



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

IN REPLY
REFER TO

J627

March 14, 2012

MEMORANDUM FOR SUPPLY PROCESS REVIEW COMMITTEE (PRC) AND
JOINT PHYSICAL INVENTORY WORKING GROUP (JPIWG)

SUBJECT: Approved Defense Logistics Management System (DLMS) Change (ADC)
485, DOD Physical Inventory Control Program (PICP), Chief Financial
Officers Act (CFOA) of 1990, Statistical Sampling Requirements and
Procedures (Staffed as PDC 492)

We are forwarding the attached approved change governed by DOD 4000.25-M,
Defense Logistics Management System (DLMS), and DOD 4000.25-2-M, Military
Standard Transaction Reporting and Accountability Procedures (MILSTRAP), for
evaluation and submission of a single coordinated DOD Component position.

The changes to the procedures in Enclosures 2 & 3 to the attached ADC are effective
upon receipt.

Addressees may direct questions to Lou Madrigal, JPIWG Chair, email
Luis.Madrigal@dla.mil. Others must contact their Component designated representative.

DONALD C. PIPP

Director

DLA Logistics Management Standards

Attachment
As stated

cc:
ODASD (SCI)

ADC 485
DOD Physical Inventory Control Program (PICP)
Chief Financial Officers Act (CFOA) of 1990
Statistical Sampling Requirements and Procedures

1. ORIGINATING SERVICE/AGENCY AND POC INFORMATION:

a. Service/Agency: DLA Logistics Management Standards, DLA J627

b. Originator: DLA Logistics Management Standards

2. FUNCTIONAL AREAS: Supply/MILSTRAP and DOD Physical Inventory Control

3. REFERENCES:

a. Deputy Secretary of Defense for Supply Chain Integration memorandum of August 16, 2011; Subject, “Chief Financial Officers Act (CFO) inventory sampling plan” (Enclosure 1).

b. DoD 4140.1-R, DoD Supply Chain Management Regulation, May 2003 (this regulation is in the process of being reissued by the Office of the Deputy Assistant Secretary of Defense for Supply Chain Integration as an eleven volume manual (DOD 4140.01-M); the CFOA requirement will be covered within Volume 5).

c. DoD 4000.25-2-M, Military Standard Transaction Reporting and Accountability Procedures (MILSTRAP), Chapter 7, “Physical Inventory Control” as revised by all Approved DLMS Changes (ADCs) subsequent to the last MILSTRAP Manual publication.

d. DoD 4000.25-M, Defense Logistics Management System (DLMS), Volume 2 “Supply Standards and Procedures,” Chapter 6, “Physical Inventory Control” as revised by all Approved DLMS Changes (ADCs) subsequent to the last DLMS Manual publication.

4. APPROVED CHANGE:

a. Description of Change. This change amends the DOD Physical Inventory Control Program (PICP) to include the requirements and procedures to conduct the annual CFO Statistical Sample Inventory implementing reference 3.a. into references 3.c., and 3.d.

b. Background

(1) The Chief Financial Officer’s Act (CFOA) of 1990 requires that the Department of Defense, the Military Services, and Defense Agencies submit financial statements to the Congress. One of the financial statement elements is the dollar value of on-hand supply inventory. Reference 3.a. establishes the DOD requirement to conduct an annual statistical sample to estimate the dollar value of the DOD inventory to support compliance with the CFOA of 1990, which can be found at <http://www.dol.gov/ocfo/media/regs/CFOA.pdf> . The initial implementation shall be for materiel in

Defense Logistics Agency (DLA) storage sites managed by the Distribution Standard System (DSS), regardless of the materiel's ownership. The requirement to conduct the CFO Annual Statistical Sample Physical Inventory may be expanded to include inventories beyond that maintained by DSS.

(2) The goal of statistical sampling is to efficiently gain insight about an entire population without examining the total population. Statistical sampling is a valuable tool within the DOD PICP. Although inventory errors found within a sample are corrected, the primary purpose of conducting a sample within the PICP is to gain insight about the entire population. Listed below are examples of sample inventories conducted for different purposes; each requires a different sampling approach.

(a) Sample inventories may be conducted to focus and prioritize physical inventory workload resources. Management may draw separate samples from each of its warehouses (or some other population strata) in order to determine which warehouses require wall-to-wall or cycle counting resources and prioritize when to apply them.

