
REPORT OF DISCREPANCY -- STANDARD FORM 364

By

LIEUTENANT COLONEL C. WAYNE GUEST, USA

Nearly every participant in the United States Foreign Military Sales (FMS) Program needs to be concerned with the problem of discrepancies. The U.S. supply system, which involves the world-wide distribution of materials, does not always achieve its objectives of providing FMS customers precisely what they order and having it reach them in good condition. When such a situation exists, it is called a discrepancy. A discrepancy could be defined as a variance from the expected. Reports of Discrepancy (RODs) are not unique to the Department of Defense. Supply problems (discrepancies) that exist in FMS, also exist in our everyday lives. The U.S. Government receives approximately 2000 RODs per month. Procedural guidance for the completion of Standard Form 364, Report of Discrepancy, related to FMS shipments, can be found in DoD 5105.38M, DLAR 4140.60, AR 12-12, AFR 67-7, NAVSUPINST 4920.9B, and NAVSUP Pub No. 526.

TYPES OF DISCREPANCIES

There are four basic types of discrepancies encountered during the course of an FMS transaction:

1. Shipment Discrepancies. These generally fall into two categories: carrier discrepancies and shipper discrepancies.

- Carrier discrepancies are those which occur in transit, such as damages to, or shortages in quantity of, packaged or loose freight. These will normally be reflected as a quantity or condition of material received, which is different from the quantity or condition of that material as it is described on the bill of lading or freight bill. Because ownership has passed from the USG to the FMS customer at the point of shipment (unless otherwise stated in the DD Form 1513), a ROD should not be submitted to the USG. A claim is initiated against the carrier/freight forwarder. When a carrier discrepancy occurs in a Commercial Bill of Lading (CBL), the FMS customer must resolve the discrepancy through direct contact with the commercial carrier involved.

When FMS material is shipped by the U.S. Defense Transportation System (DTS) and a discrepancy occurs, the USG will submit a claim against the DTS carrier on behalf of the FMS customer. Claims and/or tracing actions against the DTS are submitted on a Discrepancy in Shipment Report (DISREP), Standard Form 361. RODs are normally submitted by FMS customers. However, DISREPs are prepared and submitted by a Security Assistance Organization (SAO) official or other in-country USG representative. The FMS customer must insure that the SAO is aware of the DTS

discrepancy and submits a DISREP on behalf of the FMS customer. The International Logistics Control Offices (ILCO's) will advise the FMS customer that a DISREP was submitted and will notify him whether or not his account has been credited.

- Shipper discrepancies are those in which there is no apparent difference between the shipment (quantity and condition) and what is shown on the bill of lading or freight bill. Rather, there may be a shortage or excess quantity due to incorrect count, damage prior to shipment, or the customer may receive an incorrect or substitute item which is not interchangeable with the item ordered. Shipper discrepancies are normally the responsibility of the USC, and RODs are submitted for such discrepancies. Sometimes, discrepancies may be caused accidentally by FMS customers. If a specific item is required, MILSTRIP advice code 2B or 2J must be entered in card columns 65-66 of the FMS customer's requisition. This entry will limit the request to a specific item. Similarly, if a specific quantity is desired, MILSTRIP advice code 2D must be entered in card columns 65-66 of the FMS customer requisition. If this entry is not made, quantities will be automatically adjusted to the unit pack quantity where appropriate.

2. Packaging Discrepancies. These types of discrepancies may involve improper preservation, packing, marking, or unitization of material. These four terms are discussed for clarification:

- Preservation involves steps to prevent deterioration or decay of the material. These steps include proper cleaning and drying of materials and containers, and proper cushioning of materials within containers.

- Packing is the assembly of items into units then proper blocking, bracing, weatherproofing, and reinforcing of the unit, intermediate unit, or exterior pack.

- Marking includes application of the necessary numbers, letters, labels, tags, symbols, colors, etc., that are required for proper handling or identification during shipment and storage.

- Unitization is the assembly of packs of one or more line items of supply into a single shipment unit. For example: Consolidation of several different line items in a single container, or arrangement of several different line items on a pallet.

3. Billing Discrepancies. Billing discrepancies occur when material is received as ordered along with proper accompanying documentation, but is incorrectly reflected, duplicated, or omitted in either the FMS Delivery Listing or Statement of FMS Transactions. Examples of billing discrepancies are: an FMS customer being charged twice for the same item or documentation containing an incorrect value of adjustment related to a completed ROD.

4. Financial Discrepancies. These discrepancies relate to the administrative charge annotated in Block 23 of the Letter of Offer and Acceptance (DD Form 1513) or accessorial surcharges applied to FMS transactions. Examples of accessorial surcharges are Packing, Crating, and Handling (PCH) charges (Block 22, DD Form 1513), inland, ocean or air transportation charges, and port loading or unloading charges (Block 25, DD Form 1513).

CAUSES OF DISCREPANCIES

In most cases the reason for a discrepancy can be classified under one of three major categories: misinterpretation, mishandling, or mistakes.

