**C6. CHAPTER 6**

**PHYSICAL INVENTORY CONTROL**

C6.1. GENERAL

 C6.1.1. Purpose.

 C6.1.1.1. This chapter provides procedures, performance objectives, and reporting requirements for maintaining accurate records of the physical inventory, conducting physical inventory counts, and reconciling record variance for materiel within the supply system of the Department of Defense.

 C6.1.1.2. There are additional processing procedures over and above those contained in this chapter that must be applied for items identified as serially managed materiel requiring owner visibility at DLA Distribution Centers. The identity of the materiel and the additive procedures are in Chapter 30.

 C6.1.2. Transactions. This chapter addresses the procedures applicable to physical inventory control functions using the Defense Logistics Management Standards (DLMS) 846P, 846R, and 888I. The corresponding Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP) legacy transaction functionality is identified for information purposes in a mixed Defense Logistics Standard System (DLSS)/DLMS environment. Other formats such as Extensible Markup Language (XML) are also available. See the DEDSO Website DLMS IC page for available formats.

 C6.1.2.1. DLMS 846P, Physical Inventory Request/Transaction History Request. Physical Inventory Request/Transaction History Request transaction functions of DLMS 846P is identified by the Accredited Standards Committee (ASC) X12 beginning segment (1/BIA/20) Report Type Code (BIA02).

 C6.1.2.1.1. Physical Inventory Request Transaction is DLMS 846P identified by Report Type Code TC – Physical Inventory Request. The owner/manager uses this transaction to initiate, follow up on, or cancel a physical inventory. The storage activity uses it to initiate or cancel a physical inventory. This transaction provides MILSTRAP legacy DIC DJA functionality, except as noted below for Report Type Code DD.

 C6.1.2.1.2. Response to Physical Inventory Request Transaction is DLMS 846P identified by Report Type Code DD – Distributor Inventory Report. This is used by the storage activity to respond to a Physical Inventory Request Transaction from the owner/manager when the response does not include asset balances. Use as a response relates to use with physical inventory transaction Management Code R, S, or Y. This transaction provides MILSTRAP legacy DIC DJA functionality when DJA is used as a response to indicate no record of stock number or no record of ownership; physical inventory in workload bank or in process; or response to follow-up when inventory already complete (Management Codes R, S, and Y respectively).

 C6.1.2.1.3. Transaction History Request Transaction is DLMS 846P identified by Report Type Code TF – Transaction History Request. Owner/Manager uses this to request transaction history from the storage activity. This transaction provides MILSTRAP legacy DIC DZJ functionality.

 C6.1.2.1.4. Response to Transaction History Request Transaction (No History Available) is DLMS 846P identified by Report Type Code AD – Agent/Distributor Inventory Report. Storage activities use this to respond to Transaction History Request when no history is available. This transaction provides MILSTRAP legacy DIC DZK functionality when DZK record position 30-43 is 8-filled or 9-filled.)

 C6.1.2.1.5. End of Day Transaction Count Transaction is DLMS 846P identified by Report Type Code B1 – Batch Report. This transaction is sent by the storage activity to the owner/manager to advise the owner/manager of the number of accountable (balance affecting) transactions that were forwarded during the daily course of business. This transaction provides MILSTRAP legacy DIC DZM functionality.

 C6.1.2.2. DLMS 846R, Location Reconciliation. Location Reconciliation transaction functions of DLMS 846R is identified by the ASC X12 beginning segment (1/BIA/20) Report Type Code (BIA02).

 C6.1.2.2.1. Location Reconciliation Request Transaction is DLMS 846R identified by Report Type Code LC –Location Inventory Report. The storage activity sends this to the owner/manager to reconcile storage activity and owner/ manager records. This transaction provides MILSTRAP legacy DIC DZH functionality.

 C6.1.2.2.2. Location Reconciliation Notification Transaction is DLMS 846R identified by Report Type Code X4 – Summary Report. The storage activity sends this to the owner/manager to advise of the number of Location Reconciliation Request transactions being forwarded. This transaction provides MILSTRAP legacy DIC DZN functionality.

 C6.1.2.2.3. Location Reconciliation History Notification Transaction is DLMS 846R identified by Report Type Code ZZ – Mutually Defined. [An ASC X12 data maintenance was approved in version 5030 for DLMS 846R Report Type Code LN-Location Reconciliation History Notification.] The storage activity sends this to the owner/manager to advise of the number of transaction history transactions are being forwarded. This transaction provides MILSTRAP legacy DIC DZP functionality.

 C6.1.2.3. DLMS 888I Storage Item Correction Transaction. Storage Item Data Correction/Change transaction function of DLMS 888I is identified by the ASC X12 beginning segment (1/BGN/15) Transaction Type Code (BGN07) A1 – Storage Item Data Change. The owner/manager sends this transaction to a storage activity to change elements of data pertaining to an item of supply. This transaction provides MILSTRAP legacy DIC DZB functionality.

 C6.1.3. Applicability. Basic elements of the physical inventory program prescribed by this chapter apply to the DoD Components, and establish:

 C6.1.3.1. Uniform procedures on existing DoD policy for maintaining accurate records, conducting physical inventories and location surveys/reconciliations, researching inventory discrepancies and causes for adjustments, performance assessments, and for quality control of work processes prescribed by the DoD Physical Inventory Control Program (PICP).

 C6.1.3.2. Management control of all DoD wholesale supply system materiel to include:

 C6.1.3.2.1. principal items,

 C6.1.3.2.2. packaged petroleum, oil, and lubricants,

 C6.1.3.2.3. secondary items regardless of whether assets are purchased with stock fund or procurement appropriations,

 C6.1.3.2.4. ammunition,

 C6.1.3.2.5. forms and publications, and

 C6.1.3.2.6. subsistence.

 C6.1.3.3. Management data and performance standards necessary to measure the effectiveness of physical inventory control in the DoD supply system.

 C6.1.4. Exclusions

 C6.1.4.1. These procedures are not applicable to bulk petroleum; complete ships, aircraft, ballistic missiles, nuclear weapons, and space vehicles; assets located at contractor-owned and/or contractor-operated facilities that are not maintained on the DoD wholesale property accountability records; Industrial Plant Equipment reportable to the Defense Industrial Plant Equipment Center; National Security Agency /Central Security Service assets; and National Defense Stock Pile assets. Loaned and in-transit materiel will be accounted for in accordance with Chapter 13 and the DoD Component procedures.

 C6.1.4.2. Physical inventory control procedures for bulk petroleum are contained in DoD 4140.25‑M, “DoD Management of Bulk Petroleum Products, Natural Gas, and Coal.”.

 C6.1.4.3. Nuclear weapons for which the Department of Defense has custodial responsibility.

C6.2. POLICY. DoD policy is contained in DoDM 4140.01, “DoD Supply Chain Materiel Management Procedures”.

 C6.2.1. Purpose. The purpose of the DoD physical inventory control process is to:

 C6.2.1.1. Ensure materiel accountability is properly executed within the Department of Defense;

 C6.2.1.2. Ensure that accurate property accountability records for the physical inventory are maintained in support of customer requirements and readiness by performing physical inventories and location surveys/reconciliations;

 C6.2.1.3. Identify and help resolve problems in supply system work processes affecting property accountability records by performing quality control of the work processes; and

 C6.2.1.4. Identify repetitive processing errors and maintain accurate records for supply system transactions generated within the supply system by researching and reconciling property accountability record imbalances and potential discrepancies.

 C6.2.2. Philosophy And Guiding Policy

 C6.2.2.1. Inventory systems will support perpetual inventories where current item record balances are maintained by posting all balance affecting events such as the recording receipts, shipments, inventory adjustments and changes to condition, ownership, or location as they occur. If a system can’t currently support perpetual balances, efforts will be made to bring the system into compliance.

 C6.2.2.2. The dynamic nature of the physical inventory control function and the cost of counting and reconciling records require that the approach be more selective than the "100 percent wall-to-wall total item count" concept. Available inventory resources will be directed toward potential and actual discrepancies, controlled inventory items, and weapon system critical items for which maximum returns are derived from applied resources.

 C6.2.2.3. A fundamental requirement of inventory integrity is to ensure that the inventory data on inventory control points (ICPs) and storage activities systems is the same, thus becoming, in effect, a single item inventory record.

 C6.2.2.4. Storage activities will make use of any one or a combination of the following three inventory counting approaches, as appropriate to the physical inventory item policy requirements, storage facility physical constraints, physical inventory support system capabilities, types of items, and inventory accuracy conditions.

 C6.2.2.4.1. Cycle counting, where a portion of the inventory is counted either daily, weekly, or monthly until the entire inventory has been counted within the time period specified. If a system can’t support perpetual balances, the cycle counting approach will not be selected.

 C6.2.2.4.2. Statistical sample counts that are statistically significant and representative of the total inventory item population are an efficient approach to quickly determine the accuracy of the inventory with minimal operational disruption. When statistical sample counts are allowed and the resultant count is within required tolerances, the inventory is considered complete. If the statistical count is outside the allowed accuracy tolerance, then the entire results of the statistical sampling must be voided. This requires scheduling another physical inventory via another sample count, cycle count, or wall-to-wall count as appropriate to the accuracy conditions determined by the first sample count. If another sample count is used, it will not be the same sample or a sub-set of the same sample selected earlier.

 C6.2.2.4.3. Wall-to-wall inventories, where the entire count is made at a point in time and they are conducted only when:

 C6.2.2.4.3.1. It is essential to strike a point in time balance for inventory;

 C6.2.2.4.3.2. The storage and inventory density are small enough that there is no detrimental impact to supply support operations; or

 C.6.2.2.4.3.3. When safety and security of assets and access to such assets (such as munitions and explosives) are generally more restrictive and controlled.

