



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

June 4, 2009

IN REPLY DLMSO
REFER TO

MEMORANDUM FOR SUPPLY PROCESS REVIEW COMMITTEE (SPRC) AND JOINT
PHYSICAL INVENTORY WORKING GROUP (JPIWG) MEMBERS

SUBJECT: Proposed Defense Logistics Management System (DLMS) Change (PDC) 341A,
Proposed Changes to DLMS and MILSTRAP to Address Owner/Manager Research
of Inventory Adjustments (Accounting Error) (MILSTRAP D8B/D9B, DLMS 947I)
(Supply/MILSTRAP)

We are forwarding the attached proposed change to DOD 4000.25-M, DLMS, and
DOD 4000.25-2-M, MILSTRAP, for evaluation and submission of a single coordinated DOD
Component position. **It is the Component Supply PRC representative's responsibility to
assure full coordination of the proposal within your Component. Request Component
SPRC and JPIWG representatives coordinate on your Component response.**

Request you review the attached proposed change and provide your comments/
concurrence to DLMSO not later than **June 30, 2009**. **Nonresponse will be considered
concurrence with the change as written. If nonconcurrence is provided, provide an
alternate method to meet the DoD Inspector General recommendations being addressed.**

Addressees may direct questions to the DLMSO point of contact, Ms. Mary Jane
Johnson, JPIWG Chair and MILSTRAP Administrator, at (703) 767-0677; DSN 427-0677; or,
e-mail: Mary.Jane.Johnson@dla.mil. Others must contact their Component designated SPRC
or JPIWG representative.

DONALD C. PIPP
Director
Defense Logistics Management
Standards Office

Attachment

cc:
DUSD(L&MR)SCI

ATTACHMENT TO PDC 341A

Proposed Changes to DLMS and MILSTRAP to Address Owner/Manager Research of Inventory Adjustments (Accounting Error) (MILSTRAP D8B/D9B, DLMS 947I) (Supply)

1. ORIGINATOR:

a. **Service/Agency:** DLMSO

b. **Originator:** Ms. Mary Jane Johnson, DLMSO, Joint Physical Inventory Working Group (JPIWG) Chair, (703) 767-0677; DSN 427-0677; email: mary.jane.johnson@dla.mil

2. FUNCTIONAL AREA: Supply/Physical Inventory

3. REFERENCES:

a. DoD Inspector General (IG) Report No. D-2008-090, May 13, 2008, subject: Controls Over Reconciling Army Working Capital Fund Inventory Records, available at: <http://www.dodig.mil/audit/reports/08report.htm>

b. DoD 4000.25-M, DLMS, Volume 2, Supply Standards and Procedures, Chapter 6, as revised by Approved DLMS Change (ADC) 307 (reference 3e). DLMS, Volume 2, is available at: <http://www.dla.mil/j-6/dlms/eLibrary/manuals/dlms/v2.asp>

c. DoD 4000.25-2-M, Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP), as revised by ADC 255 (reference 3f). MILSTRAP is available at: <http://www.dla.mil/j-6/dlms/eLibrary/Manuals/MILSTRAP/default.asp>

d. DLMSO memorandum, March 6, 2009, subject: PDC 341, Proposed Changes to DLMS and MILSTRAP to Address Owner/Manager Research of Inventory Adjustments (Accounting Error) (MILSTRAP D8B/D9B, DLMS 947I) (Supply/MILSTRAP)

e. DLMSO memorandum, November 20, 2007, subject: ADC 255, Storage Activity Accountability to Service Materiel Owners, available at: <http://www.dla.mil/j-6/dlms/eLibrary/Changes/approved3.asp>

f. DLMSO memorandum, November 10, 2008, subject: Approved DLMS Change (ADC) 307, Administrative Update to DLMS, Volume 2, Chapter 6, Physical Inventory Control, and DLMS 846P, 846R, and 888I, available at: <http://www.dla.mil/j-6/dlms/eLibrary/Changes/approved4.asp>

4. REQUESTED CHANGE:

a. **Title:** Proposed Changes to DLMS and MILSTRAP to Address Owner/Manager Research of Inventory Adjustments (Accounting Error) (MILSTRAP D8B/D9B, DLMS 947I) (Supply)

b. **Description of Change:**

(1) DOD Inspector General (IG) Report D-2008-090, Controls Over Reconciling Army Working Capital Fund Inventory Records (reference 3.a), contained recommendations for establishing requirements for owners/managers to research Inventory Adjustments (Accounting Error) transactions (DS 947I with Quantity or Status Adjustment Reason Code 'AB' ; or MILSTRAP Document Identifier (DI) Code D8B/D9B). The overall objective of the report is to bring owners/managers research requirements for Inventory Adjustments (Accounting Error) Transactions in line with the storage activities research

requirements for physical inventory adjustment (DS 947I with Quantity or Status Adjustment Reason Code 'AA' ; MILSTRAP DI Code D8A/D9A). The research requirements are published in DLMS Vol. 2, Chapter 6 (reference 3.b) and MILSTRAP Chapter 7 (reference 3.c.).

(2) PDC 341 (reference 3.d.) proposed changes to MILSTRAP to address the DODIG report recommendations. However many comments were received to PDC 341 and DLA expressed concern that PDC 341 intertwined procedures for Inventory Adjustments for Accounting Error with procedures for Inventory Adjustments associated with Physical Inventory in a way which might cause confusion. This revised PDC attempts to more clearly separate and identify the owner/manager requirements for research of Inventory Adjustments (Accounting Errors).

c. Reason for change. This change addresses DOD IG Report D-20008-090 recommendations related to DOD 4000.25-2-M, MILSTRAP, which are as follows:

DODIG Report Recommendations:

“1. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics revise DoD 4000.25-2-M guidance for performing the annual and end-of-day reconciliations of the storage activity’s inventory records to the national inventory manager’s records. Specifically:

- a. Define the national inventory manager’s responsibility for performing causative research to include identifying and correcting the duplicate, erroneous, or missing supply transactions causing the inventory accounting gain or loss adjustments.
- b. Require national inventory managers to classify, analyze, and evaluate supply transaction errors to determine and correct the underlying system or operational deficiencies causing the errors.
- c. Establish a timeframe for completing causative research of inventory accounting adjustments and processing any correcting transactions.
- d. Require the national inventory managers to follow the same guidance and criteria for researching accounting adjustments resulting from both the annual and the end-of-day inventory reconciliations.

e. Require storage activities and inventory materiel managers to perform the annual inventory reconciliations during September, close to fiscal year’s end.”

