Defense Logistics Agency Instruction

Inventory Adjustment Research

References: Refer to Enclosure 1.

1. PURPOSE. This instruction establishes DLA implementing policy and guidance for the research, approval and reversal of inventory adjustments on DLA and Military Service owned assets. The purpose of Inventory Adjustment Research (IAR) is to:

   a. Ensure materiel accountability is properly executed within the DOD.

   b. Ensure accurate property accountability records for the physical inventory are maintained in support of customer requirements and readiness.

   c. Identify and help resolve problems in supply system work processes affecting property accountability records.

   d. Identify repetitive processing errors and maintain accurate records for supply system transactions generated within the supply system by researching and reconciling property accountability record imbalances.

2. APPLICABILITY. This Instruction applies to all DLA Headquarters and DLA Primary Level Field Activities (DLA PLFAs), with the exception of the Defense Reutilization and Marketing Service (DRMS).

3. POLICY. It is DLA policy that DLA Inventory Adjustment Research must comply with DoD Physical Inventory Control Program (PICP) regulatory guidance using standard DOD business rules, procedures, and transactional interfaces. DLA Inventory Adjustment Research must meet or exceed minimum DOD-wide standards, controls, and records. For additional information regarding this policy, refer to Enclosure 2.

4. RESPONSIBILITIES. Responsibilities assigned to the Accountable Officer, the Inventory Organization at the Defense distribution facility, and their Command Security office are described in detail at Enclosure 3.
5. **PROCEDURES.** Refer to Enclosure 4.

6. **ADDITIONAL INFORMATION.** Refer to Enclosure 5.

7. **EFFECTIVE DATE.** October 21, 2004

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ENCLOSURE(S)
1. References
2. Policy
3. Responsibilities
4. Procedures
5. Additional Information
Enclosure 1

References

1. DOD 4140.1-R, DOD Supply Chain Materiel Management Regulation, Chapter 5
   (http://www.dtic.mil/whs/directives/corres/pdf/414001r.pdf)

2. DOD 4000.25-M, Defense Logistics Management System (DLMS), Volume 2, Chapter C6,
   Physical Inventory Control

3. DOD 4000.25-2-M, Military Standard Transaction Reporting and Accounting Procedures
   (MILSTRAP), Chapter 7, Physical Inventory Control

   http://www.DOD.mil/comptroller/fmr/12/12_07.pdf
Enclosure 2
Policy

1. **Accountable Records.** The Defense Distribution Center (DDC) accountable records will be adjusted with a physical inventory gain (MILSTRAP Document Identifier (Doc ID) D8A) or loss (Doc ID D9A or DLMS equivalent 947I) when a discrepancy exists between the physical count and the recorded balance, or a discrepancy between the recorded location level balance and the recorded owner level balance is identified through the DSS “book-to-book” reconciliation process.

2. **Inventory Adjustment Research (IAR).** Research is required to determine the correct balance and the cause of discrepancies. The three types of research are: post-count validation, pre-adjustment research and Causative Research. Causative Research will be conducted for: all actual uncontrolled item adjustments between $5,000 and $16,000 with a unit variance greater than 25 percent; all uncontrolled adjustments greater than $16,000; all classified/sensitive item adjustments regardless of dollar value or unit variance; and, all pilferable item adjustments greater than $2,500. Sample research will also be performed on pilferable item adjustments with an extended dollar value less than or equal to $2,500, and on uncontrolled item adjustments with an extended dollar value between $5,000 and $16,000 and unit variance of less than or equal to 25 percent.

3. **Reversal of Physical Inventory Adjustments.** Since many critical readiness decisions are made on the basis of the recorded quantity, it is imperative that the recorded quantity be reconciled with the verified on-hand quantity as soon as possible. Since detailed research is time-consuming and labor intensive, it is often necessary to adjust the record prior to the completion of research. “Post-adjustment” or Causative Research frequently reveals the adjustment was caused by an unposted, double posted, or otherwise improperly posted transaction, such as a receipt or issue. A reversal transaction is processed to allow the proper posting of the correct supply transaction and to negate the effect of the adjustment on asset management, distribution, and financial records.

   a. An adjustment will be “reversed” by posting a credit loss or gain transaction, (a true reversal transaction of the original adjustment). Adjustments will not be “reversed” by posting an off-setting adjustment. This is important because adjustment gains and losses are measured in separate General Ledger Account Codes (GLACs). An offsetting adjustment will be measured as an additional adjustment, creating an inflated view of gross adjustments. A reversal will result in the “subtraction” of the adjustment value from the GLAC, ensuring the gross adjustment rate reflects only that value of adjustments remaining unresolved.

   b. Reversals required to correct adjustments, which are done based on incorrect or incomplete information, are limited to 2 years from the date of the original inventory adjustment; however, there must be a clear audit trail that links the improperly posted adjustment to the original adjustment. Reversals will not be processed solely on the basis of a previous offsetting adjustment. Research must prove the offsetting adjustments are related.
c. Reversals must be processed to the same owner's account as the original transaction and have a meaningful Error Classification Code (ECC) assigned.

