



OFFICE OF THE SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

CAMERON STATION
DEFENSE LOGISTICS
STANDARD SYSTEMS OFFICE
ALEXANDRIA, VA ~~XXXX~~ 22304-6100
DLSSO-I

09 MAY 1986

SUBJECT: DoD Joint Physical Inventory Working Group (JPIWG) Meeting,
22-24 April 1986

TO: Commander, U.S. Army Materiel Command
ATTN: AMCSM-P/AMCRM-F
Commander, Naval Supply Systems Command
ATTN: SUP 06/SUP 01
Commander, Air Force Logistics Command
ATTN: AFLC-DSS/AFLC-ACF
Commandant of the Marine Corps
ATTN: LMM/FDA
Executive Director, Supply Operations, DLA
ATTN: DLA-OS
Comptroller, Defense Logistics Agency
ATTN: DLA-CF

1. Reference is made to DoD Instruction 4140.35, Physical Inventory Control for DoD Wholesale Supply System Materiel, 16 May 1984.
2. The charter of the DoD Joint Physical Inventory Working Group (JPIWG) is set forth as enclosure 2 to the referenced DoD instruction. In keeping with the responsibilities stated in the JPIWG charter, the enclosed minutes of the subject meeting are forwarded for your information and action. Your attention is directed to paragraphs listed below for action by designated Components.

<u>Paragraph</u>	<u>Component</u>
3.c.	Navy
5, 8	Air Force
10	Army, Navy, Air Force, Marine Corps, DLA
11.c.	Army, Navy, Air Force, Marine Corps, DLA (Primary Representatives and Comptroller Representatives)
12	Navy

3. Comments and inquiries concerning subject should be directed to Mr. Frank St. Mark, AV 284-7667.

cc:
DASD (A&L) LM/SD
DASD (C) MS/AP

Charles W. Strong, Jr.
Chairperson
DoD Joint Physical Inventory
Working Group



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MEMORANDUM FOR RECORD

SUBJECT: DoD Joint Physical Inventory Working Group (JPIWG) Meeting
22-24 April 1986

1. The subject meeting was hosted by the Army and convened at 0900 on 22 April 1986 at Headquarters (HQ) Army Materiel Command (AMC), Alexandria, VA. Attendees are listed in Enclosure 1.

2. The minutes of the 28-30 January 1986 meeting were reviewed and approved with the following correction:

a. Paragraph 2c...add..."The Army, Air Force, Marine Corps and DLA non-concur in raising the Location Survey goal."

3. The first topic for discussion before the JPIWG was the Inter-Service Location Reconciliation Workshop, which was hosted by the Navy 2-3 April 1986. Attendees were provided the JPIWG Vice-Chairperson's Inter-Service Location Reconciliation Workshop Memorandum For Record for discussion purposes. Each of the seven problems raised at the workshop was discussed. The following JPIWG resolutions will be added to the proposed change to MILSTRAP Chapter 7 as indicated.

- a. Problem: The inter-service location reconciliation schedules, as delineated in MILSTRAP Chapter 7 and DLAM 4140.2, need to be consolidated into MILSTRAP Chapter 7.

JPIWG: The JPIWG agreed that there is a need to consolidate the schedules as proposed in the revised MILSTRAP Chapter 7. However, the proposed semi-annual schedule would require the accountable activities to establish suspense files at least ten months of each fiscal year to receive, acknowledge, followup, and reconcile inter-Service location reconciliation transactions. The Air Force representative recommended that instead of spreading the semi-annual inter-Service location reconciliation over ten months; the semi-annual reconciliation should be conducted between all Services and Agencies in May and November or September and March. The JPIWG agreed with the recommendation and agreed that the proposed MILSTRAP change should require Components to conduct the semi-annual reconciliation between all Services and Agencies in May and November.

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- b. Problem: When recorded mismatches (Type I and II errors) are discovered during the location reconciliation program, the accountable activity will request a special inventory (DI Code DJA). Since special inventory requests are not coded to indicate a physical inventory request as a result of location reconciliation, the storage activities are not able to stratify or prioritize location reconciliation physical inventory requests.

JPIWG: The JPIWG agreed that special physical inventory requests should be coded as to reason. The JPIWG also agreed that instead of coding the physical inventory request with an management code, it would be better to assign a type of inventory code to location reconciliation special inventory requests. The proposed change to MILSTRAP Chapter 7 recommends such a change; however, the recommended change assigns a type of inventory code for Location Audit Program Type I and Type II errors. The JPIWG recommended that a separate type of inventory code be assigned to location survey and to location reconciliation special inventory requests. By assigning a separate type of inventory code for location reconciliation requests, the storage activity will be able to stratify and prioritize the requests by accountable activity sorting on the routing identifier code (RIC).

- c. Problem: MILSTRAP Chapter 7 does not prescribe validation or control procedures for the location reconciliation program.

JPIWG: The proposed change to MILSTRAP Chapter 7 contains the requirements for both the accountable and storage activities to establish suspense files to track and control the location reconciliation process. In the interim, the JPIWG approved the use of standard messages and letters for both the accountable and storage activities to notify, acknowledge, and follow-up during the location reconciliation process. Navy will publish the official workshop minutes and draft the proposed standard messages and letters for Services and DLA comments and recommendations.

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- d. Problem: Problems that are encountered during the location reconciliation process oftentimes can be corrected with a telephone call, message, or letter; however, to initiate a correction, it is presently impossible for some Services/Agency to determine the correct address or point of contact to send correspondence or direct telephone calls.

JPIWG: In the absence of a DoD focal point publication of physical inventory points of contact, the JPIWG approved the use of the Army's directory of "Principal Inventory Coordinators List Directory" along with the Navy's point of contact list for use by the Services and DLA. The JPIWG also recommended that DLSSO consolidate Army's and Navy's list and publish the list under DLSSO's cover. DLSSO-I agreed to consolidate the lists with the help of the Army and publish an "Inventory Control Program Points of Contact Directory" in the near future.