[PDC STAFFING NOTE: See bolded text below for the DUSD(L&MR) alternative recommendation for DOD IG recommendation 1.e above]

DOD IG Report Management Comments. “The Deputy Under Secretary of Defense for Logistics and Materiel Readiness, Office of the Deputy Secretary of Defense for Acquisition, Technology, and Logistics partially concurred and stated that by September 30, 2008, his office would review guidance in DoD 4000.25-2-M for performing annual and end-of-day reconciliations. However, the Deputy Under Secretary stated that scheduling the annual inventory records reconciliation for all DoD agencies and Components during September would not allow the required 45 days for correcting errors before fiscal year’s end. **As an alternative to our recommendation, the Deputy Under Secretary recommended that the storage activities and inventory materiel managers perform the annual reconciliation of inventory records before storage activities perform their annual physical inventories. The storage activities schedule the annual physical inventories close to the fiscal year’s end to comply with the Chief Financial Officers Act.”**

DOD IG Report Audit Response. “Management comments are responsive and meet the intent of

the recommendation. Performing the annual inventory records reconciliation before the physical inventories and close to fiscal year's end would reduce the time that discrepancies could develop between asset balances reported by the storage activities and balances recorded in the DoD agencies' and Components' supply systems."

d. Procedures: To support the DOD IG Report recommendations 1.a through 1.d, and the DUSD(L&MR) alternative to 1.e, revise MILSTRAP Chapter 7, and corresponding DLMS, Volume 2, Chapter 6, to clearly address owners/managers research requirements for 'Inventory Adjustments (Accounting Error)' by adding a section on "Research of Potential or Actual Inventory Adjustments (Accounting Errors) – DI Code D8B/D9B". In addition a distinct code list (new MILSTRAP appendix) is being added to clearly identify the inventory adjustment 'error classification codes' which apply to the DI Code D8B/D9B inventory adjustments (accounting error).

(1) Revise DoD 4000.25-2-M, MILSTRAP, Chapter 7, as revised by ADC 255 (reference 3.e), as shown in Enclosure 1. Changes are identified by red, bold, italicized text. The Enclosure 1 chapter also **highlights** paragraphs in the chapter which are pertinent to the DoD IG report recommendations but which did not require changes. Corresponding changes will be made to DoD 4000.25-M, DLMS, Volume 2, Chapter 6 (as revised by ADC 307 (reference 3.f).

(2) Add new AP2.16B, "Inventory Adjustment - Accounting Error Classification Codes", as shown at Enclosure 2. An Accredited Standards Committee (ASC) X12 data maintenance request has been submitted for new 1270 qualifier 'ACC-Accounting Error Classification Code'. DLMS local code 'ACC' is established for use in DLMS 947I at this time. Upon approval of the DM, this local code becomes a DLMS migration code.

- **Local Code:** A local code is a code value that is not in the current version, and has not yet been established at a higher ASC X12 version. A DM action is submitted to establish the code in a higher version. Once approved by ASC X12, the local code becomes a 'migration code'. Use of a "local code" to identify code 'ACC' for "Inventory Adjustment - Accounting Error Classification Codes", refers to establishing an agreement with all trading partners involved to use a code not yet recognized in X12. Manual intervention may be needed for some commercial applications to accept the local code.
- **Migration Code:** A migration code is when a code from a higher (but existing) ASC X12 version is used in a lower version. The semantic meaning and syntax are consistent with the higher version. Use of a "migration code" refers to establishing an agreement with all trading partners involved to use a valid X12 code from a higher version, with its approved X12 definition, at a lower version of X12. Manual intervention may be needed for some commercial applications to accept the higher version code.

(3) Add new ASC X12 1270 qualifier to DLMS Supplement 947I. Version 4030 updates are shown in Table below. Corresponding changes will be made to version 4010.

| Item # | Location | 947I Revision | Reason | Federal IC Impact |
|--------|------------------------|--|---|-------------------|
| 1. | DLMS Introductory Note | <p>Add PDC 341A to DLMS Introductory note.</p> <p><i>- PDC 341A, Proposed Changes to DLMS and MILSTRAP to Address Owner/Manager Research of Inventory Adjustments (Accounting Error) (MILSTRAP D8B/D9B, DLMS 947I) (Supply/MILSTRAP).</i></p> | To identify DLMS changes included in the DS. | No update needed. |
| 2. | 2/LQ01/1000 | <p>Add new LQ01 qualifier ACC with DLMS Note:</p> <p>ACC Accounting Error Classification Code</p> <p>DLMS Note: 1. Use to identify the 'Inventory Adjustment - Accounting Error Classification Codes'. Identifies causes for errors which resulted in inventory adjustment (accounting error) transactions. Use only with W1901 Quantity or Status Adjustment Reason Code 'AB-Accounting Error'. See PDC 341A.</p> <p>2. At this time a local code 'ACC' is established for use in 947I, version 4030. A data maintenance action has been submitted for establishment of 'ACC-Accounting Error Classification code' in a future version</p> | To add new qualifier established by PDC 341A. | No update needed. |
| 3. | 2/LQ01/1000 | <p>Revise DLMS note for existing qualifier EL</p> <p>EL Error Classification Code</p> <p>DLMS Note: Use to identify the 'Inventory Adjustment - Physical Inventory Error Classification Codes'. Identifies the causes of potential/actual inventory adjustment (physical inventory) errors and the processing operations under which the errors occurred. Use only with W1901 Quantity or Status Adjustment Reason Code 'AA-Physical Count'. See PDC 341A.</p> | To identify revised code name and clarify use IAW PDC 341A. | No update needed. |

(4) **AP2.16. Rename existing AP 2.16 Error Classification Codes, to AP2.16A, Inventory Adjustment - Physical Inventory Error Classification Codes**, remove reference to DI Codes D8B/D9B, add reference to DLMS use, and revise the explanation as follows. No code values are changed. See Enclosure 2 for new “Inventory Adjustment – Accounting Error Classification Codes”

AP2.16A APPENDIX 2.16A

INVENTORY ADJUSTMENT - PHYSICAL INVENTORY ERROR CLASSIFICATION CODES

| | |
|---------------------------------------|---|
| NUMBER OF CHARACTERS: | Three |
| TYPE OF CODE: | Alpha/Numeric |
| EXPLANATION: | Provides processing activities a means of mechanically identifying the causes for errors which resulted in potential/actual inventory adjustments, <i>accounting adjustments</i> , ¹ and the processing operations in which they occurred |
| <i>DLSS RECORD POSITIONS:</i> | 63-65 of inventory adjustment transactions (DI Code D8A/D9A) <i>and D8B/D9B</i> |
| <i>DLMS SEGMENT/QUALIFIER:</i> | <i>DLMS 947I LQ segment, LQ01 qualifier ‘EL’ used with W19 segment, W1901 Quantity or Status Adjustment Reason Code ‘AA-Physical Count’</i> |

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).*~~

(5) Revise the MILSTRAP and DLMS Table of Contents as needed.

(6) Add to MILSTRAP and DLMS acronyms: TIPR Total Item Property Record.

