

MILSTRAP AMCL 8
REVISED PROCEDURES FOR PHYSICAL INVENTORY CONTROL

Make the following changes to DoD MILSTRAP; changes are identified by bold italics:

1. TABLE OF CONTENTS: Replace the chapter 7 entries with the following:

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CHAPTER 7 - PHYSICAL INVENTORY CONTROL	7-1
A. General	7-1
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D. Research of Potential or Actual Physical Inventory Adjustments	7-12
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2. ACRONYMS and ABBREVIATIONS: Revise as follows:

- a. Change the definition of "APO" to read: "Deleted. See AO."
- b. Add "AO" as "Accountable Office."
- c. Add "ROD" as "Report of Discrepancy."
- d. Add "SDAF" as "Special Defense Acquisition Fund."
- e. Add "UMMIPS" as "Uniform Materiel Movement and Issue Priority System."

3. REFERENCES. Delete DoD Directive 4155.1 as reference (x) and substitute the following:

- (x) DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987.

4. DEFINITIONS. Make the following revisions:

b. Change the following definitions as indicated:

"CUSTODIAL RECORD. [Deleted]"

"RESEARCH, PHYSICAL INVENTORY. An investigation of potential or actual discrepancies between physical count and recorded balances. The purpose of research is to determine the correct balance and determine the cause of discrepancies. There are three types of research:

a. Postcount Validation. A comparison of physical count with potential recorded balances or another count, with consideration of transactions that have occurred recently. The purpose of postcount validation is to determine the validity of the count. Postcount validation research ends when the accuracy of the count has been verified or when any necessary recounts have been taken (see Figure 7-1).

b. Preadjustment Research. A review of potential discrepancies, which involves consideration of recent transactions and verification of catalog data. The purpose of preadjustment research is to determine the correct balance. Preadjustment research ends when the balance has been verified or the adjustment quantity determined.

c. Causative Research. An investigation of discrepancies (i.e., gains and losses) consisting of (as a minimum) a complete review of all transactions to include supporting documentation, catalog change actions, shipment discrepancies, and unposted or rejected documentation occurring since the last completed inventory, the last location reconciliation which included quantity, or back one year, whichever is sooner. The purpose of causative research is to identify, analyze, and evaluate the cause of inventory discrepancies with the aim of eliminating repetitive errors. Causative research ends when the cause of the discrepancy has been discovered or when, after review of the transactions, no conclusive findings are possible."

c. Add the following new definitions:

"MATERIEL. All items (including ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment, but excluding real property, installations, and utilities) necessary to equip, operate, maintain, and support military activities without distinction as to its application for administrative or combat

purposes. (See also equipment; personal property.) (Publication 1 (reference (b)).)"

MAJOR INVENTORY VARIANCE. Total dollar value of the item overage or shortage for the stock number exceeds \$5000 or a variance of any value for controlled items.

"MATERIEL ACCOUNTABILITY. The act of safeguarding, answering for, and exercising proper quantitative and physical controls over DoD material, supplies, and equipment in the care and custody of DoD activities."

"PROPERTY ACCOUNTABILITY RECORD. The official record for tangible personal property, including inventory, owned by the Department of Defense which is maintained to identify the quantity of an item on hand, unit price, location, physical condition, receipt, issue, authorized stock number, item description, etc.

5. Chapter 7. Revise chapter 7 as indicated in attachment 2.

6. Chapter 4. Revise chapter 4, paragraph F.1.b., to read:

"b. Date materiel is turned over by the carrier to the designated receiving activity to date of posting to the property accountability record."

7. APPENDIX A INDEX: Delete the entry for appendix A5 and add the following:

	PAGE
APPENDIX A5 Inventory Control Effectiveness Report, (General Report)	A5-1
APPENDIX A6 Inventory Control Effectiveness Report (Ammunition)	A6-1

8. Appendix A. Delete the current appendix A5 and add new appendixes A5 and A6 as indicated in attachments 3 and 4.

9. Appendix B1. Delete the entries for DI Code DJB and DI Code DKA and revise the DI Code DJA entry to read as follows:

CODE	DOCUMENT TITLE	EXPLANATION
<u>DJA</u>	<u>Physical Inventory Request</u>	<u>From owner/manager to initiate, followup on, or cancel a physical inventory. From storage activity to cancel a physical inventory, advise of no record (stock or part number) and to respond to a followup.</u>

10. Appendix B3. Revise as indicated in attachment 5.

11. Appendix B7, paragraph c. Revise and add new entries as indicated below:

CODE	APPLICABLE DI CODES	DEFINITION
P	D8B, D9B	Gain/Loss resulting from location reconciliation.
Q	D9_	Loss resulting from a materiel release denial on another owners/managers materiel.
0	All DI codes	Reserved for future DoD assignment.
1	D9A	Adjustment based on materiel denial. Stock exhausted; unsuccessful storage activity search has been made.

DE	CO-	APPLICABLE DI CODES	DEFINITION
<u>2</u>		<u>D9A</u>	Adjustment based on materiel denial. Materiel not available in condition requested. <u>Unsuccessful storage activity search has been made.</u>
<u>4</u>		<u>D9A</u>	Adjustment based on materiel denial. Materiel not available in type pack (overseas or domestic) requested (subsistence only) or specified lot number cannot be released (ammunition only). <u>Unsuccessful storage activity search has been made.</u>

12. Appendix B7, paragraph d. Delete the assignments for DI Codes DJB and DJK and revise the paragraph to read as follows:

"d. PHYSICAL INVENTORY RELATED TRANSACTIONS. Management codes are assigned for use in record position 72 of DI Code DJA Physical Inventory Requests as indicated below:

DE	CO-	APPLICABLE DI CODES	DEFINITION
A thru L		Appropriate DI codes	Reserved for assignment by Service/Agency managing the item; not assigned by DoD.
M		DJA	Recount requested.
N		DJA	Inventory canceled.
O thru Q		DJA	Reserved for future DoD assignment.
R		DJA	Rejected. No record of stock number.
S thru W		DJA	Reserved for future DoD assignment.
X		DJA	Followup on unscheduled inventory request when no adjustment or completion transaction received within 20 days.

Y	DJA	Response to followup when inventory already complete.
Z	DJA	Exception data entered in remarks or followed by separate correspondence.
0 thru 9	DJA	Reserved for future DoD assignment.

13. Appendix B18. Delete the operation codes matrix and revise the code definitions as indicated in attachment 6.

14. Appendix C Index. Revise the entries for appendixes C17 and C19 and add new entries for appendixes C62 through C65 as follows:

PAGE

Appendix C17 Reserved

Appendix C19 Reserved

Appendix C60 Transaction History Request C60-1

15. Appendix C4. Revise the following entries as indicated:

FIELD LEGEND	RECORD -POSITIONS	ENTRY AND INSTRUCTIONS
Routing Identifier	4-6	Enter RI Code of activity to which this transaction is being forwarded.
Type of Physical Inventory/ Transaction History	7	Enter appropriate type of physical inventory/transaction history code.

FIELD LEGEND	RECORD POSITIONS	ENTRY AND INSTRUCTIONS
Supply Condition	71	Enter supply condition code of inventory balance being affected. Leave blank for DI Code D8A when no adjustment is required.

16. Appendix C16. Revise the following entries:

FIELD LEGEND	RECORD POSITIONS	ENTRY AND INSTRUCTIONS
Routing Identifier (TO)	4-6	Enter RI Code of the activity to which the transaction is being forwarded.
Blank	35-38	Leave blank.
Blank	61-64	Leave blank.
Routing Identifier (From)	67-69	Enter RI Code of the activity from which the transaction is being forwarded.
Supply Condition	71	Enter the applicable supply condition code of the item to be counted when Type of Physical Inventory/Transaction History Code L is entered in record position 7; otherwise, leave blank.

17. Appendix C17, Physical Inventory Notification. Delete.

18. Appendix C19, Physical Inventory Count. Delete.

19. Appendix C59, Location Reconciliation Request. Delete note 1 and revise the record positions 25-34 entry as follows:

FIELD LEGEND	RECORD POSITION(S)	EXPLANATION AND INSTRUCTIONS
Quantity	25-34	Enter quantity, preceding significant digits with zeros.

20. Appendix C60. Change the title to Transaction History Request and revise the following entries as indicated:

FIELD LEGEND	RECORD POSITIONS	ENTRY AND INSTRUCTIONS
Transaction History Timeframe	25-31	Enter data specifying the period for which transaction history is being requested.
Blank	61-64	Leave blank.

CHAPTER 7

PHYSICAL INVENTORY CONTROL

A. GENERAL

This chapter provides procedures, performance objectives, and reporting requirements for maintaining accurate records of the physical inventory, conducting physical inventory counts, and reconciling record variance for materiel within the supply system of the Department of Defense.

