To accomplish this task, the Secretary of Defense has assigned the responsibility for inventory management to his Assistant Secretary for Installations and Logistics. As a part of its implementation of the above policy, the Department of Defense has directed that all items held in stock be physically inventoried not less than once each year either by full count or by statistical sampling techniques; however, exceptions are permitted for slow-moving items and other items, provided that storage conditions and lack of movement ensure adequate physical protection and accuracy of records. Also, the Department of Defense has directed that inventory records and reports be reconciled promptly on the basis of physical inventories.

Within the Department of Defense the basic record of accountability which shows by item the receipt, issue, adjustment, disposal actions, balances on hand, and other supply management data is the stock record account. The Departments now generally maintain this record of their commodities on automatic data processing equipment. Effectiveness of overall supply management is contingent upon the accuracy of stock records and financial records. In an effort to attain this accuracy, periodic physical inventories are required to be performed and the stock record balances adjusted to the actual quantities on hand.

Each of the three military departments and the Defense Supply Agency have published policies and procedures which direct the frequency for, and the procedures to be followed in, taking scheduled physical inventories of depot stocks. These procedures generally require a complete count at least annually of those items which have a high-dollar value, either because of unit cost or because of a large quantity of annual issues, and of those items requiring special attention or which are classified or pilferable. For other items the Departments, in most cases, direct that the physical inventories be accomplished by means of statistically sampling lots comprised of similar items. The results of the physical inventories by statistical sampling must meet prescribed accuracy objectives or the items sampled are subjected to a complete physical count.

The procedures of the military departments provide for special physical inventories which are one-time, unscheduled physical counts of one or more line items (1) when the stock record shows a balance on hand but the warehouse indicates no stock physically available to fill a request for the material (hereinafter referred to as warehouse denial), (2) to correct a suspected discrepancy between the recorded stock record balance and the assets on hand, and (3) on request from the inventory manager or another appropriate official. Therefore, these inventories are recognized by all the supply components of the Department of Defense to be emergency measures which are not meant to substitute for the scheduled physical inventory program.

To provide assurance that actual physical locations of stock correctly identified in the appropriate records, the commands require either a complete or a statistical sample comparison of the recorded location of stock with the physical location or vice versa. They also prescribe that prompt reconcilliations of the stock records with the physical counts be accomplished and that necessary adjustments be made to the stock records. Likewise the commands provide for suitable research to be conducted in an effort to determine causes for differences revealed by physical inventories and to make necessary procedural changes to preclude the recurrence of the problems.

Each of the military departments has established separate organizations that are responsible for the logistical mission and supply system management within the department. The principal organizational elements that carry out the functions necessary to that accomplishment are the inventory control point (ICP), stock control activity, and storage activity.

An ICP is responsible for systemwide direction and control of a number of categories of similar commodities. This responsibility includes development of worldwide quantitative and monetary inventory data. The stock control activity is responsible for maintaining inventory data on the quantity, ownership, location, etc., to determine availability of material for issue and to facilitate distribution and management of material. The storage activity is resopnsible for physical handling of the material incident to receipt, storage, and issue. These elements may be combined for groups of items in one organization at one location or grouped geographically in various combinations.

Inventories in the Department of Defense are valued at about $37 billion, excluding aircraft, ships, and supplies and equipment in the hands of using units. Our report pertains to approximately $10.4 billion worth of these inventories,