5. ADVANTAGES AND DISADVANTAGES:

a. Advantages: Revises the DLMS and MILSTRAP manuals to support recommendations for revising MILSTRAP made by DOD Inspector General (DOD IG) Report D-2008-090, Controls Over Reconciling Army Working Capital Fund Inventory Records.

b. Disadvantages: None known.

6. IMPACT:

a. Publication(s):

(1) Revise DOD 4000.25-M, (DLMS) and DOD 4000.25-2-M (MILSTRAP) as noted above.

(2) May require changes to other supporting DOD Component publications as needed.

b. Automated Information Systems (AIS). May impact DoD Component AIS.

c. Procedures. Impacts procedures affected by publication changes, for owners/managers to research inventory adjustments (accounting error). (MILSTRAP D8B/D9B (DLMS 947I with Quantity or Status Adjustment Reason Code ‘AB - Accounting Error’).

Enclosures

ENCLOSURE 1 to PDC 341A

Proposed Changes to DOD 4000.25-2-M, MILSTRAP, Chapter 7 (as revised by ADC 255)

NOTE: Corresponding changes will be made to DLMS, Vol 2, Chapter 6 as revised by ADC 307.

PDC 341A Changes are identified by *red bold italicized* text.

MILSTRAP Chapter 7 paragraphs that are pertinent to the DOD IG recommendations, but which do not require changes are highlighted for information. These paragraphs have not been changed.

C7. CHAPTER 7

PHYSICAL INVENTORY CONTROL

C7.1. 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 DoD supply system.

C7.1.1. 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:

C7.1.1.1. 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 assessment, and for quality control of work processes prescribed by the DoD Physical Inventory Control Program (PICP).

C7.1.1.2. Management control of all DoD wholesale supply system materiel to include:

C7.1.1.2.1. principal items,

C7.1.1.2.2. packaged petroleum, oil, and lubricants,

C7.1.1.2.3. secondary items regardless of whether assets are purchased with stock fund or procurement appropriations,

C7.1.1.2.4. ammunition,

C7.1.1.2.5. forms and publications, and

C7.1.1.2.6. subsistence.

C7.1.1.3. Management data and performance standards necessary to measure the effectiveness of physical inventory control in the DoD supply system.

C7.1.2. Exclusions

C7.1.2.1. 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 DoD Component procedures.

C7.1.2.2. Physical inventory control procedures for bulk petroleum are contained in [DoD 4140.25-M](#).

C7.1.2.3. Nuclear weapons for which DoD has custodial responsibility. Inventories are in accordance with Joint Publication 6, Volume II, Joint Reports; part 4, Nuclear Weapons Reports; section 5, Stockpile Inventories and Inventory Reports.

C7.2. POLICY. DoD policy is contained in [DoD 4140.1-R](#).

C7.2.1. Purpose. The purpose of the DoD physical inventory control process is to:

C7.2.1.1. Ensure materiel accountability is properly executed within the DoD;

C7.2.1.2. 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;

C7.2.1.3. Identify and help resolve problems in supply system work processes affecting property accountability records by performing quality control of the work processes; and

C7.2.1.4. 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.

C7.2.2. Philosophy

C7.2.2.1. 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.

C7.2.2.2. 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 storage activity.

C7.2.3. 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](#).

C7.2.4. 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.

C7.2.5. 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.

C7.2.5.1. The storage activity 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 re-warehousing materiel; 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.

C7.2.5.2. The owning DoD Component shall assume or assign the accountability for materiel not in the physical custody of a storage activity, including materiel inducted for organic repair, test assembly/disassembly, conversion, modification, or reclamation; materiel in a contractor's hands (in accordance with provisions of the FAR; materiel in transit; materiel on loan, etc.

C7.2.5.3. 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.

C7.2.6. End of the Day Processing. Use the following end of the day processing procedures pending the established of single shared asset balances (See paragraphs C7.2.2. and C7.2.4., above.). End of the day processing shall be accomplished as follows:

C7.2.6.1. **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 AP3.63 format, citing Type of Location Reconciliation Request Code 1 in record position 7.

C7.2.6.2. Storage activities shall prepare location reconciliation request transactions by line item (stock number + supply condition code (SCC) = 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 AP3.66 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.

C7.2.6.3. **Owner/managers** shall match the storage activity location reconciliation requests 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.

C7.2.6.4. **Owners/managers** will request assistance from the storage activity to isolate causes of record imbalances to maintain transaction level integrity. The storage activity assistance should focus on data transmission, e.g., lost transactions, etc.

C7.2.7. Reconciling Total Item Property Records with Financial Records. Owing DoD Components shall reconcile total item property records and financial records as prescribed by [DoD 7000.14-R](#) to ensure compatibility of the total inventory value reflected by these records and associated reports.

C7.2.8. Item Management/Control. DoD materiel is managed and controlled by stock number, and SCC, 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 SCC and by type of pack and date packed/expiration date for subsistence.

C7.2.9. 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.

C7.2.10. Inventory Prioritization. DoD Components shall select and prioritize items for inventory for which they are accountable as follows:

C7.2.10.1. Inventory Sampling. A stratified, hierarchal inventory sample will be accomplished at least once annually for the purpose of validating the accuracy of the accountable record. The results of the sample will be reported in accordance with the stratification and tolerances cited in paragraph C7.2.12.5.

C7.2.10.2. Complete inventories shall be accomplished as follows:

C7.2.10.2.1. Controlled Inventory Items. The following controlled inventory items (identified in [DoD 4100.39-M](#)) require complete physical inventory and do not qualify for use of a random statistical sampling approach:

C7.2.10.2.1.1. Top secret.

C7.2.10.2.1.2. Narcotics, drug abuse items, and alcohol.

C7.2.10.2.1.3. Category I non-nuclear missiles and rockets (semiannually in accordance with [DoD 5100.76-M](#)).

C7.2.10.2.1.4. Precious metals.

C7.2.10.2.1.5. Small arms.

C7.2.10.2.1.6. Radioactive items.

C7.2.10.2.1.7. Inert nuclear ordnance materiel.

C7.2.10.2.1.8. Other items that may be designated by OSD or the DoD Component.

C7.2.10.2.2. If ammunition or subsistence is subjected to complete inventory, physical inventory and location survey may be conducted concurrently.

C7.2.10.2.3. 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 95 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.

C7.2.10.3. Inventories for items not designated for complete inventory under subparagraph C7.2.10.2., shall be accomplished as a result of:

C7.2.10.3.1. Total or partial materiel release denials (spot inventory--see subparagraph C7.3.4.2. and appendix AP2.2, Type of Physical Inventory/Transaction History Code E).

C7.2.10.3.2. Location reconciliation variances.

C7.2.10.3.3. Location survey errors.

