

CHAPTER 5

INVENTORY ADJUSTMENTS

SECTION I - GENERAL

205101 - PURPOSE AND SCOPE

a. This chapter prescribes procedures for the processing of adjustment transactions and the preparation and use of IAVs by DSCs. The following types of adjustment actions are covered:

- (1) Adjustments resulting from catalog change actions.
- (2) Offsetting adjustments to purpose and condition segments of the DSC NIR.
- (3) Single increase or decrease adjustments to the type of pack segment of the DSC National Inventory Record (NIR).
- (4) Adjustments to DSC NIR as a result of stock discrepancy reports submitted by distribution activities.
- (5) Adjustments resulting from materiel release denials.
- (6) Adjustments required as a result of discrepancies in receipt.
- (7) Adjustments resulting from physical inventory.

b. Other procedures covering the reporting of adjustments resulting from discrepancies in issue, receipt, and physical inventory actions are included in respective chapters of this manual. Procedures contained in this chapter relating to transfer of materiel to the DRMR are confined to materiel in unserviceable, uneconomically repairable, or condemned condition which may generate from receipt transactions or from surveillance inspections. Chapter 12 applies in the transfer of DoD excess materiel to disposal.

205102 - APPLICABILITY

The procedures contained in this chapter are applicable to DSCs performing integrated management of materiel under the ownership of DLA. Preparation of input documentation for IAVs is normally the responsibility of the DSCs. Under certain conditions, as specified in this chapter, distribution activities will prepare direct input documentation. DSCs will institute appropriate mechanical and manual controls to ensure that only valid and authorized documents received from distribution activities are processed to DSC NIR.

SECTION II - PROCESSING CATALOG CHANGES

205201 - GENERAL

The procedure contained in this section provides a general description of adjustments to the DSC NIR which result from catalog changes affecting stock number, UI, or standard unit price. Detailed procedures for processing file maintenance actions to Distribution Subsystem files are contained in chapter 48.

205202 - PROCESSING STOCK NUMBER AND UNIT OF ISSUE CHANGES BY DSCs

a. Input data required by catalog changes which affect either stock number or UI, including deleted items, will be furnished to the Distribution Subsystem by Cataloging Subsystem. File maintenance actions on the Distribution Subsystem files may be made monthly or as required to be concurrent with the effective date of changes published by DSCs in change bulletins, change notices, or revised publication.

b. On the effective date of catalog changes, DSCs will process file maintenance transactions emanating from the Catalog Subsystem to make required changes to the Distribution Subsystem mass storage files. Reference chapter 48.

c. Inventory adjustments required as a result of catalog changes (i.e., transfer of on-hand balances from one stock number to another and UI changes) will be processed simultaneously using DICs D8K and D9K (appendix B-22). The adjustment transactions will be generated internally and will be posted to the NIR without manual intervention. When it is determined that inventory adjustments resulting from catalog changes are invalid, correction will be accomplished by manual input D8K, D9K, D8K(X) reversal, and D9K(X) reversal, as required. A single document number will be assigned to the inventory adjustment transactions (catalog change) and each adjustment on the THF will be identified with the document number. Document numbers will be constructed in accordance with appendix C-2. IAVs will not be prepared for catalog change adjustments.

d. When a stock number is deleted from a DSC's NIR and the item is not changed or transferred to another stock number, DSCs will produce DROs, DIC A5J, appendix B-32, required to transfer deleted items to the DRMO, if there is no recorded Service user of the item. Materiel will be transferred to disposal in accordance with procedures contained in chapter 12. Nonissuance of a DRO will result in receipt of Deleted Item Report Document, DIC CK8, appendix B-33, from the distribution activity for processing in accordance with chapter 12.

SECTION III - OFFSETTING ADJUSTMENT TO PURPOSE AND CONDITION SEGMENTS OF DSC NATIONAL INVENTORY RECORD

205301 - GENERAL

a. Offsetting adjustments to the Purpose Code segments of the NIR, will be input only by the DSC, under DIC DAD, appendix B-22. For the

Set Assembly Process, DPSC-Medical only, Type Asset Code, Transfer Documents will be mechanically generated or manually input in a similar

manner to DIC DAD (Purpose Code Transfer) but using a DIC CAD, appendix B-658. Normally, offsetting adjustments to the Condition Code segments, DIC DAC, will be input by distribution activities upon change in condition of materiel in storage. For the Set Assembly Process, DPSC-Medical only, Condition Code, Transfer Documents will be mechanically generated or manually input using DIC DAC with the additional data element Type Asset Code, appendix A-4. There may be instances when the DSC determines that materiel should be reclassified to another condition, such as changes in limited shelf-life materiel. However, DSCs will not input the documentation to change condition of materiel on the NIR without prior contact with the distribution activity. The DSC may prepare the materiel adjustment document and suspend the transaction for ten calendar days and then process, thereby allowing the distribution activity sufficient time to change locator records.