(b) A sample inventory may be taken to estimate the overall value of the inventory in storage at a point in time. The purpose of this sample is to determine the degree of dollar error of the sample and apply it to the entire inventory to accurately estimate dollar value of the total on-hand inventory.

(c) A sample inventory of the entire population may be taken to gain insight into the overall accuracy of the records (the percent of the total records where the record quantity and the physical count quantity differ). The results of this type of sample report on the percent of records that match the physical count exactly or are within some allowed tolerance. The current annual statistical sample required by the DOD PICP provides a barometer of performance and improvement opportunities for local storage activity managers. Performance sampling directly supports the DOD PICP through those evaluations and improvements.

c. Requested Changes: In support of the CFOA of 1990 reporting requirements, DLA shall annually prepare and execute the DOD sampling plan using a mutually agreed upon stratified, hierarchical inventory sample for the purpose of accurately estimating the dollar value of the DOD inventory in DLA storage locations. The CFOA requires that the Department of Defense, the Military Services, and Defense Agencies submit financial statements to the U.S. Congress. One of the financial statement elements is the dollar value of on-hand supply inventory. DLA, as the common warehouse provider, stores the preponderance of the DOD on-hand inventories. The purpose of this sample is to estimate the dollar value of the non-fuel portion of the DOD on-hand inventory under DSS management and held in DLA storage. **Staffing Note: The initial implementation shall be for materiel in Defense Logistics Agency (DLA) storage sites managed by the Distribution Standard System (DSS), regardless of the materiel's ownership. The requirement to conduct the CFO Annual Statistical Sample Physical Inventory may be expanded to include inventories beyond that maintained by DSS.** The following are the guidelines to conduct and report the results of the annual CFO Inventory sample.

(1) Scheduling: The annual CFO Inventory Sample shall be scheduled as close to the end of the fiscal year as possible allowing sufficient lead time to conduct the sample inventory, perform analyses, and report results to support the end of fiscal year financial reports.

(2) Sample Guidelines: CFO Inventory Sample shall ensure that:

(a) The items in storage shall be stratified into dollar value categories to minimize the number of items requiring inventory while yielding results with the confidence level and precision required below. The dollar value stratifications used for sample shall be included in the CFO Inventory Value Sample Plan for that year.

(b) Every item stored, regardless of owner/manager, within the extended dollar value strata identified in the CFO Inventory Sample Plan for that year shall have an equal probability of being selected and inventoried.

(c) The sample results shall have a 95 percent confidence level and a level of precision within + (plus) or – (minus) 2.5 percent.

(3) CFO Inventory Value Sample Plan:

(a) Each year's DOD CFO Annual Statistical Sample Plan shall be provided to the Joint Physical Inventory Working Group (JPIWG) Chair for posting to the JPIWG Web Page at: www.dla.mil/j-6/dlms0/Programs/Committees/JPIWG/JPIWG.asp

(b) The results of the CFO sample shall be reported to the inventory owner for use in the preparation of their respective financial statement reporting.

5. **REASON FOR CHANGE:** To implement reference 3.a. in the DOD PICP.

6. **ADVANTAGES AND DISADVANTAGES:**

a. Advantages: Implementations the Chief Financial Officer's Act (CFOA) of 1990 in accordance with the direction of reference 3.a.

b. Disadvantages: None noted.

7. **IMPACT:**

a. Implementation: The changes to the procedures in Enclosures 2 & 3 to the attached ADC are effective upon receipt

b. Publications

(1) In accordance with Enclosure 2, update DOD 4000.25-2-M, Military Standard Transaction Reporting and Accountability Procedures (MILSTRAP), Chapter 7, "Physical Inventory Control".

(2) In accordance with Enclosure 3, update DOD 4000.25-M, Defense Logistics Management System (DLMS), Volume 2 "Supply Standards and Procedures", Chapter 6, "Physical Inventory Control".

8. ESTIMATED SAVINGS/COST AVOIDANCE ASSOCIATED WITH IMPLEMENTATION OF THIS CHANGE: This ADC has no cost impact, implementation has already occurred.