C7.2.10.3.4. Owner/manager request (special inventory); or

C7.2.10.3.5. Owners may select items for inventory based on the owner physical inventory prioritization methodology or model which considers characteristics identified by each Service based on Service priorities, readiness drivers; etc. The owner and depot would negotiate projected workload at least once annually (prior to each Fiscal Year). The owner would provide the prioritization methodology/model results to the distribution depot annually by submission of a DI Code DJA transaction with a Type Physical Inventory Code I.¹ Items selected for inventory based on the owner priority selection system shall not be given priority over items in subparagraphs C7.2.10.1., C7.2.10.2, C7.2.10.3.1, C7.2.10.3.2, and C7.2.10.3.3.

C7.2.11. 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 table C7.T2., either by:

C7.2.11.1. 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

C7.2.11.2. Posting an inventory adjustment to correct the record imbalance.

C7.2.12. Accuracy and Performance Goals. The acceptable DoD accuracy and performance

¹ The Distribution Standard System is capable of accepting DI Code DJA with Type of Physical Inventory/Transaction History Code I, however the Services have not yet implemented this capability. Service Supply PRC representatives are to notify DLMSO when implementation date is known per Approved DLMS Change (ADC) 33 (available at <http://www.dla.mil/j-6/dlms/Changes>.)

goals are as follows:

C7.2.12.1. Material Denial Goal: Not greater than 1 percent.

C7.2.12.2. Receipt Processing Performance Goal: 90 percent stored and posted within MILSTRAP, chapter 4, time standards.

C7.2.12.3. **Record Reconciliation** Program Goal:

C7.2.12.3.1. Location Survey Accuracy:

C7.2.12.3.1.1. General Supplies: 97 percent.

C7.2.12.3.1.2. Ammunition: 98 percent.

C7.2.12.3.2. Location Reconciliation Accuracy:

C7.2.12.3.2.1. General Supplies: 97 percent.

C7.2.12.3.2.2. Ammunition: 98 percent.

C7.2.12.4. Ammunition Property Accountability Record Accuracy Goal: 95 percent.

C7.2.12.5. General Supplies Record Accuracy Goals²

| Table C7.T1. <u>General Supplies Record Accuracy Goals Stratification Sub-Populations And Associated Goals And Tolerance Levels</u> | | | |
|---|--|----------------|---------------------|
| CATEGORY | SUB-POPULATION | GOAL (PERCENT) | TOLERANCE (PERCENT) |
| A | UNIT PRICE \geq \$1,000 | 99 | 0 |
| B | UNITS OF ISSUE WHICH MAY BE NONDEFINITIVE OR DIFFICULT TO MEASURE ³ OR (ON-HAND BAL > 50 AND EXTENDED VALUE < \$50,000) OR NSN ACTIVITY (# transactions affecting balance in one year) > 50 | 95 | 10 |
| C | DATE OF LAST INVENTORY > 24 MONTHS AND ON-HAND BALANCE < 50 | 95 | 5 |
| D | ALL OTHER MATERIEL NOT MEETING ABOVE CRITERIA | 95 | 0 |

²Within 30 days after the end of the 4th quarter each fiscal year, Components must submit record accuracy goals information to ADUSD SCI, via electronic mail. Submit to: Debra.Bennett@osd.mil. Data may be obtained throughout the year.

³Applicable Units of Issue: AT, AY, BF, BK, CD, CF, CZ, DZ, FY, FT, FV, GP, GR, HD, KT, LB, MR, OZ, OT, PG, PR, SE, SF, SO, SP, SY, TD, TE, TF, TN, TO, TS, MC, MX, YD

C7.3. PHYSICAL INVENTORY PROCEDURES

C7.3.1. Inventory Program Accomplishment. Storage activities will monitor program accomplishment throughout the fiscal year to ensure that the requirements of paragraph C7.2.10. are met.

C7.3.2. Pre-inventory Planning. The potential for count inaccuracies will be reduced by conducting pre-inventory planning to include:

C7.3.2.1. Actions to ensure location integrity by correcting such situations as unbinned/loose materiel; questionable identity of materiel in location; and single locations containing multiple SCCs 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.

C7.3.2.2. 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.

C7.3.3. Scheduled Inventories

C7.3.3.1. 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 AP3.15 format, using Type of Physical Inventory/Transaction History Code G.

C7.3.3.2 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.

C7.3.3. Storage activities will initiate the scheduled random statistical sample inventory to meet 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.

C7.3.3.4. 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.

C7.3.4. Unscheduled Inventories

C7.3.4.1. Owners, AOs, and storage activities will initiate special inventories using DI Code DJA transactions, prepared in the appendix AP3.15 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.

C7.3.4.2. 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 non-controlled items variances greater than \$5000. These requests will cite Type of Physical Inventory/Transaction History Code E.

C7.3.4.3. Storage activities shall accomplish all requests for spot inventories.

C7.3.4.4. Storage activities may initiate unscheduled 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.

C7.3.5. Canceling Inventories

C7.3.5.1. 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, re-warehousing of materiel under inventory, insufficient resources, insufficient time to meet established inventory timeframes to notify other affected owners/managers, and acts of God.

C7.3.5.2. 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.

C7.3.5.3. 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.

C7.3.6. Conducting, Recording, and Reporting the Inventory

C7.3.6.1. 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.

C7.3.6.2. 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, to include the recognition of the RDD. The storage activity may also reduce the volume of in-float accountable documents by deferring routine SCC changes, providing the chapter 5 control requirements are complied with.

C7.3.6.3. 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.

C7.3.6.4. The storage activity will compare the adjusted count with the balance maintained by the storage activity to determine the potential variance and initiate post count validation and preadjustment research as required under section C7.4.

C7.3.6.5. Immediately upon completion of post-count validation and preadjustment research, the storage activity will record the count and date of last inventory on the storage activity quantitative balance record.

C7.3.6.6. When no adjustment is required, 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.

C7.3.6.7. 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 Special Defense Acquisition Fund 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.

C7.3.6.8. 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.

C7.3.7. 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.

C7.3.8. Unscheduled Physical Inventory Follow-up

C7.3.8.1. 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 follow up 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.

C7.3.8.2. The storage activity will respond to the owner/manager follow-up within 5 calendar days by providing the appropriate adjustment, completion, or cancellation transaction. If an adjustment or completion transaction was previously submitted and a follow-up 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.

C7.3.8.3. 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.

C7.4. RESEARCH OF POTENTIAL OR ACTUAL **PHYSICAL** INVENTORY ADJUSTMENTS (**PHYSICAL INVENTORY**) – DI Code D8A/D9A

C7.4.1. Policy. DoD Components will ensure that potential or actual **physical inventory** adjustments (**DI Code D8A/D9A**) are researched in accordance with the value of the adjustment and type of item involved. The DoD criteria for this research are set forth table C7.T2. 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 table C7.T2.).