b. DD Form 1487, DoD Materiel Adjustment Document, is designed for use as either a single or dual adjustment input document. When used by a DSC or distribution activity to accommodate individual increase or decrease adjustment actions against the NIR, DICs in the D8_ or D9_ series will be used. When processing offsetting adjustments to the Purpose or Condition Code segments of the NIR, both the FROM and TO data fields will be used in a single input document with a DIC DAC/DAD. The DD Form 1487 is not designed to accommodate the simultaneous adjustments of both the purpose and condition segments of an inventory balance with a single input document. When simultaneous adjustments to the Purpose and Condition Codes are desired, two adjustment documents are required. The first will reflect DIC DAC to transfer condition and the second will reflect DIC DAD to transfer purpose. Attempt to transfer both Condition and Purpose Codes with a single input document will violate with Violation Reason Code AR and will be processed in accordance with appendix E-022 V. Manual preparation of materiel adjustment documents for entry to the data processing system will be in accordance with appendix E-022 P.

c. When offsetting purpose or condition transfer is input in error or there is other reason to reverse a posted dual transfer, the X overpunch technique will not be used to effect reversal. A new adjustment document will be prepared and input to debit and credit the proper purpose or condition segments in the reverse of the erroneous dual transfer. Violations output as a result of an attempt to reverse a document with DIC DAC or DAD will violate with Violation Reason Code HI and be processed according to appendix E-022 V.

d. The procedures contained in this section do not apply to changes in Purpose Code L, materiel on loan, except to those referenced in paragraph 205202(c) or changes to Ownership Codes. Procedures covering loans of DLA materiel are contained in chapter 6, and changes between Ownership/Purpose Codes are explained in chapter 14.

205302 - DSC ORIGINATED OFFSETTING ADJUSTMENTS

DSC originated offsetting adjustments will be confined to those cases which do not affect distribution activities or require remarking action. For example, transfer of purpose for which held, from General Issue

Materiel (Purpose Code A) to materiel reserved for use in repair, alteration, or modification programs (Purpose Code F), Government

Furnished Materiel (Purpose Code H), or specific plans or projects (Purpose Code E). However, the following policy applies to purpose code transfers of stock located at Navy Specialized Support Points: Assets will not be reserved at a Navy Specialized Support Point if there are sufficient assets located elsewhere in the distribution system to satisfy the reservation. If, due to a lack of sufficient assets at other sites, it becomes necessary to reserve stock at a Navy SSP, the DSCs will input a DIC ZJK (appendix B-190) with Freeze Code X (appendix A-73) to preclude decentralized issues against the applicable balance. When the reservation is no longer required or subsequent to issuing the materiel the Item Manager, GFM Monitor, or Inventory Accounting Branch will process a ZJK, Freeze Code W, as required, in order to lift the freeze.

a. Based upon PRs specifying utilization of GFM, management directives, analysis of requirements studies and the like, DSCs will affect offsetting adjustments in the purpose segment of the inventory accounting records specified in chapter 2.

b. Offsetting adjustments to condition code of materiel, as result of processing depot submitted complaints, DD Form 1225 or SF 364 is restricted to the storage activities originating the complaint. DSCs may only input DIC DAC documents for condition code changes when a receipt, DIC D4S, processed at the DSC exceeds the contract quantity authorized therefore placing a portion of the receipt in Condition Code L.

205303 - OFFSETTING ADJUSTMENTS ORIGINATED BY DISTRIBUTION ACTIVITIES

a. Offsetting adjustments DIC DAC transactions will be input by distribution activities when in storage actions change condition of materiel. When distribution activities discover materiel in storage is not in an issuable conditions, whether it be insufficient packaging, expired shelf-life, damaged or other, a DD Form 1225 or SF 364 will be prepared and a DAC action will be generated to the DSC for the change in materiel condition. Upon resolution of a depot submitted complaint by the DSC, the distribution activity will generate a DIC DAC transaction to either upgrade materiel to an issuable condition or return materiel to the vendor. Distribution activities are not permitted to submit purpose code changes DIC DAD transaction.

b. Condition Code transfers, DIC DAC, submitted by storage activities for reclassification of stock in storage will be recorded in the NIR and on the Transaction History File. An IAV will not be prepared by the DSC. If NIR asset balance entered in the from purpose and condition segments of the DIC DAC is insufficient to process the transfer will be output for manager review.

SECTION IV - DSC PROCESSING OF REPORTS OF STOCK DISCREPANCIES

205401 - GENERAL

DSC procedures prescribed herein cover the processing of adjustments as a result of discrepancies discovered during surveillance inspection

of on-hand stocks and during other distribution activity operations which involve an inspection of stock and include:

a. A change in condition of materiel through damage to or deterioration of materiel or packaging and other causes which render materiel unsuitable for issue.

b. A discrepancy between contents of a container and stock number and/or quantitative data marked on container.

c. Discovery of an unidentified or misidentified item in stock.

d. An identification of a change in type of pack.

205402 - CHANGE IN CONDITION

a. When inspection of stocks in storage reveals a change in condition of materiel, DSCs will receive and process the required Materiel Adjustment Document and Storage Quality Control Report submitted by distribution activities. Normally, materiel adjustment documents will be transmitted to the DSC and directly input to the data processing system without manual intervention by the DSC. Exceptions to the automatic processing of adjustment action will occur when input adjustment transactions result in violations or the type of adjustment requires manual review or supporting documentation.

b. The following types of adjustment transactions to record changes in condition will be received and processed by DSCs.

(1) Transfers of materiel to condemned or unserviceable, uneconomically reparable condition. These adjustments are identified by DIC DAC.