4. Reversal of Other Supply Transactions. The reversal process is appropriate regardless of the age of a previously un-posted and/or incorrectly posted supply transaction, such as receipts or issues. However, this is 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.
1. HQ DLA is responsible for:

   a. Establishing and maintaining DLA’s Physical Inventory Control Program (PICP) to provide for the economical and efficient stewardship of DOD supply system materiel.

   b. Ensuring DLA PLFAs comply with minimum DOD-wide standards, controls and records, to ensure proper accountability and audit ability of DOD supply system inventories.

   c. Ensuring inventory research results are processed to accounting records in compliance with all DOD guidance and that DLA PLFAs adhere to these procedures unless the Office of the Under Secretary of Defense (AT&L/L&MR), Office of the Assistant Deputy Under Secretary of Defense, Supply Chain Integration, has approved a written request for waiver by DLA or another Component.

2. The Defense Distribution Center is responsible for:

   a. Providing adequate resources for execution of PICP functions within the distribution facilities.

   b. Preparing the Storage Activity Accountability to Service Materiel Owners Report and submitting it to DLA (J-3312), as well as to each Service/Agency.

   c. Ensuring each distribution facility has an Accountable Officer, an Inventory Organization and a Command Security Office.

   (1) Accountable Officer. The Accountable Officer is the Distribution Site Commander or an individual appointed by the Commander, in writing. This individual will oversee the maintenance and administration of the supply system stock accountable records; assure the accuracy of the supply data pertinent to transactions affecting the item records; oversee the documentation of all inventory adjustment transactions affecting the account; approve all Inventory Adjustment Vouchers (IAVs) with an extended dollar value between $100,000 and $500,000; review and recommend approval by the Distribution Site Commander of all IAVs with an extended dollar value of greater than $500,000; review all Financial Liability Investigation of Property Loss (FLIPL), DD Form 200s; and act as the project manager identifying areas contributing to inventory inaccuracies and assist in developing corrective action. The Accountable Officer will prepare a quarterly report for the DDC Distribution Operations Manager which summarizes the results of Causative Research and highlights predominant findings/recommendations to improve inventory accuracy and prevent future adjustments. The Accountable Officer will be appointed from within the Continuous Government Authority (CGA), whether or not the performing activity is a government or contractor entity.
(2) **Inventory Organization.** The individuals who conduct Causative Research, and as required, initiate a DD Form 200 (FLIPL), will reside in an inventory organization whether or not the performing activity is a government or contractor facility. Inventory personnel may also serve as the Financial Liability Program Coordinator (FLPC). As such, the FLPC will provide a quarterly summary report of unresolved adjustments that required a FLIPL, to the DDC appointed FLPC. The report will include, at a minimum, the stock number, quantity, and dollar value adjusted. The FLPC will also maintain a control log to record and track status of DD Form 200 investigations initiated. This includes accounting for all inter-office movement of the DD Form 200 throughout its processing within the distribution facility.

(3) **Command Security Office.** In all instances of DD Forms 200s initiated in connection with any shortages of narcotics or drug abuse items, one copy of the final DD Form 200 will be forwarded to the DDC (Command Security), the Drug Enforcement Agency Division Officer, the Distribution Site Commander, and the supporting investigative agency. An entry will be made in the DLA Criminal Incident Reporting System, which is managed by the DLA Criminal Investigations Activity. Additionally, upon discovery of an inventory discrepancy that cannot be immediately resolved, the DDC must send a report to HQ DLA Command Security within 72 hours (fax or e-mail is acceptable). The report must include the following information: stock number, nomenclature, drug schedule, unit price, unit of issue, inventory cutoff date, and quantity in dispute.
1. **Adjustments not meeting Causative Research thresholds.** At the end of the month, all adjustments not meeting the criteria for research will be output with a Consolidated Adjustment Voucher (CAV). This consolidated voucher provides summary data for adjustments occurring in that month which do not meet Causative Research criteria. The detail line item adjustments associated with a consolidated voucher are available for review. The consolidated voucher must be reviewed by both the Reviewing Authority and the Accountable Officer; however, approval authority resides with the Accountable Officer. The CAV substantiates adjusting the stock record account and relieves the Accountable Officer from property accountability and responsibility.

2. **Adjustments meeting mandatory Causative Research thresholds.** For inventory adjustments meeting Causative Research criteria, an IAV will be completed within 45 days from the date of the adjustment for each line item inventory adjustment. The Reviewing Authority approves all IAVs under $100,000. For adjustments with an extended dollar value between $100,000 and $500,000, the Reviewing Authority reviews and recommends the IAV for approval by the Accountable Officer. For adjustments with an extended dollar value greater than $500,000, the Accountable Officer reviews and recommends the IAV for approval by the Distribution Site Commander. Again, the IAV substantiates adjusting the stock record account and relieves the Accountable Officer from property accountability and responsibility.

3. **Adjustments selected for sample Causative Research.** The level of research for adjustments selected for sample Causative Research follows the same provisions as adjustments meeting mandatory Causative Research thresholds above. However, the IAV will be completed within 45 days from the date of the voucher.