C7.4.2. Objectives. Analysis of inventory adjustments is vital in order to:

C7.4.2.1. Identify failures in the control systems so improvements can be made.

C7.4.2.2. Reduce similar discrepancies in the future.

C7.4.2.3. Ensure that the proper adjustment was made.

C7.4.2.4. Evaluate indicators of trends or system problems for corrective action.

C7.4.2.5. Detect negligence, abuse, or theft of materiel. Known or suspected negligence, abuse, or theft will be researched in accordance with DoD 7000.14-R and table C7.T2.

C7.4.3. 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.

C7.4.3.1. 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.

C7.4.3.2. The storage activity must complete mandatory causative research within 45 calendar days from the date the adjustment transaction was posted. **If sample causative research is used as allowed by the Figure C7.F.1, Minimum Research Requirements, the** sample causative research must be completed within 45 calendar days from the date the sample causative research listing is created.

C7.4.4. Transaction History Requests. For intra-Component (or inter-Component, based on agreement of the DoD Components involved) reconciliation, the owner/manager may request transaction history for analyzing inventory discrepancies.

C7.4.4.1. The owner/manager will request the history using a DI Code DZJ Transaction History/Custodial Balance Request, prepared in the appendix AP3.64 format, citing in record position 7 the appropriate type of physical inventory/transaction history code from appendix AP2.2. Transaction history will consist of all transactions affecting the balance for the requested timeframe.

C7.4.4.2. The storage activity will provide the transaction history data using the DI Code DZK, Transaction History Transmittal, prepared in the appendix AP3.65 format. Transmit the history using the media specified by the type of media code (see appendix AP2.15) entered in record position 60 of the DI Code DZJ request.

C7.4.5. Error Classification Coding ***for Physical Inventory Adjustments***. 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. ***Inventory Adjustment (Physical Inventory)*** Error Classification Codes will be entered in positions 63-65 of DI Code D8A/D9A Inventory Adjustment (***Physical Inventory***) Transactions⁴. For analysis and evaluation, ***physical inventory adjustment*** 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 AP2.16A. The error classification system is structured to provide the DoD Components 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.

C7.4.6. Error Classification Feedback and Correction **[DLMSO STAFFING NOTE: Bold blue text reflects ADC 255 approved changes and is not impacted by PDC 341A]**

C7.4.6.1. Causative History Summary. Storage activities shall send a quarterly summary of the causative research results for each individual NIIN to the commander of the storage activity concerned and to the Inventory Owners (**or the service International Logistics Control Activity in the case of FMS-owned materiel**). **The summary information shall be provided for all adjustments of extended dollar value greater than \$16K and any adjustment of an item with a CIIC code that is Classified, Sensitive or Pilferable. As a minimum, the summary provided shall include, for each NIIN: supply condition code, DLMS 947I or MILSTRAP DI Code D8_ or D9_, quantity adjusted, routing identifier (RI) code of the storage activity making the adjustment, error classification code, controlled inventory item code, date created, date completed, and total adjusted dollar value.**

C6.4.6.2. Error Correction.

C6.4.6.2.1. Storage Activity Commanders. Commanders at the storage activities shall use this information to identify and correct recurring errors in their operations (e.g., through established depot training programs, quality control checks and other actions as required).

C6.4.6.2.2. Inventory Owners. Inventory Owners shall use this information as a means to gain insight into the adjustments and subsequent actions taken to resolve the error and to evaluate whether changes in procurement practices, cataloging data or other actions may be taken to prevent potential distribution errors. A single point of contact will be designated at the owner level to request information from DLA.

C7.4.7. 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 7000.14-R, will be referred to security officials of the

⁴ The Integrated Materiel ***owner/manager*** may use ***AP2.16B Inventory Adjustment (Accounting Error) Error Classification Codes*** in record positions 63-65 in DI Codes D8B/D9B Inventory Adjustment (Accounting Error) Transactions pending the establishment of single shared asset balances (see paragraphs C7.2.2 and C7.2.4.).

storage activity at which the adjustment occurred to determine whether there is culpability or when fraud, waste, or abuse is suspected (see table C7.T2).

C7.4.8. Materiel Release Denials. [MILSTRIP \(DoD 4000.25-1-M\)](#) 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.

C7.4.8.1. Upon initiation of a materiel release denial citing Management Code 1, 2, 3 (applies to subsistence only), or 4 (applies to subsistence and ammunition only), storage activities will:

C7.4.8.1.1. 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 attempting to issue the materiel, citing denial Management Code 1, 2, 3, or 4, and a DI Code D9A to any other owners affected by the denial loss, citing denial Management Code Q.

C7.4.8.1.2. Initiate a spot inventory as required under paragraph C7.3.4.2 of this chapter.

C7.4.8.2. 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), it may be conducted prior to processing a denial transaction.

C7.5. REVERSAL OF INVENTORY ADJUSTMENTS (*PHYSICAL INVENTORY*)- DI CODE D8A/D9A. *Storage activity* reversal of DI Code D8A/D9A Inventory Adjustment (*Physical Inventory*) transactions is a required capability which must be implemented with proper controls and supported by proper documentation. (See appendix AP3, introduction, paragraph AP3.3.2., for processing adjustment reversals.) Procedures for reversing adjustments will contain, as a minimum, the following control features:

C7.5.1. 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.

C7.5.2. Inventory Adjustment Corrections. Reversals required to correct physical inventory adjustments which were made based on incorrect/incomplete information are limited to 2 years from the date of the original adjustment unless the requirements of paragraph C7.5.1., are met. All reversals must be properly documented.

C7.5.3. Limitations. Reversals will not be processed solely on the basis of a previous offsetting physical inventory adjustment.

C7.5.4. Performance Assessment. Reversals against transactions processed within the adjustment period will be separated and identified as follows:

C7.5.4.1. Gross adjustment during the current period,

C7.5.4.2. Reversal of prior quarters' adjustment transactions,

C7.5.4.3. Reversal of current quarters' adjustment transactions, and

C7.5.4.4. Total value of net adjustments during the current period (i.e., value of net gains added to value of net losses).

C7.6. RESEARCH OF POTENTIAL OR ACTUAL INVENTORY ADJUSTMENTS (ACCOUNTING ERRORS) - DI CODE D8B/D9B

C7.6.1. Policy. DoD Components will ensure that potential or actual Inventory Adjustments (Accounting Errors) are researched in accordance with the value of the adjustment and type of item involved. The DoD criteria for this research are set forth table C7.T2. and will be used as the basis for selective research for supply system materiel. More stringent research requirements may be imposed by DoD Components based upon the limits of resources available and upon specific asset control problems. While physical inventory adjustments are based on physical counts, accounting adjustments are based on the reconciliation of inventory records, as part of an End-of-Day or Location Reconciliation business processes. When differences exist between the ‘systems’ an accounting adjustment (gain/loss) (DI Code D8B/D9B) will be created to adjust the owner/manager’s Total Item Property Record (TIPR) inventory balance to agree with the storage activity’s closing end of day balance. As such the causes of accounting adjustments are driven by the handling of ‘transaction data’ versus the physical handling of materiel. Therefore, research requirements will focus on events/processes that cause the databases (between the storage activity and TIPR) to be out of sync. DoD Components will research transaction histories and violation files to locate ‘missing’ supply transactions, clear exceptions, process the appropriate ‘supply’ transaction and reverse the accounting adjustment to resolve the original mismatch condition.

