



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
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January 22, 2018

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

**SUBJECT: Approved Defense Logistics Management Standards (DLMS) Change (ADC)
1262, Revision of Location Survey Requirements under Records Reconciliation
Program (Supply/JPIWG)**

We are forwarding the attached approved change to DLM 4000.25, Defense Logistics Management Standards, and DLM 4000.25-2, Military Standard Transaction Reporting and Accountability Procedures (MILSTRAP) for immediate implementation. It is the responsibility of the Component Supply PRC representative to ensure full compliance of the approved change within your Component.

Addressees may direct questions to Mr. Rafael Gonzalez at email: rafael.gonzalez@dla.mil. All others must contact their Component designated Supply PRC representative or JPIWG representative available at: <http://www.dla.mil/HQ/InformationOperations/DLMS/allpoc/>.

HEIDI M. DAVEREDE
Program Manager
Enterprise Business Standards Office

Attachment
As stated

cc:
ODASD (SCI)

Attachment to ADC 1262

Revision of Location Survey Requirements under Records Reconciliation Program

1. ORIGINATING SERVICE/AGENCY AND POC INFORMATION:

- a. Requesting Activity:** Defense Logistics Agency (DLA)
- b. Functional POC:** DLA HQ, J-345 IM, Troy Brown, Telephone COMM: 709-767-3979, email: troy.brown@dla.mil

2. FUNCTIONAL AREA:

- a. Primary/Secondary Functional Area:** Inventory
- b. Primary/Secondary Functional Process:** Records Reconciliation Program

3. REFERENCES:

- a. Defense Logistics Manual (DLM) 4000.25-2,** Military Standard Transaction Reporting and Accountability Procedures (MILSTRAP), Chapter 7 Physical Inventory Control
- b. DLM 4000.25,** Defense Logistics Management Standards (DLMS), Volume 1, Appendix 2, Terms and Definitions
- c. DLM 4000.25,** Defense Logistics Management Standards (DLMS), Volume 2, Chapter 6 Physical Inventory Control
- d. DoDM 4140.01 Supply Chain Materiel Management Procedures,** Volume 5 Delivery of Materiel

4. APPROVED CHANGE(S):

- a. Brief Overview of Change:**

(1) This change will allow storage sites to utilize various physical counts and formal inventories to satisfy the location survey requirement in combination with targeted complete annual location surveys. The change will also add the flexibility to apply resources to target critical inventories while maintaining a high inventory accuracy rate.

- b. Background:**

(1) MILSTRAP, Definitions and Terms, (Reference 3.a.) and DLMS Volume 1, Appendix 2 (Reference 3.b.), define a location survey as “a physical verification, other than actual count, between actual assets and recorded location data to ensure that all assets are properly recorded as to location, identity, condition, and unit of issue.”

(2) Current policy requires storage activities to: (1) perform a complete survey of all locations; (2) use 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. However, storage activities already perform numerous inventory actions to validate materiel in location in addition to actions currently performed to meet the annual requirements for location survey. Consequently, the Defense Logistics Agency submitted this change request to the ODASD Supply Chain Integration (SCI) to expand the location survey requirements documented under the Physical Inventory Control Program.

(3) Location surveys require a physical verification, other than actual count, between actual assets and recorded location data to ensure that all recorded assets are accurate as to location, identity, condition, and unit of issue. During various physical inventory procedures, the storage activity performs the same verification procedures as required under location surveys, including location count. In addition, DLA performs statistical sample inventories on an annual basis as required under the Chief Financial Report (CFO) procedures. This change will allow DLA to eliminate the duplicative effort of location surveys by using existing storage activity inventory actions where there is a physical verification, to meet the Location Survey requirement.

(4) MILSTRAP, Chapter 7, paragraph C7.8.1.2 (Reference 3.a.) and DLMS Volume 2 Chapter 6, paragraph C6.8.1.2. (Reference 3.c.) direct each storage site activity to accomplish a location survey not less than once each fiscal year, by (1) performing a 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.

(5) MILSTRAP, Chapter 7, paragraph C7.2.10.1.1. (Reference 3.a.) and DLMS Volume 2, Chapter 6, paragraph C6.2.10.1.1. (Reference 3.c.) direct an annual record accuracy statistical sample be performed by storage activities.