 C6.2.2.5. All physical counts will be blind counts; that is, personnel conducting physical counts will have no prior knowledge or access to the on-hand quantity balance in the inventory records. In those rare instances where segregation of duty controls cannot guarantee blind counts, other local effective risk mitigation techniques will be applied such as increased supervision and two member count teams.

 C.6.2.2.6. Personnel performing physical counts will be provided tools to perform the count including the part number, description, condition, location, number of requisite counts, etc., to ensure the correct item and location and count guidance is provided to inventory personnel conducting the inventories. The count the record will not be provided to the counters.

 C.6.2.2.7. The implementing procedures for the DoD Components are to:

 C.6.2.2.7.1. Provide management priority and resources for the execution of PICP functions. Managers will by direct or indirect supervision ensure that physical inventory teams are identified, properly staffed, trained, have the necessary instructions, tools, problem resolution assistance, and that duties are segregated to ensure accurate and timely physical counts, research, and records balance corrections.

 C.6.2.2.7.2. Ensure that assets are protected against waste, loss, negligence, unauthorized use, misappropriation, and compromise in the case of controlled inventory item materiel.

 C.6.2.2.7.3. Ensure that sufficient emphasis is placed on materiel accountability and inventory accuracy to promote improved performance of individuals directly responsible for the care, security, and management of DoD supply system materiel, as well as those responsible for making reports on the status of that inventory.

 C.6.2.2.7.4. Ensure that duties such as receiving, posting transactions to records, and issuing are divided among the work force so that no single individual can adversely affect the accuracy and integrity of the inventory. Although multi-skilled personnel may conduct physical counts, the inventory organization must enter counts, apply in-float controls, and conduct pre-adjustment research. When adequate segregation of duties is not practical or cost-effective, other local risk mitigating controls will be put in place to the maximum extent possible, such as increased supervision and two man count teams.

 C.6.2.2.7.5. Conduct functional reviews of the PICP to ensure compliance with DoD and Component policy and procedures and establish physical inventory control as a mandatory element to be addressed in the annual internal management control assessments required by DoD Instruction 5010.40, “Managers' Internal Control Program (MICP) Procedures”.

 C.6.2.2.7.6. Ensure that training is provided to supply system personnel who perform functions affecting physical inventory control and that training courses are updated to teach current DoD policies, procedures, and performance goals. Training will ensure familiarity of physical inventory staff with the items to facilitate item recognition and unit of measure peculiarities, the required count processes, research methods/tools available, and the count recording and records correction processes.

 C.6.2.2.7.7. Separate dedicated physical count teams will be established providing a knowledgeable and well trained work force to conduct physical inventory counts. An increased level of supervision is required for the less experience count team members. The exception to the forgoing is those isolated cases where the size of the storage activity is such that separate count personnel would be inefficient.

 C.6.2.2.7.8. Performance goals will be established within Government or Contractor personnel performance standards and evaluations for those individuals performing and managing physical inventory program functions on Department of Defense materiel. Feedback mechanisms for all personnel involved in the physical inventory function will be established to compare and report actual results against standards and corrective plans of action will be put in place when the performance does not meet the standard.

 C6.2.3. Security of Materiel. Security is the first line of defense for physical inventory control; therefore, DoD Components will pay special attention to safeguarding of inventory items. This will include analysis of loss rates through inventories, financial liability investigation of property loss reports (DD Form 200,), and criminal incident reports, to establish whether repetitive losses indicate criminal or negligent activity. Physical security procedures for supply system materiel are contained in
DoD 5200.08-R, “Physical Security Program.”

 C6.2.4. Asset Management. Inventory Control Points (ICPs) and storage activities will collaborate to ensure that inventory data in their respective systems is the same, thus becoming, in effect, a single item inventory record. At minimum, the total item property record will include materiel that is due-in, in transit, in organic maintenance facilities, in a contractor's custody, on loan, on-hand in distribution centers, reported on-hand at retail activities, and for reported assets in the custody of users. The record or record set will identify the quantity, condition, and value of the item assets for each organizational entity having physical custody of these assets.

 C6.2.5. Maintaining Property Accountability/Responsibility. The property accountability responsibility for total item property record segments may be delegated to, but not shared by, one or more organizational entities. However, asset balance information for a particular segment (such as the storage activity balance for an item) will be shared; duplicative records will not be maintained.

 C6.2.5.1. Storage Activity Responsibility. The storage activity maintains the property accountability record for all materiel in storage and is responsible, at minimum, for materiel custody, care, receipt, storage, and issue*.* Storage activities are also responsible for safeguarding and re-warehousing materiel; physical inventory and research; location survey/reconciliation; quality control checks; supply discrepancy report initiation, research and resolution*.* In the event of potential financial liability, the storage activity is responsible for investigating and assessing financial liability for loss, damage, and destruction of Government property; and appropriate actions necessary to ensure that the physical on-hand quantity and the total item property record quantity are in agreement. Storage activities will maintain the available-for-issue balance (also known as the Owner Balance). Available-for-issue balance refers to the materiel on-hand balance minus any materiel allocated to fulfill pending materiel release order(s).

 C6.2.5.2. Owning Department of Defense Component. The owning DoD Component will either assume or assign the accountability for materiel not in the physical custody of a storage activity (e.g., materiel inducted for organic repair, test assembly/disassembly, conversion, modification, or reclamation; materiel in a contractor’s hands (in accordance with provisions of the Federal Acquisition Regulation), in transit materiel, on-loan materiel).

 C6.2.5.3. Integrated Materiel Manager Responsibility. The Integrated Materiel Manager is responsible for initiating and directing the conduct of physical inventories; providing discrepancy research and reports; resolving discrepancies, investigating, and assessing liability for loss, damage, and destruction of Government property; and taking appropriate actions necessary to ensure that the on-hand quantity and the total item property record quantity are in agreement for all DoD materiel that is not in the physical custody of DoD activities.

 C6.2.5.4. US Air Force (USAF) Contractor Inventory Control Point (CICP) Responsibilities

 C6.2.5.4.1. The term USAF CICP represents a contractor assigned the primary responsibility of materiel management for a group of items either for a particular Military Service or for the Department of Defense as a whole. In addition to integrated materiel management /inventory control point (ICP) functions, a USAF CICP may perform other logistics functions to support a particular Military Service or for a particular end item (e.g., centralized computation of retail requirements levels and engineering tasks associated with weapon system components).

 C6.2.5.4.2. For the purpose of DLMS logistics procedures, the term USAF CICP also identifies Contractor Operated and Maintained Base Supply (COMBS) contractors whose support includes supply of aircraft; engine and support equipment components, materiel, and consumables; as well as off-aircraft repair, overhaul, and replenishment. COMBS contractors are responsible for having inventory on hand to perform off-aircraft maintenance and the repair of turned-in parts. COMBS contractors perform both wholesale and retail functions.

 C6.2.5.4.3. The USAF Government Furnished Property Accountability (GFP-A) program provides visibility and control of contractor-managed, Air Force-owned property through implementing and integrating Air Force logistics standards with private sector logistic processes to improve the accuracy and accountability of USAF financial statements. This program establishes and maintains accountable inventory records for USAF GFP-A that accurately reflect current quantity, status, location, condition and authorizing contracts. The USAF GFP-A program also establish an audit trail to update and track end-to-end logistics and financial transactions.

 C6.2.5.4.4. USAF CICPs, will use inventory management systems to provide the transactions received from their trading partners, to the Air Force accountable property system of record (APSR) via Defense Automated Addressing System (DAAS). USAF CICP must report to the USAF GFP APSR in DLMS format. DPAS will be a mirror image of the USAF CICP inventory management systems.

 C6.2.5.4.5. At the end of each day, all balance affecting transactions must undergo the EOD/reconciliation process. When reconciling with the USAF GFP-A APSR, follow the EOD/reconciliation process described in C6.2.6. The reconciliation must include the inventory balance in the warehouse, and the intransit balance. For DLMS transaction exchange purposes, the USAF CICP will follow the responsibilities/procedures of the storage activity in their communications with the USAF APSR. The term “Intransit Balance” represents the total quantity of confirmed shipments without a matching receipt acknowledgement excluding property issued for local disposal, internal USAF CICP deliveries, and customer pick-up. Confirmed shipment is based upon receipt/processing of the materiel/disposal release confirmation (MRC/DRC). The USAF GFP-A CICP excludes local disposal, internal CICP deliveries, and customer pick-up from the intransit-balance because the USAF APSR decrements the owner balance after issued. Using Mode of Shipment X (bearer walk-through/customer pickup) in the MRC identifies the exclusions to the “Intransit Balance. The materiel receipt acknowledgement (MRA)/turn-in receipt acknowledge (TRA) received from the customer constitute the receipt acknowledgment. The intransit balance is a cumulative calculation and is not restricted to activity occurring during the day/month being reconciled.

 C6.2.6. End of the Day Processing. Use the following end of the day processing procedures as follows:

 C6.2.6.1. Owner/Manager and Storage Activity Responsibilities. Owners/managers and storage activities will ensure that the inventory data on owners/manager and storage activities systems is the same, thus becoming, in effect, a single item inventory record. Owner/managers and storage activities will achieve a single item inventory record by reconciling all balance affecting transactions to ensure a full match between the owner/manager and the storage activity.