(2) Transfers of materiel to a suspended condition (Condition Code E or J) pending completion of classification or restoration actions. All materiel classified to Condition E or J should be reclassified to another condition within 10 days or 90 days respectively; however, lack of technical data or time required by commercial testing facilities may not permit reclassification within this time limit. Therefore, a mechanical suspense will not be established on transfers to Condition E or J for purposes of followup to the distribution activity. Materiel transferred into Condition Code E or J will be monitored using the Nonready for Issue List, appendix F-64. See appendix E-369 P.

(3) Transfers to conditions requiring DD Forms 1225. Only when classification results in materiel being transferred to Condition F, G, or L will a DD Form 1225 be required, except when condition changes are reported for dated, limited shelf-life materiel (medical and subsistence items). Transfer of conditions on other dated materiel and transfers to Condition Code D will be supported by a DD Form 1225 when requested by the DSC. When the adjustment document is processed by Information Processing Center (IPC), a Discrepancy Report Notice, appendix F-160, will be output to DTO.

c. Upon receipt of notices output by IPC as a result of processing adjustment transactions, the DTO will suspend Discrepancy Report Notices

for future followup if the DD Form 1225 is not received by the DSC (see appendix E-303 P and/or E-398 P for processing procedures).

d. Violations output for manual review due to erroneous input data on materiel adjustment document will be processed in accordance with the procedures for the applicable VRC as prescribed in appendix E-022 V.

e. When there is evidence that unserviceability is due to fault or neglect, the distribution activity will review the circumstances surrounding the loss to determine if an investigation or Report of Survey (DD Form 200), is required to establish liability Inaccordance with DLAR 7500.1, Property Accountability - Reports of Survey. Investigations or reports will not be initiated for insignificant losses or when reports cannot reasonably be expected to result in overall benefits at least equal to the administrative cost of processing the report. When required, Reports of Survey will be processed Inaccordance with DLAR 7500.1. Whenever Reports of Survey are prepared to cover losses of DLA materiel, a copy of the report will be provided the DSC on whose records the materiel was carried.

f. DSCs will receive Storage Quality Control Reports from distribution activities for condition transfers only when materiel is transferred from any condition to Condition Code F, G, or L and when condition changes are reported for dated, limited shelf-life, (medical and subsistence materiel) or when Management Code Z is used in the Materiel Adjustment Document. Transfer of conditions on other dated materiel will be supported by a DD Form 1225 only when requested by the DSC. When materiel is transferred to Condition Code D, DD Form 1225 will be submitted to the DSC only upon request by the DSC. A document number will be assigned to each Storage Quality Control Report which is submitted in accordance with the provisions of this chapter. When a Materiel Adjustment Document is also submitted, the same document number will be assigned to the adjustment document. Appropriate Suffix Codes will be included. When a change in condition is to be supported by a DD Form 1225, distribution activities will enter Management Code Z in the Materiel Adjustment Document transmitted to the DSC. The DD Form 1225 will contain all pertinent information related to an adjustment action and the estimated cost to repair or complete materiel when applicable.

g. When warehouse denials with Management Code 2 are submitted by distribution activities as a result of finding property which has changed condition in storage (chapter 4) and immediate classification is beyond current capabilities, distribution activities will transmit a Materiel Adjustment Document, DIC DAC, to the DSC within three workdays to transfer the materiel to Condition Code J.

h. When materiel in storage is unsuitable for issue due to packaging deficiencies, inadequate tags, labels, or other identifying information and other minor causes which may be corrected by distribution activities, corrective action will be taken in accordance with DLAR 7420.6, Funding for Preservation, Packaging, Packing, Palletization, and Marking of Defense Stock Fund Items. If immediate corrective action is beyond the distribution activity's current capability, the distribution activity will submit a DD Form 1225 complaint for the discrepancy and transmit a Materiel Adjustment Document, DIC DAC, to the DSC transferring the materiel to Condition Code E. After deficiencies have been corrected, the distribution activity will transmit another Materiel

Adjustment Document to the DSC to transfer materiel from Condition Code E to the appropriate condition.

205403 - CHANGE IN CONTAINER QUANTITIES

When inspection of stocks in storage reveals a difference between the quantity in a container and the quantitative data marked on the container, DSCs will receive a report of the discrepancy on a DD Form 1225 submitted by the distribution activity. If the difference between contents of a container and the quantitative data marked on the container results in distribution activity determination that there may be an over/short shipment from a vendor or other source, this information will be included on the DD Form 1225. DSCs will process the report in accordance with appendix E-398 P.

205404 - CHANGE IN STOCK IDENTIFICATION

a. When inspection reveals an item in stock is unidentified (not on locator records) or misidentified (wrong stock number), the DSC will receive a DD Form 1225 from the distribution activity. The correct stock number of the item will be included on DD Form 1225 when determined by the distribution activity. When a misidentified item is reported, the incorrect stock number under which the item was carried and the quantity misidentified will also be entered on DD Form 1225.

b. When an unidentified (not on locator records) item is found in stock and no established NSN can be applied by the distribution activity, the DSC will receive a DD Form 1225 if the estimated total dollar value of unidentified item exceeds \$100. DD Form 1225 will contain as much descriptive information as possible to include item nomenclature, application or use, physical dimensions, materiel composition, finish, lot number, contract number, manufacturer's code, and part number.

c. Unidentified items with an estimated dollar value of \$100 or less will not be reported to DSCs when the item cannot be related to a NSN by distribution activities. The unidentified item will be transferred to the DRMO on DD Form 1348-1. A document number will be assigned by the distribution activity and the stock number field may contain the manufacturer's part number, manufacturer's code, or other assigned control number to locally identify item. The disposal action will not be reported to any DSC but a copy of the DD Form 1348-1 will be filed for reference in the event DSC queries concerning unidentified materiel are received.

d. Upon receipt of a DD Form 1225 reporting an item which is misidentified or unidentified, the DSC will process the report in accordance with appendix E-398 P.