(6) MILSTRAP, Chapter 7, paragraph C7.2.10.2.1. (Reference 3.a.) and DLMS Volume 2, Chapter 6, paragraph C6.2.10.2.1. (Reference 3.c.) Identify types of controlled items that require a complete inventory and do not qualify for use of a random sampling approach.

(7) DLA Distribution currently conducts an annual statistical sample inventory Type Physical Inventory Code (TPIC) N, and an annual wall-to-wall inventory of controlled items (TPIC G). During these counting inventories, the storage site performs a physical verification between actual assets and recorded location data to ensure that all recorded assets are accurate as to location, identity, condition, and unit of issue. Additionally, storage sites may be required to conduct additional inventories during the year such as denial research, retention quantities for disposals, on hand balance mismatches discovered during operations, cyclic inventories, and other record mismatches. All the various inventories ensure accurate records of the physical assets as well as any appropriate adjustments made to correct the data if necessary.

(8) DLA Distribution has more than 5.9 million storage locations on record. Performing an annual location survey on such a large population is excessive. In addition, the requirement does not meet Financial Improvement and Audit Readiness (FIAR) standards.

Focusing resources on higher yield types of inventories is preferable to maintaining a large workload of lower yield location surveys. Controlled items (classified, sensitive, pilferable, and radioactive) will continue to require a complete annual wall-to-wall location survey.

c. Approved Change in Detail:

(1) This change expands current procedures under the record reconciliation program to allow the use of other physical inventory activities where a physical verification occurs in order to meet the annual location survey requirements as described in Reference 3.c. The storage activity performs an acceptable location survey when it finalizes a qualified physical verification or completes an actual DLM 4000.25 Vol. 2 Chapter 6 Physical Inventory Control paragraph C6.8.1.2. The storage activity has the option to perform a second location survey as necessary but it is not required for the purpose of the annual location survey. This change does not overwrite current guidance and procedures for any discrepancies found at location.

(2) DLA Distribution will continue to conduct complete location surveys of controlled items (classified, sensitive, pilferable, radioactive, etc.).

(3) The storage activity will satisfy the annual location survey requirement referenced in Chapter 6 by including locations that it did not survey via a qualifying physical verification or location survey in the population of locations for statistical sampling.. This will provide DLA Distribution with the flexibility to focus inventory efforts on critical areas with the available resources.

(4) This change does not prevent DLA Distribution from completing location surveys for larger populations of locations if inventory accuracy metrics fall below acceptable levels or during re-warehousing projects or as directed by command.

d. Revisions to DLM 4000.25 Manuals:

(1) Revise DLM 4000.25-2, MILSTRAP, Chapter 7 as described in the Enclosure.

(2) Revise DLM 4000.25, DLMS, Volume 2, Chapter 6 as described in the Enclosure.

e. Proposed Transaction Flow: No change.

f. Alternatives: None identified.

5. REASON FOR CHANGE: DLA Distribution implemented an inventory control program comprised of various types of inventories that accurately reflect inventory record accuracy while meeting FIAR existence and completeness requirements. Changes to the location survey requirement enables efforts on higher yield programs in line with risk profile.

6. ADVANTAGES AND DISADVANTAGES:

a. **Advantages:** Creates flexibility to apply limited resources of inventory personnel to higher yield activities. Enables focus on the physical inventory program, which supports FIAR existence and completeness requirements.

b. **Disadvantages:** None identified.

7. ESTIMATED TIME LINE/IMPLEMENTATION TARGET: Immediately after the release of the Approved DLMS Change (ADC).

8. ESTIMATED SAVINGS/COST AVOIDANCE ASSOCIATED WITH IMPLEMENTATION OF THIS CHANGE: This change will save an estimated \$1.2 M or more in labor costs. DLA Distribution will perform about 4.1 M fewer location surveys per year, this will allow inventory personnel to focus on higher impact location inventories.

9. IMPACT:

a. **New DLMS Data Elements:** None.

b. **Changes to DLMS Data Elements:** None.

c. **Automated Information Systems (AIS):** None.

d. **Transaction Services:** None.

e. **Non-DLM 4000.25 Series Publications:** DOD Components may need to update internal guidance to comply with this DLMS change.