 C6.2.6.2. Storage Activity will:

 C6.2.6.2.1. Transmit the End of Day Transaction Count to advise the owner/manager of the number of balance affecting transactions sent during the daily course of business.

 C6.2.6.2.2. Submit daily closing balance to each affected owner/manager using a Location Reconciliation Request Transaction for End of Day Processing (End of Day Processing is identified in DLMS 846R BIA06 Action Code Z; MILSTRAP legacy DIC DZH by Type of Location Reconciliation Request Code 1 in record position 7). The storage activity will transmit all EOD balances (including those transactions that result in a zero balance or no physical inventory adjustment required (e.g., DLMS 947I, Inventory Adjustment (Increase (Physical Inventory), with zero quantity, or Status Adjustment Reason Code AA (MILSTRAP legacy DIC D8A)).

 C6.2.6.2.3. Provide any historical records as requested by the Owner/Manager in an effort to resolve any potential inventory record mismatches between the storage activity and the owner. Include historical DLMS 940R with Reconcile Historical Records Indicator (1/W0507/0200=W1) and 945A with Reconcile Historical Records Indicator (1/W0612/0200=W1) transactions in response to the DLMS 846P Transaction History Request.

 C6.2.6.2.4. Storage activities will prepare a Location Reconciliation Request Transaction by line-item (stock number (NSN or Local stock number) + supply condition code (SCC)), and type of pack.

 C6.2.6.3. U.S. Air Force GFP-A CICP will:

 C6.2.6.3.1. Follow the responsibilities/procedures of the storage activity in accordance with section C6.2.6, for the purpose of DLMS transaction exchange with the APSR.

 C6.2.6.3.2. Include the Materiel Release Advice Count to the EOD Transaction Count transaction (DLMS 846P with BIA02 B1) provided to the USAF GFP-A APSR for reconciliation with the USAF CICP inventory balance records. The Materiel Release Advice Count represents the number of MRC and DRC transactions (DLMS 945A) received by the USAF CICP during the day or month being reconciled. The USAF CICP will transmit the sum total of MRC and DRC transactions combined into a single value.

 C6.2.6.3.3. Include the Receipt Acknowledgment Count to the EOD Transaction Count transaction (DLMS 846P with BIA02 B1) provided to the USAF GFP-A APSR for reconciliation with the USAF CICP records. The Receipt Acknowledgment Count represents the number of MRA and TRA (DLMS 527R) transactions received by the USAF CICP during the day or month being reconciled. The USAF CICP will transmit the sum total of MRA and TRA transactions combined into a single value.

 C6.2.6.3.4. Transmit the USAF GFP Intransit Balance Location Reconciliation Request Transaction (DLMS 846R with BIA02 Code LC) provided to the USAF GFP-A APSR for reconciliation with the USAF CICP records. The term “Intransit Balance” represents the total quantity of confirmed shipments without a matching MRA or TRA excluding property issued for local disposal, internal USAF CICP deliveries, and customer pick-up. Confirmed shipment is based upon receipt/processing of the shipment confirmation (MRC/DRC). For property issued under these exclusions, the USAF GFP-A APSR will not retain an owner property record; therefore, tracking intransit is not required. The use of Mode of Shipment X in the MRC will identify the exclusions to the intransit balance. The MRA/TRA received from the customer or DLA Disposition Services Field Office constitutes the receipt acknowledgment. The intransit balance is a cumulative calculation and is not restricted to activity occurring during the day or month being reconciled.

 C6.2.6.3.5. Reconcile Materiel Release Advice Counts (DLMS 945A MRC/DRC) and Receipt Acknowledgment Counts as part of the EOD processing.

 C6.2.6.3.6. Conduct a full end of month reconciliation between the USAF GFP-A CICP and the USAF APSR. The monthly reconciliation will consist of a systematic reconciliation of all item record transactions and balances following the same procedural steps as the EOD/reconciliation process documented under C6.2.6. and may not require physical inventory. The reconciliation will include all item records with or without any transactional activity during the course of the month. The USAF CICP will still need to perform at least one annual reconciliation in accordance with DLM 4000.25, Volume 2, Chapter 6 Physical Inventory Controls.

 C6.2.6.3.7. Request Air Force program office approval, if required by contract, prior to performing an inventory adjustment due to a mismatch between the USAF GFP-A APSR and the USAF CICP for unresolved mismatched quantities. The USAF CICP will send a DLMS 947I to USAF GFP-A APSR to adjust the balance in USAF GFP-A APSR, if required. The mismatched quantity (gains and losses) will be adjusted with Inventory Adjustment Increase/Decrease (Accounting Error) (DLMS 947I with Quantity or Status Adjustment Reason Code AB; MILSTRAP legacy DIC D8B/D9B).

 C6.2.6.4. Reconciliation of Serially-Managed Items

 C6.2.6.4.1. In addition to the responsibilities described under paragraph C6.2.6, storage activities and owners/managers will include the UII/serial number when reconciling records to ensure proper accountability of serially-managed items. For mismatches between system records, the storage activity will collaborate with the owner/manager to ensure proper research and resolution.

 C6.2.6.4.2. The combination of UII and serial number increases the accuracy of inventory records across the DOD. When a serially managed item lacks a UII, there is a potential for duplicate serial numbers. A duplicate serial number may surface as a result of the record reconciliation. For mismatches due to a duplicate serial number, the owner is responsible for taking the necessary steps to resolve the discrepancy.

 C6.2.6.5. Owners/Managers will:

 6.2.6.5.1. Compare records with the transactions received via the location reconciliation request to identify mismatches.

 6.2.6.5.2. Perform a systemic research within seven working days from receipt of the initial Location Reconciliation Request transaction. The systematic research will include all imbalances to ensure consideration of in-float transactions, delayed/suspended transactions, and duplicate transactions.

 6.2.6.5.3. Request from the storage activity all transaction history necessary to perform systematic research and resolve any mismatches. The owner will request historical information via a Transaction History Request.

 6.2.6.5.4. Update the affected record on-hand balance with the storage activity's closing on-hand balance for unresolved mismatched quantities. The mismatched quantity (gains and losses) will be adjusted with Inventory Adjustment Increase/Decrease (Accounting Error) (DLMS 947I with Quantity or Status Adjustment Reason Code AB; MILSTRAP legacy DIC D8B/D9B). Owner/managers will refer to section C6.6 for guidance on research of potential or actual Inventory Adjustments.

 6.2.6.5.5. Request assistance from the storage activity to isolate causes of record imbalances to maintain transaction level integrity. The storage activity assistance should focus on data transmission (e.g., lost transactions). Owners/managers will input Physical Inventory Transaction History Request to the storage activity for data transmission (e.g. lost transactions).

 C6.2.6.6. Preparing End of Day Accountable Transaction Count. The storage activity will report a single End of Day Transaction Count to provide the end of day transaction counts for the following transaction types.

 C6.2.6.6.1. Receipts (DLMS 527R with 1/BR02 Transaction Type Code D4; MILSTRAP legacy DIC D4\_/D6\_).

 C6.2.6.6.2. Issues (DLMS 867I; MILSTRAP legacy DIC D7\_).

 C6.2.6.6.3. Inventory Adjustment-Increases (DLMS 947I with 2/W1916 Inventory Transaction Type Code AJ; MILSTRAP legacy DIC D8\_).

 C6.2.6.6.4. Inventory Adjustment-Decreases (DLMS 947I with 2/W1916 Inventory Transaction Type Code AD; MILSTRAP legacy DIC D9\_).

 C6.2.6.6.5. Inventory Adjustment-Dual (DLMS 947I with 2/W1916 Inventory Transaction Type Code DU; MILSTRAP legacy DIC DA\_).

 C6.2.6.6.6. For intra-Navy use only; Navy also provides an end of day transaction count for Asset Status Reports (DLMS 846I).

 C6.2.6.6.7. For U.S. Air Force CICP only. Materiel Release Advice (DLMS 945A with 1/W0611 Transaction Type Code NJ and NM; MILSTRIP legacy DIC AR\_). The Air Force CICP must combine the total sum of MRC and the total sum of DRC into a single value.

 C6.2.6.6.8. For U.S. Air Force CICP only. Receipt Acknowledgement (DLMS 527R with BIA02 code of TH and CJ, respectively). The Air Force CICP must combine the total sum of MRA and the total sum of TRA into a single value.

 C6.2.7. Reconciling Total Item Property Records with Financial Records. Owning DoD Components will reconcile total item property records and financial records as prescribed by DoD 7000.14-R, “Department of Defense Financial Management Regulations (FMR)” to ensure compatibility of the total inventory value reflected by these records and associated reports.

 C6.2.8. Item Management/Control. DoD materiel is managed and controlled by stock number, and SCC, and by type of pack; therefore, physical inventories will be conducted and the results reported to owners/managers by stock number and SCC, and by type of pack.

 C6.2.9. Storage Activity Record Keeping. Storage activities will maintain quantitative balance records for all on-hand materiel regardless of ownership. Storage activities will maintain transaction histories to support the balance records. Maintenance of these records will provide the capability to detect theft or diversion of materiel and improve the ability to determine the cause of inventory variances for corrective action.