205405 - PROCESSING MATERIEL RECEIPT ADJUSTMENT ACTIONS

a. Distribution activities will report discrepancies discovered during initial inchecking of receipts in accordance with provisions of chapter 3 or 40. Additionally, when it is discovered that discrepant, unserviceable, damaged, or wrong materiel has been recorded in error (subsequent to transmission of the Materiel Receipt Document to the DSC), the distribution activity will prepare and transmit to the DSC a

materiel adjustment document to transfer the quantity involved from the condition under which the receipt was reported to Condition Code L.
Materiel suspended upon receipt for condition classification (Condition

Code K) will be classified by the storage activity within 10 calendar days after submission of the initial receipt. The exception is ammunition, Class V materiel which can be retained in Condition Code K up to 45 calendar days. When the materiel is classified to its proper condition, the storage activity will submit a DIC DAC, Inventory Adjustment transaction to the DSC. The transaction will be prepared as outlined in appendix B-22, citing the document number of the original receipt in pos. 30-43, Condition Code K in pos. 71, with the new condition code in pos. 66. The DD Form 1225 will be forwarded to Contracting Officer/Administrator or DSC to report the discrepancy in accordance with chapter 3 or 40. Discrepancies between the quantity in a container and the quantitative data marked on the container discovered after transmitting materiel receipt document to DSC, will be reported in accordance with paragraph 205403.

b. After investigation of the circumstances reported on DD Form 1225, in accordance with the provisions of chapter 3 or 40 and appendix E-398 P, the DSC will determine type of adjustment action required on discrepant receipts other than from contractors. Disposition and other appropriate instructions will be forwarded promptly to the distribution activity via CDCS. If a discrepancy is adjusted or corrected by a vendor after being reported to the Contracting Officer/Administrator, disposition and other appropriate instructions will be forwarded within 30 days to the distribution activity. The CDCS Control Point will prepare the necessary documentation and provide instructions to distribution activities to effect disposition of materiel in accordance with the Contracting Officer's/Administrator's instructions.

c. Upon receipt, DSCs will process Materiel Adjustment Documents submitted by distribution activities to transfer discrepant materiel from Condition Code K or L to the appropriate condition or to Condition Code H with concurrent disposal action in accordance with section V.

205406 - PROCESSING ADJUSTMENTS AS A RESULT OF TYPE PACK CHANGES

When inspection of stocks reveals a difference in type pack of materiel, depots will advise DSCs by telephone or correspondence. DSCs will manually prepare adjustment documents for entry into the data processing system in accordance with appendix E-022 P. DSCs will use individual increase and decrease adjustment actions, DIC D8A or D9A. Simultaneous adjustments to the purpose and type of pack or condition and Type 8 pack segments of an inventory balance will not be accomplished. Violations will be manually reviewed in accordance with appendix E-022 V.

SECTION V - PROCESSING ADJUSTMENT ACTIONS BY DSCs

205501 - GENERAL

Procedures prescribed herein cover DSC action in processing adjustments to the NIR based on receipt of warehouse denials, offsetting Purpose or Condition Code transfers and inventory counts submitted by distribution activities in accordance with provisions of this manual and further prescribes preparation of IAVs.

205502 - PROCESSING INVENTORY ADJUSTMENTS AS A RESULT OF WAREHOUSE
DENIALS

a. Materiel Release Denial/Adjustments, DIC A6_, appendix B-8, will be transmitted to the DSC that directed the shipment when the total or partial quantity ordered shipped is not available for issue, identified by Management Codes 1, 2, 3, 4, 5, 6, 7, 8, 9, C, or X (appendix A-13). Based on the Management Code identified, SAMMS will perform the following actions:

(1) When the denial reflects Management Code 1 or 4, a DIC D7_ issue reversal is generated for the denied quantity. The NIR is checked for an inventory cutoff date, that is less than or equal to today's date, to determine if the denied quantity should be added to the inventory quantity prior to generating a loss for all assets. Once the mechanical adjustment is made, a DIC D9A is generated for all balances for the NSN, Location, and Condition Code. Excluded from the inventory loss will be those assets identified with Purpose Code L and Condition Code L.

(2) When a denial reflects a Management Code 2, an edit will be made against the Source Preference Table to identify the originating Routing Identifier Code (RIC) and decision logic to be used in processing the denial.

(a) If the RIC is that of a Distribution Standard System (DSS), Army, or Marine Corps storage activity, a DIC D7_ issue reversal transaction will be mechanically generated for the denied quantity. A subsequent, DIC D9A, inventory loss will be mechanically generated for all balances for the NSN, Location, and Condition Code. Excluded from the inventory loss will be those assets identified with Purpose Code L and Condition Code L. The requisition will be reedited for availability from another storage activity. The item manager will be notified of the denial adjustment on the F-13.

