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AUG 09 1996

MEMORANDUM FOR: DISTRIBUTION

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

The Inventory Control Effectiveness (ICE) report and related DoD 4000.25-2-M (MILSTRAP) chapter 7 guidance published by the November 15, 1994, Addendum to AMCL 8A, contain conflicting information. The attached change publishes revisions necessary to resolve the conflict. This change also publishes two new types of Physical Inventory/Transaction History codes to accommodate Distribution Standard System warehouse control system requirements. As requested by the Joint Physical Inventory Working Group at their February 20-26, 1996, meeting, this third addendum to AMCL 8A incorporates all previous AMCL 8A changes.

Addressees are advised not to file this change in the DoD MILSTRAP manual. This addendum is provided as a planning document to assist in the system/program design efforts. DLMSO anticipates publishing the Third Addendum to AMCL 8A in Formal Change 5 to MILSTRAP in the 4th quarter FY 96. Addressees may direct questions to Ms. Mary Jane Hefner, (703) 767-6123, DSN 427-6123. Others must contact their Service or Agency designated representative.

James A. Johnson

JAMES A. JOHNSON
Director
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THIRD ADDENDUM TO
APPROVED MILSTRAP CHANGE LETTER (AMCL) 8A
REVISED PROCEDURES FOR PHYSICAL INVENTORY CONTROL

1. Concept/Rationale:

a. Concept: This third addendum to AMCL 8A incorporates cumulative AMCL 8A changes reflected in the Defense Logistics Management Standards Office (DLMSO) letters of July 13, 1993, August 30, 1993 and November 15, 1994. **The new changes to DoD 4000.25-2-M, MILSTRAP, reflected in this third addendum, are: (1) two new appendix B3, Type of Physical Inventory/Transaction History codes to satisfy a requirement of the Distribution Standard System; and (2) revision of the Inventory Control Effectiveness report format and corresponding chapter 7 narrative guidance as required to resolve conflicts between the two.** AMCL 8A includes changes to MILSTRAP which:

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

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

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

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

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

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

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

(8) Revise and expand the DoD Inventory Control Effectiveness (ICE) Report to include the end of the day process and inventory sampling (to be developed) for general supplies, and separate ammunition ICE Report into high risk and low risk items as defined in DoD 4100.39-M, Federal Logistics Information System (FLIS) Procedures Manual, volume 10.

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

(10) Require consideration of DoD 4100.39-M, Table 61, to better define and prioritize items in the physical inventory selection and prioritization systems/models.

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

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

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

(14) Require error cause correction and feedback.

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

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

b. Rationale: The impact of the inventory accuracy problem is serious and covers a broad spectrum ranging from readiness to DoD budget credibility. Whenever materiel on an accountable record cannot be found, readiness is impacted. If the accountable record is overstated, nonexistent assets are applied to requirements. The opportunity for undetected theft is also increased when accountable records do not agree with materiel in storage. The attached procedures reflect the DoD Inspector General (IG) and General Accounting Office (GAO) recommendations and the changes that the DoD Joint Physical Inventory Working Group (JPIWG) agreed would streamline and simplify the physical inventory process to better employ physical inventory resources to maintain higher levels of inventory accuracy. AMCL 8A takes into consideration the changes that have occurred in the Department, specifically Defense Management Review Decision 902 (Depot Consolidation) and policy changes

promulgated in DoD 4140.1-R (DoD Materiel Management Regulation). The impact of the inventory accuracy problem is documented in the following DoD IG and GAO audit reports:

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

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

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

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

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

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

2. Interface/Impact:

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

b. Impact:

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

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

3. Advantages/Disadvantages:

a. Advantages:

(1) Fulfills DoD commitment to improve inventory accuracy.

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

(3) Enhances supply effectiveness by improving inventory accuracy.

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

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

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

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

b. Disadvantages. See impact paragraph.

4. Procedures. Revise MILSTRAP as indicated in Enclosures 1 through 11. Changes published in the November 15, 1994 AMCL 8A are identified by ***bold italic text***. New changes published by this third addendum to AMCL 8A are identified by **bold, double underlined text**.

Enclosures

THIRD ADDENDUM TO MILSTRAP AMCL 8A

REVISED PROCEDURES FOR PHYSICAL INVENTORY CONTROL

Make the following changes to DoD MILSTRAP. Changes reflected in the November 15, 1994 Addendum to AMCL 8A are identified in this change by ***bold italic text***. New changes published by this Third Addendum to AMCL 8A are identified by **bold and double underlined text:**

1. Table of Contents. REPLACE THE CHAPTER 7 ENTRIES WITH THE FOLLOWING:

		PAGE
CHAPTER 7 -	PHYSICAL INVENTORY CONTROL	
A.	General	7-1
B.	Policy	7-2
C.	Physical Inventory Procedures	**7-8**
D.	Research of Potential or Actual Physical Inventory Adjustments	**7-12**
E.	Reversal of Inventory Adjustments	**7-13**
F.	Location Audit Program	**7-14**
G.	Retention of Accountable Documentation	**7-21**
H.	Quality Control	**7-21**
I.	Inventory Control Effectiveness Reporting	**7-23**

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."

3. References. Delete DoD Instruction 4140.60 as Reference (t) and substitute as indicated. Add Reference (**ee**).

(t) DoD 5200.8-R, "Physical Security Program," May 1991.

(ee) ***DoD 7420.13-R, "Stock Fund Operations," June 1986.***

4. Definitions.

a. 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 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 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."

b. 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, and other such information necessary to properly account for materiel and exercise other inventory management responsibilities."

"**TOTAL ITEM PROPERTY RECORD.** The record or record set maintained by the IMM that identifies the quantity, condition, and value of the item assets for each organizational entity having physical custody of these assets. The total item property record includes, as a minimum, materiel that is due in, in transit, in organic wholesale repair facilities, in a contractor's custody, on loan, on hand in wholesale distribution centers, on hand at retail activities, and for reported assets in the custody of users."

5. Chapter 7. Revise Chapter 7 Enclosure 2.

6. Chapter 4. Revise Chapter 4, paragraph F1b, and add paragraph F3 to read:

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

"3. Recording asset receipts and making asset records visible from the point of inspection and/or acceptance normally shall be accomplished within 24 hours (holidays and weekends excepted). The accounting and finance office shall be notified of the item receipt within the 24-hour period."