1. Applicability. Basic elements of the physical inventory control program prescribed by this chapter apply to the Military Departments and the Defense Agencies, hereafter referred to as DoD Components, and establish:

a. Uniform procedures, based on existing DoD policy, for maintaining accurate records, conducting physical inventories and location surveys/reconciliations, researching inventory discrepancies and causes for adjustments, performance reporting, and for quality control of work processes prescribed by the DoD Physical Inventory Control Program.

b. Management control of all DoD wholesale supply system materiel to include:

- (1) principal items,
- (2) packaged petroleum, oil, and lubricants,
- (3) secondary items regardless of whether assets are purchased with stock fund or procurement appropriations,
- (4) ammunition,
- (5) forms and publications, and
- (6) subsistence.

c. Reporting procedures necessary to measure the effectiveness of physical inventory control in the DoD supply system.

2. Exclusions

a. These procedures are not applicable to bulk petroleum; complete ships, aircraft, ballistic missiles, nuclear weapons, space vehicles; assets located at contractor-owned and/or contractor-operated facilities which are not maintained on the DoD wholesale property accountability records; Industrial Plant Equipment reportable to the Defense Industrial Plant Equipment Center; National Security Agency/Central Security Service assets; and National Defense Stock Pile assets. Loaned materiel and materiel in transit will be accounted for in accordance with chapter 4 of this manual and Service/Agency procedures.

b. Physical inventory control procedures for bulk petroleum are contained in DoD 4140.25-M (reference (r)).

c. Nuclear weapons for which DoD has custodial responsibility. Inventories are in accordance with JCS Pub 6 (reference (s)), Volume II, Joint Reports; Part 4, Nuclear Weapons Reports; Section 5, Stockpile Inventories and Inventory Reports.

B. POLICY

DoD policy is contained in DoD Instruction 4140.35 (reference (t)).

1. Purpose. The purpose of the DoD physical inventory control process is to:

a. Ensure materiel accountability is properly executed within the DoD;

b. Ensure accurate property accountability records for the physical inventory are maintained in support of customer requirements and readiness by performing physical inventories and location surveys/reconciliations;

c. Identify and help resolve problems in supply system work processes affecting property accountability records by performing quality control of the work processes; and

d. Identify repetitive processing errors and maintain accurate records for supply system transactions generated within the wholesale

supply system by researching and reconciling property accountability record imbalances and potential discrepancies.

2. Philosophy. The dynamic nature of the physical inventory control function and the cost of counting and reconciling records requires that the approach be more selective than the "100 percent wall-to-wall total item count" concept. Available inventory resources must be directed toward those potential and actual discrepancies, controlled inventory items, and weapon system critical items for which the maximum returns will be derived from the resources which are applied.

3. Maintaining Property Accountability

a. The owning Service or Agency shall assign the responsibility for property accountability for all of their inventory (for example, inventory on hand--including inventory inducted for organic repair, test, assembly/disassembly, conversion, modification, or reclamation; inventory in a contractor's hands; inventory in-transit; and inventory on loan). Responsibility for property accountability for given segments of the inventory may be designated to, but not shared by, one or more organizational entities.

b. The owning Service or Agency shall ensure that records and transactions affecting inventory balances are available to organizational entities responsible for property accountability and are posted to the property accountability records.

c. Storage activities are responsible for ensuring that the property accountability record onhand quantity is in agreement with the physical onhand quantity.

4. End of the Day Processing

a. End of the day processing shall be accomplished as follows:

(1) Owners/managers and storage activities shall match all active record (i.e., stock numbers which had any transactions affecting record balances) onhand balances daily. The storage activity shall submit the daily closing onhand balance to each affected owner/manager using DI Code DZA, Asset Status, prepared in the appendix C52 format.

(2) Storage activities shall prepare asset status transactions by supply condition code, type of pack and date

packed/expiration date for subsistence, for each record experiencing transactions affecting the balance (including zero balance) and for no physical inventory adjustment required (DI Code D8A with zero quantity) transactions.

(3) Owners shall match the storage activity asset status to the affected records. Imbalances will be programmatically researched to assure consideration of infloat documents, delayed transactions, and duplicate transactions. For unresolved mismatched quantities, the owner/manager will update the affected record onhand balance with the storage activity's closing onhand balance and will process the mismatched quantity (gains and losses) to the asset status imbalance (ASI) suspense file. All unresolved ASI quantities shall be adjusted within a period of 30 days with DI Code D8B/D9B, Inventory Adjustment Increase/decrease (Accounting Error) transaction.

(4) When ASI suspense file quantity mismatches exceed the owners/managers capability to complete research, owners/managers may establish criteria to prioritize the workload so that research of the most significant mismatches (e.g., controlled inventory items, essentiality coded items, etc.) is accomplished within 30 days.

(5) Owners/managers may initiate special inventory request as a result of ASI suspense file imbalances (DI Code DJA, Type of Physical Inventory/Transaction History Code D).

5. Reconciling Property accountability Records with Financial Records. Owing Services/Agencies shall reconcile property accountability records and financial records as prescribed by DoD 7220.9-M (reference (z)), chapter 34, to ensure compatibility of the total inventory value reflected by these records and associated reports.

6. Item Management/Control. DoD materiel is managed and controlled by stock number and supply condition code and by type of pack ~~and date packed/expiration date~~ for subsistence; therefore, physical inventories shall be conducted and the results reported to owners/managers by stock number and supply condition code and by type of pack ~~and date packed/expiration date~~ for subsistence.

7. Storage Activity Record Keeping. Storage activities shall maintain quantitative balance records for all materiel on hand regardless of ownership. Storage activities shall maintain transaction histories to support the balance records. Maintenance of these records shall provide

the capability to detect theft or diversion of materiel and improve the ability to determine the cause of inventory variances for corrective action.

8. Inventory Prioritization. DoD Components shall select and prioritize items for inventory for which they are accountable as follows:

a. A scheduled random statistical sample inventory of the total population of line items in storage, i.e., all items with a quantity greater than zero or with a zero balance but having a locator record (excludes conventional ammunition ~~and subsistence~~), shall be conducted annually. The random statistical sample inventory will be conducted to determine the overall accuracy of the property accountability record onhand quantity.

(1) The overall sample size shall be determined by the overall population size, confidence level of 95 percent, maximum error tolerated in the estimate of four percent, and estimated accuracy to be ~~determined and~~ published by DoD on 1 July each year. The overall population for the sample will be comprised of all line items (stock number + supply condition code = line item) at each storage activity. The equation for determining the overall sample size is:

$$n = \frac{N p (1 - p)}{(N - 1) \left(\frac{B}{Z}\right)^2 + p (1-p)}$$

Where:

n = Overall Sample Size
N = Overall Population Size
p = Estimated Accuracy
B = Bound on the Error
Z = Standard Normal Variable (Confidence Limit)

The standard normal value (Z) for the two-sided confidence limit is:

Confidence Limit	Z
95%	1.96

(2) Balance inaccuracies to be used as the basis for measuring performance will be all variances after due consideration of

infloat documentation. To ensure that physical count errors are not introduced in the process, line items selected for the sample shall be counted until two counts agree. Causative research shall be conducted on all controlled inventory items and each variance in the sample which exceeds \$100. The accomplishment of the random statistical sample inventory shall be given priority by both owner/manager and storage activities so that it is completed in the first quarter of each fiscal year in time to be reported in the first quarter of each fiscal year ICE Report. Results of the random statistical sample inventory and a narrative analysis of causative research results will be reported in Part III of the first quarter ICE Report, following the section I, paragraph 2.d. procedures.

(3) The results of the individual random statistical sample inventories of the individual Service/Agency reporting activities must be combined to reflect the overall Service/Agency data and performance statistics. The Projected Record Accuracy Rate, Projected Dollar Value Accuracy Rate, and Projected Unit Accuracy Rate will be computed based on the methodology described in paragraphs I.2.d(2)(c), I.2.d(2)(d)[1][1], and I.2.d(2)(d)[2][g] respectively. All other data line/column entries on the Service/Agency combined report will be summations of the individual reporting activity reports.

b. Complete inventories shall be accomplished as follows:

(1) Controlled Inventory Items. The following controlled inventory items (identified in DoD 4100.39-M (reference (nn)) require complete physical inventory and do not qualify for use of a random statistical sampling approach:

- (a) Top secret.
- (b) Narcotics, drug abuse items, and alcohol.
- (c) Category I nonnuclear missiles and rockets (semiannually in accordance with DoD 5100.76-M (reference (dd))).
- (d) Precious metals.
- (e) Small arms.
- (f) Radioactive items.

(g) Inert nuclear ordnance materiel.

(h) Other items that may be designated by OSD or the DoD Component.

(2) If ammunition or subsistence is subjected to complete inventory, physical inventory and location survey may be conducted concurrently.