4. The next topic before the JPIWG was the final draft of DoDI 4140.35, Physical Inventory Control for DoD Wholesale Supply System Materiel. As discussed at the January 1986 meeting, the changes recommended by JPIWG representatives were incorporated except where GAO/DoDIG audit recommendations were involved, in which case the audit reports prevailed. The JPIWG Chairperson briefed the proposed changes to DoDI 4140.35 to Mr. Moore, DASD(L&MM), 11 March 1986. Mr. Moore concurred with the proposed changes except for the Statistical Inventory Accuracy Goal of 75 percent. Mr. Moore suggested the 75 percent goal would project a picture that infers that one in four DoD accountable records is allowed to be out of balance. The Navy and Air Force had previously recommended that the goal be raised to 85 and 90 percent respectively. Mr. Moore directed that the goal be raised to no less than 85 percent.

5. As a side issue to raising the Statistical Inventory Accuracy Goal to 85 percent, the sample size (number of NSNs to be inventoried) increased approximately 50 percent. For example, a storage activity that stocked 100,000 NSNs, the sample size for 75 percent accuracy would require 810 NSNs to be inventoried; for 85 percent accuracy, the sample would require 1,519 NSNs to be inventoried. The Air Force representative volunteered to test the proposed sample size determination formula and, if possible, come up with a formula with the desired accuracy of 85 percent and 90 to 95 percent confidence and at the same time, reduce the size of the sample.

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6. The DLA Physical Inventory Scheduling Model was the next topic discussed by the JPIWG. Both the Army and Marine Corps reported that their storage activities are receiving special inventory request transactions (DI Code DJA) from DLA based on the prioritization model. Navy indicated that they will implement the DLA prioritization model in the near future.

7. The Chairperson of the JPIWG discussed the DLA Physical Inventory Seminar next. The Chairperson provided an overview briefing of the DLSSO mission and the DoD Physical Inventory Control Program status at the seminar. He also participated in the discussion on phone call requests for inventory counts, the DLA Physical Inventory Scheduling Model and DLA's Unit of Issue Change to Quantity Unit Pack Program. Of most concern to the JPIWG is the DLA initiative on unit of issue change to quantity unit pack. The concerns raised by the Chairperson were that in most cases there is not a quantity packaging standard among commercial vendors and that such changes would have an impact on DoD customer ability to store increased receipt quantities. Enclosure 2 is the DASD letter of 24 January 1986, Subject: Unit of Issue in Materiel Management and DLA's Unit of Issue Changes to Quantity Unit Pack briefing charts. DLA has initiated DLSS change proposals to proliferate this procedural change.

8. The Marine Corps representative briefed the JPIWG on the General Accounting Office (GAO) review of DoD Inventory Management Practices that was requested by Senator Pete Wilson. The representative indicated that the GAO has not released a formal report as yet. Senator Wilson briefed the results of the review in a press conference 13 March 1986. It is anticipated that the GAO will forward the formal review report to Senator Wilson in the May timeframe. Subsequent to the May timeframe, the GAO will provide the Services and DLA a copy of the formal review. The Air Force representative indicated that as a result of the review, the Services and Agency will be tasked to provide information relative to the following:

a. Causative Research - Evaluate the causative research process to determine its effectiveness in identifying and correcting the cause of inventory variances.

b. Internal Management Control Program - Evaluate the Program to determine whether a followup system is in place to evaluate whether what the Service/Agency reports has been corrected is in fact corrected (e.g., inventory problems, security, training, etc.)

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- c. Materiel in Contractor Plants - Determine whether the level of accountability for Government-owned materiel is sufficient to prevent fraud, waste, and abuse.
- d. Feasibility of Applying Private Industry Principles - Determine whether the principles applied to accountability in private industry can be applied to DoD.

The Air Force representative will provide the JPIWG with more detailed information as it becomes available. Enclosure 3 is a copy of the Secretary of Defense letter of 12 March 1986 to Senator Wilson. The letter recognized the 1982 and 1986 reissue of the DoD Physical Inventory Control Program Plan that was developed by the JPIWG. It also recognized the full-time staff to direct the DoD Physical Inventory Control Program and the JPIWG.

9. The next topic discussed by the JPIWG was the ICE Report. Copies of the summarized first quarter FY86 DoD ICE Report was provided to the JPIWG. Based on the "Comments" (not analysis) provided by the Services and Agency (except Army), it was difficult to determine the reason for shortfalls reported in the ICE Reports. Most questions concerning the shortfalls could not be answered by the JPIWG representatives. Since DLSSO is responsible for providing ICE Report Analysis to DASD(L&MM), it is imperative that the Services and Agency provide an analysis, including trends, with their ICE Report. Failure to provide ICE Report analysis will be cited in DLSSO's narrative analyses of DoD ICE Reports. In preparing the DoD ICE Report, DLSSO will not attempt to compare one Service/Agency to another. Enclosure 4 is the ICE Report Schedule that was forwarded to the Service Secretaries and Agency Director on 17 April 1986.

10. The next scheduled topic on the JPIWG's agenda was the review of the proposed changes to MILSTRAP Chapter 7. Due to the absence of the Navy's representative and the primary DLA representative, it was decided that the JPIWG representatives be tasked to review the proposed changes to MILSTRAP Chapter 7 and provide their comments/recommendations to the JPIWG Chairperson not later than 45 days from the date of the minutes. The comments/recommendations will be consolidated for discussion at the July meeting.