 C6.2.10. Inventory Prioritization. DoD Components will select and prioritize items for inventory for which they are accountable as follows:

 C6.2.10.1. Inventory Sampling

 C6.2.10.1.1. Annual Record Accuracy Statistical Sample. A stratified, hierarchal inventory sample will be accomplished at least once annually for the purpose of validating the accuracy of the accountable records. The results of this sample report on the percent of records that match the physical count exactly or are within the allowed tolerance. The annual record accuracy statistical sample provides a barometer of performance and improvement opportunities for local storage activity managers. The results of the sample will be reported in accordance with the item categorizations stratification and tolerances cited in paragraph C6.2.12.5. When the physical count of an item is completed, the physical count and record quantity are compared; it the two are within the specified tolerance for Categories B and C the accuracy of that record is considered correct, if the tolerance is exceeded the record is counted as inaccurate. Items in Categories A and D have a zero tolerance; therefore, any difference between the physical count and the record quantity is counted as an inaccurate record.

 C6.2.10.1.2. Annual Chief Financial Officer’s (CFO) Statistical Sample Inventory. The Chief Financial Officer’s Act (CFOA) of 1990 requires that the Department of Defense, the Military Services, and Defense Agencies submit financial statements to the Congress. One of the financial statement elements is the dollar value of on-hand supply inventory. The purpose of the Annual CFO Statistical Sample Inventory is enable the Components to estimate the dollar value of the non-fuel portion of the DoD on-hand inventory held in storage for annual financial statement reporting. The Components will conduct a stratified, hierarchal statistical sample inventory for the purpose of accurately estimating the true dollar value of their respective on-hand supply inventories. The initial implementation will be for materiel in Defense Logistics Agency (DLA) storage sites managed by the Distribution Standard System (DSS), regardless of the materiel’s ownership. The requirement to conduct the CFO Annual Statistical Sample Physical Inventory may be expanded to include inventories beyond that maintained by DSS. The following are the guidelines to conduct and report the results of the annual CFO Inventory sample.

 C6.2.10.1.2.1. Annual CFO Statistical Sample Inventory Schedule. The annual CFO statistical sample inventory will be scheduled as close to the end of the fiscal year as possible allowing sufficient lead time to conduct the sample inventory, perform analyses, and report results to support the end of fiscal year financial reports.

 C6.2.10.1.2.2. DoD CFO Annual Statistical Sample Inventory Plan Guidelines.

 C6.2.10.1.2.2.1. The items in storage will be stratified into dollar value categories to minimize the number of items requiring inventory while yielding results with the confidence level and precision required below. The dollar value stratifications used for sample will be included in the CFO Inventory Value Sample Plan for that year.

 C6.2.10.1.2.2.2. Every item stored, regardless of owner/manager, within the extended dollar value strata identified in the DoD CFO Annual Statistical Sample Inventory Plan for that year will have an equal probability of being selected in the sample and inventoried.

 C6.2.10.1.2.2.3. The sample results will have a 95 percent confidence level and a level of precision within + (plus) or – (minus) 2.5 percent.

 C6.2.10.1.2.2.4. DoD CFO Annual Statistical Sample Inventory Plan. DLA will distribute the results of the DoD CFO Annual Statistical Sample Inventory Plan to each applicable centralized Service point of contact.

 C6.2.10.1.2.2.5. DoD CFO Statistical Sample Inventory Results. The Components will use the results of the CFO Inventory Sample to valuate materiel under their respective ownership and report those values to the DoD Chief Financial Officer for use in the preparation of their respective financial statement reporting. Note that the results of the CFO Inventory Sample will include all adjustments and documentation that supports the physical completion of the inventory process.

 C6.2.10.1.3. Annual complete (100 percent) physical inventories can be performed as an alternative to statistical sampling.

 C6.2.10.2. Items Designated for Complete Inventories. Complete inventories will be performed as follows:

 C6.2.10.2.1. Controlled Inventory Items. The following controlled inventory items (identified in DoD 4100.39-M, “Federal Logistics Information System (FLIS) Procedures Manual”) require complete physical inventory and do not qualify for use of a random statistical sampling approach:

 C6.2.10.2.1.1. Top secret.

 C6.2.10.2.1.2. Narcotics, drug abuse items, and alcohol.

 C6.2.10.2.1.3. Category I non-nuclear missiles and rockets (semiannually in accordance with DoDM 5100.76, “Physical Security of Sensitive Conventional Arms, Ammunition and Explosives”).

 C6.2.10.2.1.4. Precious metals.

 C6.2.10.2.1.5. Small arms.

 C6.2.10.2.1.6. Radioactive items.

 C6.2.10.2.1.7. Inert nuclear ordnance materiel.

 C6.2.10.2.1.8. Other items that may be designated by the Office of the Secretary of Defense (OSD) or the DoD Component.

 C6.2.10.2.2. Ammunition or Subsistence. If ammunition or subsistence is subjected to complete inventory, physical inventory and location survey may be conducted concurrently.

 C6.2.10.2.3. Random Statistical Sampling for Controlled Inventory Items Not Subject to Annual Complete Physical Inventory. Controlled inventory items not subject to annual complete physical inventory must be subjected to annual random statistical sampling. Acceptable statistical sampling techniques are widely prescribed and may be used so long as every item included in the population has an equal probability of being selected in the sample. At minimum, the statistical sampling technique must provide reasonable assurance that the property accountability records are accurate with a 95 percent level of confidence, accuracy level of 95 percent, and a maximum margin of error of two percent. If the sample inventory results do not satisfy the above criteria, complete physical inventory of the population from which the sample was selected will be performed.

 C6.2.10.3. Items Not Designated for Complete Inventories. Inventories for items not designated for complete inventory under subparagraph C6.2.10.2. will be performed as a result of:

 C6.2.10.3.1. Total or partial materiel release denials (spot inventory--see subparagraph C6.3.4.1. and Type of Physical Inventory/Transaction History Code E);

 C6.2.10.3.2. Location reconciliation variances;

 C6.2.10.3.3. Location survey errors;

 C6.2.10.3.4. Owner/manager request (special inventory)

 C6.2.11. Potential Discrepancies. Potential discrepancies between the actual physical count of materiel and the property accountability record on hand balance will be researched and resolved in accordance with Table C6.T3. by:

 C6.2.11.1. Correctly posting supply transactions (e.g., receipts, issues, adjustments) discovered during the research process that were previously incorrect or unposted resulting in the record imbalance; and/or

 C6.2.11.2. Posting an inventory adjustment to correct the record imbalance.

 C6.2.12. Accuracy and Performance Goals. The acceptable DoD accuracy and performance goals are as follows:

 C6.2.12.1. Materiel Denial Goal: Not greater than one percent.

 C6.2.12.2. Receipt Processing Performance Goal: 90 percent stored and posted within receipt time standards (see Chapter 13).

 C6.2.12.3. Record Reconciliation Program Goal:

 C6.2.12.3.1. Location Survey Accuracy:

 C6.2.12.3.1.1. General Supplies: 97 percent.

 C6.2.12.3.1.2. Ammunition: 98 percent.

 C6.2.12.3.2. Location Reconciliation Accuracy:

 C6.2.12.3.2.1. General Supplies: 97 percent.

 C6.2.12.3.2.2. Ammunition: 98 percent.

 C6.2.12.4. Ammunition Property Accountability Record Accuracy Goal: 95 percent.

 C6.2.12.5. General Supplies Record Accuracy Goals. DoD Components must send record accuracy goal information to ODASD (SCI) within 30 calendar days after the end of each fiscal year. For the purposes of this report, Categories B and C in Table C6.T1. are optional. The collection of data may occur throughout the year. See Table C6.T1.

| Table C6.T1. General Supplies Record Accuracy Goals Stratification Sub-Populations And Associated Goals And Tolerance Levels |
| --- |
| **CATEGORY** | **SUB-POPULATION** | **GOAL (PERCENT)** | **TOLERANCE (PERCENT)** |
| A | UNIT PRICE > $1,000 | 99 | 0 |
| B\* | UNITS OF ISSUE THAT MAY BE NONDEFINITIVE OR DIFFICULT TO MEASURE[[1]](#footnote-2)ORON-HAND BAL > 50 AND EXTENDED VALUE < $50,000ORNSN ACTIVITY (# transactions affecting balance in one year) > 50 | 95 | 10 |
| C\* | DATE OF LAST INVENTORY > 24 MONTHSANDON-HAND BALANCE < 50 | 95 | 5 |
| D | ALL OTHER MATERIEL NOT MEETING ABOVE CRITERIA | 95 | 0 |
| \*Categories B and C are optional95 percent Confidence Level +4 percent Bound applicable to each category |

C6.3. PHYSICAL INVENTORY PROCEDURES

 C6.3.1. Inventory Program Accomplishment. Storage activities will monitor program accomplishment throughout the fiscal year to ensure that the requirements of paragraph C6.2.10. are met.

 C6.3.2. Pre-Inventory Planning. The potential for count inaccuracies will be reduced by conducting pre-inventory planning to include:

 C6.3.2.1. Actions to ensure location integrity by correcting such situations as unbinned/loose materiel; questionable identity of materiel in location; and single locations containing multiple SCCs or stock numbers, inadequately labeled shelf-life items (date of manufacture/assembly/inspection/test, as appropriate); and/or materiel lots stored in a single location.

 C6.3.2.2. Document cleanup to ensure to the extent possible that receipts, adjustments, transaction reversals, and other transactions are posted to the property accountability record and that in-process receipts are stored in location prior to the established physical inventory cutoff date.

 C6.3.3. Scheduled Inventories

 C6.3.3.1. Item Characteristics. Storage activities will initiate all scheduled inventories based on item characteristics, specifically the controlled inventory item code and any other category codes designated by the DoD Components that require physical inventory not less than once each fiscal year, with a Physical Inventory Request Transaction using Type of Physical Inventory/Transaction History Code G.

 C6.3.3.2. Selection and Prioritization Model. Storage activities will initiate all scheduled inventories based on selection and prioritization model criteria with a Physical Inventory Request Transaction using Type of Physical Inventory/Transaction History Code I.