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 A5and add new Appendixes A5 and A6 as indicated in Enclosures 3 and 4.

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

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

10. Appendix B3. Revise as indicated in Enclosure 5. **This third addendum to AMCL 8A publishes new codes U and V.**

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

"CODE	APPLICABLE DI CODES	DEFINITION
0	D8B, D9B	Gain/Loss resulting from end-of-day processing.
P	D8B, D9B	Gain/Loss resulting from location reconciliation.
Q	D9_	Loss resulting from a materiel release denial on another owner's/manager's materiel.

"CODE	APPLICABLE DI CODES	DEFINITION
0	All other DI codes	Reserved for future DoD assignment.
1	D9A	Adjustment based on materiel denial. Stock exhausted; unsuccessful storage activity search has been made.
2	D9A	Adjustment based on materiel denial. Materiel not available in condition requested; ***other condition codes recorded***. Unsuccessful storage activity search has been made.
3	D9A	Adjustment based on materiel denial. Materiel not available in shelf life, or for subsistence in date packed/ expiration date requested.
4	D9A	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). Unsuccessful storage activity search has been made."

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:

"CODE	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 ***or no record of ownership***.
S	***DJA***	***Physical inventory in workload bank or in process.***
T thru W	DJA	Reserved for future DoD assignment.

"CODE	APPLICABLE DI CODES	DEFINITION
X	***DJA***	***Followup on unscheduled inventory request when no adjustment or completion transaction received within 40 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 B8. Revise the codes as indicated below:

"CODE	TITLE	DEFINITION
4	***Change of Controlled Inventory Item Code***	Indicates the ***controlled inventory item code*** has been changed for the item represented by the NSN in record positions 8 24. The new ***controlled inventory item code*** is shown in record position 52.
6	Multiple Changes	Indicates multiple changes for the item represented by the NSN in record positions ***8-24***."

14. APPENDIX B9. Revise and add new codes as indicated below:

"CODE	DEFINITION
AQ	***Add: Location Reconciliation Request cutoff date invalid.***
AS	***Add: Location Reconciliation Request and/or Transaction History Transmittal received past scheduled deadline.***
AV	***Add: Activity identified in Location Reconciliation Request record positions 67-69 (RI Code (From)) not valid.***
AY	***New: Rejected. Location Reconciliation Request and/or Transaction History Transmittal does not equal the number of transactions recorded in the Location Reconciliation Notification and/or Location Reconciliation History Notification.***
AZ	***New: Rejected: Number of Location Reconciliation Requests received from storage activity exceed reasonable variance from owner/manager."***

15. Appendix B18. Delete the Operation Codes Matrix and revise the Code Definitions as indicated in Enclosure 6.

16. Appendix B31. Ad new Appendix B31, "Type Location Reconciliation Request" as indicated in Enclosure 7.

17. Appendix C Index. Revise the entries for Appendixes C17 and C19 and ***add new Appendixes C63 through C65*** as follows:

		PAGE
Appendix C17	Reserved	
Appendix C19	Reserved	
Appendix C60	Transaction History Request	C60-1
Appendix C62	Inventory Prioritization Information	C62-1
Appendix C63	***Location Reconciliation Notification***	***C63-1***
Appendix C64	***Location Reconciliation History Notification***	***C64-1***
Appendix C65	***End Of Day Transaction Count***	***C65-1***

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

FIELD LEGEND	RECORD POSITIONS	ENTRY AND INSTRUCTIONS
Routing Identifier (TO)	4-6	Enter RI Code of activity to which this transaction is being forwarded.
Type of Physical	7	Enter appropriate type of physical inventory/Inventory/Transaction History transaction history code.
Supply Condition	71	Enter supply condition code of inventory balance being affected. ~~***Leave blank for DI Code D8A when no adjustment is required***~~."
Day of Year	75	Enter ordinal date of the calendar year on which the adjustment is processed by the initiating activity.

19. 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	35-36	Leave blank
Blank	61-64	Leave blank.

"FIELD LEGEND	RECORD POSITIONS	ENTRY AND INSTRUCTIONS
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, N, and P is entered in record position 7; otherwise, leave blank."

20. Appendix C17, Physical Inventory Notification. Delete.

21. Appendix C19, Physical Inventory Count. Delete.

22. Appendix C59, Location Reconciliation Request. Delete note 1 and revise record positions 7 and 25-34 entry as follows:

"FIELD LEGEND	RECORD POSITIONS	ENTRY AND INSTRUCTIONS
Enter Type of Location Reconciliation Request	7	Enter code from appendix B31 which indicates type of reporting being accomplished.
Quantity	25-34	Enter quantity, preceding significant digits with zeros."

23. 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	25-31	Enter data specifying the period timeframe for which transaction history is being requested.
	(25-28)	Enter transaction history start date.
	(29-31)	Enter the total number of prior days transaction history required.
Blank	61-64	Leave blank.

24. Appendix C61. Revise the following entries:

FIELD LEGEND	RECORD POSITIONS	ENTRY AND INSTRUCTIONS
Type of Physical Inventory/Transactio n History	*7*	***Perpetuate from DI Code DZJ Transaction History Request; otherwise, enter code W for automatic submission of transaction history.***
Document Number	*30-43*	***When record position 7 of the DI Code DZJ is W and the storage activity has no transactions for the stock or part number requested for the dates specified in record positions 25-31, but transactions are available since the date of last location reconciliation, 8-fill this field; when no transactions are available for the dates specified or since the date of last location reconciliation, 9-fill this field. When record position 7 is X and the storage activity has no transactions for the dates specified, 9-fill this field; otherwise perpetuate from source document.***
Other Fields	*70*	***Perpetuate from source document.***
Supply Condition Code	*71*	***When record positions 30-43 of the DI Code DZK are 8- or 9-filled, enter the applicable supply condition code; otherwise, perpetuate from source document.***
Other Fields	*72*	***Perpetuate from source document.***

25. Appendix C62. Add new appendix as indicated in Enclosure 8.

26. *Appendixes C63 through C65. Add new appendixes as indicated in Enclosures 9 through 11.*

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 Joint Publication 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 4140.1-R (reference (v))***.