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11. Other topics discussed at the meeting:

a. Report of Survey: the draft revision to DoD 7200.10-M, DoD Accounting and Reporting of Government Property Lost, Damaged, or Destroyed (GPLD) was forwarded to OASD (Comptroller (C)) on 14 January 1986. OASD(C) informed DLSSO-I that they have completed their review and incorporated their recommendations. DLSSO-I was made aware of the following recommendations to the Criteria for Causative Research:

- (1) Pilferable Item - OASD(C) recommended that causative research be performed on unresolved pilferable items when the discrepancy is equal to 100 units or \$2,500 or more for each stock number vice when the discrepancy is \$2,500 or more for each stock number.
- (2) Noncontrolled Items - OASD(C) recommended that causative research be performed on unresolved noncontrolled items when the discrepancy is equal to 500 units or \$16,000 for each stock number vice when the discrepancy is \$16,000 for each stock number.

The draft revision is presently being staffed at the OASD level. Formal staffing with the Services and Agencies was scheduled for the April/May timeframe.

b. JPIWG Minutes: The JPIWG minutes are currently provided to the JPIWG representatives in a Memorandum For Record. Consequently, any taskings arising from a meeting are not binding. To resolve this problem, the Chief of DLSSO directed DLSSO-I to forward the JPIWG minutes under separate cover to the division level of the Service/Agency representative. This change will take place with the 22-24 April 1986 meeting minutes.

c. Inventory Report of Principal and Secondary Items (DD Form 1138-1): As discussed at the 28-30 January 1986 JPIWG meeting and reported in the meeting minutes, the JPIWG representatives were requested to familiarize themselves with their Service/Agency submission of the 1138 Report. Since the 1138 Report will be an agenda topic at the July meeting, the Physical Inventory and Comptroller JPIWG representatives are requested to prepare a joint 30 minute briefing on their Service/Agency preparation of the 1138 Report. The briefing should include how principal and secondary items are stratified as well as how the data is coded in the financial and accountable records. The briefing should also address the feasibility of adopting such a breakout for principal and secondary items in the ICE Report.

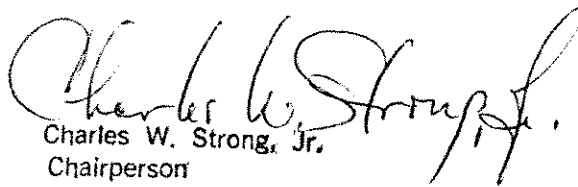
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12. In keeping with the JPIWG meeting rotation plan, Navy is requested to host the next JPIWG meeting which is scheduled for 22-24 July 1986. Details concerning the meeting will be provided under separate cover.

13. Representatives were recognized for their participation and the meeting was adjourned 24 April 1986.

4 Encl


Charles W. Strong, Jr.
Chairperson
DoD Joint Physical Inventory
Working Group



THE OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301-8000

ACQUISITION AND
LOGISTICS
LM/SD

24 JAN 1986

MEMORANDUM FOR THE ASSISTANT SECRETARY OF THE ARMY (I&L)
ASSISTANT SECRETARY OF THE NAVY (S&L)
ASSISTANT SECRETARY OF THE AIR FORCE (RD&L)
DIRECTOR OF THE DEFENSE LOGISTICS AGENCY

SUBJECT: Unit of Issue in Materiel Management

Paragraph D.6. to DoD Instruction 4140.36, "The Unit of Issue in Materiel Management," requires advance coordination with all Service/Agency users, before unit of issue (U/I) changes are effected. This policy was the most significant issue discussed during recent meetings held to discuss distribution system productivity matters with Service and Defense Logistics Agency (DLA) representatives.

Hindering the achievement of increased productivity is the requirement to issue and ship small, low value items in small quantities. To illustrate the magnitude of the problem, last June DoD wholesale materiel depots filled 2.3 million requisitions. Sixteen percent or 370 thousand issues had an extended dollar value (quantity shipped times unit price) of less than five dollars. The enclosed shows the June issue activity by materiel manager.

A partial solution to the problem is the assignment of realistic and economic U/I quantities. This, however, is hindered by a common perception that the DoD policy stated above requires unanimous concurrence among users before a U/I change can be made. This is not the case. The inventory manager is responsible for U/I assignment and must balance user requirements with other economic considerations such as demand history, unit price and packaging.

I request you examine your U/I assignments, particularly those having a low dollar value. Where increased distribution system productivity is evident and impact on users minimal, a U/I change should be made. Advance notification, however, must be provided users of the item(s), in order that necessary changes to ordering practices are in place when the change is made.

Maurice N. Shriber
Maurice N. Shriber

Deputy Assistant Secretary of Defense
(Logistics and Materiel Management)

WHOLESALE MATERIEL ISSUES

JUNE 1985

PERCENT OF SHIPMENTS WITH A TOTAL VALUE LESS THAN

INV. CNTL PT.	\$.06	\$.26	\$ 1.00	\$ 5.00	\$ 10.00	TOTAL MRO'S
<u>ARMY</u>						
AMCCOM	.8	3.4	7.2	17.0	23.6	63,122
TACOM			.6	2.7	4.6	4,673
CECOM		.1	.8	4.3	7.2	44,817
TROSCOM		.1	.8	5.0	9.6	60,696
MICOM			.4	3.6	6.7	12,504
<u>NAVY</u>						
ASO			.1	.9	1.9	111,670
SPCC		.1	.4	3.3	6.2	66,060
MCLB-A	.1	1.0	3.2	9.9	14.9	4,448
<u>AIR FORCE</u>						
WRALC			.2	1.5	2.9	78,331
SMALC			.1	1.3	2.4	32,739
SAALC		.1	.5	2.6	4.6	83,816
OCALC			.2	1.3	2.1	82,224
OGALC			.1	1.4	2.6	41,340
<u>DLA</u>						
DISC	1.3	6.1	16.0	36.4	47.1	489,301
DGSC	.2	1.0	3.6	14.5	22.9	212,747
DESC	.1	2.0	7.7	23.1	33.0	323,291
DCSC		.5	3.2	15.7	26.0	284,304
DPSC						
(M)			.4	5.6	12.2	113,098
(S)				.2	3.6	28,346
(T)			.8	5.1	10.9	195,084
<u>DOD</u>						
	.6	2.1	5.8	15.9	22.8	2,332,511