(3) Controlled inventory items not subject to annual complete physical inventory must be subjected to annual random statistical sampling. Acceptable statistical sampling techniques are widely prescribed and may be used so long as every item included in the population has an equal probability of being selected in the sample. The statistical sampling technique must provide reasonable assurance (as a minimum) that the property accountability records are 85 percent accurate (95 percent for ammunition) with a 95 percent level of confidence, and a maximum margin of error of 2 percent. Sample inventories which do not satisfy the above criteria will be subjected to complete physical inventory of the population from which the sample was selected.

c. Inventories for items not designated for complete inventory under subparagraph B.8.b. shall be accomplished as a result of:

(1) Total or partial materiel release denials (spot inventory--see sub paragraph C.5.b. and appendix B, Type of Physical Inventory/Transaction History Code E [text deleted]);

(2) Location reconciliation variances. On an annual basis, each Component will ensure that 90 percent of the dollar value of location reconciliation variances are subject to physical inventory.

(3) Owner/manager or AO request (special inventory); or

(4) Selection based on a physical inventory prioritization system that considers characteristics such as weapon system significance; recorded inventory quantity and dollar value; demand quantity, value, and frequency; proximity of anticipated replenishment action; forecasted replenishment quantity and value; and period of time since last inventory. The prioritization system shall be run (as a minimum) quarterly and the results shall be used for scheduling items for physical inventory. Owners/managers shall provide quarterly updates to the variables on the second Thursday of the second month of each quarter.

Updated variables will be provided in DI Code DZP, Inventory Prioritization Information, prepared in appendix C65 format. If no updates are received from the owners/managers, the storage activity will use the prior quarter's values. Items selected for inventory through the use of selection systems/models shall not be given priority over items in subparagraphs B.8.a., B.8.b., B.8.c(1), B.8.c(2), and B.8.c(3).

9. Potential Discrepancies. Potential discrepancies between the actual physical count of materiel and the property accountability record onhand balance shall be researched and resolved in accordance with figure 7-1 either by:

a. Correctly posting supply transactions (e.g., receipts, issues, adjustments, etc.) discovered during the research process that were previously incorrect or unposted resulting in the record imbalance; and/or

b. Posting an inventory adjustment to correct the record imbalance.

10. Accuracy and Performance Goals. The acceptable DoD accuracy and performance goals are as follows:

a. Materiel Denial Goal: Not greater than 1 percent.

b. Receipt Processing Performance Goal: 90 percent stored and posted within MILSTRAP, chapter 4, time standards.

c. Location Audit Program Goal:

(1) Location Survey Accuracy:

(a) 97 percent - General Supplies.

(b) 98 percent - Ammunition.

(2) Location Reconciliation Accuracy:

(a) 97 percent - General Supplies.

(b) 98 percent - Ammunition.

d. Property Accountability Record Accuracy Goal: 95 percent - Ammunition.

C. PHYSICAL INVENTORY PROCEDURES

1. Inventory Program Schedules

a. To meet the requirements of paragraph B.8., each storage activity will prepare an annual inventory program schedule. This will be accomplished during the fourth quarter of each fiscal year for the following fiscal year. In creating the schedule, storage activities will accommodate the requirements of the owners/managers to the maximum extent within available resources. The schedule will include all scheduled inventories required to comply with paragraph B.8. including the estimated number of unscheduled (spot and special) inventories to be accomplished in the fiscal year.

b. DoD Components will monitor the program accomplishment throughout the fiscal year to ensure that all mandatory requirements are met. In meeting the annual program, any unscheduled inventory conducted prior to a scheduled inventory during the same fiscal year will be considered to have completed the scheduled inventory requirement for that item.

2. Preinventory Planning. The potential for count inaccuracies will be reduced by conducting preinventory planning to include:

a. Actions to ensure location integrity by correcting such situations as unbinned/loose materiel; questionable identity of materiel in location; and single locations containing multiple supply condition codes or stock numbers, inadequately labeled shelf-life items (date of manufacture/assembly/pack or date of expiration/inspection/test, as appropriate); and/or materiel lots stored in a single location.

b. Document cleanup to ensure to the extent possible that receipts, adjustments, transaction reversals, and other transactions are posted to the property accountability record and that in-process receipts are stored in location prior to the established physical inventory cutoff date.

3. Scheduled Inventories

a. **Storage activities** will initiate all scheduled inventories based on item characteristics, specifically the controlled inventory item code and any other category codes designated by DoD Components that require physical inventory not less than once each fiscal year, with DI Code DJA, Physical Inventory Requests, prepared in the appendix C16 format, using Type of Physical Inventory/Transaction History Code G.

b. **Storage activities** will initiate all scheduled inventories based on selection and prioritization model criteria with DI Code DJA requests, using Type of Physical Inventory/ Transaction History Code I.

c. **Storage activities** will initiate the scheduled random annual statistical sample inventory in the fiscal year first quarter to determine the overall accuracy of the property accountability record onhand quantity with DI Code DJA requests using **Type of Physical Inventory/Transaction History Code M.**

d. Owners may initiate a scheduled random statistical sample inventory of line items owned to determine the overall accuracy of their records with DI Code DJA, using Type of Physical Inventory/Transaction History Code L. Storage activities may also initiate a scheduled random staistical sample inventory of line items in storage to determine the overall accuracy of their records with DI Code DJA, using Type of Physical Inventory/Transaction History Code P.

e. Storage activities may initiate scheduled inventories as a result of onhand balance mismatches between the locator and property accountability records with DI Code DJA, using Type of Physical Inventory/Transaction History Code N.

4. **Unscheduled Inventories**

a. **Owners, AOs, and storage activities** will initiate special inventories using DI Code DJA transactions, prepared in the appendix C16 format. If an inventory has not been taken within the past 90 calendar days, cite Type of Physical Inventory/Transaction History Code C, J, or K in the transaction. If an inventory has been taken within the past 90 calendar days, an effort will be made to construct a transaction history and from it determine what the item balance should be or what discrepancy may have caused an imbalance. Only when these efforts fail to produce satisfactory results will special inventories be generated. In this case, cite Type of Physical Inventory/Transaction History Code H in the DI Code DJA transaction. The procedure for restricting special

inventories may be waived when the inventory manager has recorded backorders for the item involved.

b. **Storage activities** will initiate DI Code DJA requests for spot inventories as a result of a total or partial materiel denial on classified and sensitive items regardless of value, pilferable items when the value of the variance is greater than \$100, and variances greater than \$5000 or greater than 10 percent of the beginning value of the record onhand quantity for noncontrolled items. These requests will cite Type of Physical Inventory/Transaction History Code E.

c. Storage activities shall accomplish all requests for spot inventories.

5. Canceling Inventories

a. When conditions exist which preclude accurate completion of an inventory which has been established, the inventory may be canceled by the storage activity or the owner/manager. Conditions which may require cancellation include, but are not limited to, catalog changes, rewarehousing of materiel under inventory, insufficient resources, insufficient time to meet established inventory timeframes to notify other affected owners/managers, and acts of God.

b. When an owner/manager cancels an inventory, the owner/manager will notify all affected storage activities using a DI Code DJA Physical Inventory Request citing Management Code N.

c. When a storage activity cancels an inventory, or when an owner/manager requests cancellation of an inventory, the storage activity will notify **the requesting** owners using the DI Code DJA Physical Inventory Request citing Management Code N. When a canceled inventory is required to meet annual inventory schedule requirements, it must be rescheduled by the storage activity within the current fiscal year. When a spot inventory (Type of Physical Inventory/Transaction History Code E) is canceled, it must be rescheduled within 15 calendar days.

6. Conducting, Recording, and Reporting the Inventory

a. Physical inventory procedures at storage activities will provide the required asset-to-record accuracy with positive control of materiel and documentation which are in float, including materiel release

orders, receipts, condition transfers, catalog and other data changes, etc.

b. The storage activity may reduce the volume of infloat accountable documents, during the period required for an item count, by suspending the issue of low priority materiel release transactions from items undergoing inventory. However, materiel will be released for items undergoing inventory when such release is necessary to meet the order/ship timeframes prescribed by DoD Directive 4410.6 (reference (v)), to include the recognition of the RDD. The storage activity may also reduce the volume of infloat accountable documents by deferring routine supply condition code changes, providing the chapter 5 control requirements are complied with.

c. Storage activities will complete physical inventories and transmit the appropriate DI Code D8A/D9A Inventory Adjustments to the owner/manager within 30 calendar days subsequent to the PICD for scheduled inventories and within 15 calendar days subsequent to the PICD for unscheduled inventories.

d. The storage activity will compare the adjusted count with the balance maintained by the storage activity to determine the potential variance and initiate postcount validation and preadjustment research as required under section D.

e. Immediately upon completion of postcount validation and preadjustment research, the storage activity will record the count and date of last inventory on the storage activity quantitative balance record.

f. When no adjustment is required (includes receipt of DI code DJA for an item with no positive balance on the storage activity's quantitative balance record), the storage activity will update the storage activity record with the date of last inventory and transmit a DI Code D8A with zero quantity **for each** supply condition code to the owner/manager to indicate completion of the inventory. The owner/manager will update the date of last inventory using the adjustment transaction date.

g. When the storage activity record reflects more than one owner for commingled materiel, the storage activity will apply all gains and losses to the wholesale manager. The storage activity will prorate any losses that cannot be applied to the wholesale manager among all

owners having balances. Storage activities will not consider foreign owner balances in the prorating process. Foreign owner and SDAF balances will not be altered unless they are the only remaining balances for reporting a loss. Resolution of these losses will be in accordance with DoD Security Assistance Program policy.

h. The storage activity will process DI Code D8A/D9A adjustments by each supply condition code, and by each date packed/expiration date and type of pack for subsistence, to update the storage activity quantitative balance record and each owner/manager record. When more than one transaction is being submitted for a single stock number, submit all transactions for the stock number simultaneously.

i. Services/Agencies shall require the use of the DI Code D8A/D9A adjustments to update the property accountability record for materiel under their ownership.

