



Highlights of [GAO-10-469](#), a report to congressional requesters

Why GAO Did This Study

The Defense Logistics Agency (DLA) procures and manages large supplies of spare parts to keep military equipment ready and operating. At a time when U.S. military forces and equipment are in high demand and the nation faces long-term fiscal challenges, it is critical that DLA ensure that the warfighter is supplied with the right items at the right time and exercise good stewardship over the billions of dollars invested in its inventories. GAO has identified supply chain management as a high-risk area due in part to high levels of inventory beyond what is needed to support requirements and problems in accurately forecasting demand for spare parts. GAO's objectives were to (1) determine the extent to which DLA's inventory of spare parts reflects the amount needed to support requirements; and (2) identify causes, if applicable, for DLA's having spare parts inventory that does not align with requirements. GAO analyzed DLA inventory data for fiscal years 2006 through 2008.

What GAO Recommends

GAO is making recommendations on the seven factors contributing to mismatches between inventory levels of spare parts and requirements. Among other things, DLA should develop an action plan for addressing demand planning issues, and DOD should work with DLA to define goals and metrics for assessing and tracking the cost-efficiency of inventory management. DOD concurred with GAO's recommendations.

[View GAO-10-469 or key components.](#)
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DEFENSE INVENTORY

Defense Logistics Agency Needs to Expand on Efforts to More Effectively Manage Spare Parts

What GAO Found

GAO's review showed that DLA can enhance its efforts to manage spare parts more effectively primarily by focusing on the front end of the process when decisions are being made on what items to buy and how many in response to requirements. GAO's analysis of DLA data showed the agency had significantly more spare parts secondary inventory than was needed to meet current requirements in fiscal years 2006 through 2008. Current requirements include all the requirements used by DLA to determine when to order new parts, which Department of Defense (DOD) guidance refers to as the "requirements objective." The average annual value of the inventory for the 3 years reviewed was about \$13.7 billion. Of this total, about \$7.1 billion (52 percent) was beyond the amount needed to meet the requirements objective, and about \$5.1 billion (37 percent) was not needed to meet the requirements objective plus 2 years of estimated future demand. Of the \$5.1 billion, DLA had an average of \$4.1 billion in retention stock (materiel for possible contingencies or materiel deemed to be more economical to keep than to dispose of) and had identified \$1 billion as potential excess (for reutilization or disposal).

Although DOD policy requires that DLA minimize investment in inventory while also meeting requirements, at least seven factors are continuing to cause DLA to order and stock parts that do not align with requirements. Three factors relate to how many parts to buy: inaccurate demand forecasting for parts, unresolved problems with accurately estimating lead times needed to acquire spare parts, and challenges in meeting the military services' special requests to DLA for future spare parts support for weapon systems. Three more factors relate to DLA initiatives that, while showing promise for reducing the acquisition and retention of parts not needed to meet requirements, do not appear to be achieving their full potential: closing gaps in providing accurate, timely data to inventory managers as input into purchase decisions; modifying or canceling planned purchases that may no longer be needed to meet currently estimated requirements; and reducing contingency retention stock that may no longer be needed. Lastly, DLA is not tracking the overall cost efficiency of its inventory management. Although DLA has recognized and begun to address many of these factors, its current efforts may not be fully effective at reducing the significant mismatches GAO identified between spare parts inventory levels and requirements. Acquiring inventory for which demand is much lower than expected reduces the amount of funding available for other military needs.