- Misinterpretation can cause a discrepancy problem in two ways. The first occurs when the FMS customer's requisition or delivery instructions are not clear and are misunderstood by the U.S. logistics system. The result is that the FMS customer does not get the material he thought he had ordered, or he receives it in a different manner or place, or at a different time than he expected. The second way in which misinterpretation could cause a discrepancy problem is when preliminary examination of the facts make it appear that a discrepancy exists when there is really no discrepancy at all. Examples: the FMS Delivery Listing from Security Assistance Accounting Center (SAAC) that is provided to the FMS Customer may show the material was shipped. The materials have not been received; therefore, the delivery list does not match actual delivery. The problem may lie with the FMS customer's freight forwarder. Shipment could be a partial, with remainder to follow later or lost documentation may be in a second package which had become separated from first package during freight forwarder processing.

- Mishandling discrepancies relates to material which is received in damaged condition due to improper handling during loading, unloading, or in transit.

- Mistake, or human error, at some point in the logistics process is by far the most prevalent cause of discrepancies. Human error can cause almost any kind of discrepancy, ranging across the entire spectrum from shortage or damage to material, misdirected shipments, discrepancies in documentation, and many others.

PROCESSING POTENTIAL DISCREPANCIES

When discrepancies are determined to be the responsibility of the USG, corrective action is taken or reimbursement provided to the accounts of FMS customers. A discrepancy that occurs after title transfer is not a discrepancy for which the USG is responsible. The exception to this rule is a discrepancy in billing, which normally will happen after title has been passed to the FMS customer and is the responsibility of the USG. There are three very important steps the FMS customer should take in processing potential discrepancies.

1. Investigate thoroughly to ensure that a discrepancy does exist. This investigation will involve careful checking with the freight forwarder as well as various receiving destinations within the FMS customer country, and careful review of shipping status information and applicable shipping documentation.

2. Once it has been established that a valid discrepancy does exist, the second step is to investigate to determine if the discrepancy is in fact the responsibility of the USG. Often, the investigation will determine not only if the suspected discrepancy is a valid one, but also whether or not the USG is responsible.

3. If the customer concludes that the USG is responsible for the discrepancy, the final step is to prepare a ROD, Standard Form 364, and forward the ROD to the appropriate ILCO, unless it is a financial ROD. Financial RODs should be forwarded to SAAC. (The Standard Form 364 is not the proper instrument for financial RODs which go to SAAC. A letter or message explaining the suspected discrepancy is suitable.)

The importance of careful investigation prior to submitting a ROD cannot be overemphasized. The investigation ensures that responsibility for the discrepancy can be properly assigned to either the FMS customer, the freight forwarder, the carrier, or the USG. It also provides the data that must be included when a ROD is submitted, so the U.S. logistics system can process the ROD and apply any credit that is required.

LIMITATIONS

The ROD document, Standard Form 364, should be used to report most types of discrepancies, whether material discrepancies (such as overages, shortages, damage, nonreceipt, wrong material), or documentation discrepancies. However, RODs may NOT be submitted to the ILCOs for discrepancies when: the value of the discrepancy is less than the amount specified in the General Condition listed in Annex A (paragraph B-6) of the applicable Letter of Offer and Acceptance, DD Form 1513 (\$100.00 for DD 1513 signed after August 1977 and \$25 for DD 1513 signed before August 1977); identification of discrepancy occurs beyond the time limitation (one year from date of shipment or billing, whichever is later); there is a carrier discrepancy; or the discrepancy is financial. Again, financial RODs should be submitted to SAAC by either message or letter.

REPORTING OF DISCREPANCIES

RODs will be forwarded by the FMS customer to service-designated activities for processing. RODs for shipping, packing, and billing discrepancies should be submitted to:

Army -	Commander U.S. Army Security Assistance Center ATTN: DRSAC-OP/PI New Cumberland Army Depot New Cumberland PA 17070
Navy-	Commanding Officer Naval International Logistics Control Office ATTN: Code 261 Philadelphia PA 19111
Air Force -	Commander Air Force Logistics Command ATTN: ILC/XRPR, Bldg. 210 Wright-Patterson AFB OH 45433

RODs for financial discrepancies should be submitted to:

Security Assistance Accounting Center
ATTN: FSSC
Lowry AFB CO 80279

Here is a list of Points of Contact for Reports of Discrepancy:

<u>Agency/ Activity</u>	<u>Contact</u>	<u>Telephone</u>
DoD	Jim Lewis	AUTOVON: 284-7932
DLA	Edith Bertini	AUTOVON: 284-6191
AFLC-ILC	Bill Banks	AUTOVON: 787-8107
NAVILCO	Lt David Porter	AUTOVON: 442-4491
SAAC	Chuck Cline	AUTOVON: 926-7260
USASAC	Betty Ingram	AUTOVON: 977-6944
GSA	Bermella Belton	Commercial: (202) 557-1583
USMC	Don Danner	AUTOVON: 224-1600

ROD DOCUMENTATION

In order to facilitate the processing of RODs submitted by FMS customers and permit their rapid and definitive resolution, it is important that copies of pertinent documents be forwarded to ILCOs with the SF 364. Examples of "pertinent documents" and "other supporting evidence" for various types of RODs are provided below.