 C6.3.3.3. Random Statistical Sample Inventories

 C6.3.3.3.1. Storage activities will initiate the scheduled random statistical sample inventory to meet the Department’s requirements to validate the accuracy of the supply records with a Physical Inventory Request Transaction using Type of Physical Inventory/Transaction History Code N.

 C6.3.3.3.2. Owners may initiate a scheduled random statistical sample inventory of line items owned to determine the overall accuracy of their records with a Physical Inventory Request Transaction using Type of Physical Inventory/Transaction History Code L.

 C6.3.3.3.3. Storage activities may also initiate a scheduled random statistical sample inventory of line items in storage to determine the overall accuracy of their records with a Physical Inventory Request Transaction using Type of Physical Inventory/Transaction History Code P.

 C6.3.3.3.4. Storage activities will initiate the scheduled annual stratified random statistical sample inventory to meet the Department’s requirements to conduct the Annual CFO Statistical Sample Inventory identified in paragraph C6.2.10.1.2. with a Physical Inventory Request Transaction using Type Physical Inventory/Transaction History Code L.

 C6.3.4. Unscheduled Inventories

 C6.3.4.1. Special Inventory. Owners will initiate special inventories using a Physical Inventory Request Transaction. If an inventory has not been taken within the past 90 calendar days, cite Type of Physical Inventory/Transaction History Code D or J in the transaction. If an inventory has been taken within the past 90 calendar days, an effort will be made to construct a transaction history and from it determine what the item balance should be or what discrepancy may have caused an imbalance. Only when these efforts fail to produce satisfactory results will special inventories be performed. In this case, cite Type of Physical Inventory/Transaction History Code H in the Physical Inventory Request Transaction. The procedure for restricting special inventories may be waived when the Inventory Manager has recorded backorders for the item.

 C6.3.4.2. Spot Inventory

 C6.3.4.2.1. Storage activities will initiate spot inventories as a result of total or partial materiel denial on classified and sensitive items regardless of value, pilferable items when the value of the variance is greater than $100, and for noncontrolled items variances greater than $5,000. These requests will cite Type of Physical Inventory/Transaction History Code E.

 C6.3.4.2.2. Storage activities will accommodate all requests for spot inventories.

 C6.3.4.2.3. Storage activities systemically initiate special inventories for a specific SCC as a result of quantity mismatches between the quantity-by-location and owner balance records using Type Physical Inventory/Transaction History Code Z.[[2]](#footnote-3)

 C6.3.4.2.4. On-Hand Balance Mismatch Between Locator and Property Accountability Record. Storage activities may initiate unscheduled inventories as a result of on-hand balance mismatches between the locator and property accountability records with a Physical Inventory Request Transaction using Type of Physical Inventory/Transaction History Code M.

 C6.3.4.2.5. Storage activities will initiate special Inventories (for all SCCs) in support of inventory accuracy improvement initiatives, using Type Physical Inventory/Transaction History C.[[3]](#footnote-4)

 C6.3.5. Canceling Inventories

 C6.3.5.1. General. When conditions exist which preclude accurate completion of an inventory that has been established, the inventory will be canceled by the storage activity or the owner/manager. Conditions that may require cancellation include, but are not limited to, catalog changes, rewarehousing of materiel under inventory, insufficient resources, insufficient time to meet established inventory timeframes to notify other affected owners/managers, and acts of God.

 C6.3.5.2. Owner/Manager Cancellation. When an owner/manager cancels an inventory, the owner/manager will notify all affected storage activities using a Physical Inventory Request citing Management Code N.

 C6.3.5.3. Storage Activity Cancellation. When a storage activity cancels an inventory, or when an owner/manager requests cancellation of an inventory, the storage activity will notify the requesting owner/manager using a Physical Inventory Request Transaction citing Management Code N. When a canceled inventory is required to meet annual inventory schedule requirements, the storage activity must reschedule it within the current fiscal year. When a spot inventory (Type Physical Inventory/Transaction History Code E) is canceled, it must be rescheduled within 15 calendar days.

 C6.3.6. Conducting, Recording, and Reporting the Inventory

 C6.3.6.1. General. Physical inventory procedures at storage activities will provide the required asset-to-record accuracy with positive control of materiel and documentation that are in-float (e.g. including materiel release orders, receipts, condition transfers, catalog, and other data changes).

 C6.3.6.2. To increase auditability of physical inventory requests, serially managed items will include a unique document number. The document number will help relate a physical inventory request with the appropriate response. The owner will provide a document number in the Physical Inventory Request. The storage activity will perform the necessary physical research as described in Chapter 6 Physical Inventory Control. The physical inventory response will carry the same document number provided by the owner. These procedures are required for UIT programs and recommended for all other commodities. For DLA internal controls only, the storage activity may include a second document number as necessary in the response to a physical inventory request.

 C6.3.6.3. In-Float Document Control. The storage activity may reduce the volume of in-float accountable documents during the period required for an item count by suspending the issue of low priority materiel release transactions from items undergoing inventory. However, materiel will be released for items undergoing inventory when such release is necessary to meet the order/ship timeframes prescribed by DoDM 4140.01, to include the recognition of the required delivery date. The storage activity may also reduce the volume of in-float accountable documents by deferring routine SCC changes, providing that it complies with Chapter 7 control requirements.

 C6.3.6.4. Physical Inventory Timeframe. Storage activities will complete physical inventories and transmit the appropriate Inventory Adjustment (Physical Inventory) Transactions (DLMS 947I with Quantity or Status Adjustment Reason Code AA; MILSTRAP DIC D8A/D9A) to the owner/manager within 30 calendar days subsequent to the physical inventory cutoff date ( PICD) for scheduled inventories and within 15 calendar days after the PICD for unscheduled inventories.

 C6.3.6.5. Post Count Validation and Pre-adjustment Research. The storage activity will compare the adjusted count with the balance kept by the storage activity to determine the potential variance and initiate post count validation and pre-adjustment research as required under section C6.4. Immediately upon completion of post count validation and pre-adjustment research, the storage activity will record the count and date of last inventory on the storage activity quantitative balance record.

 C6.3.6.6. Zero Quantity Adjustments. When no adjustment is required, the storage activity will update the storage activity record with the date of last inventory and send an Inventory Adjustment Increase (Physical Inventory) transaction (DLMS 947I with Quantity or Status Adjustment Reason Code AA; MILSTRAP legacy DIC D8A) with zero quantity for each line item to the owner/manager to indicate completion of the inventory. The owner/manager will update the date of last inventory using the adjustment transaction date.

 C6.3.6.7. Prorating Adjustment for Commingled Assets. When the storage activity record reflects more than one owner for commingled materiel, the storage activity will apply all gains and losses to the wholesale manager. The storage activity will prorate any losses that cannot be applied to the wholesale manager among all owners having balances. Storage activities will not consider foreign owner balances in the prorating process. Foreign owner and Special Defense Acquisition Fund balances will not be altered unless they are the only remaining balances for reporting a loss. Resolution of these losses will be in accordance with DoD Security Assistance Program policy.

 C6.3.6.8. Processing Physical Inventory Adjustments. The storage activity will process Inventory Adjustment (Physical Inventory) transactions (DLMS 947I with Quantity or Status Adjustment Reason Code AA; MILSTRAP legacy DIC D8A/D9A) by line-item and type of pack for subsistence, to update the storage activity quantitative balance record and each owner/manager record.

 C6.3.7. Reconciling Manual Records for Controlled Items. When manual records are maintained for control of assets in secured storage, the storage activity, will at minimum reconcile these records at the time of inventory with the corresponding storage activity records and physical materiel counts.

 C6.3.8. Unscheduled Physical Inventory Follow-up

 C6.3.8.1. Owner/manager Follow-up on Physical Inventory Request. When the owner/manager has requested an unscheduled inventory and no adjustment or completion transaction has been received within 40 calendar days of the date of the request, the owner/manager will initiate a follow-up using a Physical Inventory Request Transaction, citing Management Code X and duplicate the remaining data from the Physical Inventory Request Transaction that established the inventory.

 C6.3.8.2. Storage Activity Response to Follow-Up on Physical Inventory Request. The storage activity will respond to the owner/manager follow-up within five calendar days by providing the appropriate adjustment, completion, or cancellation transaction. If an adjustment or completion transaction was previously sent and a follow-up is received, the storage activity will reply by sending a Response to Physical Inventory Request Transaction with Management Code Y to the owner/manager. The storage activity will also send DLMS 947I showing the actual physical inventory adjustment, and identified as submission of historical information by 1/W1506/020, Code W1. (Storage activities operating under MILSTRAP send MILSTRAP legacy DIC DZK Transaction History Transmittal for the physical inventory adjustment.)

 C6.3.8.3. No Record of Physical Inventory Request. If the storage activity does not have a record of the owner/manager original Physical Inventory Request Transaction, the storage activity will process the Physical Inventory Request Transaction with Management Code X as an original Physical Inventory Request Transaction.