10. PROPOSED DLMS CHANGE (PDC) 1241 STAFFING RESPONSE/COMMENT RESOLUTION:

	Originator	Response/Comment	Disposition
1.	Army	Concur without Comment	Noted.
2.	Navy	Concur without comment.	Noted.
3.	Air Force	Concur without Comment.	Noted.
4.	Marine Corps	None.	Noted.
5.	DLA	Concur without Comment	Noted.
6.	GSA	Not received as of 12/15/17.	Noted.
7.	DAAS	None.	Noted.
8.	USTRANSCOM	Abstain.	Noted.

ENCLOSURE to ADC 1262

A. Revise DLM 4000.25-2, MILSTRAP, Chapter 7 as shown (changes are identified by **bold, red italics** or double strikethrough)

C7.8.1. Location Survey

C7.8.1.1. A location survey requires a physical verification other than actual count between physical assets and recorded location data to ensure that all assets are properly recorded. The storage activity will conduct prompt research and assess the need for a special inventory (DIC DJA request with Type of Physical Inventory/Transaction History Code K) when identifying a discrepancy during the location survey program (type I or type II error (see paragraphs C7.8.1.8.1. and C7.8.1.8.2.)). In some instances, location survey and physical inventory will **occur simultaneously** ~~be conducted concurrently~~ for ammunition and subsistence.

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. Storage locations that have undergone a qualifying physical inventory action within the previous 12 months, with the exception of controlled item(s), may be considered to have satisfied the annual location survey requirements stated in paragraph C6.8.1.2. A qualifying inventory action is one where the storage activity performs a successful physical verification of the item(s) between the physical asset(s) and the recorded location data. The storage activity has the option to perform a second location survey as necessary but it is not required for the purpose of the annual location survey. These procedures do not override current guidance and procedures for any discrepancies found at the location.

C7.8.1.3.1. Storage activities will perform complete location survey on all controlled items (classified, sensitive, pilferable, radioactive, etc.) and do not qualify for use of a random statistical sampling approach.

C7.8.1.3.2. Locations not surveyed as a result of a qualifying inventory activity or as described in C6.8.1.2 will be part of the population needed for statistical sampling in order to satisfy the annual location survey requirement defined in this chapter.

C7.8.1.3.4. A location survey will **take place** ~~be conducted~~ in both the gaining and losing storage areas following the completion of re-warehousing projects. A location survey conducted ~~as a result of~~ **due to** re-warehousing projects may be considered to have satisfied the annual survey requirement for the area surveyed.

B. Revise DLMS, Volume 2, Chapter 6 as shown (changes are identified by *bold, red italics* or double strikethrough)

C6.8.1. Location Survey

C6.8.1.1. Location survey requires a physical verification, other than actual count, between 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 subparagraphs C6.8.1.~~2~~8.1. and C6.8.1.~~2~~8.2.)), the storage activity will conduct prompt research and assess the need for a special inventory Physical Inventory Request Transaction with Type of Physical Inventory/Transaction History Code K). In some instances, location survey and physical inventory will ~~occur~~ **occur** ~~be conducted concurrently~~ **simultaneously** for ammunition and subsistence.

C6.8.1.2. Timing. 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.

C6.8.1.3. Storage locations that have undergone a qualifying physical inventory action within the previous 12 months, with the exception of controlled item(s), may be considered to have satisfied the annual location survey requirements stated in paragraph C6.8.1.2. A qualifying inventory action is one where the storage activity performs a successful physical verification of the item(s) between the physical asset(s) and the recorded location data. The storage activity has the option to perform a second location survey as necessary but it is not required for the purpose of the annual location survey. These procedures do not overwrite current guidance and procedures for any discrepancies found at the location.

C6.8.1.3.1. Storage activities will perform complete location survey on all controlled items (classified, sensitive, pilferable, radioactive, etc.) and do not qualify for use of a random statistical sampling approach.

C6.8.1.3.2. Locations not surveyed as a result of a qualifying inventory activity or as described in C6.8.1.2 will be part of the population needed for statistical sampling in order to satisfy the annual location survey requirement defined in this chapter.

C6.8.1.~~3~~4. Rewarehousing. A location survey will ~~take place~~ **take place** ~~be conducted~~ in both the gaining and losing storage areas following the completion of rewarehousing projects. A location survey conducted ~~as a result~~ **due to** ~~of~~ re-warehousing projects may be considered to have satisfied the annual survey requirement for the area surveyed.