4. **Financial Liability Investigation of Property Loss (FLIPL).** A complete Causative Research package (IAV plus exhibits) will suffice unless a FLIPL is required (see reference 4 of Enclosure 1). A FLIPL is required when an inventory adjustment remains unresolved after causative research and the unresolved inventory adjustment meets the following criteria:

   a. Gain or loss of a sensitive item (e.g., drugs designated as controlled substances, precious metals, hazardous materials, small arms, ammunition, explosives), regardless of dollar value and the Control Item Inventory Code (CIIC) is equal to 1, 2, 3, 4, 5, 6, 8, Q, R or $.

   b. Gain or loss of classified items, regardless of dollar value, and CIIC equal to A, B, C, D, E, F, G, H, K, L, O, S or T.

   c. Gain or loss of a pilferable item (CIIC equal to J, I, M, N, P, V, W, X, Y, or Z) and the unit price times the discrepant quantity is equal to or greater than $2,500 for each stock number.

   d. Any inventory loss where there is an indication or suspicion of fraud, theft or negligence.
e. Repetitive losses, at the discretion of the Accountable Officer, or when the cumulative dollar value of a given stock number’s unresolved inventory losses listed in the monthly CAV Report is equal to or greater than $50,000.

5. **Preparation of DD Form 200.** A financial liability investigation should be conducted by a person not directly supervised by the Accountable or Responsible Officer. Completion of the DD Form 200, FLIPL, involves up to eight signatures.

   a. Block 11 is signed by the inventory specialist who conducted the IAV research and completed Blocks 1, 3, 4, and 5 through 8. For repetitive adjustments, highlighted in the monthly CAV Report, the Accountable Officer will complete Blocks 1, 3, 4, and 5 through 8 and sign Block 11.

   b. In the lower right-hand corner of Block 10, the Security Office representative will initial the original as proof of receipt of FLIPL notification.

   c. Block 12 is signed by the Reviewing Authority. Once accepted, the inventory supervisor will sign as the Reviewing Authority and notify the Accountable Officer and Security Office of the FLIPL requirement.

   d. Block 13 is signed by the Appointing Authority. The Appointing Authority is the Distribution Site Commander. The Appointing Authority and Approving Authority are normally one and the same, and may be delegated in writing.

   e. Block 14 is signed by the Approving Authority. The Approving Authority is also the Distribution Site Commander. The Approving Authority’s responsibilities may be delegated; however, delegation must be in writing. The Approving Authority may also act as the Appointing Authority.

   f. Block 15 is signed by the Financial Liability Officer (FLO) who is appointed by the Appointing Authority. The FLO qualifications and responsibilities are described in the DoD Financial Management Regulation (see Enclosure 2 reference 4).

   g. Block 16 is signed by the individual charged with negligence or abuse.

   h. Block 17 is signed by the Accountable Officer or Designee.
Enclosure 5

Additional Data - Definitions

1. **Appointing Authority.** An individual designated in writing by the Approving Authority. The approving authority may act as the Appointing Authority. The Appointing Authority appoints Financial Liability Officers, if required, approves or disapproves the recommendations of the Accountable Officer, Reviewing Authority, or Financial Liability Officer, and recommends actions to the Approving Authority. The Appointing Authority is normally senior to the Financial Liability Officer.

2. **Approving Authority.** The Approving Authority is the Distribution Site Commander or the head of the CGA and is appointed in writing by the DDC Command Group. The Approving Authority makes determinations to either relieve involved individuals from responsibility and/or accountability, or approves assessment of financial liability. The Approving Authority may also act as the Appointing Authority. When a FLIPL requires DDC approval, the DDC Chief of Staff is the Appointing and Approving Authority.

3. **Causative Research.** Causative Research is an in-depth investigation of selected adjustments to determine why they occurred and consists of a complete review of all transactions (to include supporting source documentation, catalog change actions, shipment discrepancy files, and unposted, rejected or violated transactions) since the last completed inventory where Causative Research was conducted, or within the last year, whichever is most recent. The purpose of Causative Research is twofold: to attempt to resolve the discrepancy so that asset management and financial data accurately reflect physical actions, and to collect, analyze, and evaluate data about the causes of inventory adjustments in order to eliminate repetitive errors. The Causative Research process ends when the cause of the discrepancy has been discovered and corrective action taken, or when all pertinent transaction files, records, documents, etc., have been evaluated with no conclusive findings apparent.

4. **Materiel Accountability.** The act of safeguarding, answering for, and exercising proper quantitative and physical controls over DOD materials, supplies, and equipment in the care and custody of DOD activities.

5. **Post-count Validation.** A comparison of the physical count with recorded balances or another count, with consideration of transactions that have occurred recently. Post-count validation research ends when the accuracy of the count has been verified or when any necessary recounts have been taken.

6. **Pre-adjustment Research.** A review of physical counts conducted, recent transactions to determine in-float considerations and verification of catalog data. Pre-adjustment research ends when the balance has been verified or the adjustment quantity determined and posted to the accountable record.
7. **Reviewing Authority.** An individual, who reviews, analyzes and accepts Causative Research findings, within the distribution facility's inventory organization. For supply system stock, this will normally be the supervisor of the researcher who initiated the FLIPL.