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

2. Philosophy

a. 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.

b. A fundamental requirement of inventory integrity is to implement the technical capability that provides for the total item property record which includes a single shared asset balance maintained by the distribution (depot) center.

3. ***Security of Materiel. Security is the first line of defense for physical inventory control; therefore, DoD Components shall pay special attention to the safeguarding of inventory items. This shall include analysis of loss rates through inventories, financial liability investigation of property loss reports (DD Form 200), and criminal incident reports, to establish whether repetitive losses indicate criminal or negligent activity. Physical security procedures for supply system materiel are contained in DoD 5200.8-R (reference (t)).***

4. Asset Management. A single total item property record shall be shared to provide materiel asset information. The total item property record shall, as a minimum, include materiel that is due in, in transit, in organic maintenance facilities, in a contractor's custody, on loan, on hand in distribution centers, reported on hand at retail activities, and for reported assets in the custody of users. The record or record set shall identify the quantity, condition, and value of the item assets for each organizational entity having physical custody of these assets.

5. Maintaining Property Accountability/Responsibility. The property accountability responsibility for segments of the total item property record may be delegated to, but not shared by, one or more organizational entities. However, asset balance information for a particular segment (such as the storage activity balance for an item) will be shared, duplicative records will not be maintained.

a. The Distribution (Depot) Center maintains the property accountability record for all materiel in storage and is responsible, as a minimum, for materiel custody, care, receipt, storage, and issue; safeguarding and rewarehousing materiels; physical inventory and research; location survey/reconciliation; quality control checks; supply discrepancy report initiation, research and resolution; investigating and assessing financial liability for loss, damage, and destruction of Government property; and appropriate actions necessary to ensure that the physical on-hand quantity and the total item property record quantity are in agreement.

b. The owning Service or Agency shall assume or assign the accountability for materiel not in the physical custody of a distribution (depot) center, including materiel inducted for organic repair, test assembly/disassembly, conversion, modification, or reclamation; materiel in a contractors hands (in accordance with provisions of the FAR (reference (ss)); materiel in transit; materiel on loan, etc.

c. The Integrated Materiel Manager is responsible for initiating and directing the conduct of physical inventories; discrepancy research and reports; resolving discrepancies, investigating, and assessing liability for loss, damaged, and destruction of Government property; and take appropriate actions necessary to ensure that the on-hand quantity and the total item property record quantity are in agreement for all DoD materiel that is not in the physical custody of DoD Activities.

6. End of the Day Processing. Use the following end of the day processing procedures pending the established of single shared asset balances (See paragraphs B.2. and **B.4**. above.).

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) on-hand balances daily. The storage activity shall submit the daily closing on-hand balance to each affected owner/manager using DI Code DZH, Location Reconciliation Request, prepared in the appendix C59 format, citing Type of Location Reconciliation Request Code 1 in record position 7.

(2) Storage activities shall prepare asset status transactions by line item (stock number + supply condition code = line item), 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. ***The storage activity shall also submit DI Code DZM, End of Day Accountable Transaction Count, prepared in the appendix C65 format, to advise the owner/manager of the number of balance affecting transactions that were forwarded during the daily course of business. This transaction is compared to the actual number of transactions received by the owner/manager to identify missing transactions and aid in unreconciled balance (URB) research.***

(3) Owners shall match the storage activity asset status to the affected records. Imbalances will be programmatically researched to assure consideration of in-float documents, delayed transactions, and duplicate transactions. For unresolved mismatched

quantities, the owner/manager will update the affected record on-hand balance with the storage activity's closing on-hand balance. The mismatched quantity (gains and losses) shall be adjusted with a DI Code D8B/D9B, Inventory Adjustment Increase/Decrease (Accounting Error) transaction.

(4) Owners/managers will request assistance from the distribution (depot) center to isolate causes of record imbalances to maintain transaction level integrity. The distribution (depot) center assistance should focus on data transmission, e.g., lost transactions, etc.

7. Reconciling Total Item Property Records with Financial Records. Owning Services/Agencies shall reconcile total item property records and financial records as prescribed by DoD 7220.9-M (reference (z)), chapter 34, and ***DoD 7420.13-R (reference (ee))*** to ensure compatibility of the total inventory value reflected by these records and associated reports.

8. 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.

9. 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.

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

a. Inventory Sampling. (The DoD is in the process of developing a statistical sampling methodology to meet both the Chief Financial Officer Act of 1990 and the Department's requirement to validate the accuracy of property accountability records.)

b. Complete inventories shall be accomplished as follows:

(1) Controlled Inventory Items. The following controlled inventory items (identified in DoD 4100.39-M (reference (ll)) 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 accurate with a 95 percent level of confidence, accuracy level of 85 percent, and a maximum margin of error of 2 percent. If the sample inventory results do not satisfy the above criteria, complete physical inventory of the population from which the sample was selected, will be performed.

c. Inventories for items not designated for complete inventory under subparagraph B.10.b. shall be accomplished as a result of:

(1) Total or partial materiel release denials (spot inventory--see subparagraph C.4.b. and appendix B3, Type of Physical Inventory/Transaction History Code E).

(2) Location reconciliation variances.

(3) Location survey errors.

(4) Owner/manager request (special inventory); or

(5) 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 DZL, Inventory Prioritization Information, prepared in appendix C62 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.10.a., B.10.b., B.10.c(1), B.10.c(2), and B.10.c(3).

11. Potential Discrepancies. Potential discrepancies between the actual physical count of materiel and the property accountability record on-hand balance shall be researched and resolved in accordance with figure 7-1 (see page 7-32) 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.

12. 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 Accomplishment. Storage activities will monitor program accomplishment throughout the fiscal year to ensure that the requirements of paragraph B.10. are met.

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 statistical sample inventory to meet the Chief Financial Officers Act of 1990 and the Departments requirement to validate the accuracy of the supply records with DI Code DJA requests using Type of Physical

Inventory/Transaction History Code N. The OSD will publish the quarter to conduct the annual statistical sample inventory.

