on it.

Sincerely,


James B. Emahiser
Acting Principal Assistant Deputy
Under Secretary of Defense(Logistics)

(709309)

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