9. COMMENTS AND DISPOSITION:

Organization	PDC 492 Comment	Disposition
DLA	<p>Comment 1: DLA commented that they believed that the implementation of the CFOA Statistical Sample should not be limited only to materiel under Distribution Standard System (DSS) management control.</p> <p>Comment 2: Recommend That the Annual Statistical Plan document and the reporting of the sample results be made separate paragraphs.</p> <p>Comment 3. Recommended that the existing Type of Physical Inventory/Transaction History Code “L” continue, as in prior practice, to indicate sample inventories taken in support of the CFOA.</p>	<p>The Office of the Deputy Assistant Secretary of Defense for Supply Chain Integration verified that the applicability, at this time, is to be limited to materiel under Distribution Standard System (DSS) management control. Therefore, no change was made.</p> <p>This change was adopted in this ADC. See paragraphs C7.2.10.1.2.2.4. and C7.2.10.1.2.2.5. of Enclosure 2 and paragraphs C6.2.10.1.2.2.4. and C6.2.10.1.2.2.5. of Enclosure 3.</p> <p>This change was adopted in this ADC. The existing code L definition is: “Scheduled Inventory, specified SCCs. Initiated by owner for a random statistical sample Inventory.”</p>
USTRANSCOM	Abstains	
Air Force	Concurs without comments	

Army	Concurs	
Navy	<p>Concurs with comment.</p> <p>Comment 1: Will consideration be given to replacing both the Annual Record Accuracy Statistical Sample and Annual Chief Financial Officer's (CFO) Statistical Sample Inventory with only ONE sample?</p> <p>Comment 2: Will DLA provide results of the Annual Chief Financial Officer's (CFO) Statistical Sample Inventory in a format (categories) to allow reporting in compliance with the Annual Record Accuracy Statistical Sample (C6.2.10.1 & C7.2.10.1)?</p> <p>Comment 3: In the future if this PDC is extended to the components, how will the DLA data be merged with the components internal data to then report into the CFO metric?</p>	<p>No. Both samples are required by OSD and serve different purposes. A single sample cannot statistically satisfy both purposes.</p> <p>No, see answer above.</p> <p>This will be determined at a later date and staffed as a separate PDC.</p>



LOGISTICS AND
MATERIEL READINESS

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

AUG 16 2011

MEMORANDUM FOR DIRECTOR OF SUPPLY POLICY, PROCESSES AND PROGRAMS
HEADQUARTERS DEPARTMENT OF THE ARMY DEPUTY
CHIEF OF STAFF, G-4, U.S. ARMY
DIRECTOR, LOGISTICS PROGRAMS AND CORPORATE
OPERATIONS DIVISION, CHIEF OF NAVAL
OPERATIONS, N-41
DEPUTY DIRECTOR OF LOGISTICS, U.S. AIR FORCE, A-4
ASSISTANT DEPUTY COMMANDANT, LOGISTICS, PLANS,
POLICIES AND STRATEGIC MOBILITY DIVISION (LP),
U.S. MARINE CORPS
EXECUTIVE DIRECTOR, MATERIEL, POLICY, PROCESS
AND ASSESSMENT, DEFENSE LOGISTICS AGENCY
DEPUTY CHIEF OF STAFF, G-4 FOR SUPPORT OPERATIONS
HEADQUARTERS U.S. ARMY MATERIEL COMMAND
VICE COMMANDER, NAVSUP WEAPON SYSTEM SUPPORT
EXECUTIVE DIRECTOR, AIR FORCE GLOBAL LOGISTICS
SUPPORT CENTER, AF/GLSC

SUBJECT: Chief Financial Officers (CFO) inventory sampling plan

We have been working with Component representatives to standardize the Chief Financial Officers (CFO) inventory sampling plan and are ready to execute standardized inventory sampling for all Services and DLA this September. The sampling plan provides a standard methodology and streamlines efforts. The plan is directly related to the objective of assessing the accuracy of the value of inventory reported on Component financial statements. We have reviewed the details of the CFO inventory sampling plan with the DoD IG.

The CFO inventory sampling plan execution will begin in September 2011. The Services are invited to send their representatives to observe the physical inventory and assist in the review of results. For those attending as observers, please send names, SSNs, and security clearance level information prior to August 26, 2011, to terry.simpson@dla.mil and gary.ziegler@dla.mil. My point of contact on this effort is Ms. Lynn Fulling, lynn.fulling@osd.mil.

Sincerely,

Paul D. Peters
Deputy Assistant Secretary of Defense
for Supply Chain Integration

cc:
OSD (C) Attn: Mr Quinn
OSD (C) Attn: Mr Easton

Enclosure 1

**Manual Changes (These changes pertain to DoD 4000.25-2-M,
Chapter 7, Physical Inventory Control)**

C7. CHAPTER 7
PHYSICAL INVENTORY CONTROL

Paragraph C7.2.10.1 Changes

C7.2.10.1. Inventory Sampling.