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 statistical 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.

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, D, 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 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 for noncontrolled items variances greater than $5000. These requests will cite Type of Physical Inventory/Transaction History Code E.

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

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

5. Canceling Inventories

a. When conditions exist which preclude accurate completion of an inventory which has been established, the inventory will 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 in float 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 4140.1-R (reference (v)), to include the recognition of the RDD. The storage activity may also reduce the volume of in float 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 Physical Inventory Cutoff Date (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 line item 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 line item, 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.***~~

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 ***40*** 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 ***and Transaction History Transmittal (DI Code DZK) reflecting the actual physical inventory adjustment***.

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 (see page 7-32) 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, page 7-32).

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 (see page 7-32).

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. The storage activity must complete mandatory causative research within 45 calendar days from the date the adjustment transaction was posted. Sample causative research must be completed within 45 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.

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.[1] 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. The storage activity will provide a quarterly summary of the causative research results -- as reported by the error cause code -- and provide feedback to the commander of

[1]The Integrated Materiel Manager may use the error classification codes in record positions 63-65 in DI Codes D8B/D9B Inventory Adjustment Transactions (Accounting Errors) pending the establishment of single shared asset balances (See paragraphs B.2. and B.4.).

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 Inventory 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, page 7-32).

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, 3, or 4, storage activities will:

(1) Reverse the issue, adjust the storage activity record on-hand quantitative balance to zero, and transmit a DI Code D9A for the adjusted quantity to the owner/manager citing denial Management Code 1, 2, 3, or 4.

(2) Initiate a spot inventory as required under paragraph C.4(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 4140.1-R (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 ***unless the requirements of paragraph E.1. are met***. 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.[2] The DoD acceptable accuracy goals are provided in paragraph B.12.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. 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(3) by element.

[2]The location reconciliation process will not be required with the establishment of single shared asset balances (see paragraphs B.2. and B.3.).

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. 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. Location survey will be accomplished at each storage activity not less than once each fiscal year, by (1) performing complete location survey of all locations; (2) using a statistical sampling methodology that ensures all locations are included in the sample and has a probability of selection; or (3) a combination of complete and statistical sampling.

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 (ll)), 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) ~~***Date packed/expiration date for shelf-life materiel.***~~

(e) Type of pack code (for subsistence only). (See MILSTRIP (reference (h)), appendix B23.)

(f) Lot number or serial number (for ammunition only).

(g) Completeness and accuracy of magazine data card (for ammunition only).

(h) 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[3]

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 (ll)), Volume 10, Table 61).

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

(e) Shelf-life code.

(f) Date packed/expiration date (subsistence only).

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

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[3]The location reconciliation process will not be required with the establishment of single shared asset balances (see paragraphs B.2. and B.4.).

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 line item, 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, using Type of Location Reconciliation Request Code 2 in record position 7, 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) Storage activities and owners/managers will establish the following provisions for controlling location reconciliation:

(a) Storage activities will advise intended recipients (owners/managers) of the number of transactions being forwarded, transmission date, and the medium (DDN, mail, etc.) using DI Code DZN Location Reconciliation Notification transaction (appendix C64).

(b) When transaction history (DI Code DZK Transaction History Transmittal) is required to accompany DI Code DZH, the storage activity will advise intended recipients (owners/managers) of the number of DI Code DZK transactions being forwarded, the cutoff date, and the medium (DDN, mail, etc.) using DI Code DZP Location Reconciliation History Notification transaction (appendix C65).

(c) Owners/managers will use the DI Code DZN and DI Code DZP transactions to determine receipt of all DI Code DZH and DI Code DZK transactions. Where the number of DI Code DZH or DI Code DZK transactions to be transmitted does not match what was actually received, the owner/manager may reject the DI Code DZN or DI Code DZP transaction using DI Code DZG Transaction Reject with Reject Advice Code AY.

(5) 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 ***meeting the criteria for causative research (see figure 7-1, page 7-32)*** 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.

(6) 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)).

(7) 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), Compact Disk-Read Only Memory (CD-ROM), etc., for at least two years. Where source documents are produced, 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 4140.1-R (reference (v)). 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 ***financial liability investigation of property loss reports (DD Form 200).***

i. Logistics 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 maintains the property accountability record. 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. 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.

b. 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 4140.1-R (reference (v)).

c. Submit an original and one copy to **ATTN: DLMSO ROOM 1655, DEFENSE LOGISTICS MANAGEMENT STANDARDS OFFICE, 8725 JOHN J KINGMAN ROAD SUITE 2533, FT. BELVOIR, VA 22060-6221** 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.

b. PART I. Performance

(1) Materiel Denials

(a) Lines Directed for Shipment. Enter the total number of line items directed for shipment (A5_ MRO, A5J DRO, A4_ referral order).

(b) Total Materiel Denials. Enter the total materiel 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 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) x 100} The DoD performance goal for the materiel release denial rate is not greater than one percent.

(2) Receipt Processing Performance

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

(b) Receipts Posted and Stored on Time. Enter the total number of line item receipts which were effectively posted and stored 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 total item property record.

(c) On Time Receipt Rate. Compute this figure by dividing the total number of receipts posted and stored on time by the total number of receipts and multiplying by 100. {(2)(b) / (2)(a) x 100} The DoD performance goal for posting and storing 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 [4] (ratio of valid storage activity location records to inventory manager's records).

(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) x 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 line items on the Inventory Manager's record and line items 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. (count one error per location reconciliation request (line item) 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.

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[4]The location reconciliation process will not be required with the establishment of single shared asset balances (see paragraphs B.2. and B.4.).

c. PART II. Physical Inventory and Adjustments

(1) Physical Inventories

(a) Number 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 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)) x 100}

(d) Number 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)) x 100}

(2) Number of Adjustments from Other Than Physical Inventories[5]

(a) Number of Location Reconciliation Adjustments. Enter the number of location reconciliation adjustments (DI Code D8/9B).

(b) Number of End of the Day Processing Adjustments. Enter the number of end of the day processing adjustments (DI Code D8/9B).