 ***C6.3.6.9. Reporting Adjustments by Location Count. DLA Distribution Center Storage Activities may report inventory adjustments as they are discovered via the DLMS 947I Inventory Adjustment transaction. Using this method allows a storage activity to report as warehouse locations are counted instead of waiting to count the entire population of a line-item.***

C6.4. RESEARCH OF POTENTIAL OR ACTUAL INVENTORY ADJUSTMENTS (PHYSICAL INVENTORY) (DLMS 947I with Quantity or Status Adjustment Reason Code AA; – Document Identifier Code D8A/D9A)

 C6.4.1. Policy. DoD Components will ensure that potential or actual Inventory Adjustments (Physical Inventory), (DLMS 947I with Quantity or Status Adjustment Reason Code AA; D8A/D9A), are researched in accordance with the value of the adjustment and type of item. The DoD criteria for this research are set forth in Table C6.T3, and will be used as the basis for selective research for supply system materiel. A reduction of the volume of erroneous adjustments can only be achieved by conducting specified degrees of research before posting the adjustment transaction. More stringent research requirements may be imposed by DoD Components based upon the limits of available resources and upon specific asset control problems. However, in no case will adjustments be processed against items without required pre-adjustment research having been performed (see Table C6.T3.).

 C6.4.2. Objectives. Analysis of inventory adjustments is vital to:

 C6.4.2.1. Identify failures in the control systems so improvements can be made.

 C6.4.2.2. Reduce similar discrepancies in the future.

 C6.4.2.3. Ensure that the proper adjustment was made.

 C6.4.2.4. Evaluate indicators of trends or system problems for corrective action.

 C6.4.2.5. Detect negligence, abuse, or theft of materiel. Known or suspected negligence, abuse, or theft will be researched in accordance with DoD 7000.14-R and Table C6.T3.

 C6.4.3. Timeliness of Research. Timely completion of the research of potential or actual Inventory Adjustments (Accounting Error) is essential. Delay increases the complexities of adequate research and reduces the probability of conclusive findings.

 C6.4.3.1. Pre-adjustment Research. Storage activity pre-adjustment research must be completed and the physical inventory adjustment/completion action posted to the owner/manager record within 30 calendar days from the PICD for scheduled inventories and 15 calendar days from the PICD for unscheduled inventories.

 C6.4.3.2. Mandatory Causative Research. The storage activity must complete mandatory causative research within 45 calendar days from the date the adjustment transaction was posted. If sample causative research is used as allowed by Table C6.T3., Minimum Research Requirements, the sample causative research must be completed within 45 calendar days from the date the sample causative research listing is created.

 C6.4.4. Transaction History. For intra-Component (or inter-Component, based on agreement of the involved DoD Components) reconciliation, the owner/manager may request transaction history for analyzing inventory discrepancies.

 C6.4.4.1. Transaction History Request. The owner/manager will request the history using a Transaction History Request Transaction citing the appropriate Type Physical Inventory/Transaction History Code. Transaction history will consist of all transactions affecting the balance for the requested timeframe.

 C6.4.4.2. Transaction History Data. The storage activity will send transaction history data by submitting the affected transactions identified as a historical submission with beginning segment Action Code W1. DLMS transactions subject to historical submission are: receipt, issue, materiel release order, materiel release advice, and inventory adjustment (DLMS 527R, DLMS 867I, DLMS 940R, DLMS 945A, and DLMS 947I, respectively). When no history is available for the selected timeframe, submit a Response to Transaction History Request (No History Available) Transaction with Type of Physical Inventory/Transaction History Code 8 or 9. (Storage activities still operating under MILSTRAP will send legacy DIC DZK Transaction History Transmittal for all transactions affecting the balance for the requested timeframe).

 C6.4.5. Error Classification Coding for Physical Inventory Adjustments. Causes of potential/actual inventory adjustments are determined by research. Causes will be classified, analyzed, and evaluated so action may be taken to correct situations that are causing the errors. Inventory Adjustment (Physical Inventory) Error Classification Codes will be entered in Inventory Adjustment (Physical Inventory) Transactions (DLMS 947I with Quantity or Status Adjustment Reason Code AA; MILSTRAP legacy DIC D8A/D9A)[[4]](#footnote-5). For analysis and evaluation, physical inventory adjustment error conditions will be associated with the operation in which they occurred (e.g., receiving, issues) and classified by type within each operation. For reporting purposes, each operation and each error type have been identified by an alphabetic or numeric code in the Error Classification Code. The error classification system is structured to provide the DoD Components the latitude to amplify the DoD defined error classifications; however, the DoD Components will summarize internally defined error classifications to the appropriate DoD classification for all reports provided to higher authorities, auditors, etc.

C6.4.6. Error Classification Feedback and Correction

 C6.4.6.1. Causative History Summary. Storage activities will send a quarterly summary of the causative research results for each individual national item identification number (NIIN) to the Inventory Owners (or the service International Logistics Control activity in the case of Foreign Military Sales (FMS)-owned materiel). The summary information will be provided for all adjustments of extended dollar value greater than $16K and any adjustment of an item with a Controlled Inventory Item Code (CIIC) that is Classified, Sensitive or Pilferable. At minimum, the provided summary will include, for each NIIN: SCC, Inventory Adjustment Transaction (DLMS 947I or MILSTRAP legacy DIC D8\_/D9\_), quantity adjusted, routing identifier code (RIC) of the storage activity making the adjustment, error classification code, controlled inventory item code, date created, date completed, and total adjusted dollar value.

 C6.4.6.2. Error Correction

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

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

 C6.4.7. Controlled Inventory Item Accounting Adjustments. Unresolved physical inventory adjustments for all classified and sensitive items regardless of value, and for pilferable items when the adjustment is in excess of $2,500, as prescribed by DoD 7000.14-R, will be referred to security officials of the storage activity at which the adjustment occurred to determine whether there is culpability or when fraud, waste, or abuse is suspected (see Table C6.T3).

 C6.4.8.Materiel Release Denials. Chapter 4 prescribes DoD standard document formats, data codes, and criteria for the preparation and processing of materiel release denial at storage activities and by owners/managers.

 C6.4.8.1. Upon initiation of a materiel release denial citing Management Code 1, 2, 3 (applies to subsistence only), or 4 (applies to subsistence and ammunition only), storage activities will:

 C6.4.8.1.1. Reverse the issue, adjust the storage activity record on-hand quantitative balance to zero, and send an inventory adjustment decrease transaction (DLMS 947I with Quantity or Status Adjustment Reason Code AA; MILSTRAP legacy DIC D9A) for the adjusted quantity to the owner/manager attempting to issue the materiel, citing denial Management Code 1, 2, 3, or 4, and send an inventory adjustment decrease to any other owners affected by the denial loss, citing denial Management Code Q.

 C6.4.8.1.2. Initiate a spot inventory as required under subparagraph C6.3.4.2.

 C6.4.8.2. If an inventory can be accomplished without delaying the processing of the Materiel Release Order beyond the prescribed Uniform Materiel Movement and Issue Priority (UMMIPS) timeframes (see DoDM 4140.01), it may be conducted prior to processing a denial transaction.

C6.5. REVERSAL OF INVENTORY ADJUSTMENTS (PHYSICAL INVENTORY)-DOCUMENT IDENTIFIER CODE D8A/D9A. Storage activity reversal of Inventory Adjustment (Physical Inventory) Transactions (DLMS 947I with Quantity or Status Adjustment Reason Code AA; MILSTRAP legacy DIC D8A/D9A) is a required capability, which must be implemented with proper controls and supported by proper documentation. At a minimum, procedures for reversing adjustments will contain the following control features:

 C6.5.1. Posted/Unposted Source Documents. Regardless of age, reversals required to correct inventory records when posting previously unposted or incorrectly posted supply transactions (e.g., receipts, issues), are limited to those transactions that can be properly documented to reference the specific transaction document number(s) that will be processed to offset the reversal.

 C6.5.2. Inventory Adjustment Corrections. Reversals required to correct physical inventory adjustments that were made based on incorrect/incomplete information are limited to two years from the date of the original adjustment unless the requirements of paragraph C6.5.1. are met. All reversals must be properly documented.

 C6.5.3. Limitations. Reversals will not be processed solely on the basis of a previous offsetting physical inventory adjustment.

 C6.5.4. Performance Assessment. Reversals after causative research allow for the proper posting of the correct supply transactions and audit trails. The number of inventory adjustments and related monetary values will be separated and identified as follows.[[5]](#footnote-6)

 C6.5.4.1. Absolute adjustment rates will include all gain and loss reversals from reporting and prior quarters’ adjustment transactions.

 C6.5.4.2. Initial adjustment rates will not include gain and loss reversals from reporting or prior quarters’ adjustments:

C6.6. RESEARCH OF POTENTIAL OR ACTUAL INVENTORY ADJUSTMENTS (ACCOUNTING ERRORS) – (DLMS 947I with Quantity or Status Adjustment Reason Code AB) - Document Identifier Code D8B/D9B[[6]](#footnote-7))

 C6.6.1. Policy. DoD Components will ensure that potential or actual Inventory Adjustments (Accounting Errors), DLMS 947I with Quantity or Status Adjustment Reason Code AB; D8B/D9B, are researched in accordance with the value of the adjustment and type of item. The DoD criteria for this research are set forth in Table C6.T3. and will be used as the basis for selective research for supply system materiel. More stringent research requirements may be imposed by DoD Components based upon the limits of available resources and upon specific asset control problems. Though physical inventory adjustments are based on physical counts, accounting adjustments are based on the reconciliation of inventory records as part of End-of-Day or Location Reconciliation business processes. When differences exist between the ‘systems’, an accounting adjustment (gain/loss) (DLMS 947I with Quantity or Status Adjustment Reason Code AB; DIC D8B/D9B) will be created to adjust the owner/manager’s total item property record inventory balance to agree with the storage activity’s closing end of day balance. As such, the causes of accounting adjustments are driven by the handling of ‘transaction data’ versus the physical handling of materiel. Therefore, research requirements will focus on events/processes that cause the databases (between the storage activity and total item property record) to be out of sync. DoD Components will research transaction histories and violation files to locate ‘missing’ supply transactions, clear exceptions, process the appropriate ‘supply’ transaction, and reverse the accounting adjustment to resolve the original mismatch condition.

