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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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LOGISTICS AND COMMUNICATIONS
DIVISION

B-125057

NOV 29 1973

The Honorable
The Secretary of the Navy



Dear Mr. Secretary:

In a letter dated August 6, 1973, you forwarded the Department of the Navy's reply to our report to the Congress entitled "Economies Available Through Improved Management of Navy Shipboard Inventories" (B-125057, Apr. 9, 1973). Ordinarily there is no need for a written response on our part. However, in this particular case, we feel obligated to comment on a statement included in the Navy's reply that could be misinterpreted as presenting a GAO position quite different from the one we actually took.

On page 5 of its reply, the Navy said that it believed our projection of \$59 million in fleetwide shipboard excesses was overstated about fourfold because of shortcomings in the estimating methodology we used. Immediately thereafter it stated, "This has been discussed informally with GAO representatives who concede shortcomings in the methodology, but because of other external factors, are reluctant to change their estimate."

These comments could be misinterpreted as meaning our representatives had informally agreed that our estimate was overstated fourfold, which is far from true.

Our estimate of fleetwide excesses was based on the difference between the total value of inventories removed from selected ships receiving supply overhauls during fiscal years 1971 and 1972 and the total value of the authorized stockage lists for these ships.

During informal discussions held on July 13, 1973, a representative of the Office of the Assistant Secretary of Defense (Comptroller) and an official of the Office of the Deputy Chief of Naval Operations, Logistics, told us that the Navy believed our estimate of excesses accumulated and held aboard ships for up to 3 years was overstated by about \$45 million. The Navy representative said that the authorized

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stockage lists we used in computing excesses were 3 to 4 years old and did not show the effect of price inflation during those years. He said also that the value of the inventories removed during the overhauls represented current values. Therefore the Navy believed that, by not applying an inflation factor to the value of the authorized stockage lists, we had overstated the difference about fourfold.

Our representatives told those present that, in estimating the excesses, they had used prices furnished by the Navy. They then pointed out that we considered our estimate ultraconservative in that it was based on the net value of excesses removed from the ships we examined; that is, the value of items in short supply had been offset against the value of items in excess. If we had felt it would have served a useful purpose, we would compute gross excesses, since these represented the true value of assets available for redistribution.

Our representatives further pointed out that, after our review, we had received information from the Navy Supply Systems Command concerning excesses offloaded from 166 ships that were not included in our review. According to this information, the average net value of excesses accumulated on these ships was considerably higher than that we found during our review and used in projecting the total excesses. We have since been advised that these are the external factors referred to in the Navy's reply.

Our representatives then told those present that, in view of the conservative nature of our estimate and the subsequent information we received, we believed our estimate of \$59 million a reasonable one, even if the Navy's position concerning price inflation was valid--a position we did not attempt to confirm since it would not affect the conclusions we reached.

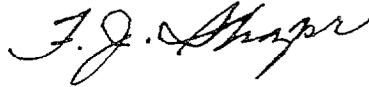
We further believe--and we believe the Navy does too--that the excesses accumulated aboard ships during the period between overhauls, whatever their precise values, are significant enough to warrant taking the action necessary to promptly identify and redistribute them.

We have discussed this matter with appropriate Navy officials, and, unless you believe further discussion is necessary, we will consider the matter closed.

B-125057

We are sending copies of this letter to the Secretary of Defense and to the appropriate congressional committees.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "F. J. Shafer".

F. J. Shafer
Director