(c) Total. Absolute total of adjustments from other than physical inventories. {(2)(a) + (2)(b)}

(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)(c)}

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[5]The end of day process and location reconciliation process will not be required with the establishment of single shared asset balances (see paragraphs B.2. and B.4.).

(4) Number of Reversals of Inventory Adjustments

(a) Number of Gain Reversals. Enter the number of gain reversals of inventory adjustments.

(b) Number 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 on-hand 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 Gross Adjustments {(5)(c)1 a + (5)(c)1 b}

2 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.

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.

c Total. Absolute total of reversals of current quarter gains and losses. {(5)(c)2 a + (5)(c)2 b}

3 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.

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.

c Total. Absolute total of reversals of prior quarter gains and losses. {(5)(c)3 a + (5)(c)3 b}

4 Total Reversals. The total of reversals of current quarter and prior quarter gains and losses. {(5)(c)2 c + (5)(c)3 c}

5 Total Record Imbalances. The total of gross adjustments and total reversals. {(5)(c)1 c + (5)(c)4}

(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)1 c / (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)1 c / (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)5 / (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)5 / (5)(b)) x 100}

(8) Monetary Value of Location Reconciliation[6]

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

~~**(b) Location Reconciliation Adjustments**~~

(b) Gains. Enter the monetary value of gains resulting from reconciliation during the period.

(c) Losses. Enter the monetary value of losses resulting from reconciliation during the period.

(d) Total. Absolute total of location reconciliation gains and losses. **{(8)(b) + (8)(c)}**

(9) Monetary Value of End of the Day Processing

(a) Gains. Enter the value of gains resulting from end of the day processing.

(b) Losses. Enter the value of losses resulting from end of the day processing.

(c) Total. Absolute total of end of the day processing gains and losses. {(9)(a) + (9)(b)}

3. ICE Report Preparation Instructions for Ammunition

a. Report Heading/Columns

[6]The end of day process and location reconciliation process will not be required with the establishment of single shared asset balances (see paragraphs B.2. and **B.4**.).

(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 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 posting and storing 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.[7]

c. PART II. Physical Inventory and Adjustments

(1) Physical Inventories.

(a) Number 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.

[7]The location reconciliation process will not be required with the establishment of single shared asset balances (see paragraphs B.2. and B.4.).

(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)) x 100} The DoD inventory record accuracy goal for ammunition is 95 percent.

(2) Number 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) Number 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)5.

(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.[8] Complete same as paragraphs I.2.c(8)(a) through **I.2.c(8)(d)**.

(9) Monetary Value of End of the Day Processing.[8] Complete same as paragraphs I.2.c(9)(a) through I.2.c(9)(c).

[8]The end of day process and location reconciliation process will not be required with the establishment of single shared asset balances (see paragraphs B.2. and B.4.).

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.	***> $1,000 but ≤ $5,000 and ≤ 10 percent unit variance***	YES	NO	NO
3.	***> $1,000 but ≤ $5,000 and > 10 percent unit variance***	YES	YES	NO
4.	***> $5,000 but ≤ $16,000 and ≤ 25 percent unit variance***	YES	YES	SAMPLE
5.	***> $5,000 but ≤ $16,000 and > 25 percent unit variance***	YES	YES	YES
6.	> $16,000	YES	YES	YES
7.	Controlled Inventory Item	YES	YES	YES[9]
8.	Suspected Fraud, Waste, or Abuse	YES	YES	YES
9.	Annual Statistical Sample for variances >$100	YES	YES	YES

Figure 7-1

[9]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.

INVENTORY CONTROL EFFECTIVENESS REPORT

GENERAL SUPPLIES

REPORTING ORGANIZATION_____

PART I. PERFORMANCE	QUARTER ENDING	FY____TO DATE
1. MATERIEL RELEASE DENIALS		
A. LINES DIRECTED FOR SHIPMENTS		
B. TOTAL MATERIEL RELEASE DENIALS		
C. MATERIEL DENIAL RATE ((1B/1A)X100)		
2. RECEIPT PROCESSING		
A. RECEIPTS STORED AND POSTED		
B. RECEIPTS STORED AND POSTED ON TIME		
C. ON TIME RECEIPT RATE ((2B/2A)X100)		
3. LOCATION AUDIT PROGRAM		
A. LOCATION SURVEYED		
B. SURVEY ERRORS		
C. SURVEY ACCURACY (100-((3B/3A)X100)		
D. LOCATIONS RECONCILED		
E. RECONCILIATION ERRORS		
F. RECONCILIATION ACCURACY (100-((3E/3D)X100)		

PART II. PHYSICAL INVENTORY ADJUSTMENTS		
1. PHYSICAL INVENTORIES		
A. NO. OF SCHEDULED AND UNSCHEDULED INVENTORIES COMPLETED		
B. NO. OF INVENTORIES WITH VARIANCES		
C. INVENTORY VARIANCE RATE ((1B/1A)X100)		
D. NO. OF INVENTORIES WITH MAJOR VARIANCES (>$5000)		
E. MAJOR VARIANCE RATE ((1D/1A)X100)		
2. NO. OF INVENTORY ADJUSTMENTS FROM OTHER THAN PHYSICAL INVENTORY		
A. LOCATION RECONCILIATION		
B. END OF DAY PROCESSING		
C. TOTAL (2A+2B)		
3. TOTAL ADJUSTMENTS (1B+2C)		
4. NO. OF REVERSALS OF INVENTORY ADJUSTMENTS		
A. NO. OF GAIN REVERSALS		
B. NO. OF LOSS REVERSALS		
C. TOTAL (4A+4B)		
5. MONETARY VALUE ($000)		
A. AVERAGE VALUE OF INVENTORY		
B. RECORD VALUE OF ITEMS INVENTORIED		
C. VALUE OF INVENTORY ADJUSTMENTS		
(1) PHYSICAL INVENTORY ADJUSTMENTS		
(A) GAINS		
(B) LOSSES		
(C) GROSS ADJ. (5C(1)(A)+5C(1)(B))		
(2) REVERSALS - CURRENT QUARTER		
(A) GAINS		
(B) LOSSES		