C7.6.1.1. When subsequent research finds that the accounting adjustment was caused by an unposted, duplicate, or otherwise improperly posted transaction, a reversal of the accounting adjustment and (as appropriate) the incorrectly posted ‘supply’ transaction is required. The owner/manager will ensure that proper audit trails are maintained to reflect the posting of the correct supply transaction.

C7.6.1.2. Owners/managers will request assistance from the storage activity to isolate supply transaction processing errors and focus on data transmission and validation of system logic to resolve causes of database mismatches.

C7.6.2. Objectives. Analysis of Inventory Adjustments (Accounting Errors) is vital in order to:

C7.6.2.1. Identify failures in the control systems so improvements can be made.

C7.6.2.2. Reduce similar discrepancies in the future.

C7.6.2.3. Ensure that the proper adjustment was made.

C7.6.2.4. Evaluate indicators of trends or system problems for corrective action.

C7.6.3. Timeliness of Research. Timely completion of the research of potential or actual Inventory Adjustments (Accounting Error) is essential. Delay only increases the complexities of adequate research and reduces the probability of conclusive findings.

C7.6.3.1. The owners/managers, must complete mandatory causative research within 45 calendar days from the date the adjustment transaction was posted. If sample

causative research is used as allowed by the Figure C7.F.1, Minimum Research Requirements, the sample causative research must be completed within 45 calendar days from the date the sample causative research listing is created.

C7.6.4. Inventory Adjustment (Accounting Error) Error Classification Coding. *Causes of potential/actual Inventory Adjustments (Accounting Error) are determined by research. Causes will be classified, analyzed, and evaluated so action may be taken to correct situations that are causing the errors⁵. For analysis and evaluation, error conditions will be identified and classified by type. For reporting purposes, each error type is identified by an alphabetic or numeric code as shown in appendix AP2.16B. The error classification system is structured to provide the DoD Components 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.*

C7.6.5. Error Classification Feedback and Correction

C7.6.5.1. Causative History Summary. *Owners/managers will prepare a quarterly summary of causative research results for inventory Adjustments (Accounting Error) (DI Code D8B/D9B) and provide feedback to the appropriate owners/managers officials.*

C7.6.5.2. Error Correction. *Inventory Owners shall use this information as a means to gain insight into the inventory accounting adjustments and subsequent actions taken to resolve the error and to evaluate whether changes in supply transaction 'edits', cataloging data or other actions may be taken to prevent potential inventory accounting errors. A single point of contact will be designated at the owner level to request information from DLA.*

C7.6.6. Controlled Inventory Item Accounting Adjustments. *Unresolved Inventory Adjustments (Accounting Error) 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 7000.14-R, 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 table C7.T2).*

C7.7. REVERSAL OF INVENTORY ADJUSTMENT (ACCOUNTING ERRORS) TRANSACTIONS. *Reversal of DI Code D8B/D9B inventory accounting adjustments is a required capability which must be implemented with proper controls and supported by proper documentation. (See appendix AP3, introduction, paragraph AP3.3.2., for processing adjustment reversals.) Procedures for reversing adjustments will contain, as a minimum, the following control features:*

C7.7.1. Posted/Unposted Source Documents. *Reversals required to correct inventory accounting 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.*

C7.7.2. Inventory Accounting Adjustment Corrections. *Reversals required to correct inventory accounting adjustments which were made based on incorrect/incomplete*

⁵ The Integrated Materiel Manager may use **the AP2.16B Inventory Adjustment (Accounting Error) Error Classification Codes** in record positions 63-65 in DI Codes D8B/D9B Inventory Adjustment (**Accounting Error**) Transactions pending the establishment of single shared asset balances (see paragraphs C7.2.2 and C7.2.4.).

information are limited to 2 years from the date of the original adjustment unless the requirements of paragraph C7.5.1., are met. All reversals must be properly documented.

C7.7.3. Limitations. Reversals will not be processed solely on the basis of a previous offsetting inventory accounting adjustment.

C7.7.4. Performance Assessment. Reversals against transactions processed within the adjustment period will be separated and identified as follows:

C7.7.4.1. Gross inventory accounting adjustment during the current period,

C7.7.4.2. Reversal of prior quarters' inventory accounting adjustment transactions,

C7.7.4.3. Reversal of current quarters' inventory accounting adjustment transactions, and

C7.7.4.4. Total value of net inventory accounting adjustments during the current period (i.e., value of net gains added to value of net losses).

C7.8. RECORD RECONCILIATION PROGRAM. Each DoD Component will implement a location record reconciliation program which will consist of both a location survey and a location reconciliation.⁶ The DoD acceptable accuracy goals are provided in paragraph C7.2.12.3. The DoD Components may impose more stringent standards internally. The record reconciliation program is subject to the quality control checks delineated in section C7.10., Quality Control. Errors will be subject to validation and research before they are counted as an error. DoD Components will collect and analyze all type III errors (see paragraphs C7.8.1.8.3 and C7.8.2.2.3) by element.

C7.8.1. Location Survey

C7.8.1.1. 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 C7.8.1.8.1 and C7.8.1.8.2)), 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.

C7.8.1.2. 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 population and have a probability of selection; or (3) a combination of complete and statistical sampling.

C7.8.1.3. A location survey will be conducted in both the gaining and losing storage areas following the accomplishment of re-warehousing projects. A location survey conducted as a result of re-warehousing projects may be considered to have satisfied the annual survey requirement for the area surveyed.

C7.8.1.4. 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

⁶ The location reconciliation process will not be required with the establishment of single shared asset balances (see paragraphs C7.2.2 and C7.2.4.).

assets in unrecorded locations.

C7.8.1.5. As an objective, it is desirable to identify items to location survey 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.

C7.8.1.6. 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.

C7.8.1.7. When permanent locations are reserved for items, recorded locations which are unoccupied will be identified and/or verified during the location survey.

C7.8.1.8. 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, 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.

C7.8.1.8.1. 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.)

C7.8.1.8.2. 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 material in the location. (Type II location survey error.)

C7.8.1.8.3. Locator Record Corrected. Changes to the locator record when physical material characteristics differ from any of the following data elements (Type III location survey error):

C7.8.1.8.3.1. Unit of issue.

