



DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
CAMERON STATION  
ALEXANDRIA, VIRGINIA 22304-6100



IN REPLY  
REFER TO

DLMSO

13 JUL 1993

SUBJECT: Approved MILSTRAP Change Letter (AMCL) 8A, Revised  
Procedures for Physical Inventory Control (Previously  
AMCL 8)

TO: Commander, U.S. Army Materiel Command  
ATTN: AMCLG-MT  
Commander, Naval Supply Systems Command  
ATTN: SUP 4112A  
Commander, Air Force Materiel Command  
ATTN: LGIM  
Commandant of the Marine Corps  
ATTN: LPS-1  
Commandant, U.S. Coast Guard  
ATTN: G-ELM-2  
Commander, Field Command, Defense Nuclear Agency  
ATTN: FCLM  
General Services Administration, Federal Supply Service  
ATTN: FCSI (CM4, Room 500)  
Director, Defense Logistics Agency  
ATTN: MMDOI  
National Security Agency  
ATTN: L111  
Federal Aviation Administration, Mike Monroney  
Aeronautical Center  
ATTN: AAC-481L

1. References:

a. DoD 4000.25-2-M, 1 May 1987, Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP), as amended.

b. DLSSD-BT letter, 31 August 1989, subject: Request for Implementation Date for Approved MILSTRAP Change 8, Revised Procedures for Physical Inventory Control (Previously staffed by PMCL 8).

c. DLSSD-B memorandum, 28 June 1990, subject: MILSTRAP Focal Point Committee Meeting, 14 June 1994.

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d. Joint DoD Joint Physical Inventory Working Group/MILSTRAP  
Focal Point Meeting, 21-25 June 1993.

e. OASD(P&L)L/SD memorandum, 17 November 1988, subject: Physical  
Inventory Control Policy.

f. DoDIG Audit Report No. 355-115, 16 August 1985, subject:  
Defense-Wide Audit of Physical Inventory Adjustments.

g. DoDIG Audit Report No. 85-114, 11 September 1985, subject:  
Inter-Service Location Audit Reconciliation Procedures.

h. OASD(P&L)L/SD memorandum, 22 October 1989, subject:  
Moratorium on Changes to the Defense Logistics Standard Systems  
(DLSS).

2. AMCL 8 was published as an approved change to MILSTRAP (reference  
1a) with an implementation date of 1 November 1994 as a result of  
staffing the reference 1b letter and agreements reached at the  
reference 1c meeting. Enclosure 1 (AMCL 8A) was agreed to at the  
reference 1d meeting and is published as an enhancement to AMCL 8  
with implementation dates to be determined by the Defense  
Distribution Systems Center and the Joint Logistics Systems Center.

3. Addressees are advised not to file this change in the DoD  
MILSTRAP manual. This enhanced AMCL is being provided as a planning  
document to assist in system program/design efforts for incorporation  
in the core migration systems (Distribution Standard System (DSS) and  
Materiel Management Standard System (MMSS)).

4. AMCLs containing the same cyclic implementation dates will be  
incorporated into an interim/formal MILSTRAP change immediately  
preceding the implementation date. Addressees are advised that  
specific paragraph/appendix numbering may be changed in the interim/  
formal change due to the long leadtime involved for implementation.

5. There are presently nine AMCLs scheduled for implementation  
during the following timeframes:

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<u>IMPLEMENTATION DATE</u>	<u>AMCL(S)</u>
1 November 1991	6
1 November 1993	27D, 3, 5, 7
1 November 1994	8, 9, 10
1 November 1995	11

6. The enhancements to AMCL 8 are designed to bring it in line with the changes that have occurred in the Department since the AMCL was approved and published in March 1991. Most significant were Defense Management Review Decision (DMRD) 902 (Depot Consolidation) and policy changes promulgated in DoD 4140.1-R (DoD Materiel Management Regulation). Based on DMRD 902 and the regulation, the changes support the core migration systems (DSS and MMSS) and the single shared asset balance concept (reference 1e applies). AMCL 8A continues to meet OSD commitment to resolve internal control and - accountability deficiencies for inventory control identified by the DoD IG in references 1f and 1g. Thus, this approved change satisfies the critical change requirements and is exempt from the moratorium established in reference 1h.

7. Addressees may direct questions/problems to Mr. F. St. Mark or Ms. M. J. Hefner, telephone (703) 274-4701 or DSN 284-4701, extensions 411 and 405 respectively. Others must contact their Service or Agency designated representatives.