(C) TOTAL (5C(2)(A)+5C(2)(B)) _____

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(3) REVERSALS - PRIOR QUARTER
(A) GAINS _____
(B) LOSSES _____
(C) TOTAL (5C(3)(A)+5C(3)(B)) _____
(4) TOTAL REVERSALS (5C(2)(C)+5C(3)(C)) _____
(5) TOTAL RECORD IMBALANCES (5C(1)(C)+5C(4)) _____

6. GROSS ADJUSTMENT AS A PERCENT OF
A. AVERAGE VALUE OF INVENTORY (5C(1)(C)/5A)X100) _____
B. VALUE OF ITEMS INVENTORIED (5C(1)(C)/5B)X100) _____

7. TOTAL RECORD IMBALANCES AS A PERCENT OF
A. AVERAGE VALUE OF INVENTORY (5C(5)/5A)X100) _____
B. VALUE OF ITEMS INVENTORIED (5C(5)/5B)X100) _____

8. MONETARY VALUE OF LOCATION RECONCILIATION
A. VALUE OF ITEMS RECONCILED _____
B. VALUE OF GAINS _____
C. VALUE OF LOSSES _____
D. TOTAL (8B+8C) _____

9. MONETARY VALUE OF END-OF-DAY PROCESSING
A. VALUE OF GAINS _____
B. VALUE OF LOSSES _____
C. TOTAL (9A+9B) _____

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INVENTORY CONTROL EFFECTIVENESS REPORT

AMMUNITION

REPORTING ORGANIZATION_____

PART I. PERFORMANCE	QUARTER ENDING_____ LOW RISK	HIGH RISK	FY____TO DATE LOW RISK	HIGH RISK
1. MATERIEL RELEASE DENIALS				
A. LINES DIRECTED FOR SHIPMENTS				
B. TOTAL MATERIEL RELEASE DENIALS				
C. MATERIEL DENIAL RATE ((1B/1A)X100)				
2. RECEIPT PROCESSING				
A. RECEIPTS STORED AND POSTED				
B. RECEIPTS STORED AND POSTED ON TIME				
C. ON TIME RECEIPT RATE ((2B/2A)X100)				
3. LOCATION AUDIT PROGRAM				
A. LOCATION SURVEYED				
B. SURVEY ERRORS				
C. SURVEY ACCURACY (100-((3B/3A)X100)				
D. LOCATIONS RECONCILED				
E. RECONCILIATION ERRORS				
F. RECONCILIATION ACCURACY 100-((3E/3D)X100)				

PART II. PHYSICAL INVENTORY ADJUSTMENTS				
1. PHYSICAL INVENTORIES				
A. NO. OF SCHEDULED AND UNSCHEDULED INVENTORIES COMPLETED				
B. NO. OF INVENTORIES WITH VARIANCES				
C. INVENTORY RECORD ACCURACY 100-((1B/1A)X100)				
2. NO. OF INVENTORY ADJUSTMENTS FROM OTHER THAN PHYSICAL INVENTORY				
A. LOCATION RECONCILIATION				
B. END OF DAY PROCESSING				
C. TOTAL (2A+2B)				
3. TOTAL ADJUSTMENTS (1B+2C)				
4. NO. OF REVERSALS OF INVENTORY ADJUSTMENTS				
A. NO. OF GAIN REVERSALS				
B. NO. OF LOSS REVERSALS				
C. TOTAL (4A+4B)				
5. MONETARY VALUE ($000)				
A. AVERAGE VALUE OF INVENTORY				
B. RECORD VALUE OF ITEMS INVENTORIED				
C. VALUE OF INVENTORY ADJUSTMENTS				
(1) PHYSICAL INVENTORY ADJUSTMENTS				
(A) GAINS				
(B) LOSSES				
(C) GROSS ADJ. (5C(1)(A)+5C(1)(B))				
(2) REVERSALS - CURRENT QUARTER				
(A) GAINS				
(B) LOSSES				

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(C) TOTAL (5C(2)(A)+5C(2)(B)) _____

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(3) REVERSALS - PRIOR QUARTER
(A) GAINS _____
(B) LOSSES _____
(C) TOTAL (5C(3)(A)+5C(3)(B)) _____
(4) TOTAL REVERSALS (5C(2)(C)+5C(3)(C)) _____
(5) TOTAL RECORD IMBALANCES
(5C(1)(C)+5C(4)) _____

6. GROSS ADJUSTMENT AS A PERCENT OF
A. AVERAGE VALUE OF INVENTORY
(5C(1)(C)/5A)X100) _____
B. VALUE OF ITEMS INVENTORIED
(5C(1)(C)/5B)X100) _____
7. TOTAL RECORD IMBALANCES AS A PERCENT OF
A. AVERAGE VALUE OF INVENTORY
(5C(5)/5A)X100) _____
B. VALUE OF ITEMS INVENTORIED
(5C(5)/5B)X100) _____
8. MONETARY VALUE OF LOCATION RECONCILIATION
A. VALUE OF ITEMS RECONCILED _____
B. VALUE OF GAINS _____
C. VALUE OF LOSSES _____
D. TOTAL (8B+8C) _____
9. MONETARY VALUE OF END OF DAY PROCESSING
A. VALUE OF GAINS _____
B. VALUE OF LOSSES _____
C. TOTAL (9A+9B) _____

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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, accountable officers, or storage activity
D	Special Inventory, all supply condition codes. Initiated by owner as a result of end of day processing 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
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

CODE	DEFINITION
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
M	Special Inventory, all condition codes. Initiated by storage activity as a result of onhand balance mismatches between the locator and property accountability records
N	Scheduled Inventory, specified supply condition codes. Initiated by storage activity for the annual statistical sample Inventory
O	Reserved for future DoD assignment
P	Scheduled Inventory, specified supply condition codes. Initiated by storage activity for a random statistical sample Inventory
Q	Reserved for future DoD assignment
R	***Special inventory, specified supply condition code. Initiated by storage activity in an effort to resolve a customer report of discrepancy***
S	***Special inventory, specified supply condition code. Initiated by storage activity as part of receipt followup (intransit) resolution process***
T	***Special inventory, specified supply condition code. Initiated by storage activity as a result of a disposal release order directing ownership transfer to the Recycling Control Point***
U	**Special inventory, specified supply condition code. A location-level inventory initiated by storage activity for low asset visibility counts**
V	**Special inventory, specified supply condition code. Initiated by storage activity as a result of a location-level inventory adjustment or exceeding predetermined thresholds**
W	Automatic submission of transaction history from storage activity to owner/manager
X	Storage activity transaction history requested by owner/manager or transaction history response from storage activity to owner
Y	Reserved for future DoD assignment