Allocate up to 5 times the dollars to activities about 3 times the consistency, maybe

IMM

UNIT OF ISSUE

CHANGES TO

QUANTITY UNIT PACK

(QUP)

THE "PROBLEM"

- SMALL SIZED, LOW COST ITEMS WITH A UNIT OF ISSUE "EACH"
- COST TO PROCESS REQUISITIONS FAR GREATER THAN ITEM COST:
 - IMPAIRS WAREHOUSE PRODUCTIVITY
 - REQUIRES MANUAL PROCESSING IN AN AUTOMATED ERA
 - EXACERBATES INVENTORY AND ACCOUNTING ADJUSTMENTS
 - ENCOURAGES WASTE, PILFERAGE, UNTIDINESS, UNNECESSARY COSTS AND INEFFICIENCY
- CURRENT PROCEDURE REQUIRES CONCURRENCE OF ALL USER AGENCIES TO EFFECT UNIT OF ISSUE CHANGES

BACKGROUND

- 1979 - DLA (DISC) STUDY
 - TO DETERMINE IF CHANGING UNIT OF ISSUE (U/I) TO QUANTITY UNIT PACK (QUP) WOULD GENERATE COST SAVINGS BY REQUISITION REDUCTIONS
 - WAREHOUSE PRODUCTIVITY/INVENTORY COSTS NOT CONSIDERED
 - RESULTS INCONCLUSIVE
- 1984 - NAVY FLEET MATERIAL SUPPORT OFFICE STUDY
 - PREDICTED COST SAVINGS EVEN THOUGH WAREHOUSE/INVENTORY COSTS WERE NOT CONSIDERED
 - NOT PURSUED DUE TO CONCERN FOR SHIPBOARD STORAGE CONSTRAINTS
- AUGUST 1985 - NAVSUP LETTER/DLA-OW MEMO TO OSD
 - RECOMMENDED CHANGING UNIT OF ISSUE TO QUANTITY UNIT PACK FOR SMALL, (LESS THAN 10 CUBIC INCHES) LOW PRICED (LESS THAN \$5.00) ITEMS
- FORTHCOMING WAREHOUSE AUTOMATION DRIVER

- 18 DECEMBER 1985 - DLA MEETING WITH MILSVCS AND OSD
 - RECOMMENDED CHANGING U/I TO QUP WHEN:
 - VALUE OF UNIT PACK IS \$5.00 OR LESS
 - SIZE OF QUP IS 10 CUBIC INCHES OR LESS
 - TO BE ACCOMMODATED THROUGH REVISION OF DODI 4140.36
 - RETURNED MATERIEL TO BE IN THE NEW U/I ONLY
- 7 JANUARY 1986 - OSD VERBAL COMMITMENT
 - GRANT IMM'S AUTHORITY TO EFFECT UNILATERAL U/I CHANGES
 - OSD WILL "CLARIFY" DODI 4140.36, PARA D6, BY MEMORANDUM
- 24 JANUARY 1986 - OSD "CLARIFYING MEMO" TO MILSVCS AND DLA
 - IMM'S AUTHORIZED TO MAKE U/I CHANGES WHEN DEEMED "REASONABLE"; NO COST OR SIZE LIMITATIONS IMPOSED
 - SERVICE/AGENCY USER COORDINATION NO LONGER REQUIRED

DLA QUP STRAWMAN PLAN OF ACTION

- o DEPOTS - NOMINATE U/I CHANGE CANDIDATES TO IMMs
 - SELECT "TROUBLESOME" ITEMS FIRST
 - SMALL (10 CUBIC INCHES), LOW COST (LESS THAN \$5) ITEMS TO HAVE PREFERENCE
 - SHELF LIFE ITEMS TO BE EXCLUDED
 - UTILIZE MODIFIED DD FORM 1685 (ATTACHED) FOR TRANSMITTAL
 - PRIME DEPOT SUBMIT NO MORE THAN _____ ITEMS PER MONTH TO EACH DSC
 - ITEM LISTS DUE DSCs ON THE FIRST OF EACH MONTH
 - DSC FEEDBACK TO BE PROVIDED PRIOR TO THE END OF MONTH
- o IMM'S (DSC'S) - PROCESS U/I CHANGE CANDIDATES
 - ESTABLISH ACTION REVIEW COMMITTEE WITH REPRESENTATIVES FROM:
 - SUPPLY OPERATIONS
 - TECHNICAL OPERATIONS (PACKAGING/CATALOGING)
 - PROCUREMENT

THE BOTTOM LINE - BENEFITS FAR OUTWEIGH THE COSTS

BENEFITS:

- IMPROVED WAREHOUSE PRODUCTIVITY
- IMPROVED INVENTORY ACCOUNTING/ACCURACY RATES
- MORE COMPATIBLE WITH AUTOMATED WAREHOUSING
- REDUCED REPACKAGING COSTS
- REDUCES THE NUMBER OF REPETITIVE REQUISITIONS
 - REDUCED REQUISITION PROCESSING COSTS
 - REDUCED TRANSPORTATION COSTS
 - REDUCED PILFERAGE OPPORTUNITIES
- IMPROVED WAREHOUSE ENVIRONMENT/CLEANLINESS
- IMPROVED WAREHOUSE EMPLOYEE MORALE

COSTS:

- ADDITIONAL INVESTMENT LEVEL COSTS
- INCREASED STORAGE SPACE (REQUIREMENTS)
- ADDED CUSTOMER CHARGE

- DEVELOP CANDIDATE APPROVAL CRITERIA
 - ASSESS CURRENT STOCK POSITION
 - ASCERTAIN ITEM (NSN) REQUISITION FREQUENCY
 - REVIEW MANUFACTURER'S QUP FOR CONSISTENCY
 - EVALUATE OWR STOCK RQMT
 - CONSIDER LONG SUPPLY ITEMS FIRST
 - SPECIFY "NEW" U/I ON FUTURE PROCUREMENT DOCUMENTS
 - PROPOSE NEW U/I DESIGNATIONS AS DEEMED NECESSARY
 - ENSURE PROPER U/I ASSIGNMENTS DURING NEW ITEM PROVISIONING
- SUBMIT CATALOG CHANGES TO DLSC
 - REQUIRES 48-78 DAYS TO EFFECT A U/I CHANGE
 - ALLOWS THE DOD LOGISTIC SYSTEM TIME TO PREPARE
- o DLSC-EXPEDITIOUSLY PROCESS U/I CATALOG CHANGES
- o ALL DLA - CLOSE COORDINATION BETWEEN CENTERS, DEPOTS AND DLSC IS A MUST



THE SECRETARY OF DEFENSE
WASHINGTON, THE DISTRICT OF COLUMBIA

12 MAR 1986

Honorable Pete Wilson
United States Senate
Washington, D.C. 20510

Dear Pete:

Your letter of March 10, 1986 outlined, in general terms, results of the General Accounting Office report to you of their analysis of Department of Defense inventory management practices. I share your concern that every reasonable action be taken to provide security and accountability for defense material at every level. Although your letter does not provide details that will permit a specific response, I want you to know that problems in inventory management were identified by audits conducted early in this Administration and significant actions have been taken to improve management and control of defense supplies.

It is my understanding that much of the GAO analysis has been based on previous audits conducted by GAO and Service audit agencies. Field visits were then structured based on this literature review. Unfortunately, this type of approach frequently results in erroneous observations that are not indicative of the Department as a whole and ignores the specific initiatives taken by the Services and Defense Agencies in response to the original audits. In the absence of a reliable audit, release of observations obtained in so cursory a manner does a disservice to the conscientious and constructive programs we have initiated in improved inventory control.

I would also want to point out that much of the GAO field review work was accomplished at the installation, or military consumer, level of organization where supplies are issued for ultimate use and accountability is vested in unit commanders and individuals responsible for unit level performance. We recognize an increased potential of theft exists at this level, just as it does in the private sector, and organizational components have instituted prudent safeguards against theft and misuse of material. There have been numerous examples of individuals who have abused the trust placed in them and who have been properly apprehended and brought to justice. In recent years, each Service has strengthened its internal investigative capability to increase our confidence that abuses are promptly detected and corrected.

Encl 3

The area of inventory accountability has received unprecedented attention over the past four years. We have acknowledged that longstanding problems in inventory management and control existed and these were the subject of press interest several years ago. In the intervening period, exceptionally strong programs have been initiated to improve accountability of material and inventory accuracy. These programs involve complex automated inventory programs and more modern computer systems to replace antiquated systems now in use. Progress is being achieved and I am confident that we are on the right course. Certainly, you may be sure that these concerns are receiving priority attention.

As we discussed by telephone, I am enclosing a fact sheet that will provide some perspective on inventory management controls within DoD. I trust that this will assist you in providing balance to the information provided by the GAO. If I can be of further assistance, please let me know. Should you desire, we will be happy to schedule briefings on these subjects to further advise you on our progress in inventory management improvement.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jay", is written over the word "Sincerely,".

Enclosure

FACT SHEET

ON

GAO REVIEW OF DOD INVENTORY MANAGEMENT PRACTICES

BACKGROUND:

- GAO conducted a two-pronged review:
 - They reviewed previous GAO, DoDIG and Service audit reports and criminal investigative agency reports covering the past five years; and
 - They performed transaction and inventory record analyses at 9 inventory control points, 6 depots and 15 retail activities representing each of the Services and DLA.
- The GAO survey results focused on:
 - inadequate correlation of inventory, shipment and receipt records with physical inventory balances on-hand;
 - inadequate physical security of supply inventories;
 - theft of property including ammunition items.
 - We are aware of the general allegations being reported by GAO on inventory management. In fact, the DoDIG currently has more than 20 ongoing surveys or reviews that involve DoD supply and maintenance activities.

INVENTORY RECORD ACCURACY:

- In 1982 DoD developed a Physical Inventory Control Program Plan. This plan was reissued in January 1986 as a five-year improvement program incorporating recommendations of the GAO and the DoDIG.
- The DoDIG has audited our progress and in August 1985 reported that DoD and its Components have responded appropriately to earlier Congressional criticism.
- DoD performance in maintaining accurate inventory records has shown steady improvement. Our gross monetary adjustment rate has declined from 3.7% in 1980 to 2.5% against a current inventory value of \$69 billion. Our materiel denial rate has declined from 0.86% in 1980 to a current rate of 0.73%.

- We have established a full-time staff to direct the DoD Physical Inventory Control Program which encompasses the DoD Joint Physical Inventory Working Group under the Defense Standard Systems Office (DLSSO) management.
- Overall DoD policy is being revised to include procedural improvements to achieve higher levels of inventory record accuracy.
- Additionally, the programs currently underway within the Services and DLA to modernize and upgrade their automated inventory management systems will further strengthen controls over inventory.
- It is significant to note that for FY 1985 we had inventory gains of over one billion dollars and losses of 900 million dollars. In effect, these bookkeeping adjustments added more material to the inventory than was subtracted. These adjustments are 2.7% of a total inventory of \$71 billion and that percentage compares favorably with private industry adjustments.

LOSSES OF AMMUNITION AND EXPLOSIVES:

- The Department is specifically addressing the need to improve controls over ammunition and explosives. For example:
- The Army has published new comprehensive policy and procedural direction on munitions accountability and control. These procedures will cover all phases of turn-in. We believe the primary problem in ammunition explosives loss occurs in training. Munitions must be issued in large quantities as troops are trained in their use. The improved procedures will concentrate on issuing the proper quantities, monitoring firing during training, and closely controlling munitions turn-ins. The new policy emphasizes the important role of leadership from the activity commander down to the squad leader in assuring proper accountability for all explosive type items.