7. Reconciling Manual Records for Controlled Items. When manual records are maintained for control of assets in secured storage, the storage activity, as a minimum, will reconcile these records at the time of inventory with the corresponding storage activity records and physical counts of materiel.

8. Following Up for Physical Inventory Report

a. When the owner/manager has requested an unscheduled inventory and no adjustment or completion transaction has been received within 20 calendar days of the date of the request, the owner/manager will initiate a followup using a DI Code DJA request which cites Management Code X in record position 72 and duplicates the remaining data from the DI Code DJA transaction which established the inventory.

b. The storage activity will respond to the owner/manager followup within 5 calendar days by providing the appropriate adjustment, completion, or cancellation transaction. If an adjustment or completion transaction was previously submitted and a followup is received, the storage activity will reply by submitting a DI Code DJA with Management Code Y to the owner/manager.

c. If the storage activity does not have a record of the owner/manager original DI Code DJA request, the storage activity shall

process the DI Code DJA with Management Code X as an original DI Code DJA.

D. RESEARCH OF POTENTIAL OR ACTUAL PHYSICAL INVENTORY ADJUSTMENTS

1. Policy. DoD Components will ensure that potential or actual adjustments are researched in accordance with the value of the adjustment and type of item involved. The DoD criteria for this research are set forth in figure 7-1 and will be used as the basis for selective research for supply system materiel. A reduction of the volume of erroneous adjustments can only be achieved by conducting specified degrees of research before posting the adjustment transaction. More stringent research requirements may be imposed by DoD Components based upon the limits of resources available and upon specific asset control problems. However, in no case will adjustments be processed against items without required preadjustment research having been performed (see figure 7-1).

2. Objectives. Analysis of inventory adjustments is vital in order to:

- a. Identify failures in the control systems so improvements can be made.
- b. Reduce similar discrepancies in the future.
- c. Ensure that the proper adjustment was made.
- d. Evaluate indicators of trends or system problems for corrective action.
- e. Detect negligence, abuse, or theft of materiel. Known or suspected negligence, abuse, or theft will be researched in accordance with DoD 7200.10-M (reference (cc)) and figure 7-1.

3. Timeliness of Research. Timely completion of the research of potential adjustments is essential. Delay only increases the complexities of adequate research and reduces the probability of conclusive findings.

- a. Storage activity preadjustment research must be completed and the physical inventory adjustment/completion action posted to the

owner/manager record within 30 calendar days from the PICD for scheduled inventories and 15 calendar days from the PICD for unscheduled inventories.

b. Mandatory causative research must be completed within 90 calendar days from the date the adjustment transaction was posted. Sample causative research must be completed within 90 calendar days from the date the sample causative research listing is created.

4. Transaction History Requests. For intra-Service/Agency (or inter-Service/Agency based on agreement of the DoD Components involved) reconciliation, the owner/manager may request transaction history for analyzing inventory discrepancies.

a. The owner/manager will request the history using a DI Code DZJ Transaction History/Custodial Balance Request, prepared in the appendix C60 format, citing in record position 7 the appropriate type of physical inventory/transaction history code from appendix B3. Transaction history will consist of all transactions affecting the balance for the requested timeframe. Additional data may be requested with the agreement of the Components.

b. The storage activity will provide the transaction history data using the DI Code DZK, Transaction History Transmittal, prepared in the appendix C61 format. Transmit the history using the media specified by the type of media code (see appendix B17) entered in record position 60 of the DI Code DZJ request.

5. Error Classification Coding. Causes of potential/actual inventory adjustments are determined by research. Causes will be classified, analyzed, and evaluated so action may be taken to correct situations that are causing the errors. Error classification codes will be entered in positions 63-65 of DI Code D8A/D9A Inventory Adjustment Transactions. For analysis and evaluation, error conditions will be identified to the operation in which they occurred (e.g., receiving, issue, etc.) and classified by type within each operation. For reporting purposes, each operation and each error type have been identified by an alphabetic or numeric code as shown in appendix B18. The error classification system is structured to provide the Services/Agencies the latitude to amplify the DoD defined error classifications; however, DoD Components will summarize internally defined error classifications to the appropriate DoD classification for all reports provided to higher authorities, auditors, etc.

6. Error Cause Feedback and Correction

a. When fifty or more adjustments equal to or greater than the causative research threshold occur in a quarter for a given storage activity, the activity performing the causative research will provide a quarterly summary of the inventory research results -- as reported by the error cause code -- and provide feedback to the commander of the storage activity concerned. As a minimum, the activity will provide a summary of the number and value of adjustments by error cause codes.

b. Storage activities will use this information in conjunction with other local indicators to identify and correct recurring errors in their operations (e.g., through initiation of training, increased frequency of quality control checks, and other actions as required).

7. Controlled Item Adjustments. Unresolved physical inventory adjustments for all classified and sensitive items regardless of value, and for pilferable items when the adjustment is in excess of \$2,500, as prescribed by DoD 7200.10-M (reference (cc)), will be referred to security officials of the storage activity at which the adjustment occurred to determine whether there is culpability or when fraud, waste, or abuse is suspected (see figure 7-1).

8. Materiel Release Denials. MILSTRIP (reference (h)) prescribes DoD standard document formats, data codes, and criteria for the preparation and processing of materiel release denials at storage activities and inventory control points.

a. Upon initiation of a materiel release denial citing Management Code 1, 2, or 4, storage activities will:

(1) Reverse the issue, adjust the storage activity record onhand quantitative balance to zero, and transmit a DI Code D9A for the adjusted quantity to the owner/manager citing denial Management Code 1, 2, or 4.

(2) Initiate a spot inventory as required under paragraph C.5(b) of this chapter.

(3) If the inventory results in positive reporting of assets, reverse all or part of the loss that was taken prior to

processing any inventory gain transaction and transmit a DI Code D9A reversal to the owner/manager.

b. If an inventory can be accomplished without delaying the processing of the Materiel Release Order beyond the prescribed UMMIPS timeframes (see DoD Directive 4410.6 (reference (v))), it may be conducted prior to processing a denial transaction.

E. REVERSAL OF INVENTORY ADJUSTMENTS

Reversal of DI Code D8A/D9A Inventory Adjustments is a required capability which must be implemented with proper controls and supported by proper documentation. (See appendix C, introduction, paragraph 3.b., for processing adjustment reversals.) Procedures for reversing adjustments will contain, as a minimum, the following control features:

1. Posted/Unposted Source Documents. Reversals required to correct inventory records when posting previously unposted or incorrectly posted supply transactions (e.g., receipts, issues, etc.), regardless of age, are limited to those transactions that can be properly documented to reference the specific transaction document number(s) that will be processed to offset the reversal.

2. Inventory Adjustment Corrections. Reversals required to correct physical inventory adjustments which were made based on incorrect/incomplete information are limited to two years from the date of the original adjustment. All reversals must be properly documented.

3. Limitations. Reversals will not be processed solely on the basis of a previous offsetting physical inventory adjustment.

4. Reporting Requirements. Reversals against transactions processed within the adjustment reporting period will be separated and identified to report:

- a. Gross adjustment during the current period,
- b. Reversal of prior quarters' adjustment transactions,
- c. Reversal of current quarters' adjustment transactions, and

d. Total value of net adjustments during the current period (i.e., value of net gains added to value of net losses).

F. LOCATION AUDIT PROGRAM

Each DoD Component will implement a location audit program which will consist of both a location survey and a location reconciliation. The DoD acceptable accuracy goals are provided in paragraph B.9.c. The DoD Components may impose more stringent standards internally. The location audit program is subject to the quality control checks delineated in Section H., Quality Control Program. Errors will be subject to validation and research before they are counted as an error. Location audit program results will be reported in the ICE Report as prescribed in paragraph F.1.h. and F.2.b(10). Only one error per surveyed location and one error per location reconciliation line item with discrepancies is to be reported; however, DoD Components will collect and analyze all type III errors (see paragraphs F.1.h(3) and F.2.b(10)(c)) by element.