(b) If the RIC is that of Service storage activity, identified with an A, B, C, W, or M in the first position of the RIC, the Management Code 2 recorded on the DIC A6_ will be changed internally within SAMMS to Management Code 1 for processing.

(c) If the RIC is that of an activity other than those identified in subparagraph (b) above, a DIC D7_ issue reversal transaction will be mechanically generated for the denied quantity. Freeze Code F will be applied to all balances for the NSN, Location, and Condition Code. The requisition will be reedited for availability from another storage activity. The freeze will be released as a result of processing a materiel adjustment document. The materiel adjustment document may be, which is either prepared by the storage activity or initiated by the DSC, based on processing a DD Form 1225, as indicated in appendix E-398 P.

(3) When the Management Code is 3 or 9, a DIC D7_ issue reversal is generated for the denied quantity. A reinstated requisition will be prepared and placed on backorder under Type Backorder Code 2. Resupply

action must be manually initiated as a Manager Forced Action and must be directed to a depot other than the one which submitted the denial.

(4) When the denial is received with Management Code 5, a DIC D7_ issue reversal transaction will be mechanically generated for the denied quantity. Freeze Code F is applied to all balances in the NIR for the NSN, Location, and Condition Code. Excluded from the inventory loss will be those assets identified with Purpose Code L and Condition Code L. The requisition will be reedited for availability from another storage activity. The freeze will be released as a result of processing a materiel adjustment document. The materiel adjustment document may be, which is either prepared by the storage activity or initiated by the DSC, based on processing a DD Form 1225, as indicated in appendix E-398 P.

(5) When the denial reflect Management Code 6, a DIC D7_ issue reversal is generated for the denied quantity. The NIR is checked for an inventory cutoff date that is less than or equal to today's date to determine if the denied quantity should be added to the inventory quantity prior to generating a loss for all assets. Once the mechanical adjustment is made, a DIC D9B is generated for all balances for the NSN and location. Excluded from the inventory loss will be those assets identified with Purpose Code L and Condition Code L.

(6) When the denial reflects Management Code 7, a DIC D7_ issue reversal is generated for the denied quantity. The NIR is checked for an inventory cutoff date, that is less than or equal to today's date, to determine if the denied quantity should be added to the inventory quantity prior to generating a loss for all assets. Once the mechanical adjustment is made, a DIC D9B is generated for all balances for the NSN, location and Condition Code. Excluded from the inventory loss will be those assets identified with Purpose Code L and Condition Code L.

(7) When the denial reflects Management Code 8, a DIC D7_ issue reversal is generated for the denied quantity. Freeze Code F is applied to all balances in the NIR for the NSN, location, and Condition Code. Excluded from the inventory loss will be those assets identified with Purpose Code L and Condition Code L. The requisition will be reedited for availability from another distribution activity. The freeze will be released as a result of preparing a DIC ZJK with Freeze Indicator W. If the first position of the document number is not equal to B, D, K, P, or T, the transaction will violate with Violation Reason Code EB.

(8) When the denial reflects Management Code X, the DIC A6_ will be output to violation with Violation Reason Code EB. A DIC ZCW will be mechanically generated to ORC 96 with reason for inquiry message INVALID MANAGEMENT CODE X.

(9) When the denial reflects Management Code C, a DIC D7_ issue reversal is generated for the denied quantity to add assets to the NIR balance. No subsequent inventory adjustments are generated.

b. Decentralized issue denials received more than 30 days after the original issue date and Supply Status Documents, DIC AE6, containing Status Code BY (previously denied) will result in losses for the denied (input) quantity only. These losses will be recorded on the F-13, Inventory Adjustment Voucher Listing. DSO will review the IAV listings

and validate losses in accordance with appendix E-302 P. Both the reversal of the original transaction and the subsequent inventory adjustment to drop the asset balance as a result of a MRO denial will be recorded in the THF.

c. For selected inventory adjustments, a Special Inventory Request, DIC ZJA, will be mechanically generated. For Non-DDS depots the Inventory Control Master File (ICMF) will be used to place quantities in suspense due to processing warehouse denials that result in inventory losses or decentralized issues that result in inventory gains. For this purpose, DICs D8A and D9A quantity fields have been established in the ICMF. In order to establish or update the suspense record in the ICMF, mechanically generated DIC ZJA documents will reflect DIC D8A quantities in pos. 25-29 and DIC D9A quantities in pos. 31-35. These positions are for internal use only and quantity fields will be blank in DIC DJA output to depots. No ICMF record will be established for DDS depots, nor will loss/gain quantities be placed in suspense. These controls are the responsibility of the DDS depot. Inventory Request/Cancellation Documents DIC DJA, will be generated to the DDS depot based on the same criteria as Non-DDS depots. There will be no visibility of that request in SAMMS. For all depots, denial transactions will post to the THF, NIR and Financial Subsystem. The inventory loss, DIC D9A, will be printed on the F-13 report and an S indicator will be placed between the Adjustment Quantity field and Adjustment Dollar Value field of the F-13 to indicate that a Special Inventory Request has been mechanically generated. Mechanically generated DIC ZJA will be produced to establish/update ICMF suspense if:

(1) The NIR reflects the item is under inventory at the applicable location.

