



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
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FORT BELVOIR, VIRGINIA 22060-6221

IN REPLY
REFER TO

DLMSO

May 18, 2010

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

SUBJECT: Approved Defense Logistics Management System (DLMS) Change (ADC) 364, Revise DOD Physical Inventory Requirements to Allow Annual Complete Inventories as Alternative to Statistical Sampling and Location Survey Requirement (Supply) (Staffed as PDC 375A)

The attached change to DoD 4000.25-M, Defense Logistics Management System (DLMS) and DoD 4000.25-2-M, Military Standard Transaction Reporting and Accountability Procedures (MILSTRAP) is approved. This change will be published in the next reissuance of the DLMS and MILSTRAP manuals.

Addressees may direct questions to the DLMSO point of contact Ms. Mary Jane Johnson, email: Mary.Jane.Johnson@dla.mil. Others must contact their Component designated Supply PRC or JPIWG representative.

A handwritten signature in cursive script that reads "Donald C. Pipp".

DONALD C. PIPP
Director
Defense Logistics Management
Standards Office

Attachment

cc:
DUSD(L&MR)SCI

ATTACHMENT TO ADC 364
Revise DOD Physical Inventory Requirements to Allow Annual Complete Inventories as Alternative to Statistical Sampling and Location Survey Requirement (Supply)

1. ORIGINATOR:

- a. **Service/Agency:** Navy
- b. **Originator:** NAVSUP 41, Navy JPIWG Representative, Commercial 717-605-7412, DSN 430-7412,

2. FUNCTIONAL AREA:

- a. **Primary:** Supply/Physical Inventory Control Program
- b. **Secondary:** None

3. REFERENCES:

- a. DLMSO memorandum, February 18, 2010, subject: PDC 375A, Revise DoD Physical Inventory Requirements to Allow Annual Complete Inventories as Alternative to Statistical Sampling and Location Survey Requirement (Supply)
- b. DLMSO memorandum, October 30, 2009, subject: PDC 375, Revise DoD Physical Inventory Requirements to Allow Annual Complete Inventories, Either Through Cycle Counting or Wall to Wall Methods, as Alternative to Statistical Sampling, and to Waive Location Survey Requirement When Performing Annual 100 Percent Inventories Through Cycle Counts or Wall to Wall Methods [PDC 375 was replaced in its entirety by PDC 375A]
- c. DLMSO Memorandum for Joint Physical Inventory Working Group, December 22, 2009, subject: Joint Physical Inventory Working Group (JPIWG) Meeting, November 17-19, 2009
- d. DoD 4000.25-M, DLMS, Volume 2, Chapter 6, (DLMS) <http://www.dla.mil/j-6/dlms/elibrary/manuals/dlms/v2.asp>
- e. DoD 4000.25-2-M, Military Standard Transaction Reporting and Accountability Procedures, Chapter 7, (MILSTRAP), <http://www.dla.mil/j-6/dlms/elibrary/Manuals/MILSTRAP/default.asp>
- f. DLMSO Memorandum for Joint Physical Inventory Working Group, June 2, 2009, subject: Joint Physical Inventory Working Group (JPIWG) Meeting, March 25, 2009

4. REQUESTED CHANGE:

- a. **Title:** Revise DoD Physical Inventory Requirements to Allow Annual Complete Inventories as Alternative to Statistical Sampling and Location Survey Requirement (Supply)

b. Description of Change:

1) PDC 375A (reference 3a) revised and replaced PDC 375 (reference 3b) in its entirety as discussed at the November 17-19, 2009, JPIWG meeting (reference 3c). This ADC approves PDC 375A.