 C6.6.1.1. When subsequent research finds that the accounting adjustment was caused by an unposted, duplicate, or otherwise improperly posted transaction, a reversal of the accounting adjustment and (as appropriate) the incorrectly posted ‘supply’ transaction is required. The owner/manager will ensure that proper audit trails are maintained to reflect the posting of the correct supply transaction.

 C6.6.1.2. Owners/managers will request assistance from the storage activity to isolate supply transaction processing errors and focus on data transmission and validation of system logic to resolve causes of database mismatches.

 C6.6.2. Objectives. Analysis of Inventory Adjustments (Accounting Errors) is vital to:

 C6.6.2.1. Identify failures in the control systems so improvements can be made.

 C6.6.2.2. Reduce similar discrepancies in the future.

 C6.6.2.3. Ensure that the proper adjustment was made.

 C6.6.2.4. Evaluate indicators of trends or system problems for corrective action.

 C6.6.3. Timeliness of Research. Timely completion of the research of potential or actual Inventory Adjustments (Accounting Error) is essential. Delay increases the complexities of adequate research and reduces the probability of conclusive findings.

 C6.6.3.1. Mandatory Causative Research. The owners/managers must complete mandatory causative research within 45 calendar days from the date the adjustment transaction was posted.

 C6.6.3.2. Sample Causative Research. If sample causative research is used as allowed by Table C6.T3., Minimum Research Requirements, owners/managers must complete the sample causative research within 45 calendar days from the date the sample causative research listing is created.

 C6.6.4. Inventory Adjustment (Accounting Error) Error Classification Coding. Causes of potential/actual Inventory Adjustments (Accounting Error) are determined by research. Causes will be classified, analyzed, and evaluated so action may be taken to correct situations that are causing the errors.[[7]](#footnote-8) For analysis and evaluation, error conditions will be identified and classified by type. For reporting purposes, each error type is identified by an alphabetic or numeric code as shown in Volume 2, Appendix 2.16. The error classification system is structured to provide the DoD Components the latitude to amplify the DoD defined error classifications; however, DoD Components will summarize internally defined error classifications to the appropriate DoD classification for all reports provided to higher authorities, auditors, etc.

 C6.6.5. Error Classification Feedback and Correction

 C6.6.5.1. Causative History Summary. Owners/managers will prepare a quarterly summary of causative research results for Inventory Adjustments (Accounting Error) (DIC D8B/D9B) and provide feedback to the appropriate owners/managers officials.

 C6.6.5.2. Error Correction. Inventory Owners will use this information as a means to gain insight into the inventory accounting adjustments and subsequent actions taken to resolve the error and to evaluate whether changes in supply transaction ‘edits’, cataloging data, or other actions may be taken to prevent potential inventory accounting errors. A single point of contact will be designated at the owner level to request information from DLA.

 C6.6.6. Controlled Inventory Item Accounting Adjustments. Unresolved Inventory Adjustments (Accounting Error) for all classified and sensitive items regardless of value, and for pilferable items when the adjustment is in excess of $2,500 as prescribed by DoD 7000.14-R, will be referred to security officials of the storage activity at which the adjustment occurred to determine whether there is culpability or when fraud, waste, or abuse is suspected (see Table C6.T3.).

C6.7. REVERSAL OF INVENTORY ADJUSTMENT (ACCOUNTING ERRORS) TRANSACTIONS. Reversal of DLMS 947I with Quantity or Status Adjustment Reason Code AB; DIC D8B/D9B inventory accounting adjustments is a required capability that must be implemented with proper controls and supported by proper documentation. (From Volume 3, Appendix 3, Introduction, Paragraph AP3.3.2, “When reversal or cancellation of the original transaction is required, enter a reversal indicator in record position 25.”) At minimum, procedures for reversing adjustments will contain the following control features:

 C6.7.1. Posted/Unposted Source Documents. Regardless of age, reversals required to correct inventory accounting records when posting previously unposted or incorrectly posted supply transactions (e.g., receipts, issues), regardless of age, are limited to transactions that can be properly documented to reference the specific transaction document number(s) that will be processed to offset the reversal.

 C6.7.2. Inventory Accounting Adjustment Corrections. Reversals required to correct inventory accounting adjustments that were made based on incorrect/incomplete information are limited to two years from the date of the original adjustment unless the requirements of paragraph C6.5.1. are met. All reversals must be properly documented.

 C6.7.3. Limitations. Reversals will not be processed solely on the basis of a previous offsetting inventory accounting adjustment.

 C6.7.4. Performance Assessment. Reversals against transactions processed within the adjustment period will be separated and identified as follows:

 C6.7.4.1. Gross inventory accounting adjustment during the current period,

 C6.7.4.2. Reversal of prior quarters' inventory accounting adjustment transactions,

 C6.7.4.3. Reversal of current quarters' inventory accounting adjustment transactions, and

 C6.7.4.4. Total value of net inventory accounting adjustments during the current period (i.e., value of net gains added to value of net losses).

C6.8. RECORD RECONCILIATION PROGRAM. Each DoD Component will implement a record reconciliation program that will consist of both a location survey and a location reconciliation.[[8]](#footnote-9) The DoD acceptable accuracy goals are provided in subparagraph C6.2.12.3. The DoD Components may impose more stringent standards internally. The record reconciliation program is subject to the quality control checks delineated in section C6.10. Errors will be subject to validation and research before they are counted as errors. The DoD Components will collect and analyze all Type III errors (see subparagraphs C6.8.1.2.3. and C6.8.2.2.3.) by element.

 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 C6.8.1.9.1. and C6.8.1.9.2.)), 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 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 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.

 C6.8.1.4. Rewarehousing. A location survey will take place in both the gaining and losing storage areas following the completion of rewarehousing projects. A location survey conducted due to rewarehousing projects may be considered to have satisfied the annual survey requirement for the area surveyed.

 C6.8.1.5. Comparison of Storage Locations with Locator Records. The proper sequence for operating a location survey requires comparing assets in storage locations with locator records. This sequence of operation is important to detect assets in unrecorded locations.

 C6.8.1.6. Lots/Segments. An objective is to identify items to location survey lots or segments. Lots/segments will be of a manageable size (number of items) to permit location survey in minimum time, to ensure maximum uninterrupted service to customers, and to obtain the greatest degree of accuracy from the location survey.

 C6.8.1.7. Items within Lot/Segment. Items within a lot/segment that have been subject to a complete item inventory will satisfy the annual survey requirement when the entire lot/segment is located in a clearly designated, conterminous warehouse space. These inventoried lots/segments may be excluded from the complete survey for the fiscal year in which they were counted. Sites that perform complete physical inventories including empty locations have satisfied the location survey requirement. These sites will not be required to collect location survey metrics.

 C6.8.1.8. Permanent Item Locations. When permanent locations are reserved for items, unoccupied recorded locations will be identified and/or verified during the location survey.

 C6.8.1.9. Accuracy Measurement. To measure the accuracy of the results of the location survey, discrepancies will be classified in one of the three categories listed below. Only one error per stock number per location is charged when locator delete, locator establish, or locator record correction is required for the same location. When the stock number and actual assets differ, the discrepancy will be classified as a locator establish action only.

 C6.8.1.9.1. Locator Record Deleted. The removal or change of a locator record when there is a recorded location but there are no physical assets–unless the location is being held open for new receipts. (Type I location survey error.)

 C6.8.1.9.2. Locator Error Established. The recording of locations when assets are physically found in storage and no locator records exist, or when the recorded stock number disagrees with the materiel in the location. (Type II location survey error.)

 C6.8.1.9.3. Locator Record Corrected. Changes to the locator record when physical materiel characteristics differ from any of the following data elements (Type III location survey error):

 C6.8.1.9.3.1. Unit of issue.

 C6.8.1.9.3.2. SCC.

 C6.8.1.9.3.3. Controlled inventory item code (see DoD 4100.39-M, Volume 10, Table 61). Verification of the code will consist of ensuring that assets are stored in areas providing the degree of security commensurate with the assigned code.

 C6.8.1.9.3.4. Type of pack code (for subsistence only). (See Volume 2, Chapter 4.)

 C6.8.1.9.3.5. Lot number, serial number, or unique item identifier (for ammunition only).

 C6.8.1.9.3.6. Completeness and accuracy of magazine data card (for ammunition only).

 C6.8.1.9.3.7. Special Inventory. To ensure accuracy of property accountability records, special inventories will be performed when assets are found in an erroneous or unrecorded location, or when there are mismatches in the unit of issue that may result in a quantity variance.

 C6.8.2. Location Reconciliation.[[9]](#footnote-10)

 C6.8.2.1. Requirements. Location reconciliation requires a match between storage activity records and owner/manager records in order to identify and to correct situations when there is: (1) an owner/manager record with no corresponding storage activity record, (2) a storage activity record with no corresponding owner/manager record, (3) common elements of data that do not match, and/or (4) quantity discrepancies. Mismatches will be researched and special inventories conducted when required to effect corrective action.

 C6.8.2.2. Accuracy Measurement. To measure the accuracy of the results of the location reconciliation program, discrepancies will be classified in one of the four categories listed below (report only one error per location reconciliation error).

 C6.8.2.2.1. Owner/manager record shows balance for storage activity; no Location Reconciliation Request Transaction received. (Type I location reconciliation error.)