C7.8.1.8.3.2. SCC.

C7.8.1.8.3.3. Controlled inventory item code (see DoD 4100.39-M, 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.

C7.8.1.8.3.4. Type of pack code (for subsistence only). (See MILSTRIP (DoD 4000.25-1-M.)

C7.8.1.8.3.5. Lot number or serial number (for ammunition only).

C7.8.1.8.3.6. Completeness and accuracy of magazine data card (for ammunition only).

C7.8.1.8.3.7. 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.

C7.8.2. Location Reconciliation⁷

C7.8.2.1. 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.

C7.8.2.2. 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):

C7.8.2.2.1. Owner/manager record reflects balance for storage activity; no location reconciliation transaction received. (Type I location reconciliation error.)

C7.8.2.2.2. Location reconciliation transaction received from storage activity; no corresponding owner/manager record. (Type II location reconciliation error.)

C7.8.2.2.3. Mismatch on any of the following data elements (Type III location reconciliation error):

C7.8.2.2.3.1. Unit of issue.

C7.8.2.2.3.2. Ownership/manager identifier.

C7.8.2.2.3.3. Controlled inventory item code (see DoD 4100.39-M, Volume 10, Table 61).

C7.8.2.2.3.4. Type of pack code (subsistence only).

C7.8.2.2.3.5. Shelf-life code.

C7.8.2.2.3.6. Date packed/expiration date (subsistence only).

C7.8.2.2.4. Quantity discrepancy. (Type IV location reconciliation error.)

C7.8.2.3. Location reconciliation will be accomplished by DoD Components in accordance with the following guidance:

C7.8.2.3.1. Owners/managers and storage activities will reconcile all records annually. **The reconciliation will be performed prior to the Chief Financial Officer inventories in September.** The annual reconciliation will be accomplished in accordance with paragraph C7.8.2.3.3.

C7.8.2.3.2. 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 AP3.63 format, using Type of Location

⁷The location reconciliation process will not be required with the establishment of single shared asset balances (see paragraphs C7.2.2. and C7.2.4.).

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.

C7.8.2.3.3. All **owner/manager** and storage activity records (active and inactive records, including zero balances) will be reconciled not less than once each fiscal year. Storage activities and Components may negotiate agreements for conducting annual location reconciliation any time during the fiscal year. When no such agreement exists, location reconciliation requests will be prepared on the second Tuesday of the month indicated in the following schedule:

| <u>Service or Agency</u> | <u>Preparation Date</u> Second Tuesday in: |
|--------------------------|---|
| Army | January |
| Navy | March |
| Marine Corps | May |
| Air Force | July |
| Defense Logistics Agency | September <i>July</i> |

PDC STAFFING NOTE: Proposed change to July above accommodates DUSD (L&MR) response to DOD IG recommendation 1e, in which DUSD(L&MR) stated that scheduling annual inventory records reconciliation during September would not allow the required 45 days for correcting errors before fiscal year's end. DUSD(L&MR) recommended that the storage activities and inventory materiel managers perform the annual reconciliation of inventory records before storage activities perform their annual physical inventories.

C7.8.2.3.4. Storage activities and owners/managers will establish the following provisions for controlling location reconciliation:

C7.8.2.3.4.1. Storage activities will advise intended recipients (owners/managers) of the number of transactions being forwarded, transmission date, and the medium (ex. DDN) using DI Code DZN Location Reconciliation Notification transaction (appendix AP3.67).

C7.8.2.3.4.2. Location Reconciliation Transaction History

C7.8.2.3.4.2.1. 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 (ex. DDN) using DI Code DZP Location Reconciliation History Notification transaction (appendix AP3.68).

C7.8.2.3.4.2.2. For transaction history associated with annual reconciliation, the owner/manager may cite Type of Physical Inventory/Transaction History Code Y in the DI Code DZJ Request for History. DLA owner/managers shall use code 'Y' for automatic submissions of history requests for the Annual (Total) Reconciliation, and code 'W' for automatic submissions of transaction history requests for their weekly process.

C7.8.2.3.4.3. 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.

C7.8.2.3.5. 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 table C7.T2.) will be resolved as follows:

C7.8.2.3.5.1. Research of owner/manager active and historical records.

C7.8.2.3.5.2. Research of storage activity active/historical record (DI Code DZJ, Transaction History Request, citing Type of Physical Inventory/Transaction History Code X).

C7.8.2.3.5.3. Request physical inventory (DI Code DJA, using Type of Physical Inventory/Transaction History Code J).

C7.8.2.3.5.4. If the above actions fail to resolve the mismatch, the DI Code D8B/D9B transaction will remain on the owner/manager records.

C7.8.2.3.6. A physical inventory is not required under the following conditions, except when the mismatch involves classified, sensitive, or pilferable items when the extended dollar value of the variance is greater than \$100.

C7.8.2.3.6.1. 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 C7.8.2.2.4.).

C7.8.2.3.6.2. 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 C7.8.2.2.1. and C7.8.2.2.2.).

C7.8.2.3.7. When a discrepancy is identified during the location reconciliation program, transmit the following transactions, as appropriate, to the submitting activity:

C7.8.2.3.7.1. DI Code DZG Transaction Reject, as prescribed in chapter 9, prepared in the appendix AP3.62 format.

C7.8.2.3.7.2. DI Code DZB Storage Item Data Correction, as prescribed in chapter 10, prepared in the appendix AP3.57 format.

C7.9. 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:

C7.9.1. **Source Documents.** Retain original source documents or facsimiles, i.e., microform (microfilm, microfiche), Compact Disk-Read Only Memory (CD-ROM), etc., for at least 2 years. Where source documents are produced, these include only accountability change documents such as receipts, issues, shipments, transfers, SCC changes, and inventory and financial adjustments. Retain

source documents providing evidence of shipment to Foreign Military Sales recipients for 2 years from date of materiel shipment.

C7.9.2. Transaction Histories. Retain registers, records, files, tapes, and data for at least 2 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.

C7.9.3. Adjustment Research. Retain backup documentation that directly pertains to individual cases of physical inventory adjustment research efforts for at least 2 years.

C7.9.4. Annual Statistical Sample. Retain the annual statistical sample inventory line item detail data for at least 2 years.

C7.10. QUALITY CONTROL

C7.10.1. Goals and Objectives. **DoD Components will establish a quality control program at each owner/manager** and storage activity which encompasses the objectives of DoD 7000.14-R, and the physical inventory objectives contained in DoD 4140.1-R. 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:

C7.10.1.1. Warehousing practices -- to include checks of storage practices, stock rotation, shelf-life management, identification of materiel in store, mixed stock, location accuracy and re-warehousing projects.

C7.10.1.2. Receiving practices -- to include checks of documentation, materiel identity, quantity, and SCC; checks for processing timeliness; and verification of daily input data to the location system.