(2) The items Inventory Category Code is E or U.

(3) The item is assigned Weapon System Indicator Code F or L.

(4) The item is assigned Weapon System Indicator Code G, H, J, or T and the total system On-Hand Issuable Asset (OHIA) quantity is less than or equal to the Reorder Point (ROP) quantity.

(5) The item is managed as a stocked NSN and the OHIA quantity is equal to zero or less than the UMMIPS Control Level quantity; or the dollar value of the DIC D8A/D9A for the stocked NSN is greater than \$800.

205503 - PROCESSING OFFSETTING ADJUSTMENTS

a. Offsetting adjustments to the Purpose or Condition Code of the NIR will be prepared and input to the data processing system in accordance with sections III and IV.

b. All offsetting adjustments, DIC DAC or DAD will be subjected to the mechanical edit and validity checks. All offsetting adjustments which fail to pass these checks will be suspended in the Violation

Control File and output for manual review and reentry in accordance with appendix E-022 V.

c. Valid offsetting adjustments will be posted to the NIR by crediting (DIC D9_) the input quantity to the FROM condition or purpose segment and debiting (DIC D8_) an equal quantity in the TO condition or purpose segment for the distribution activity location code (RIC). The manager review notices described in section IV will be output during the processing of these adjustments. Offsetting adjustments will not be recorded on the IAV listing as there is no net gain or loss to accountable balances. However, the adjustments will be recorded in the THF and a printout of processed adjustments is available upon inquiry of the file in accordance with chapter 2. If an item is undergoing inventory and the cutoff date has been reached, any inventory adjustment prescribed herein will be output to DSO as a violation.

205504 - ADJUSTMENTS RESULTING FROM PHYSICAL INVENTORY COUNTS

a. DSC requested special, spot, sample and complete physical inventories to be conducted in accordance with chapter 7.

b. Upon receipt of Physical Inventory Count Transactions, DIC DKA, appendix B-25, the inventory count quantity for each NSN and condition will be compared with the physical inventory cutoff balance in the NIR. If the two quantities are not the same, an inventory adjustment transaction, DIC D8A or D9A, is created to either increase or decrease the NIR balance depending upon whether the count quantity was greater or less than the cutoff balance. When count documents are processed for more than one condition code for the same NSN, a separate transaction will be created to adjust each condition segment of the NIR of the item and the multiple adjustments. Note: Physical Inventory Count transactions, DIC DKA, are not utilized by DDS depots. Adjustments resulting from physical inventories or reversals are prepared by the DDS depot and transmitted to the DSC in the format of DIC D8A/D9A (appendix B-22). When no adjustments are required, the DDS depot will transmit a DIC D8A transaction with zero quantity, a valid TPIC and a valid or blank Condition Code. These adjustment transactions will be mechanically processed to the NIR. Losses will be allocated according to policy described in subparagraph 205504d of this chapter. If sufficient NIR assets do not exist to process incoming losses from DDS depots, an inventory gain (DIC D8A) will be mechanically created and processed to accommodate the loss. DSCs are prohibited from submitting manual DIC D8_/D9_ adjustments as result of physical inventory when the depot RIC reflects a DDS depot.

c. When a Materiel Release Denial with Management Code 1, 4, 6 or 7 is processed for an item undergoing physical inventory, the NIR asset balance is dropped to zero and the denied quantity plus the on hand balance are added to Denial Suspense. The denied quantity will be included in the cutoff balance if the MRO was issued prior to cutoff date. If the MRO was issued after cutoff date, no adjustment will be made to cutoff balance, i.e., only the DIC D9A field of ICMF will be updated. If the comparison of the count quantity and cutoff balance results in creation of a decrease adjustment with a quantity greater than the NIR balance, an adjustment equal to the NIR balance will be posted. NIR credit balances or violations for insufficient assets will not be created from adjustments as a result of physical inventory.

d. When allocating inventory losses as a result of physical inventory, for non-DDS depots, or as a result of physical inventory and other sources for DDS depots, all balances carried in purpose segments for the NSN being inventoried will be considered in relation to the quantity counted. For DDS depots, an inventory adjustment processed with a blank TPIC and a blank Purpose Code will violate with Violation Reason Code AR (appendix E-022 V). DDS depot inventory losses, DIC D9A processed with a valid TPIC and a blank Purpose Code will process across all Purpose Code assets and will be allocated in the same manner as for Non-DDS depots. Sequence for applying losses to Ownership/Purpose Codes as follows: Purpose Codes A, F, G, H, E, D, M and N, then Ownership Codes 1, 4, 5 and 6.

e. When an inventory gain is involved, all assets gained will be applied to Purpose Code A.

f. IAVs will be prepared for all increase or decrease adjustments resulting from special, sample or complete physical inventories.