CODE	DEFINITION
Z	Reserved for future DoD assignment
0 through 9	Reserved for future DoD assignment

APPENDIX B18

ERROR CLASSIFICATION CODES

NUMBER OF CHARACTERS:	Three
TYPE OF CODE:	Alphabetic/Numeric
EXPLANATION:	Provides processing activities a means of mechanically identifying the causes for errors which resulted in potential/actual inventory adjustments, accounting adjustments,[1] and the processing operations in which they occurred
RECORD POSITIONS:	63-65 of inventory adjustment transactions (DI D8A/D9A and D8B/D9B)

A. PURPOSE

1. The physical inventory program error classification codes provide a standard means for Services/Agencies to classify the causes of actual/potential adjustments for subsequent analysis, evaluation, and corrective action.

2. The error classification code is a required entry on MILSTRAP documentation for use in preparing reports and for providing evaluation data to higher authority in standard error classification categories.

B. CODE STRUCTURE

1. **First Position**. The first character is the operation code which will be numeric or alphabetic and will identify the operation during which the error occurred and not the operation in which the error was detected. Code assignment for the first character is controlled by DoD and may not be assigned by the Services/Agencies. The following operation codes are assigned as the first character in the error classification code:

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[1] **The Integrated Materiel Manager may use the error classification codes in rp 63-65 in DI D8B/D9B Inventory Adjustment Transactions (Accounting Errors) pending the establishment of single shared asset balances (see chapter 7, paragraphs B.2. and B.4.).**

CODE	OPERATION	CODE	OPERATION
0	Not assigned; reserved for future assignment by DoD	6	Warehousing/Rewarehousing
1	Receiving	7	Location Survey
2	Issue	8	Other
3	Physical Inventory	9	Not assigned; reserved for future assignment by DoD
4	Cataloging Changes	A-Z	Not assigned; reserved for future assignment by DoD
5	Logistics Reassignments		

2. **Second Position**. The second character is the type of error code which is alphabetic or numeric and identifies the type of error which occurred. Code assignment for the second character is controlled by DoD and may not be assigned by the Services/ Agencies. The following type of error codes are assigned as the second character in the error classification code:

CODE	LEGEND	DEFINITION
A	System/Program Error	Property accountability record was not correctly updated by a valid transaction because system failed or program contained a logic error
B	Document Not Posted	Physical processing was completed but transaction update of the property accountability record was not effected
C	Source Document Error	Error in the source document NAN, quantity, unit of issue, condition, type of pack, lot number, ownership/ purpose, and/or location (routing identifier) caused erroneous update of property accountability record

CODE	LEGEND	DEFINITION
D	Data Entry Error	Input transaction did not match source document NAN, quantity, unit of issue, condition, type of pack, lot number, ownership/purpose, and/or location (routing identifier) and caused erroneous update of the property accountability record
E	Rejected Document Not Posted	Transaction was rejected during processing and was not reinput to update the property accountability record
F	Duplicate Document Posted	Same transaction updated the property accountability record more than once
G	Reversal Document Not Posted	Property accountability record was updated by a transaction processed to completion and required transaction reversal was not processed
H	Erroneous Reversal Posted	Prior action to reverse a transaction which updated the property accountability record was taken in error
I	Not Assigned	
J	Misidentified/Mixed Materiel	Assets in storage location were identified by incorrect/multiple stock number, unit of issue, supply condition, shelf-life, type of pack, lot number, or ownership/purpose
K	Duplicate Physical Processing	Transaction updated the property accountability record once but materiel physically processed more than once
L	Wrong Materiel Selected	Materiel selected did not match transaction which updated the property accountability record (i.e., wrong stock number, quantity, unit of issue, supply condition, type of pack, lot, ownership/purpose, and/or location was physically selected)
M	Materiel Selected From Wrong Location	Storage location from which materiel was selected did not match storage location cited in the transaction
N	Physical Processing Not Complete	Transaction updated the property accountability record but physical processing of materiel was not completed
O	Not Assigned	
P	Erroneous Denial	Denial processed in error. Materiel found after denial was submitted

CODE	LEGEND	DEFINITION
Q	Materiel Not Stored/Stored Incorrectly	Materiel was not stored in finite location or placed in finite location when processing the storage transaction
R	Infloat Document Control Error	Erroneous data posted to the property accountability record because infloat documents were not considered or were not available
S	Erroneous Count	Materiel incorrectly counted
T	Erroneous Adjustment Posted	Prior action to adjust the property accountability record was taken in error
U	Catalog Change Not Posted	Transaction resulted in erroneous update of the property accountability record because the property accountability record was not updated by catalog change transaction
V	Erroneous Catalog Change Posted	Erroneous data posted to property accountability record due to error in catalog change record due to error in catalog change transaction, (e.g., wrong unit of issue to or from, etc.)
W	Bin Tag/Locator Label Error	Bin tag/locator label missing, incomplete, or reflected erroneous data for assets in storage location
X	Theft	Inventory adjustment attributed to probable theft
Y	No Conclusive Findings	Cause for the inventory discrepancy could not be determined
Z	Not Assigned	Reserved for future DoD assignment
0-9	Not Assigned	Reserved for future DoD assignment

3. **Third Position**. The third character may be assigned by each Service/Agency to internally amplify the error classification. Numeric and alphabetic code assignments in this position will be controlled by each individual Service/Agency for their internal use.

APPENDIX B31

TYPE OF LOCATION RECONCILIATION REQUEST [1]

NUMBER OF CHARACTERS:	One
TYPE OF CODE:	Numeric
EXPLANATION:	Used to identify the type of location reconciliation request
RECORD POSITION:	7

CODE	DEFINITION
1	End-of-day processing
2	Annual location reconciliation request

[1]The end-of-day processing and location reconciliation process will not be required with the establishment of single shared asset balances (see Chapter 7, paragraphs B.2. and B.3.).