C7.10.1.3. Issuing practices -- to include checks of legibility of issue documents; accuracy of stock selection as to identity, quantity, unit of issue, shelf life, SCC, and type of pack (subsistence only); marking of outgoing shipments; and release to carriers.

C7.10.1.4. Validity of automated data -- to include checks of receipt, issue, and adjustment transaction data entries against input documentation.

C7.10.1.5. 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.

C7.10.1.6. Catalog practices -- to include checks of catalog change processing, accuracy, and timeliness, using the affected recorded locations as the universe.

C7.10.1.7. 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, SCC, shelf life, etc.).

C7.10.1.8. Report of discrepancy processing -- to include checks for processing timeliness and checking the accuracy of SDR initiation, follow up 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).

C7.10.1.9. 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.

C7.10.1.10. Suspended asset processing -- to include checks of the timeliness in reclassifying suspended (SCCs J, K, L, Q, and R) materiel.

C7.10.2. 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.

C7.10.3. 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 PICP 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.

C7.11. PICP PERFORMANCE ASSESSMENT...

Renumber remaining Chapter 7 paragraphs

ENCLOSURE 2 to PDC 341A

Changes from current AP 2.16 Error Classification Codes are shown in red, bold, italicized text.

AP2.16B APPENDIX 2.16B

INVENTORY ADJUSTMENT - ACCOUNTING ERROR CLASSIFICATION CODES

| | |
|--------------------------------|---|
| NUMBER OF CHARACTERS: | Three |
| TYPE OF CODE: | Alpha/Numeric |
| EXPLANATION: | Provides processing activities a means of mechanically identifying the causes for errors which resulted in potential/actual <i>inventory adjustment (accounting error) transactions</i> , ¹ and the processing operations in which they occurred |
| DLSS RECORD POSITIONS: | rp 63-65 of Inventory Adjustment (Accounting Error) transaction (DI Code D8B/D9B) |
| DLMS SEGMENT/QUALIFIER: | <i>DLMS 947I LQ segment, LQ01 qualifier 'ACC' used with W19 segment, W1901 Quantity or Status Adjustment Reason Code 'AB-Accounting Error'</i> |

AP2.16B.1 PURPOSE

AP2.16B.1.1 The physical inventory program error classification codes for *accounting error inventory adjustments (DI Code D8B/B9B)* provide a standard means for DoD Components to classify the causes of actual/potential *accounting error inventory adjustments* for subsequent analysis, evaluation, and corrective action.

AP2.16B.1.2 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.

¹ The Integrated Materiel Manager *owner/manager* may use the *Inventory Adjustment –Accounting* 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).

AP2.16B.2 CODE STRUCTURE

AP2.16B.2.1 First Position. The first character will be numeric or alphabetic and will identify the *type of transaction* during which the error occurred. Code assignment for the first character is controlled by DoD and may not be assigned by the DoD Components. The following operation codes are assigned as the first character in the error classification code:

| <u>CODE</u> | <u>OPERATION</u> | <u>CODE</u> | <u>OPERATION</u> |
|-------------|---|-------------|---|
| 0 | Not assigned; reserved for future assignment by DoD | 6 | <i>Condition Code Transfer (DAC)</i> |
| 1 | Receipt (<i>D4_/D6_</i>) | 7 | <i>Not Assigned</i> |
| 2 | Issue (<i>D7_/A5_</i>) | 8 | Other |
| 3 | Physical Inventory (<i>D8A/D9A</i>) | 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 | | |

AP.16B.2.2 Second Position. The second character 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 DoD Components. The following type of error codes are assigned as the second character in the error classification code:

| <u>CODE</u> | <u>LEGEND</u> | <u>DEFINITION</u> |
|-------------|---------------------------------|---|
| A | System/Program Error | <i>TIPR</i> was not correctly updated by a valid transaction because system failed or program contained a logic error |
| B | <i>Not Assigned</i> | <i>Not assigned for Inventory Adjustment (Accounting Error)</i> |
| C | Source <i>Transaction</i> Error | Error in the source transaction NSN, quantity, unit of issue, condition, type of pack, lot number, ownership/ purpose, and/or location (routing identifier) caused erroneous update of <i>TIPR</i> |
| D | Data Entry Error | Input transaction did not match source <i>transaction</i> NSN, quantity, unit of issue, condition, type of pack, lot number, ownership/purpose, and/or location (routing identifier) and caused erroneous update of the <i>TIPR</i> |
| E | Rejected Document Not Posted | Transaction was rejected during processing and was not reinput to update the <i>TIPR</i> |

| <u>CODE</u> | <u>LEGEND</u> | <u>DEFINITION</u> |
|-------------|---|--|
| F | Duplicate Document Posted | Same transaction updated the TIPR more than once |
| G | Reversal Document Not Posted | TIPR was not updated by a reversal transaction processed and transmitted by the storage activity. |
| H | Erroneous Reversal Posted | Prior action to reverse a transaction which updated the TIPR was taken in error |
| I | Not Assigned | |
| J | Not Assigned | Not assigned for Inventory Adjustment (Accounting Error) |
| K | Duplicate Physical Processing | Transaction updated the TIPR once but inventory accounting adjustment processed more than once |
| L | Not Assigned | Not assigned for Inventory Adjustment (Accounting Error) |
| M | Not Assigned | Not assigned for Inventory Adjustment (Accounting Error) |
| N | Not Assigned | Not assigned for Inventory Adjustment (Accounting Error) |
| O | Not Assigned | |
| P | Not Assigned | Not assigned for Inventory Adjustment (Accounting Error) |
| Q | Not Assigned | Not assigned for Inventory Adjustment (Accounting Error) |
| R | Infloat Transaction Control Error | Erroneous adjustment posted to the TIPR because infloat transactions were not considered or were not available |
| S | Not Assigned | Not assigned for Inventory Adjustment (Accounting Error) |
| T | Erroneous Inventory Adjustment (Accounting Error) Posted | Prior action to adjust the TIPR was taken in error |
| U | Catalog Change Not Posted | Transaction resulted in erroneous update of the TIPR because the inventory accounting record was not updated by catalog change transaction |
| V | Erroneous Catalog Change Posted | Erroneous data posted to TIPR 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 | Not Assigned | Not assigned for Inventory Adjustment (Accounting Error) |
| X | Not Assigned | Not assigned for Inventory Adjustment (Accounting Error) |
| Y | No Conclusive Findings | Cause for the inventory adjustment (accounting error) could not be determined |

| <u>CODE</u> | <u>LEGEND</u> | <u>DEFINITION</u> |
|-------------|---------------|------------------------------------|
| Z | Not Assigned | Reserved for future DoD assignment |
| 0-9 | Not Assigned | Reserved for future DoD assignment |

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