- Shipping documents for RODs involving shortage or excess shipment, receipt of material in damaged condition, or receipt of wrong material.
- FMS Delivery Listings reflecting erroneous billing for RODs involving duplicate billings.
- Photographs of material as it appeared at the time of receipt should be attached to RODs involving damaged or mislabeled material.
- Requisitions for discrepancies involving receipt of the wrong material should accompany RODs as applicable.

The importance of careful preparation and providing complete documentation to enable processing of the RODs by ILCOs cannot be overemphasized. It is important that discrepancy reports submitted by FMS customers use SF 364. Each block of the form is numbered and titled. The FMS customer should fill out blocks 1 through 12 and 14. In block 14b, signature must be legible on all copies of the SF 364. Signature is mandatory. Each ROD is applicable to only one discrepant transaction. Assure the report number, block 2, is complete and accurate. "REPORT NUMBER" should show a ten-digit number composed of a unique five-digit ROD number, a two-character (alpha) country code, and a three-character (alpha) FMS case identifier. The five-digit ROD number (in a series from A0001 to Z9999) is used to identify the FMS customer individual ROD submission. Avoid use of letter "R" in the first position of the ROD number, as it has been reserved for use by the U.S. Air Force ILCO. Provide a copy of original documentation received and/or complete blocks 5a, 5b and 6 of SF 364. Block 6 is

mandatory. Nonreceipt of material must be substantiated in block 12 (Remarks) or in a separate statement that the FMS customer has queried the freight forwarder prior to submittal of SF 364.

There are ten basic categories of discrepancies which appear on the front of the ROD, SF 364. These categories are listed in the block titled "Discrepancy Codes". Although it is a rare occurrence, it is possible that more than one discrepancy code may be applicable to an item or group of items. Should this phenomenon occur, both codes should be entered. If the discrepancy is not properly described by any of the codes shown, enter "Z1" in block 10(d) and describe the discrepancy in the "Remarks" section, block 12.

Block 11, "Action Code", requires an entry selected from the action codes listed in the lower portion of the front of SF 364. Do not use Action Code 1D, 1E, 1F, 1G, or 1H for FMS shipments. If the action required is not among those listed in the table, enter "1Z" in block 11 and explain the action requested in the "Remarks" section, block 12.

When disposition instructions are requested for return of material, provide the necessary location and transportation information. Include the physical location of the material, nearest DoD activity, mode of transportation to be used to transport material to the U.S. turn-in location, estimated cost of transportation, and method of payment for those transportation costs. Remember the ROD must have an original and six copies.

TIMING OF ROD SUBMISSION

The timing of ROD preparation and submission is important because RODs received at ILCOs more than one year after the shipment or SAAC billing date (whichever is later) will be rejected. The FMS customer validates discrepancies with appropriate documents and prepares the ROD, then submits the ROD to the ILCO. When a ROD is received by the ILCO/SAAC from the FMS customer, one copy of the ROD is annotated and returned to the FMS customer, along with the monthly ROD Status Report, to notify the customer that the ROD has been received. The ILCO has 15 calendar days to acknowledge receipt of the ROD, perform an initial edit against the FMS case, and reject the ROD or forward the ROD to the Inventory Control Point (ICP). The ICP has 75 calendar days to: research the ROD; obtain and verify shipping documentation; provide disposition instructions for overage, misdirection, damage, expired shelf life, quality deficient, or incorrect item material; authorize or deny a credit; and return the completed ROD to the ILCO. Within 15 calendar days from date of receipt of a ROD from the ICP, the ILCO must advise the FMS customer of actions to be taken. The status of the ROD, until it is completed, is provided to the FMS customer through a Monthly ROD Status Report. Once action regarding a specific ROD has been completed, that action will be reported to the FMS customer as part of the Reply Listing to Customer Requests for Adjustment. This listing is forwarded by SAAC to the FMS customer as an attachment to the quarterly FMS Billing Statement (DD Form 645).

SUMMARY

More than 25,000 Reports of Discrepancies were submitted to the ILCOs during FY83 with a dollar value in the millions. The FMS customer is familiar with the existing RODs situation. RODs are important to the customer not only because a discrepancy exists; but also, until a discrepancy is resolved, the customer's FMS funds are unavailable for use. All of us in the FMS community must take an aggressive interest in discrepancies because of the service we provide to FMS customers; but equally important, Reports of Discrepancies, Standard Form 364, can identify problems within the US logistics system. We must be intimately familiar with the four basic types of discrepancies, categories, and causes of discrepancies. We should know the ROD process, time and dollar limitations steps to determine whether or not a ROD is needed, and how to prepare the SF 364.

Lieutenant Colonel C. Wayne Guest, USA, has been a member of the DISAM faculty since January 1982, and specializes in the area studies for the Middle East, foreign military sales, and training. A graduate of the University of Tampa, LTC Guest also holds a Master of Arts degree in Human Resource Management from Pepperdine University in Malibu, California.