1. Location Survey

a. Location survey requires a physical verification, other than actual count, between physical assets and recorded location data to ensure that all assets are properly recorded. When a discrepancy is identified during the location survey program (type I or type II error (see paragraphs F.1.h(1) and F.1.h(2))), the storage activity will conduct prompt research and determine the need for a special inventory (DI Code DJA request with Type of Physical Inventory/Transaction History Code K). In some instances, location survey and physical inventory will be conducted concurrently for ammunition ~~and subsistence~~. When location survey and physical inventory are conducted concurrently, both the physical inventory and the location survey performance statistics will be reported separately in the ICE Report.

b. A complete location survey of all locations at each storage activity will be conducted not less than once each fiscal year, and more frequently if the need is indicated.

c. A location survey will be conducted in both the gaining and losing storage areas following the accomplishment of rewarehousing projects. A location survey conducted as a result of rewarehousing projects may be considered to have satisfied the annual survey requirement for the area surveyed.

d. The proper sequence of operating a location survey requires the comparing of assets in storage locations with locator records. This sequence of operation is important to detect assets in unrecorded locations.

e. As an objective, it is desirable to identify items to inventory lots or segments. Lots/segments will be of a manageable size (number of items) to permit location survey in a minimum time period, to ensure maximum uninterrupted service to customers, and to obtain the greatest degree of accuracy from the location survey.

f. Items within a lot/segment which have been subject to a complete item inventory will be considered to have satisfied the annual survey requirement when the entire lot/segment is located in a clearly designated, coterminous warehouse space. These inventoried lots/segments may be excluded from the complete survey for the fiscal year in which they were counted; however, the location survey performance statistics will be reported in the ICE Report.

g. When permanent locations are reserved for items, recorded locations which are unoccupied will be identified and/or verified during the location survey.

h. To measure the accuracy of the results of the location survey, discrepancies will be classified in one of the three categories listed below. Only one error per stock number per location is charged when locator delete, or locator establish, or locator record correction is required for the same location. When the stock number and actual assets differ, the discrepancy will be classified as a locator establish action only.

(1) Locator record deleted. The removal or change of a locator record when there is a recorded location but there are no physical assets -- unless the location is being held open for new receipts. (Type I location survey error.)

(2) Locator record established. The recording of locations when assets are physically found in storage and no locator records exist, or when the recorded stock number disagrees with the materiel in the location. (Type II location survey error.)

(3) Locator record corrected. Changes to the locator record when physical materiel characteristics differ from any of the following data elements (Type III location survey error):

- (a) Unit of issue.
- (b) Supply condition code.
- (c) Controlled inventory item code (see DoD 4100.39-M (reference (nn)), Volume 10, Table 61). Verification of the code will consist of ensuring that assets are stored in areas providing the degree of security commensurate with the assigned code.
- (d) Shelf-life code.
- (e) Date packed/expiration date for shelf-life materiel.
- (f) Type of pack code (for subsistence only). (See MILSTRIP (reference (h)), appendix B23.)
- (g) Lot number or serial number (for ammunition only).
- (h) Completeness and accuracy of magazine data card (for ammunition only).

i. To ensure accuracy of property accountability records, special inventories should be performed when assets are found in an erroneous or unrecorded location or when there are mismatches in the unit of issue that may result in a quantity variance.

2. Location Reconciliation

a. Location reconciliation requires a match between storage activity records and owner/manager records in order to identify and to correct situations when there is: (1) an owner/manager record with no corresponding storage activity record, (2) a storage activity record with no corresponding owner/manager record, (3) common elements of data that do not match, and (4) quantity discrepancies. Mismatches will be researched and special inventories conducted when required to effect corrective action.

b. To measure the accuracy of the results of the location reconciliation program, discrepancies will be classified in one of the four categories listed below (report only one error per location reconciliation request or unmatched accountable error):

(1) Owner/manager record reflects balance for storage activity; no location reconciliation transaction received. (Type I location reconciliation error.)

(2) Location reconciliation transaction received from storage activity; no corresponding owner/manager record. (Type II location reconciliation error.)

(3) Mismatch on any of the following data elements (Type III location reconciliation error):

(a) Unit of issue.

(b) Ownership/Manager Identifier.

(c) Controlled inventory item code (see DoD 4100.39-M reference (nn)), Volume 10, Table 61).

(d) Type of pack code (subsistence only).

(e) Shelf-life code.

~~(f) Datepacked/expiration date (subsistence only).~~

(4) Quantity discrepancy. (Type IV location reconciliation error.)

c. Location reconciliation will be accomplished by DoD Components in accordance with the following guidance:

(1) Owners/managers and storage activities will reconcile all records annually. The annual reconciliation will be accomplished at the close of business on the second Tuesday of the month in accordance with paragraph F.2.c(3).

(2) Storage activities will prepare location reconciliation request transactions by supply condition code, and by type of pack and ~~date packed/expiration date~~ for subsistence, for each stock number

regardless of the balance (including zero balances). Location reconciliation requests will be identified by DI Code DZH, prepared in the appendix C59 format, and transmitted to the owner/manager. Storage activities preparing DI Code DZH requests will assure that consecutive transaction numbers by RI code are assigned to location reconciliation requests for control purposes.

(3) All owner/manager and storage activity records (active and inactive records, including zero balances) will be reconciled not less than once each fiscal year. Location reconciliation requests will be prepared on the second Tuesday of the month indicated in the following schedule and transmitted prior to the 15th day of the scheduled month.

Service or Agency	Preparation Date	Transmission Date
Army	2nd Tuesday - Jan	15 Jan
Navy	2nd Tuesday - Mar	15 Mar
Marine Corps	2nd Tuesday - May	15 May
Air Force	2nd Tuesday - Jul	15 Jul
Defense Logistics Agency	2nd Tuesday - Sep	15 Sep

(4) In processing location reconciliation requests, owners/managers will match the requests to the owner/manager records. When a mismatch is programmatically unresolved, DI Code D8B/D9B will be processed to adjust the owner/manager records. All Type I, II, and IV mismatches will be resolved as follows:

(a) Research of owner/manager active and historical records.

(b) Research of storage activity active/historical record (DI Code DZJ, Transaction History Request, citing Type of Physical Inventory/Transaction History Code X).

(c) Request physical inventory (DI Code DJA, using Type of Physical Inventory/Transaction History Code J).

(d) If the above actions fail to resolve the mismatch, the DI Code D8B/D9B transaction will remain on the owner/manager records.

(5) A physical inventory is not required under the following conditions, except when the mismatch involves classified or sensitive items, or pilferable items when the extended dollar value of the variance is greater than \$100.

(a) The owner/manager record may be adjusted without special inventory when the extended value of the variance is \$5,000 or less and 10 percent or less of the beginning value of the variant owner/manager record for Type IV, errors (see paragraph F.2.b(4)).

(b) The owner/manager record may be adjusted without special inventory when the extended value of the variance is \$5,000 or less for Type I and Type II errors (see paragraph F.2.b(1) and F.2.b(2)).

(6) When a discrepancy is identified during the location reconciliation program, transmit the following transactions, as appropriate, to the submitting activity:

(a) DI Code DZG Transaction Reject, as prescribed in chapter 9, prepared in the appendix C58 format.

(b) DI Code DZB Storage Item Data Correction, as prescribed in chapter 10, prepared in the appendix C53 format.

G. RETENTION OF ACCOUNTABLE DOCUMENTATION

Audit capability is required for a period of time following the processing of documents and data and completion of the research effort. The following retention criteria will apply:

1. Source Documents. Retain original source documents or facsimiles, i.e., microform (microfilm, microfiche), etc., for at least two years. These include only accountability change documents such as receipts, issues, shipments, transfers, supply condition code changes, and inventory and financial adjustments. Retain source documents providing evidence of shipment to Foreign Military Sales recipients for two years from date of materiel shipment.

2. Transaction Histories. Retain registers, records, files, tapes, and data for at least two years in a format useful for audit trail

purposes. Automated inventory control systems will be designed to facilitate the printout of transaction histories which indicate the date the last physical inventory was conducted for each item.

3. Adjustment Research. Retain backup documentation that directly pertains to individual cases of physical inventory adjustment research efforts for at least two years.

4. Annual Statistical Sample. Retain the annual statistical sample inventory line item detail data for at least two years.