APPENDIX C62

INVENTORY PRIORITIZATION INFORMATION

FIELD LEGEND	RECORD POSITION(S)	ENTRY AND INSTRUCTIONS
Document Identifier	1-3	Enter DI Code DZL
Routing Identifier (TO)	4-6	Enter RI code identifying the depot to which the transaction is being forwarded
Blank	7	Leave blank
National Stock Number	8-22	Enter the NSN for which information is being provided, or only the Federal Supply Classification (FSC) if the information applies to all items in the FSC, or leave blank if the information is default values. Values will not be provided for more than 15 FSCs.
Procurement Lead Time	23-26	Enter the PLT, expressed in months, for the NSN, FSC, or the default value. Owners may use Order Ship Time.
Months To Procurement (MTP)	27-29	Enter the MTP, expressed in months, for the NSN, or the default value. Owners may use months until next order.
Essentiality Code	30-32	Enter the essentiality code (or USAF Mission Item essentiality code or USMC Combat Essentiality-Criticality Code) applicable to the NSN
Weighting Factor 1 (W_1)	33-35	Enter the value of the weighting factor applicable to the Annual Demand Frequency(ADF) for the NSN, FSC, or default. Not to exceed 100.
Weighting Factor 2 (W_2)	36-38	Enter the value of the weighting factor applicable to the Annual Demand Quantity (ADQ) for the NSN, FSC, or default. Not to exceed 100.

FIELD LEGEND	RECORD POSITION(S)	ENTRY AND INSTRUCTIONS
Weighting Factor 3 (W_3)	39-41	Enter the value of the weighting factor applicable to the Annual Demand Dollar Value (ANDOL) for the NSN, FSC, or default. Not to exceed 100.
Weighting Factor 4 (W_4)	42-44	Value of the weighting factor applicable to the essentiality code Value (ECV) for the NSN, FSC, or default. Not to exceed 100.
Weighting Factor 5 (W_5)	45-47	Value of the weighting factor applicable to the PLT for the NSN, FSC, or default. Not to exceed 100.
Weighting Factor 6 (W_6)	48-50	Enter the value of the weighting factor applicable to the MTP for the NSN, FSC, or default. Not to exceed 100.
Blank	51-61	Leave blank
Date	62-66	Enter the date prepared
Routing Identifier (FROM)	67-69	Enter RI code identifying the owner preparing the transaction
Blank	70-80	Leave blank

APPENDIX C63

LOCATION RECONCILIATION NOTIFICATION

FIELD LEGEND	RECORD POSITION(S)	ENTRY AND INSTRUCTIONS
Document Identifier	*1-3*	*Enter DI Code DZN.*
Routing Identifier (TO)	*4-6*	*Enter RI code identifying the owner/manager to which the transaction is being forwarded.*
Type of Location Reconciliation Request	*7*	*Enter code from Appendix B31 identifying Type of Location Reconciliation Request.*
Number of DI Code DZH Transactions to be Transmitted	*8-14*	*Actual number of DI Code DZH requests to be transmitted, e.g., 0000151.*
Cutoff Date	*15-18*	*Enter the date for location reconciliation. The last digit of the calendar is entered in record position 15 and the day of the year is entered in record positions 16-18; e.g., 4032 is Feb 1, 94.*
Routing Identifier (FROM)	*19-21*	*Enter R Icode identifying the storage activity preparing the transaction.*
Type of Media Code	*22*	*Enter code from Appendix B17 identifying medium used to transmit the transactions.*
Blank	*23-80*	*Leave blank.*

APPENDIX C64

LOCATION RECONCILIATION HISTORY NOTIFICATION

FIELD LEGEND	RECORD POSITION(S)	ENTRY AND INSTRUCTIONS
Document Identifier	*1-3*	*Enter DI Code DZP.*
Routing Identifier (TO)	*4-6*	*Enter the RI Code identifying the owner/manager to which the transaction is being forwarded.*
Type of Location Reconciliation Request	*7*	*Enter code from Appendix B31 identifying Type of Location Reconciliation Request.*
Number of DI Code DZK Transactions to be Transmitted	*8-14*	*Actual number of DI Code DZK requests to be transmitted, e.g., 0000151.*
Cutoff Date	*15-18*	*Enter the date for location reconciliation. The last digit of the calendar is entered in record position 15 and the day of the year is entered in record positions 16-18; e.g., 4032 is Feb 1, 1994*
Routing Identifier (FROM)	*19-21*	*Enter the RI Ccode identifying the storage activity preparing the transaction.*
Type of Media Code	*22*	*Enter code from Appendix B17 identifying medium used to transmit the transactions.*
Blank	*23-80*	*Leave blank.*

APPENDIX C65

END OF DAY ACCOUNTABLE TRANSACTION COUNT

FIELD LEGEND	RECORD POSITION(S)	ENTRY AND INSTRUCTIONS
Document Identifier	*1-3*	*Enter DI Code DZM.*
Routing Identifier (TO)	*4-6*	*Enter RI Code identifying the owner/manager to which the transaction is being forwarded*
Type of Accountable Transaction Count	*7*	*Enter 1 to identify the number of transactions included in this transmission.* *or* *Enter 2 to identify the individual balance affecting transaction.*
Blank	*8-27*	*Leave blank*
Accountable Transaction DI Code	*28-29*	*Enter the first two positions of the balance affecting transactions (D4, D6, D7, D8, D9, DA, DZ). Leave blank if record position 7 is equal to 1*
Accountable Transaction Count	*30*	*Enter the number of transactions included in this transmission. Leave blank if record position 7 is equal to 2.*
Blank	*31-37*	*Leave blank.*
Number of Balance Affecting Transactions	*38-43*	*Enter the daily volume of balance affecting transactions applicable to the reported DI code in record position 28-29. Leave blank if record position is equal to 1.*
Blank	*44-66*	*Leave blank.*
Routing Identifier (FROM)	*67-69*	*Enter the RI code identifying the storage activity preparing the transaction.*

Transaction Date	***70-73***	***Enter the ordinal day on which the transaction took place.***
Blank	***74-80***	***Leave Blank.***