PHYSICAL SECURITY OVER DOD INVENTORIES:

- The Department is very concerned over the reports of large losses of military equipment and supplies. It is important that the real scope of this problem be recognized in order that we can deal effectively with the actual issues. I believe we have the proper policies in place regarding safeguarding of military materiel.

- Unfortunately, in any large organization, a small number of untrustworthy individuals can subvert the whole system. In many of the cases cited by GAO, individuals in a position of trust misused their inside knowledge of the supply system to steal military property. To combat this problem, DoD has implemented a number of security tightening measures. These include more personnel reliability checks similar to those applied to individuals with access to nuclear materials. Computer cross-checks to spot unauthorized users are being expanded to include unusual quantities of materiel or suspicious shipping destinations. Increased training is also a key element in both theft prevention and detection.
- A number of the people involved in the thefts described have already been arrested. We will continue to work with the FBI and the U.S. Customs Service to stop theft of government property and to prevent criminals from obtaining U.S. military items.

Strong discipline is in place for offenders. Since 1982 we have secured the following number of convictions for theft of DoD property:

- 173 convictions - U.S. District Courts.
- 468 convictions - The military justice system.



OFFICE OF THE SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

17 APR 1986

CAMERON STATION
DEFENSE LOGISTICS
STANDARD SYSTEMS OFFICE
ALEXANDRIA, VA 22304-6100
DLSSO

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (I&L)
ASSISTANT SECRETARY OF THE NAVY (S&L)
ASSISTANT SECRETARY OF THE AIR FORCE (RD&L)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Inventory Control Effectiveness (ICE) Report Schedule

The Deputy Assistant Secretary of Defense (Logistics and Materiel Management) (DASD(L&MM)) in a 24 January 1986 memorandum advised that the Physical Inventory Control Program Administrator within the Defense Logistics Standard Systems Office (DLSSO) has been assigned responsibility for consolidating and analyzing DoD Component ICE reports. This change in responsibilities will be reflected in the next formal change to the Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP) Manual, DoD 4140.22-M.

In the interest of assuring timely reporting and complete analysis of ICE data, DLSSO has developed the enclosed report schedule for Service/Agency reporting, DLSSO compilation and analysis, and submission of consolidated reports to DASD (L&MM). Accordingly, please assure all future ICE reports are submitted to DLSSO by the appointed dates.

1 Encl

cc:
Comdt., Marine Corps
DASD(L&MM)

HORACE E. PERDIEU
Chief
Defense Logistics Standard
Systems Office

*Cop mailed
17 Apr 86
Tah*

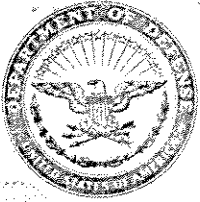
Encl 4

INVENTORY CONTROL EFFECTIVENESS (ICE) REPORT SCHEDULE

Reporting Event	1 Q FY XX		2 Q FY XX		3 Q FY XX		4 Q FY XX					
	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
Cutoff date for ICE Reports is last day of last month of fiscal quarter (Dec 31, Mar 31, Jun 30, Sep 30)			1st Qtr Rpt			2nd Qtr Rpt			3rd Qtr Rpt			4th Qtr Rpt
Service/Agency ICE Reports to arrive at DLSSO 75 days after cutoff date, i.e., Mar 15, Jun 15, Sep 15, Dec 15 prior quarter report due			4th Qtr Rpt			1st Qtr Rpt			2nd Qtr Rpt			3rd Qtr Rpt
DLSSO consolidated ICE Report and analysis to DASD(L&MM) 105 days after cutoff date, i.e., Apr 15, Jul 15, Oct 15, Jan 15.	3rd Qtr Rpt			4th Qtr Rpt			1st Qtr Rpt			2nd Qtr Rpt		

REMARKS:

- Service/Agency records and reports generator systems will be programmed to assure report cutoff dates are as stated in MILSTRAP Chapter 7.
- Component ICE Reports must be received by DLSSO NLT above dates. Situations precluding a Service/Agency from meeting specified report dates should be made known to DLSSO in writing (message or letter) as soon as possible.
- DLSSO will submit quarterly consolidated reports to D ASD(L&MM) NLT above dates. Delays in Component reporting will be cited in narrative analyses of DoD ICE Reports.



OFFICE OF THE SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

10 FEB 1986

CAMERON STATION
DEFENSE LOGISTICS
STANDARD SYSTEMS OFFICE
ALEXANDRIA, VA ~~XXXX~~ 22304-6100
DLSSO

Memorandum for Record

SUBJECT: DoD Joint Physical Inventory Working Group (JPIWG) Meeting, 28-30 Jan 86

1. The subject meeting was hosted by the Marine Corps and convened at 0945 hours, 28 Jan 86, at Headquarters, Marine Corps, Rosslyn, VA. Agenda topics are listed in Attachment 1. Attendees are listed in Attachment 2.
2. The first topic for discussion before the JPIWG was final draft DoD Instruction 4140.35, Physical Inventory Control for DoD Wholesale Supply System Materiel. Changes recommended by JPIWG representative as a result of the Nov 85 meeting/discussion were taken under advisement by the DoD Logistics Standard Systems Program Administrator in developing the final draft DoDI 4140.35. In discussing the final draft, JPIWG members were advised that all their comments were incorporated except where GAO/DoDIG audit recommendations were involved, in which case the audit report prevailed.