H. QUALITY CONTROL

1. Goals and Objectives. DoD Components will establish a quality control program at each owner/manager and storage activity which encompasses the objectives of DoD Directive 5010.38 (reference (x)), and the physical inventory objectives contained in DoD Instruction 4140.35 (reference (t)). Portions of the program can be accomplished during ongoing practices within inventory processes. Quality control results will assist management in identifying those human, procedural, or system errors which adversely affect record accuracy and in achieving better control over physical materiel and warehousing practices. Within the scope of this quality control program, those work processes directly related to the control of physical materiel will be monitored for attained quality levels and performance evaluated on improvements, not numerical goals. Accordingly, all quality control programs will include reviews to assess the accuracy/quality of the following work processes:

a. Warehousing practices -- to include checks of storage practices, stock rotation, shelf-life management, identification of materiel in store, mixed stock, location accuracy and rewarehousing projects.

b. Receiving practices -- to include checks of documentation, materiel identity, quantity, and supply condition code; checks for processing timeliness; and verification of daily input data to the location system.

c. Issuing practices -- to include checks of legibility of issue documents; accuracy of stock selection as to identity, quantity unit of issue, shelf life, supply condition code, and type of pack (subsistence only); marking of outgoing shipments; and release to carriers.

d. Validity of automated data -- to include checks of receipt, issue, and adjustment transaction data entries against input documentation.

e. Inventory practices -- to include checks of inventory counts, location surveys, location reconciliation corrective actions, causative research, and adjustments at both the owner/manager and storage activities.

f. Catalog practices -- to include checks of catalog change processing, accuracy, and timeliness, using the affected recorded locations as the universe.

g. Locator file updates -- to include checking the accuracy of changes posted to the locator file (e.g., all additions, deletions, and changes of unit of issue, supply condition code, shelf life, etc.).

h. Report of discrepancy processing -- to include checks for processing timeliness and checking the accuracy of ROD initiation, followup and reply, investigative research including identification and correction of supply errors, adjustment of accountable and financial records, and preparation of reports of survey.

i. Logistic reassignment processing -- checks to determine if the logistic reassignment actions were completed; e.g, LIM/GIM records were changed to reflect decapitalization/transfer, LIM directed the storage activity to change the decapitalized/transferred assets to GIM ownership, the storage activity effected and advised the LIM of the change, and the LIM initiated action to resolve any quantity variances.

j. Suspended asset processing -- to include checks of the timeliness in reclassifying suspended (Supply Condition Codes J, K, L, Q, and R) materiel.

2. Assignment of Responsibility. Whenever possible, quality control checks of these work processes will include identification of the individual performing the tasks. This will facilitate the placement of responsibility for appraising and improving quality with each manager within the chain of command.

3. Command Emphasis. Continued command management emphasis and review of performance are essential for the success of the quality control program. Command managers must ensure effective organizational interrelationships among the functional elements concerned with the physical inventory control program such as: comptroller, data systems, transportation, warehousing, maintenance, quality control, and supply management. The quality control program will include provisions for initiation of corrective action when acceptable quality levels are not met.

I. INVENTORY CONTROL EFFECTIVENESS REPORTING

1. General. Each DoD Component will prepare a DD Form 2338, Inventory Control Effectiveness Report, as formatted in appendix A5, for general supplies for each quarterly period ending December 31, March 31, June 30, and September 30 for all materiel for which the Component is the owner/manager. Army, Navy, and Air Force will also prepare an ICE Report, as formatted in appendix A6, for their service peculiar ammunition. Army will prepare a separate report for the SMCA. DoD Components will:

a. Report items for which the reporting Component is the owner/manager but are stored at other Components' storage activities under the inter-Service column. Items for which the reporting Component is the owner/manager and are stored at the reporting Component's storage activities will be reported under the intra-Service column.

b. Include a narrative analysis identifying trends, accomplishments, significant comments on internal system performance, description of problems, actions in process or taken to correct the problem and "get-well" dates if the problem is not corrected at the time the ICE Report is submitted. Problems in reporting ICE data should also be highlighted in the ICE Report until the problem(s) is corrected.

c. Reflect inventory control performance for all DoD wholesale supply system assets of principal and secondary items, including package fuels, less all materiel exclusions listed in DoD Instruction 4140.35 (reference (t)).

d. Submit an original and one copy to the Director, Defense Logistics Management Standards Office (DLMSO), ATTN: DLA-IMC, 6301 Little River Turnpike, Suite 220, Alexandria, VA 22312-3508, not later than 75 calendar days following the end of the reported quarter. The above reporting requirement has been assigned Report Control Symbol DD-P&L(Q) 935.

2. ICE Report Preparation Instructions for General Supplies. The following instructions are provided for preparing the Inventory Control Effectiveness Report.

a. Report Heading/Columns

(1) Reporting Organization. Enter the name of the reporting DoD Component.

(2) Quarter Ending. Enter the applicable fiscal quarter; 1st, 2nd, 3rd, or 4th. Data entered for the report lines and subcolumns under this column heading reflect only activity occurring during the applicable quarter.

(3) Fiscal Year to Date. Enter the applicable fiscal year.

(4) Columnar Entries. Data entered for the report lines and subcolumns under this column heading reflect cumulative fiscal-year-to-date activity. Components will report data separately for inter-Service and intra-Service storage activities.

b. PART I. Performance

(1) Materiel Release Denials

(a) Lines Directed for Shipment. Enter the total number of line items directed for shipment for component-owned wholesale assets.

(b) Total Materiel Release Denials. Enter the total materiel release denials (sum of total and partial denials, and warehouse refusals). Include denial transactions classified by denial Management Codes 1, 2, ~~3 (subsistence only)~~, 4, 5, 6, and 7 (see appendix B7) in the total.

(c) Materiel Release Denial Rate. Compute this figure by dividing the total denials by the line items directed for shipment and multiplying by 100. $\{(1)(b) / (1)(a) \times 100\}$ The DoD performance goal for the materiel release denial rate is not greater than one percent.

(2) Receipt Processing Performance

(a) Receipts Stored and Posted. Enter the total number of line item receipts stored and posted to the property accountability record.

(b) Receipts Stored and Posted on Time. Enter the total number of line item receipts which were effectively stored and posted within the MILSTRAP timeframes. Both storing and posting actions

are considered complete when the item is in the storage location, or available for issue, and the quantity is posted to the property accountability record.

(c) On Time Receipt Rate. Compute this figure by dividing the total number of receipts stored and posted on time by the total number of receipts and multiplying by 100. $\{(2)(b) / (2)(a) \times 100\}$ The DoD performance goal for storing and posting receipts on time is 90 percent.

(3) Location Audit Program. Reflects the results of the location survey (ratio of accurate storage activity locator records to storage activity locations surveyed) and the location reconciliation (ratio of valid storage activity location records to inventory manager's records). Location survey data will be reported by the storage activity in the intra-Service column.

(a) Locations Surveyed. Enter the number of storage activity locations surveyed.

(b) Survey Errors. Enter the total number of location discrepancies as defined in paragraph F.1.h. of this chapter (report only one error per stock number per location).

(c) Survey Accuracy. Compute this figure by dividing the locations with discrepancies by the total locations surveyed multiplying by 100, and subtracting the result from 100 percent. $\{100 - ((3)(b) / (3)(a) \times 100)\}$ The DoD goal for location survey accuracy is 97 percent.

(d) Locations Reconciled. Enter the total number of location records reconciled (i.e., the sum of stock numbers on the Inventory Manager's record and stock numbers which were not on the Inventory Manager's record but were on the storage activities' records).

(e) Reconciliation Errors. Enter the total number of discrepant location records as defined in paragraph F.2.b(10) (count one error per location reconciliation request (stock number/supply condition code) or unmatched Inventory Manager's record).

(f) Reconciliation Accuracy. Compute this figure by dividing the number of discrepancies by the number of records reconciled, multiplying by 100, and subtracting the result from 100 percent.

{100-((3) (e) / (3) (d)) x 100} The DoD goal for location reconciliation accuracy is 97 percent.

c. PART II. Physical Inventory and Adjustments

(1) Physical Inventories.

(a) No. of Scheduled and Unscheduled Inventories Completed. Enter the total number of line items inventoried (scheduled and unscheduled). Each supply condition code for a stock number at each storage activity is a line item.

(b) No. of Inventories with Variances. Enter the total number of line items inventoried (scheduled and unscheduled) which had an inventory variance.

(c) Inventory Variance Rate. Reflects the percent of line items inventoried which had an inventory variance. Compute this figure by dividing the lines with an inventory variance by the total line items inventoried and multiplying by 100. $\{((1) (b) / (1) (a)) \times 100\}$

(d) No. of Inventories with Major Variances. Enter the total number of line items inventoried (scheduled and unscheduled) which had a major inventory variance (overage or shortage exceeding \$5,000) and all variances on controlled items.

(e) Major Variance Rate. Reflects the percent of line items inventoried which had major inventory variances. Compute this figure by dividing the lines with a major inventory variance by the total line items inventoried and multiplying by 100. $\{((1) (d) / (1) (a)) \times 100\}$

(2) No. of Adjustments from Other Than Physical Inventories. Enter the number of adjustments resulting from end of the day processing and location reconciliation.