C7.2.10.1.1. **Annual Record Accuracy Statistical Sample.** A stratified, hierarchal inventory sample ***shallwill*** be accomplished at least once annually for the purpose of validating the accuracy of the accountable records. ***The results of this sample report on the percent of records that match the physical count exactly or are within the allowed tolerance. The annual record accuracy statistical sample provides a barometer of performance and improvement opportunities for local storage activity managers.*** The results of the sample ***shallwill*** be reported in accordance with the ***item categorizations stratification*** and tolerances cited in paragraph C7.2.12.5. ***When the physical count of an item is completed, the physical count and record quantity are compared; if the two are within the specified tolerance for Categories B and C, the accuracy of that record is considered correct, if the tolerance is exceeded, the record is counted as inaccurate. Items in Categories A and D have a zero tolerance; therefore, any difference between the physical count and the record quantity is counted as an inaccurate record.***

C7.2.10.1.2. Annual Chief Financial Officer's (CFO) Statistical Sample Inventory. ***The Chief Financial Officer's Act (CFOA) of 1990 requires that the Department of Defense, the Military Services, and Defense Agencies submit financial statements to the Congress. One of the financial statement elements is the dollar value of on-hand supply inventory. The purpose of the Annual CFO Statistical Sample Inventory is enable the Components to estimate the dollar value of the non-fuel portion of the DoD on-hand inventory held in storage for annual financial statement reporting. The Components shall conduct a stratified, hierarchal statistical sample inventory for the purpose of accurately estimating the true dollar value of their respective on-hand supply inventories. The initial implementation shall be for materiel in Defense Logistics Agency (DLA) storage sites managed by the Distribution Standard System (DSS), regardless of the materiel's ownership. The requirement to conduct the CFO Annual Statistical Sample Physical Inventory may be expanded to include inventories beyond that maintained by DSS. The following are the guidelines to conduct and report the results of the annual CFO Inventory sample.***

C7.2.10.1.2.1. Annual CFO Statistical Sample Inventory Schedule. ***The annual CFO statistical sample inventory shall be scheduled as close to the end of the fiscal year as possible allowing sufficient lead time to***

conduct the sample inventory, perform analyses, and report results to support the end of fiscal year financial reports.

C7.2.10.1.2.2. Annual CFO Statistical Sample Inventory Guidelines.

C7.2.10.1.2.2.1. The items in storage shall be stratified into dollar value categories to minimize the number of items requiring inventory while yielding results with the confidence level and precision required below. The dollar value stratifications used for sample shall be included in the CFO Inventory Value Sample Plan for that year.

C7.2.10.1.2.2.2. Every item stored, regardless of owner/manager, within the extended dollar value strata identified in the Annual CFO Sample Plan for that year shall have an equal probability of being selected in the sample and inventoried.

C7.2.10.1.2.2.3. The sample results shall have a 95 percent confidence level and a level of precision within + (plus) or – (minus) 2.5 percent.

C7.2.10.1.2.2.4. DoD CFO Statistical Sample Inventory Plan. Each year's DoD CFO Annual Statistical Sample Plan shall be provided to the Joint Physical Inventory Working Group (JPIWG) Chair for posting to the JPIWG Web Page at: www.dla.mil/j-6/dlms/Programs/Committees/JPIWG/JPIWG.asp

C7.2.10.1.2.2.5. DoD CFO Statistical Sample Inventory Results. The Components shall use the results of the CFO Inventory Sample to value materiel under their respective ownership and report those values to the DoD Chief Financial Officer for use in the preparation of their respective financial statement reporting. Note that the results of the CFO Inventory Sample shall include all adjustments and documentation that support the physical completion of the inventory process.

C7.2.10.1.32. Annual Complete Physical Inventory. Annual complete (100%) physical inventories can be performed as an alternative to statistical sampling.

Paragraph C7.3.3. Changes

C7.3.3.5. Storage activities shall initiate the scheduled annual stratified random statistical sample inventory to meet the Department's requirements to conduct the Annual CFO Statistical Sample Inventory identified in paragraph C7.2.10.1.2. with a Physical Inventory Request Transaction using Type Physical Inventory/Transaction History Code L

**Manual Changes (These changes pertain to DoD 4000.25
Volume 2, Chapter 6, Physical Inventory Control)**

Paragraph C6.2.10.1 Changes

C6.2.10.1. Inventory Sampling.