1 Encl

*for James A. Johnson*  
HORACE E. PERDIEU  
Director, Defense Logistics  
Management Standards Office

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CC:

DASD (L) MRM

DASD (L) LSD

DC (MS/AP)

DC (IRMS)

DoD AIG (Auditing)

DoD AIG (Audit Followup)

GAO (Mr. Klotz)

WHS (CDD) (2 copies)

DAASO (DAAS-VL)

DMA (DMADDS/IM)

MRSA (AMXMMD-SM)

LMI

DIA (DS4C3)

MCLB Albany (802-M)

DoDDS (Logistics Division)

AMCSM-MSM (NIP Chair)

MM (IMMC Chair)

CAAI (DAAS Administrator)

- MMSLS

**APPROVED MILSTRAP CHANGE LETTER (AMCL) 8A  
REVISED PROCEDURES FOR PHYSICAL INVENTORY CONTROL**

1. References:

a. DoD 4000.25-2-M, 1 May 1987, Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP), as amended.

b. DoD 4100.39-M, 1 July 1988, Defense Integrated Data System Manual, DIDS Volume 10, latest revision.

c. DoD IG Audit Report No. 355-115, 16 August 1985, subject: Defense-Wide Audit of Physical Inventory Adjustments.

d. DoD IG Audit Report No. 85-114, 11 September 1985, subject: Inter-Service Location Audit Reconciliation Procedures.

e. Army Inventory Management: Inventory and Physical Security Problems Continue, October 1987 (GAO/NSIAD-88-11).

f. Inventory Management: Defense Logistics Agency Inventory Accuracy Problems, December 1987 (GAO/NSIAD-88-39).

g. Navy Inventory Management: Inventory Accuracy Problems, March 1988 (GAO/NSIAD-88-69).

h. Inventory Management: Air Force Inventory Accuracy Problems, May 1988 (GAO/NSIAD-88-133).

2. Concept/Rationale:

a. Concept: Revises DoD MILSTRAP (reference 1a) to:

(1) Require storage activities to maintain property accountability for all materiel stored regardless of ownership.

(2) Provide specific guidance for selecting and prioritizing items for physical inventory.

(3) Require an annual random statistical sample inventory for the Chief Financial Officer Act of 1990 and the Department's validation of supply record accuracy.

(4) Establish minimum requirements for items to be included in physical inventory selection and prioritization systems/models.

(5) Require reconciliation of manual records for classified items with corresponding locator/custodial/accountable records.

(6) Require daily end of the day processing for all items with activity affecting the record balance.

(7) Establish annual location reconciliation schedule for all items.

(8) Revise and expand the DoD Inventory Control Effectiveness (ICE) Report to include the end of the day process and inventory sampling (to be developed) for general supplies, and separate ammunition ICE Report into high risk and low risk items as defined in reference 1b.

(9) Eliminate the DI Code DKA Physical Inventory Count and its processing procedures.

(10) Require consideration of reference 1b, Table 61, to better define and prioritize items in the physical inventory selection and prioritization systems/models.

(11) Redefine and establish Type of Physical Inventory/Transaction History Codes to include inventory sampling, selection and prioritization system/model, and location survey and location reconciliation Type I and Type II errors.

(12) Require the storage activity to initiate DI Code D8A/D9A, Inventory Adjustment Increase/Decrease (Physical Inventory) transactions for reporting physical inventory results to the owner/manager.

(13) Require notification to affected owners when physical inventory is canceled.

(14) Require error cause correction and feedback.

(15) Establish requirement to retain source documents or facsimiles and registers, etc., for at least two years.

(16) Recognizes the requirement for single shared asset balances.

b. Rationale: The impact of the inventory accuracy problem, as documented in recent DoD Inspector General (IG) and General Accounting Office (GAO) audit reports (references 1c through 1h), is serious and covers a broad spectrum ranging from readiness to DoD budget credibility. Whenever materiel on an accountable record cannot be found, readiness is impacted. If the accountable record is overstated, nonexistent assets are applied to requirements. The opportunity for undetected theft is also increased when accountable records do not agree with materiel in storage. The attached procedures reflect the DoD IG and GAO recommendations and the changes that the DoD Joint Physical Inventory Working Group (JPIWG) agreed would streamline and simplify the physical inventory process to better employ physical inventory resources to maintain higher levels of inventory accuracy. The enhanced portion of the AMCL takes into consideration the changes that have occurred in the Department, specifically Defense Management Review Decision 902 (Depot Consolidation) and policy changes promulgated in DoD 4140.1-R (DoD Materiel Management Regulation).

### 3. Interface/Impact:

a. Interface: The Physical Inventory Control Program interfaces with MILSBILLS and involves the functional elements and supporting systems of financial, inventory management, procurement, quality control, and storage.

#### b. Impact:

(1) Requires modification of Service/Agency wholesale supply systems and procedures to implement revised inventory related processes, transaction codes, and reporting requirements.

(2) Impact will vary depending upon the extent to which current procedures contained in MILSTRAP have been implemented.

### 4. Advantages/Disadvantages:

#### a. Advantages:

(1) Fulfills DoD commitment to improve inventory accuracy.

(2) Concentrates inventory resources on the items and functions from which the most benefits will be derived.

(3) Enhances supply effectiveness by improving inventory accuracy.

(4) Improves location reconciliation function which will enhance inventory accuracy while conserving the expenditure of inventory resources.

(5) Improves standardization in inventory control program processing and reporting functions.

(6) Establishes end of the day processing procedures pending the technical capability to establish and maintain single shared asset balances.

(7) Recognizes that property accountability for materiel in storage resides at the distribution (depot) center.

b. Disadvantages: See impact paragraph.

6. Procedures. Revise MILSTRAP (reference 1a) as indicated in attachments 1 through 8. Changes from AMCL 8 are identified by **bold italics** and **bold, double underscored italics** to identify changes pending the establishment of shared asset balances.

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