(3) Total Adjustments. Enter the sum of number of inventories with variances and the number of adjustments from other than physical inventories. $\{(1) (b) + (2)\}$

(4) No. of Reversals of Inventory Adjustments

(a) No. of Gain Reversals. Enter the number of gain reversals of inventory adjustments.

(b) No. of Loss Reversals. Enter the number of loss reversals of inventory adjustments.

(c) Total. Absolute total of inventory reversals (gains and losses).

(5) Monetary Value

(a) Average Value of Inventory. Enter the average value of onhand assets as reflected on financial records for the 12 months prior to the report cutoff date (i.e., current quarter plus last three quarters).

(b) Record Value of Items Inventoried. Enter the extended value prior to actual inventory of line items inventoried (scheduled and unscheduled) during the reporting period.

(c) Value of Inventory Adjustments

[1] Physical Inventory Adjustments

[a] Gains. Enter monetary value of gains resulting from inventory less the monetary value of gain reversals (from current and prior quarters) processed during the report period.

[b] Losses. Enter monetary value of losses resulting from inventory less the monetary value of loss reversals (from current and prior quarters) processed during the report period.

[c] Total. Absolute total of inventory count gains and losses. $((5) (c) [1] [a] + (5) (c) [1] [b])$

[2] Other Inventory Adjustments. Reflects the adjustments resulting from end of the day processing and location reconciliations.

[a] Gains. Enter the value of other adjustments which resulted in a gain.

[b] Losses. Enter the value of other adjustments which resulted in a loss.

[c] Total. Absolute total of other adjustment gains and losses. $\{(5)(c)[2][a] + (5)(c)[2][b]\}$

[3] Gross Adjustments. Total of physical inventory and other inventory adjustments. $\{[1][c] + [2][c]\}$

[4] Reversals -- Current Quarter

[a] Gains. Enter the total monetary value of decreases to the record balances as a result of reversing gain adjustments processed during the reporting period. Compute the FY to Date value for reversal of current quarter gains by adding the Quarter Ending value for reversal of current quarter gains to the prior quarter FY to Date value of reversal of current quarter gains. [text deleted]

[b] Losses. Enter the total monetary value of increases to the record balances as a result of reversing loss adjustments processed during the reporting period. Compute the FY to Date value for reversal of current quarter losses by adding the Quarter Ending value for reversal of current quarter losses to the prior quarter FY to Date value for reversal of current quarter losses. [text deleted]

[c] Total. Absolute total of reversals of current quarter gains and losses. $\{[4][a] + [4][b]\}$

[5] Reversals -- Prior Quarters

[a] Gains. Enter total monetary value of decreases to record balances as a result of reversing gain adjustments reported in prior quarters. Compute the FY to Date value for reversal of prior quarters gains by adding the quarter ending value for reversal of current quarter gains to the prior quarter gains. [text deleted]

[b] Losses. Enter total monetary value of increases to record balances as a result of reversing loss adjustments reported in prior quarters. Compute the FY to Date value for reversal of prior quarters' losses to the prior quarter FY to Date value for reversal of prior quarters' losses. [text deleted]

[c] Total. Absolute total of reversals of prior quarter gains and losses. $\{[5][a] + [5][b]\}$

[6] Total Reversals. The total of reversals of current quarter and prior quarter gains and losses. {[4][c] + [5][c]}

[7] Total Record Imbalances. The total of gross adjustments and total reversals. {[3] + [6]}

(6) Gross Adjustments As a Percent of:

(a) Average Value of Inventory. Divide the total value of gross adjustments by the average value of inventory and multiply by 100. {((5) (c) [3] / (5) (a)) x 100}

(b) Value of Items Inventoried. Divide the total value of gross adjustments by the record value of items inventoried and multiply by 100. {((5) (c) [3] + (5) (b)) x 100}

(7) Total Record Imbalances As a Percent of:

(a) Average Value of Inventory. Divide the value of the total record imbalances by the average value of inventory. {((5) (c) [7] / (5) (a)) x 100}

(b) Value of Items Inventoried. Divide the value of the total record imbalances by the record value of items inventoried. {((5) (c) [7] / (5) (b)) x 100}

(8) Monetary Value of Location Reconciliation

(a) Value of Line Items Reconciled. Enter the extended value of line items reconciled during the reporting period.

(b) Location Reconciliation Adjustments

[1] Gains. Enter the monetary value of gains resulting from reconciliation during the period.

[2] Losses. Enter the monetary value of losses resulting from reconciliation during the period.

[3] Total. Absolute total of location reconciliation gains and losses. {(8) (b) [1] + (8) (b) [2]}

d. PART III. Statistical Sample. Appendix A5, page A5-3 provides the format for the Annual Statistical Sample Inventory Control Effectiveness Report. The following instructions are provided for preparing the Annual Statistical Sample Inventory Control Effectiveness Report, which is submitted as Part III of each fiscal year's first quarter report. An example of a Service/Agency individual reporting activity's report is provided on page A5-4, the data and performance statistics contained on page A5-4 result from using the twenty-five line item illustrative sample data that is contained on page A5-5. The illustrative sample data and the resultant illustrative report may be used to validate and debug mechanized programs for the generation of the Annual Statistical Sample Inventory Control Effectiveness Report and to clarify the narrative instructions that follow.

(1) Sample Population/Sample

(a) Population Size. Enter the number of line items in the population from which the sample was taken. Each supply condition code of a stock number at a storage activity is counted as a separate line item.

(b) Population Value. Enter the monetary value of the population from which the sample was taken (cumulative extended dollar value of the number of units on hand multiplied by the unit cost for each line item at the time the sample is taken).

(c) Population Units. Enter the total number of units of the sample population at the time and from which the sample was taken.

(d) Sample Size. Enter the number of line items constituting the sample. The sample is based on the number of line items as defined in paragraph B.5.a.

(e) Sample Value. Enter the cumulative extended dollar value of the line items constituting the sample (number of units on hand multiplied by the unit price for each line item).

(f) Total Sample Units. Enter the number of units (quantity on hand) constituting the sample.

(2) Sample Results

(a) No. of Correct Records. Enter the number of line items inventoried requiring no adjustment. $\{(1)(d) - (2)(d)[1][j]\}$

(b) Sample Record Accuracy Rate. Divide the number of correct records by the sample size and multiply by 100.
 $\{(2)(a) / (1)(d) \times 100\}$

(c) Projected Record Accuracy Rate. The projected record accuracy rate is a Component wide weighted average which is computed based on the individual reporting activity's submissions. The formula for computing this rate is:

$$PL_r = \frac{\sum_{i=1}^n (L_r \times U_1)}{\sum_{i=1}^n U_1} \times 100$$

Where:

n = The sum of projected correct records for individual Service/Agency reporting activities.

PL_r = Projected Service/Agency weighted line item accuracy rate.

L_r = Sample line item accuracy rate (ICE Report line (2)(b) of the individual reporting activity samples).

U_1 = Number of lines in the population universe from which the sample was taken (ICE Report line (1)(a) of the individual reporting activity samples).

(d) Error Stratification. Enter the count of the number of line item variances in the sample that met the conditions

specified by the applicable report line under the appropriate subcolumn for that report column under the number of records column heading. Enter the cumulative extended dollar value (number of units multiplied by the unit price for each line item) for those variances that met the conditions specified by the applicable report line under the appropriate subcolumn under the dollar value column heading.

[1] Dollar Value Variances

[a] > 0 and < \$100.

[b] > \$100 but < \$500.

[c] > \$500 but < \$1,000.

[d] > \$1,000 but < \$5,000.

[e] Total Minor. Sum of variances < \$5000.

[f] > \$5,000 but < \$10,000.

[g] > \$10,000 but < \$16,000.

[h] > \$16,000.

[i] Total Major. Sum of variances > \$5,000.

[j] Grand Total. Enter sum of total minor and total major. $\{(2)(d)[1][e] + (2)(d)[1][i]\}$

[k] Dollar Value Accuracy Rate. Divide the grand total by the sample dollar value, multiply by 100, and subtract from 100. $\{(((2)(d)[1][j] / (1)(e)) \times 100) - 100\}$

[1] Projected Dollar Value Accuracy Rate. The projected dollar value accuracy rate is a component wide weighted average which is computed based on the individual reporting activity submissions. The formula for computing this rate is:

$$PV_r = \frac{\sum_{i=1}^n (V_r \times U_v)}{\sum_{i=1}^n U_v} \times 100$$

Where:

n = The sum of projected correct dollar value for individual Service/Agency reporting activities.

PV_r = Projected Service/Agency weighted dollar value accuracy rate.

V_r = Sample dollar value accuracy rate (ICE Report line (2) (d) [1] [k] of the individual reporting activity samples).