C6.2.10.1.1. Annual Record Accuracy Statistical Sample. A stratified, hierarchal inventory sample ~~shall~~**will** be accomplished at least once annually for the purpose of validating the accuracy of the accountable records. ***The results of this sample report on the percent of records that match the physical count exactly or are within the allowed tolerance. The annual record accuracy statistical sample provides a barometer of performance and improvement opportunities for local storage activity managers.*** The results of the sample ~~shall~~**will** be reported in accordance with the ~~item categorizations stratification~~ and tolerances cited in paragraph C6.2.12.5. ***When the physical count of an item is completed, the physical count and record quantity are compared; if the two are within the specified tolerance for Categories B and C, the accuracy of that record is considered correct, if the tolerance is exceeded, the record is counted as inaccurate. Items in Categories A and D have a zero tolerance; therefore, any difference between the physical count and the record quantity is counted as an inaccurate record.***

C6.2.10.1.2. Annual Chief Financial Officer's (CFO) Statistical Sample Inventory. ***The Chief Financial Officer's Act (CFOA) of 1990 requires that the Department of Defense, the Military Services, and Defense Agencies submit financial statements to the Congress. One of the financial statement elements is the dollar value of on-hand supply inventory. The purpose of the Annual CFO Statistical Sample Inventory is enable the Components to estimate the dollar value of the non-fuel portion of the DoD on-hand inventory held in storage for annual financial statement reporting. The Components shall conduct a stratified, hierarchal statistical sample inventory for the purpose of accurately estimating the true dollar value of their respective on-hand supply inventories. The initial implementation shall be for materiel in Defense Logistics Agency (DLA) storage sites managed by the Distribution Standard System (DSS), regardless of the materiel's ownership. The requirement to conduct the CFO Annual Statistical Sample Physical Inventory may be expanded to include inventories beyond that maintained by DSS. The following are the guidelines to conduct and report the results of the annual CFO Inventory sample.***

C6.2.10.1.2.1. Annual CFO Statistical Sample Inventory Schedule. ***The annual CFO statistical sample inventory shall be scheduled as close to the end of the fiscal year as possible allowing sufficient lead time to conduct the sample inventory, perform analyses, and report results to support the end of fiscal year financial reports.***

C6.2.10.1.2.2. Annual CFO Statistical Sample Inventory

Guidelines.

C6.2.10.1.2.2.1. The items in storage shall be stratified into dollar value categories to minimize the number of items requiring inventory while yielding results with the confidence level and precision required below. The dollar value stratifications used for sample shall be included in the CFO Inventory Value Sample Plan for that year.

C6.2.10.1.2.2.2. Every item stored, regardless of owner/manager, within the extended dollar value strata identified in the Annual CFO Sample Plan for that year shall have an equal probability of being selected in the sample and inventoried.

C6.2.10.1.2.2.3. The sample results shall have a 95 percent confidence level and a level of precision within + (plus) or – (minus) 2.5 percent.

C6.2.10.1.2.2.4. DoD CFO Statistical Sample Inventory Plan. Each year's DoD CFO Annual Statistical Sample Plan shall be provided to the Joint Physical Inventory Working Group (JPIWG) Chair for posting to the JPIWG Web Page at: www.dla.mil/j-6/dlms0/Programs/Committees/JPIWG/JPIWG.asp

C6.2.10.1.2.2.5. DoD CFO Statistical Sample Inventory Results. The Components shall use the results of the CFO Inventory Sample to value materiel under their respective ownership and report those values to the DoD Chief Financial Officer for use in the preparation of their respective financial statement reporting. Note that the results of the CFO Inventory Sample shall include all adjustments and documentation that support the physical completion of the inventory process.

C6.2.10.1.32. Annual Complete Physical Inventory. Annual complete (100%) physical inventories can be performed as an alternative to statistical sampling.

Paragraph C6.3.3.3. Changes

C6.3.3.3. Random Statistical Sample Inventories

C6.3.3.3.4. Storage activities shall initiate the scheduled random statistical sample inventory to meet the Departments requirements to conduct the Annual CFO Statistical Sample Inventory identified in paragraph C6.2.10.1.2. with a Physical Inventory Request Transaction using Type Physical Inventory/Transaction History Code L.