205505 - PREPARATION OF INVENTORY ADJUSTMENT VOUCHERS

a. IAVs are used to adjust differences, attributable to normal supply activity, which have been found between the accountable balances and the quantities physically on hand. IAVs used to adjust incorrect accountable balances caused by losses of property resulting from other than normal supply activity, such as fire, theft or accident, (DIC D9G/D9H) will be supported by appropriate documents in accordance with DLAR 7500.1, Property Accountability Reports of Survey (DD Form 200). Complete instructions for the use and distribution of both survey reports (DD Form 200/DD Form 2090) are contained in DoD 7200.10-M, DoD Accounting and Reporting of Government Property Lost, Damaged or Destroyed.

b. An Inventory Adjustment Voucher, (DLA Form 433), will be attached to a machine prepared listing of adjustments made to the accountable record as a result of physical count. Data to be included on the machine prepared listing is shown in appendix F-16. IAVs for sample and complete inventories will contain the adjustments for one lot or segment of a lot only. IAVs for special inventories will be accumulated, printed, reviewed and approved at least monthly.

c. IAV cover sheets for the machine prepared listing will contain appropriate heading and signature elements, number of pages, total units adjusted both over and short and total dollars adjusted over and short. The entries will be computed prior to approval.

205506 - REVIEW OF INVENTORY ADJUSTMENT VOUCHERS

a. An important part of the physical inventory activity is the determination of system and procedure/deficiencies. A variety of situations must be considered before any research effort produces the desired benefits. IAV listings will be reviewed by DSO Inventory Monitor and investigations of individual actions will be made on as required or a sampling basis, to determine causes and responsibilities.

b. Research is an investigation of potential or actual discrepancies between physical count and recorded balances. The purpose of research is to determine the correct balance or to determine the cause of discrepancies. There are three types of research:

(1) Post-count_validation. A comparison of physical count with potential recorded balances or another count, with consideration of transactions that have occurred recently. The purpose of post-count validation is to determine the validity of the count. Post-count validation research ends when the accuracy of the count has been verified or when any necessary recounts have been taken or the discrepancy is \$800 or less (depot responsibility).

(2) Preadjustment_research. An investigation of potential discrepancies which involves the consideration of recent transactions, unposted or rejected documentation, search of temporary location areas, 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 (depot responsibility).

(3) Causative_research. An investigation of discrepancies consisting of a complete review of all transactions occurring since the last completed inventory, the last location reconciliation which included quantity, or back one year, whichever is sooner, to include supporting documentation, catalog change actions, shipment discrepancies, and unposted or rejected documentation. 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 (DSC responsibility).

c. Subsequent to research, inventory shortages of narcotics, drug abuse items, precious metals, alcohol, and alcoholic beverages must be reported to the depot commander, the depot security office, and HQ DLA, ATTN: DLA-T. In addition, shortages of narcotics and drug abuse items only must also be reported to the Bureau of Narcotics and Dangerous Drugs. Reports must include NSN, nomenclature, unit price, UI, inventory cutoff date, quantity counted, quantity adjusted, and the results of the causative research that was performed. An analysis related to confirmed shortages of ICC U items will also be made in the Quarterly Inventory Performance Report (DLA(Q)927(0)).

d. In conducting research, each inventory will stand on its own merit. In determining requirements for Reports of Survey, results of past inventories will not be used to rollup or netout the adjustment. This data will, however, be used as supporting information when requesting additional research/Reports of Survey by storage activities. Prompt action will be taken to correct paperwork errors vice adjusting records via physical inventories. When an inventory adjustment is caused by an erroneous transaction or by incomplete processing of a

transaction, such errors should be corrected by a reversal entry and proper processing of the transaction rather than allowing the inventory adjustment to remain or using an offsetting adjustment. However, inventory adjustment reversal transactions will not be prepared/processed when:

(1) The original inventory adjustment transaction was processed one year (or more) prior to the date the reversal action would process.

(2) An inventory has been completed between the date of the original adjustment and the date the reversal would be processed.

(3) The inventory adjustment reversal document number does not match the original adjustment document number.

e. Some examples of situations wherein inventory adjustment is considered inappropriate and reversals should be processed, if MILSTRAP criteria are satisfied, are:

(1) Capitalization of assets followed by MRO denials or inventory gains. If inventory losses are discovered as a result of records reconciliation, inventory, subsequent to capitalization, the original capitalization quantity should be reversed and reentered correctly to depict the correct assets available for customer support. Conversely, increases detected should be considered as follow-on capitalization. The rules for detection of inventory capitalization errors apply for a period of one year following the original capitalization.

(2) An inventory adjustment (gain or loss) as a result of a previous erroneous inventory adjustment. The original erroneous adjustment should be reversed.

(3) Inventory adjustments (gain/loss) wherein research discloses that a receipt has not been processed or an off-line MRO has not been posted to the accountable record. The original adjustment should be reversed and the proper receipt or MRO transaction processed.

(4) Erroneous receipt quantities processed to the accountable records. The erroneous entry should be reversed and the proper quantity processed.

(5) Local SSP issues that result in a DSC directed MRO denial. The untimely entry should be reversed and the proper entry processed.

(6) MRO denials caused by erroneous receipt quantities or local DSC adjustment (increase) to the accountable record. The erroneous receipt quantities or adjustments should be reversed and the proper entries processed.

(7) Other system problems such as documents not posted, erroneous quantities taken up on the record, duplicate input and data entry error. The erroneous transactions should be reversed and the proper entries processed.

f. Criteria for researching adjustments are as follows:

(1) Research of noncontrolled items will be conducted on a sampling basis for adjustments between \$800.01 through \$16,000.

(2) Research of noncontrolled items will be conducted on a complete, causative basis for adjustments over \$16,000.