2) DoD 4000.25-M, DLMS, Volume 2, Chapter 6 (reference 3.a.) and DoD 4000.25-2-M, MILSTRAP (reference 3.b), Chapter 7, paragraph C7.2.2.1 states philosophy of the DoD physical inventory control function “needs to be more selective than the ‘100 percent wall-to-wall total item count’ concept.” DoD 4000.25-2-M, MILSTRAP (reference 3.b), Section C7.2.10.1 Inventory Prioritization and Section C7.3.3.1 Scheduled Inventories only make reference to statistical sample inventories and controlled item inventories. Similarly, DoD 4000.25-M, DLMS, Volume 2, C6.3.3 Scheduled Inventories only make reference to statistical sample inventories and controlled item inventories. There is no mention of physical inventory methods, other than statistical sampling, to meet DoD physical inventory requirements. **The Navy proposed that MILSTRAP/DLMS allow storage activities to perform complete inventories on an annual basis as an alternative to statistical sample inventories. The Navy also proposed that the requirement to perform location surveys and collect the associated location survey metrics be waived for storage activities performing 100% complete inventories including empty locations on an annual basis. This change approves those proposals.**

c. Procedures: Revise DoD 4000.25-M, DLMS, and DoD 4000.25-2-M, MILSTRAP, as shown below (changes are identified by *bold, red, italics*):

1) Revise DOD 4000.25-2-M, MILSTRAP chapter 7:

(a) 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.

C7.2.10.1.1 Annual complete (100%) physical inventories can be performed as an alternative to statistical sampling.

(b) C7.6.1.6. 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. ***Sites which perform annual complete physical inventories including empty locations have satisfied the location survey requirement. These sites will not be required to collect location survey metrics.***

2) Revise DOD 4000.25-M, DLMS, volume 2, chapter 6:

(a) C6.2.10.1. Inventory Sampling. A stratified, hierarchal inventory sample shall be accomplished at least once annually for the purpose of validating the accuracy of the accountable record. Results of the sample will be reported in accordance with the stratification and tolerances cited in table C6.T1.

C6.2.10.1.1 Annual complete (100%) physical inventories can be performed as an alternative to statistical sampling.

(b) C6.6.1.1.4. Items within Lot/Segment. Items within a lot/segment, that have been subject to a complete item inventory, shall satisfy the annual survey requirement when the entire lot/segment is located in a clearly designated, conterminous warehouse space. These inventories lots/segments may be excluded from the complete survey for the fiscal year in which they were counted. ***Sites which perform annual complete inventories including empty locations have satisfied the location survey requirement. These sites will not be required to collect location survey metrics.***

5. REASON FOR CHANGE: The Navy is implementing ERP 1.1 starting in February 2010 with rollout to storage activities scheduled for February 2011. The ERP 1.1 WM solution statistical sample functionality is based on dollar value and will not meet DoD statistical sample requirements as discussed during the March 25, 2009 JPWIG meeting (reference 3.e.). Instead of developing a new statistical sampling tool, the Navy would like to use the COTS functionality provided in SAP.

Standard SAP functionality allows for a variety of inventory methods such as cycle counting, continuous inventory, and annual inventory. All of these methods can be used to perform 100% inventories during the course of a year. Use of the COTS functionality will allow the Navy to adopt industry best practices and ensure inventory integrity.

6. ADVANTAGES AND DISADVANTAGES:

a. **Advantages:** Adoption of industry best practices.

b. **Disadvantages:** None identified.

7. IMPACT:

a. **Publication(s)/Procedures:** DOD 4000.25-2-M, Military Standard Transaction Reporting and Accountability Procedures (MILSTRAP), Chapter 7 and DOD 4000.25-M, DLMS, Volume 2, Chapter 6. This approved change will be published in the next reissuance of the MILSTRAP and DLMS manuals. Date of reissuance is unknown at this time.

b. **DLMS Data:** No DLMS data is added or revised by this change.

8. PDC 375A RESPONSES:

#	Received from	Date	Response
1.	USTRANSCOM	3/2/10	Abstains
2.	USN	3/16/10	Concurs as written and submits no additional changes or amendments.
3.	DLA	3/19/10	Concurs without comment, no EBS impact expected.
4.	USMC	3/29/10	Concurs without comment.
5.	USAF	3/30/10	Concurs as written and submits no additional changes or amendments.
6.	USA	5/13/10	Concur.