- a. The DLA representative expressed concern that Inventory Control Effectiveness reporting continues to include principal and secondary items in the same report. It was explained that until agreement can be reached on what the appropriate distinction is between principal and secondary items is, all items in storage and on Service/Agency accountable records will continue to be included in the Inventory Control Effectiveness (ICE) reports. To this end, JPIWG representatives were requested to familiarize themselves with their Service/Agency submission of Inventory Report of Principal and Secondary Items (DD Form 1138-1).

- b. The DLA representative also challenged the stated objective of Physical Inventory Control Program as being inventory accuracy. Mr. Kelley stated that we should only concern ourselves with the fast moving active items and not consider those other items in storage because they do not play in support of the readiness of the active forces. In conjunction with this point, the DLA representative took the position that physical inventory counts should not be required for all materiel release denials but only be done on a selective basis. JPIWG representatives were advised that these are the type of comments that should be provided OASD(L&MM) during the staffing of the DoD Instruction.

DLSSO

SUBJECT: DoD Joint Physical Inventory Working Group (JPIWG) Meeting, 28-30 Jan 86

c. Navy representative concerns centered around the impacts of the Gramm Rudman Bill on Physical Inventory Control Program accomplishments. As a result of projected funding constraints, the Navy representative stated that the Navy is in favor of statistical sampling in accomplishing both physical inventory counts and location survey processes. This would allow DoD Components to achieve required accuracy measurements with fewer resources. Additionally, the Navy representative recommended higher accuracy goals. The Army representative supported the Navy recommendation to accomplish Location Survey requirements through statistical sampling and indicated that some initiative was forthcoming from Army in this area. The JPIWG Vice-Chairman reviewed the purpose and objectives of the Location Survey process and expressed some doubt that those objectives could be realized through statistical sampling. *The Army's Air Force, Marine Corps and DLA non-concur in raising the Location Survey goal. (per 22-24 Apr 86 minutes.)*

d. The Air Force representative stated that items selected for inventory through selection prioritization models should be treated as scheduled inventory requirements for resource programming purposes. It was pointed out that there is latitude in the way the policy is drafted that would allow DoD Components to designate other items or categories of items for annual physical inventory counts. The details of what is a scheduled inventory will be worked out in MILSTRAP revision of physical inventory control procedures.

3. The next topic put before the JPIWG was the final DoD Physical Inventory Control Program Plan. JPIWG members were apprised of changes made to the plan as a result of their comments provided after the last meeting. Specific changes discussed were: the DLSSO assuming lead role in executing the program plan with JPIWG support; retention of quality control as a subtask within the procedures review; DLSSO assumption of ICE report analysis; and inclusion of retail level supply as a DoD Physical Inventory Control interest. The JPIWG members were advised that the program plan will be distributed to DoD Components under a separate letter after it is published.

4. The DLA Inventory Selection Model was the next topic discussed by the JPIWG. Mr. Kelley presented the background which led to DLA's testing and fielding of the physical inventory prioritization model and the rationale for requesting interservice acceptance of DLA system output requests. While neither the DLSSO nor the JPIWG had been formally apprised of DLA's fielding efforts the other DoD Components requested DLSSO involvement to discuss the effectiveness and comprehensiveness of the DLA system in meeting DoD requirements. Significant points drawn from the discussion are as follows:

a. As an owner/manager, DLA is responsible for assuring that assets under their accountability are inventoried regardless of whether they are stored in DLA storage facilities or Service owned and operated depots. Thus, DLA requests for inventory are in accordance with DoD policy.

DLSSO

SUBJECT: DoD Joint Physical Inventory Working Group (JPIWG) Meeting, 28-30 Jan 86

b. In discussing operating systems detail functional requirements, it was revealed that DLA unilaterally limited what system inputs would be accepted from the other Services - e.g., if a Service storage activity initiated a scheduled inventory against a DLA owned/managed item for which DLA had not requested/identified through the prioritization model, then the physical inventory notification (DJB) and the inventory count transaction (DJA) would not be accepted by DLA. This would be a waste of inventory resources based on DLA's failure to accept the count. Adding to this the fact that the DLA system records a date of last inventory only for the NSN as a whole and does not have a date of last inventory by storage location, it appears that DLA master data record information is less than reliable in determining whether a given storage site has ever conducted an inventory count on a given NSN.

c. While the Army and Marine Corps have agreed to accept inventory request transactions (DI Code - DJA) from DLA based on the prioritization model, the Air Force has declined to participate in the DLA proposed inter-Service application. Navy has not declared whether or not to accept DLA prioritization model requests for inventory.

d. Based on the discussion with JPIWG members, it was recommended that Service representatives highlight their concerns in messages to HQ DLA. It is believed that while the DLA model conceptually responds to the need to identify those items that have the greatest supply significance to support the readiness of active forces, the implementation of the model failed to consider DLA's relationship with other DoD Components and does not provide significant improvements in maintaining accurate detailed physical inventory information.

5. A discussion of meaningful measures of inventory control effectiveness was also conducted. Materiel Denials, while not directly related to overall inventory accuracy, have some correlation to the level of accuracy between ICP and storage activity records as well as readiness implications (demand satisfaction). The denial rate does, however, reflect the effectiveness of ICPs in issuing materiel release orders to storage activities based on accountable record balances and the storage activities' effectiveness in locating materiel in storage and processing shipments to customers. The achievement of a one percent denial rate does not infer a 99% record accuracy, but only that the ICP and storage activity were in agreement on what was in storage and did not exceed the quantity of the items at that storage location. The JPIWG members did agree that Materiel Denials should continue to be reported in ICE reports as an indicator of the impact of inaccurate records on active/demanded items. It was also recommended that DoD Components be required to report "On-Time" processing of denials as an additional indicator

DLSSO

SUBJECT: DoD Joint Physical Inventory Working Group (JPIWG) Meeting, 28-30 Jan 86

of system responsiveness. All other data currently reported on ICE reports were recommended for retention. The remainder of the discussion centered around the determination and reporting of overall inventory accuracy derived by random statistical sampling. Draft DoD Instruction 4140.35 currently in staffing would require DoD Components to conduct a random statistical sample inventory of the total population of items in storage to arrive at an overall inventory accuracy rate. Given approval of the random sample policy, Components would likewise be required to report the results of statistical sample inventories.