(3) Research of controlled items excluding pilferable, will be conducted on a complete, causative basis regardless of dollar value of adjustments.

(4) Research of pilferable items will be conducted on a sampling basis for adjustments up to \$2,500. Adjustments over \$2,500 are to be researched on a complete, causative basis.

g. Guidelines for minimum research for adjustments are as follows:

h. To isolate causes for errors, research efforts are to include areas as follows:

(1) Unprocessed discrepancy reports.

(2) Unprocessed or violated receipts.

(3) Change of condition transaction.

(4) Manager forced actions.

(5) Catalog change actions.

(6) Forced closed MROs and subsequent reinstatements.

(7) Timeliness of receipt and processing of decentralized versus centralized issues.

(8) Requests for billing adjustments.

(9) Data Entry/clerical errors.

(10) Erroneous capitalization.

(11) Reversal of preinventory transactions such as receipts and confirmations of customer cancellation requests.

i. Timely completion of research is essential. Delay only increases the complexities of adequate research and reduces the probability of conclusive research. The DLA objective for completion of all research action is established at 30 days from the availability of the IAV. Whenever an adjustment is being subjected to a Report of Survey DD Form 200, and the Report of Survey cannot be completed within the 30 day objective, the adjustment may be extracted from the IAV and the IAV processed to completion. Once completed, a copy of the Report of Survey is then to be filed with the completed IAV. DSCs will assure that the

IAV is properly annotated to indicate the extraction action. This includes deleting the adjustment from the summary statistic, e.g., number of lines adjusted, dollar value of gains or losses, total dollar value of gain/loss.

j. If the DSC/NSC/ALC/ICPs causative research proves inconclusive, those activities will initiate a LOI (Letter Of Investigation, appendix C-26) for the following adjustment categories: (1) Noncontrolled items conducted on a sampling basis (\$800.01 - \$16,000), (2) All noncontrolled items for adjustments over \$16,000, and (3) All pilferable items conducted on a sampling basis up to \$2,500. The DLA depots will respond to these categories in the form of a DD Form 200, FLIPL (Financial Liability Investigation of Property Loss), appendix E-263 P, for losses_only.

k. If physical inventory adjustment is a gain, or if the loss discrepancy is resolved for the above categories, the depot will respond to the LOI with a letter/endorsement, appendix C-27.

l. For all adjustments (gains and losses) to controlled items (sensitive/classified), regardless of dollar value, and all adjustments (gains or losses) to pilferable items where the adjustment value is equal to or greater than \$25,000, the DSC/NSC/ALC/ICPs will again initiate a LOI. If the discrepancy is not resolved, (cause of error not found) the depot will respond with a DD Form 200. If the discrepancy is resolved, (i.e., stock is recovered or the cause of the discrepancy is discovered), the depot will respond with a letter/ endorsement.

m. Unresolved physical inventory loss adjustments for controlled inventory items will be referred to security officials of the storage activity from which the loss occurred to determine whether there is probable cause to suspect theft. DSCs will assure that Reports of Survey are prepared for all inventory losses or gains for narcotics, security classified items when there is indication of fault or neglect. Refer to DLAR 7500.1 and appendix E-263 P.

n. The Accountable Officer or the designated representative will be responsible for assuring that adjustment discrepancies are classified, analyzed and evaluated. The results of causative research will be classified by the Standard Error Classification Codes identified in appendix A-76. A summary of classified error conditions will be attached to the IAV for review by the reviewing/approving authority. Additionally, HQ DLA, ATTN: DLA-OS will be advised of instances wherein correction of repetitive errors or major problem areas are beyond local capability.

NOTE: The DSC/NSC/ALC/ICPs initiate causative research to the depots via LOI, except for NSC Oakland, where causative research for Navy owned material is the responsibility of the Storage Activity. In addition, depots which are co- located with an NSC or an ALC will not initiate a DD Form 200, in response to an LOI received from the NSC/ALC unless there is evidence or suspicion of negligence, willful misconduct, or theft; otherwise, the NSC/ALC will be responsible for initiating the DD Form 200.

205507 - APPROVAL OF INVENTORY ADJUSTMENTS

a. Complete instructions for the use and distribution of survey report (DD Form 200) is contained in DoD 7200.10-M, DoD Accounting and

Reporting of Government Property Lost, Damaged or Destroyed, and in
appendix E-263 P.

b. IAVs when approved, are valid supply documents, supporting entries made to accountable records, adjusting discrepancies resulting from supply activity which were disclosed during physical count. IAVs will be acted on by or for the Commander of the DSC. The Commander may appoint an officer of their staff to approve or disapprove such adjustments in their name subject to the following:

(1) The accountable property officer or anyone under their jurisdiction may not approve IAVs.

(2) The officer charged with custody of the materiel (storage officer) or anyone under the officers jurisdiction may not approve IAVs.

(3) IAVs will be approved on a graduated basis by Dollar Value as shown below:

<u>VALUE OF GROSS ADJ. ON IAV</u>	<u>SIGNATURE LEVEL APPROVAL</u>
Up to \$500,000	Division
Over \$500,000	Directorate

c. The approving authority may take exception to any or all entries on the IAV and request justification for the adjustment. The justification will be a brief summary of circumstances causing the adjustment and will be included in or as attachments to the IAV.