U_v = Dollar value of the population universe from which the sample was taken (ICE Report line (1) (b) of the individual reporting activity samples).

[2] Unit Variances. Enter the number of line items that met the conditions specified by the applicable report lines (variance expressed as a percent of the total onhand quantity at the time the sample was taken) in the appropriate subcolumn under the number of records column heading. Enter the cumulative number of units variance for the items with variances on the applicable report line in the appropriate subcolumn under the quantity column heading.

[a] > 0 percent and < or = 5 percent.

[b] > 5 percent and < or = 10 percent.

[c] > 10 percent and < or = 20 percent.

[d] Over 20 percent.

[e] Total. Sum of all variances.

[f] Unit Accuracy Rate. Divide the total units by the number of units in the sample, multiply by 100, and subtract from 100. $\{((2) (d) [2][e] / (1) (f)) \times 100 - 100\}$

[g] Projected Unit Accuracy Rate. The projected unit accuracy rate is a component wide weighted average which is computed based on the individual reporting activity submissions. The formula for computing this rate is:

$$PU_r = \frac{\sum_{i=1}^n (U_r \times U_u)}{\sum_{i=1}^n U_u} \times 100$$

Where:

n = The sum of projected correct units for individual Service/Agency reporting activities.

PU_r = Projected Service/Agency weighted unit accuracy rate.

U_r = Sample unit accuracy rate (ICE Report line (2) (d) [2][f] of the individual reporting activity samples).

U_u = Number of units in the population universe from which the sample was taken (ICE Report line (1) (c) of the individual reporting activity samples).

(3) Causative Research Results. Report the results of causative research on each variance in the sample which exceeds \$100.

(a) Total No. of Causative Research Cases. Enter the total number of line items in the sample on which causative research was performed.

(b) Error Classification Code and Number of Cases. List the top five error classification codes assigned as a result of causative research and the number of occurrences of each error classification code.

3. ICE Report Preparation Instructions for Ammunition

a. Report Heading/Columns

(1) Reporting Organization. Enter the name of the reporting DoD Component.

(2) Quarter Ending. Enter the applicable fiscal quarter, 1st, 2nd, 3rd, or 4th. Data entered for the report lines and subcolumns under this column heading reflect only activity occurring during the applicable quarter.

(3) Fiscal Year To Date. Enter the applicable fiscal year. Data entered for the report lines and subcolumns under this column heading reflect cumulative fiscal year to date activity.

(4) Columnar Entries. Report data separately for high-risk items (Controlled Inventory Item Codes 1, 2, 5, 6, and 8) and low-risk items (Controlled Inventory Item Codes 3, 4, U, and P).

b. PART I. Performance

(1) Materiel Release Denials. Complete as described in paragraphs I.2.b(1) (a), I.2.b(1) (b), and I.2.b(1) (c). For ammunition, include denial transactions classified by denial Management Codes 1, 2, 5, 6, and 7 (see appendix B7) in the total. Components will report denials separately for low-risk and high-risk items.

(2) Receipt Processing Performance. Complete as described in paragraphs I.2.b(2) (a), I.2.b(2) (b), and I.2.b(2) (c). The DoD goal for storing and positing ammunition receipts on-time is 90 percent.

(3) Location Audit Program. Complete as described in paragraphs I.2.b(3) (a), I.2.b(3) (b), I.2.b(3) (c), I.2.b(3) (d), and I.2.b(3) (f). The DoD goals for location survey accuracy and location reconciliation accuracy for ammunition are 98 percent.

c. PART II. Physical Inventory and Adjustments

(1) Physical Inventories.

(a) No. of Scheduled and Unscheduled Inventories Completed. Enter the total number of line items inventoried (scheduled and unscheduled). Each supply condition code for a stock number at each storage activity is a line item.

(b) Number of Inventories with Variances. Enter the total number of line items inventoried (scheduled and unscheduled) which had an inventory variance.

(c) Inventory Record Accuracy. Reflects the percent of lines inventoried without an inventory variance. Compute this figure by dividing the lines with an inventory variance by the total lines inventoried and multiplying by 100, and subtracting the result from 100 percent. $\{100 - ((1) (b) / (1) (a)) \times 100\}$ The DoD inventory record accuracy goal for ammunition is 95 percent.

(2) No. of Inventory Adjustments from Other Than Physical Inventories. Complete same as paragraph I.2.c(2).

(3) Total Inventory Adjustments. Complete same as paragraph I.2.c(3).

(4) No. of Reversals of Inventory Adjustments. Complete same as paragraph I.2.c(4).

(5) Monetary Value. Complete same as paragraphs I.2.c(5) (a) through I.2.c(5) (c) [7].

(6) Gross Adjustments As a Percent of: Complete same as paragraphs I.2.c(6) (a) and I.2.c(6) (b).

(7) Total Record Imbalances As a Percent of: Complete same as paragraphs I.2.c(7) (a) and I.2.c(7) (b).

(8) Monetary Value of Location Reconciliation. Complete same as paragraphs I.2.c(8) (a) through I.2.c(8) (b) [2].

MINIMUM RESEARCH REQUIREMENTS
FOR POTENTIAL OR ACTUAL PHYSICAL INVENTORY ADJUSTMENTS

CONDITION OF DISCREPANCY	REQUIRED RESEARCH		
	Post Count Validation	Preadjustment Research	Causative Research
1. ≤ \$1,000	NO	NO	NO
2. > \$1,00 but ≤ \$5,000	YES	NO	NO
3. > \$5,000 but ≤ \$16,000 OR > 10 percent unit variance and between \$1,000 and \$16,000	YES	YES	SAMPLE
4. > \$16,000 OR > 25 percent unit variance and > \$5,000	YES	YES	YES
5. Controlled Inventory Item	YES	YES	YES 1/
6. Suspected Fraud, Waste, or Abuse	YES	YES	YES
7. Annual Statistical Sample for all variances > \$100	YES	YES	YES

Figure 7-1

1/ Sample causative research in lieu of complete causative research for pilferable item discrepancies with a value from \$.01 to \$2,500 may be accomplished to serve as a deterrent to fraud waste or abuse and to identify systemic inventory and security problems. Causative research will be conducted on all adjustments (gains and losses) of classified and sensitive items regardless of dollar value of item or extended dollar value of adjustment. Causative research will be conducted on all adjustments (gains and losses) of pilferable items with an extended value greater than \$2,500, and all adjustments with an extended value of greater than \$16,000 or greater than 25 percent unit variance and greater than \$5,000.

APPENDIX B3

TYPE OF PHYSICAL INVENTORY/TRANSACTION HISTORY CODES

NUMBER OF CHARACTERS: One

TYPE OF CODE: Alphabetic/Numeric

EXPLANATION: Used in physical inventory/transaction history documents to identify the type of inventory being conducted/requested, or to identify requests for/transmission of custodial balances/transaction history.

RECORD POSITION: 7

CODE	DEFINITION
A through B	Reserved for future DoD assignment.
C	Special inventory, all supply condition codes. Initiated by owner or storage activity at the request of item managers, accountable officers, or designated storage activity personnel. (Excludes Location Audit Program Type I and Type II errors.)
D	Special inventory, all supply condition codes. Initiated by owner as a result of ASI suspense file imbalances.
E	Spot inventory due to denial (all supply condition codes). Initiated by the storage activity or owner as a result of denials.
F	Reserved for future DoD assignment.

CODE	DEFINITION
G	Scheduled inventory. Inventory to be conducted within a specified period of time according to an established plan on controlled items and all other items or categories designated by the DoD Component.
H	Special inventory, all supply condition codes. Initiated by owner when an inventory is necessary and the date of last inventory is less than 90 days.
I	Scheduled inventory, all supply condition codes. Initiated by storage activity based on selection and prioritization system model criteria.
J	Special inventory, all supply condition codes. Initiated by owner as a result of location reconciliation errors.
K	Special inventory, all supply condition codes. Initiated by storage activity as a result of location survey errors.
L	Scheduled inventory, specified supply condition codes. Initiated by owner for a random statistical sample inventory (other than RASS).
M	Scheduled inventory, specified supply condition codes. Initiated by storage activity for the random annual statistical sample (RASS) inventory.
N	Special inventory, all condition codes. Initiated by storage activity as a result of onhand balance mismatches between the locator and property accountability records.
O	Reserved for future DoD assignment.
<u>P</u>	<u>Scheduled inventory, specified supply condition codes. Initiated by storage activity for a random statistical sample inventory (other than RASS).</u>
Q through V	Reserved for futur DoD assignment.
W	Automatic submission of transaction history from storage activity to owner/manager.

CODE	DEFINITION
X	Storage activity transaction history requested by owner/ manager or transaction history response from storage activity to owner .
Y	Reserved for future DoD assignment.
Z	Reserved for future DoD assignment.
0 through 9	Reserved for future DoD assignment.