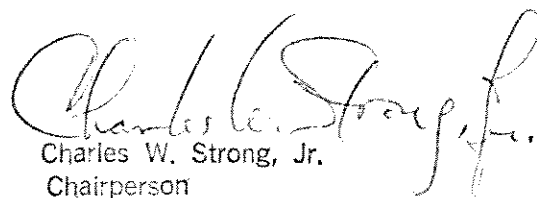
6. Advance copies of the final JPIWG On-Site Surveillance Report were distributed to Component representatives and reviewed to assure that recommended changes to the draft received from JPIWG members were adequately reflected. The final report will be distributed to the Services/Agencies under separate correspondence when received from the printing office.

7. The next topic discussed by the JPIWG was a change directed by DASD(L&MM) on ICE report submission by DoD Components. A DASD(L&MM) memorandum to the Services/Defense Logistics Agency, 24 Jan 86, advises that the Defense Logistics Standard Systems Office (DLSSO) has been assigned responsibility to consolidate and analyze ICE reports. The memorandum further states that reporting Components are to submit further ICE reports directly to DLSSO. A copy of the memorandum is at Attachment 3.

8. The remaining time of the JPIWG meeting was devoted to discussing proposed changes to DoD 4140.22-M, MILSTRAP, Chapter 7. The DoD Physical Inventory Control Program Administrator and JPIWG Vice-Chairman have redrafted MILSTRAP physical inventory procedures based upon GAO/DoDIG audit recommendations concurred with by OASD(L&MM) and to strengthen areas reviewed by the JPIWG during its on-site review. Due to inclement weather, the meeting was adjourned early. JPIWG members were provided copies of the draft MILSTRAP Chapter 7 and requested to review the proposal prior to the next JPIWG meeting.

9. The Army representative, Mrs. Scaman, volunteered to host the next JPIWG meeting at HQ Army Materiel Command (AMC), Alexandria, VA. It is therefore proposed that the next meeting be held 22-24 Apr 86 at HQ AMC. Details concerning the meeting will be provided under separate cover.

10. Representatives were recognized for their participation and the meeting was adjourned 30 Jan 86.


Charles W. Strong, Jr.
Chairperson
DoD Joint Physical Inventory,
Working Group

DoD JOINT PHYSICAL INVENTORY GROUP MEETING

28-30 Jan 86

THE AGENDA FOR THE MEETING IS AS FOLLOWS:

28 JAN 86: WORKING SESSION - JPIWG MEMBERS

<u>TIME</u>	<u>DISCUSSION TOPIC</u>
0900-1100	FINAL DRAFT DODI 4140.35
1100-1200	FINAL DOD PHYSICAL INVENTORY PROGRAM PLAN
1200-1300	LUNCH
1300-1530	DLA INVENTORY SELECTION MODEL

29 JAN 86:

0900-1200	MEANINGFUL MEASURES OF INVENTORY CONTROL EFFECTIVENESS
1200-1300	LUNCH
1300-1400	FINAL JPIWG ON-SITE SURVEILLANCE REPORT
1400-1500	ICE REPORT SUBMISSION REQUIREMENTS
1500-1600	PROPOSED CHANGES TO MILSTRAP CHAPTER 7, PHYSICAL INVENTORY CONTROL

30 JAN 86:

0900-1200	PROPOSED CHANGES TO MILSTRAP CHAPTER 7
1200-1300	LUNCH
1300-1500	PROPOSED CHANGES TO MILSTRAP
1500-1530	WRAP UP

DOD JPIWG MEETING

28-30 Jan 86

ATTENDEES

<u>NAME</u>	<u>ORGANIZATION</u>	<u>TELEPHONE</u>
C. Strong (Chairman)	DLSSO-I	274-7668
F. St. Mark (Vice-Chairman)	DLSSO-I	274-7667
C. Scaman (Alternate)	Army	274-6987
J. Jones (Member)	Navy	697-0589
F. Bible (Member)	Air Force	787-7874(AV)
B. Patterson (Member)	Marine Corps	694-1600
F. O'Rourke (Alternate)	Marine Corps	694-1600
* M. Kelley (Member)	DLA	274-6193
** M. Pipan (Alternate)	DLA	274-6193
*** J. Dunleavy (Observer)	DMA	287-3100

* Attended 28-29 Jan
** Attended 30 Jan
*** Attended 29 Jan



THE OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301-6000

ACQUISITION AND
LOGISTICS

24 JAN 1994

LM/SD

MEMORANDUM FOR THE ASSISTANT SECRETARY OF THE ARMY (I&L)
ASSISTANT SECRETARY OF THE NAVY (S&L)
ASSISTANT SECRETARY OF THE AIR FORCE (RD&L)
DIRECTOR OF THE DEFENSE LOGISTICS AGENCY

SUBJECT: Inventory Control and Effectiveness (ICE) Report

The Military Standard Transaction and Accounting Reporting Procedures (MILSTRAP) Manual, DOD 4140.22-M, requires the Services and the Defense Logistics Agency to submit a quarterly Report of Inventory Control Effectiveness (reference Chapter 7, page 7-17, paragraph 7-9(3)).

The Physical Inventory Control Program Administrator of the Defense Logistics Standard Systems Office has been assigned the responsibility to consolidate and analyze the ICE reports. Accordingly, please send all future reports to: Defense Logistics Standard Systems Office, Cameron Station, Alexandria, Virginia 22304-6100. This change will be reflected in the revision to DOD 4140.22-M.

Maurice N. Shriber

Deputy Assistant Secretary of Defense
(Logistics and Materiel Management)

cc: Cdr, Marine Corps