 C6.8.2.2.2. Location Reconciliation Request Transaction received from storage activity; no corresponding owner/manager record (Type II location reconciliation error.)

 C6.8.2.2.3. Mismatch of any of the following data elements (Type III location reconciliation error):

 C6.8.2.2.3.1. Unit of issue.

 C6.8.2.2.3.2. Ownership/manager identifier.

 C6.8.2.2.3.3. Controlled inventory item code (see [DoD 4100.39-M](http://www.dlmso.dla.mil/eLibrary/Manuals/regulations.asp), Volume 10, Table 61).

 C6.8.2.2.3.4. Type of pack code (subsistence only).

 C6.8.2.2.3.5. Shelf-life code.

 C6.8.2.2.4. Quantity Discrepancy (Type IV Reconciliation Error).

 C6.8.2.3. Guidance. The DoD Components will perform location reconciliation in accordance with the following guidance:

 C6.8.2.3.1. Annual Location Reconciliation. Owners/managers and storage activities will:

 C6.8.2.3.1.1. Reconcile all records at least once every year but prior to the Chief Financial Officer inventories in September.

 C6.8.2.3.1.2. Perform annual reconciliations as required by subparagraph C6.8.2.3.3.

 C6.8.2.3.2. Location Reconciliation Request. Storage activities will prepare Location Reconciliation Request Transactions by line-item and by type of pack, for each stock number regardless of the balance (including zero balances). For annual location reconciliation request, storage activities will cite DLMS 846R, Action Code 24 or, for MILSTRAP legacy DIC DZH, Type of Location Reconciliation Request Code 2. Storage activities will send the request to the owner/manager. Storage activities preparing MILSTRAP legacy DIC DZH requests will ensure that consecutive transaction numbers by RIC are assigned to the location reconciliation requests for control purposes.

 C6.8.2.3.3. Location Reconciliation Schedule. All owner/manager and storage activity records (active and inactive records, including zero balances) will be reconciled not less than once each fiscal year. Storage activities and Components may negotiate agreements for conducting annual location reconciliation any time during the fiscal year. When no such agreement exists, location reconciliation requests will be prepared on the second Tuesday of the month indicated in the schedule in Table C6.T2.

Table C6.T2. Location Reconciliation Preparation Schedule When No Other Schedule Agreement Exists

| Service or Agency | Preparations DateSecond Tuesday in: |
| --- | --- |
| Army | January |
| Navy | March |
| Marine Corps | May |
| Air Force | July |
| Defense Logistics Agency | July |

 C6.8.2.3.4. Control of Location Reconciliation. Storage activities and owners/managers will establish the following provisions for controlling location reconciliation:

 C6.8.2.3.4.1. Location Reconciliation Notification. Storage activities will advise intended recipients (owners/managers) of the number of transactions being forwarded, and cut-off date, using Location Reconciliation Notification Transaction.

 C6.8.2.3.4.2. Location Reconciliation Transaction History

 C6.8.2.3.4.2.1. Location Reconciliation History Notification Transaction. When transaction history is required with Location Reconciliation, the storage activity will advise intended recipients (owners/managers) of the number of historical transactions being sent, and the cutoff date, using Location Reconciliation History Notification Transactions.

 C6.8.2.3.4.2.2. Transaction History to Support Location Reconciliation. For transaction history associated with annual reconciliation, the owner/manager may cite Type of Physical Inventory/Transaction History Code Y in the Transaction History Request Transaction. Transactions subject to transaction history submission are receipt (DLMS 527R with 1/BR02/20/Code D4; MILSTRAP legacy DIC D4\_/D6), issue (DLMS 867I; DIC D7\_), materiel release (DLMS 940R, MILSTRIP legacy DIC A5\_), materiel release advice (DLMS 945A, MILSTRIP DIC AR\_), and inventory adjustments (DLMS 947I; MILSTRAP legacy DIC D8\_/D9\_). The transaction history code may be included in the transaction history submission. DLA owner/managers will use code Y for automatic submission of history requests for the Annual (Total) Reconciliation, and code W for automatic submissions of transaction history requests for their weekly process. The storage activity perpetuates the type of physical inventory/transaction history code in the transaction history submissions.

 C6.8.2.3.4.3. Owners/managers will use the Location Reconciliation Notification and Location Reconciliation History Notification Transactions to determine receipt of all Location Reconciliation and historical transactions. Where the number of transactions to be sent does not match what was actually received, the owner/managers may reject the Location Reconciliation Notification and/or Location Reconciliation History Notification transactions using Reject Advice Transaction (DLMS 824R; MILSTRAP legacy DIC DZG), with Reject Advice Code AY.

 C6.8.2.3.5. Processing Location Reconciliation Request. In processing Location Reconciliation Request Transactions, owners/managers will match the requests to the owner/manager records. When a mismatch is programmatically unresolved, Inventory Adjustment (Accounting Error) Transaction (DLMS 947I with Quantity or Status Adjustment Reason Code AB; MILSTRAP legacy DIC D8B/D9B) will be processed to adjust the owner/manager records. All Type I, II, III, and IV mismatches meeting the criteria for causative research (see Table C6.T3.) will be resolved as follows:

 C6.8.2.3.5.1. Research of owner/manager active and historical records.

 C6.8.2.3.5.2. Research of storage activity active/historical record using Transaction History Request Transaction with Type of Physical Inventory/Transaction History Code X.

 C6.8.2.3.5.3. Request physical inventory using Physical Inventory Request Transaction with Type of Physical Inventory/Transaction History Code J.

 C6.8.2.3.5.4. If the above actions fail to resolve the mismatch, the Inventory Adjustment (Accounting Error) Transaction (DLMS 947I with Quantity or Status Adjustment Reason Code AB; MILSTRAP legacy DIC D8B/D9B) will remain on the owner/manager records.

 C6.8.2.3.6. Exceptions. A physical inventory is not required under the following conditions, except when the mismatch involves classified or sensitive items (regardless of dollar value), or pilferable items (when the extended dollar value of the variance is greater than $100).

 C6.8.2.3.6.1. The owner/manager record may be adjusted without special inventory when the extended value of the variance is $5,000 or less and 10 percent or less of the beginning value of the variant owner/manager record for Type IV errors (see subparagraph C6.8.2.2.4.).

 C6.8.2.3.6.2. The owner/manager record may be adjusted without special inventory when the extended value of the variance is $5,000 or less for Type I and Type II errors (see subparagraphs C6.8.2.2.1. and C6.8.2.2.2.).

 C6.8.2.3.7. Discrepancies. When a discrepancy is identified during the location reconciliation, send the following transactions, as appropriate, to the submitting activity:

 C6.8.2.3.7.1. DLMS 824R (MILSTRAP legacy DIC DZG) – Reject Advice Transaction, as prescribed in Volume 1, Chapter 6.

 C6.8.2.3.7.2. DLMS 888I Storage Item Data Correction/Change Transaction as prescribed in this chapter. Storage activities will use the Storage Item Data Correction/Change Transaction to update stock records, item locator records, and bin tags.

C6.9. RETENTION OF ACCOUNTABLE DOCUMENTATION. DoD requires that all Components meet audit requirements following the processing of documents and data and completion of the research efforts. Owners and storage activities will maintain records and supporting documentation in accordance with DoDI 5015.02 and DoD 7000.14-R, Financial Management Regulation, Volume 1 Chapter 9. The following business rules apply to storage activities and owners when retaining records for audit purposes:

 C6.9.1. Source Documents. Retain original source documents or facsimiles in a readily accessible format. Source documents include only accountability change documents such as receipts, issues, shipments, transfers, SCC changes, and inventory and financial adjustments. Keep source documents providing evidence of shipment to FMS recipients in accordance with DoDI 5015.02.

 C6.9.2. Transaction History. Retain registers, records, files, tapes, and data in a format useful for audit trail purposes. Automated inventory control systems facilitate the output of transaction histories that indicate the date the last physical inventory was conducted for each item.

 C6.9.3. Adjustment Research. Retain backup documentation that directly pertains to individual cases of physical inventory adjustment research efforts in a readily accessible format (to include physical inventory and accounting error adjustments).

 C6.9.4. Annual Statistical Inventory. Retain annual statistical sample inventory line-item detail data in a readily accessible format.

C6.10. QUALITY CONTROL

 C6.10.1. Goals and Objectives. DoD Components will establish a quality control program at each owner/manager and storage activity. Portions of the program can be accomplished during ongoing practices within inventory processes. Quality control results will assist management in identifying those human, procedural, or system errors that adversely affect record accuracy and in achieving better control over physical materiel and warehousing practices. Within the scope of this quality control program, work processes directly related to the control of physical materiel will be monitored for attained quality levels and performance evaluated on improvements, not numerical goals. Accordingly, all quality control programs will include reviews to assess the accuracy/quality of the following work processes:

 C6.10.1.1. Warehousing Practices. This includes checks of storage practices, stock rotation, shelf-life management, identification of in-store materiel, mixed stock, location accuracy and rewarehousing projects.

 C6.10.1.2. Receiving Practices. This includes checks of documentation, materiel identity, quantity, and SCC; checks for processing timeliness; and verification of daily input data to the location system.

 C6.10.1.3. Issuing Practices. This includes checks of legibility of issue documents; accuracy of stock selection as to identity, quantity, unit of issue, shelf life, SCC, and type of pack (subsistence only); marking of outgoing shipments; and release to carriers.

 C6.10.1.4. Validity of Automated Date. This includes checks of receipt, issue, and adjustment transaction data entries against input documentation.

 C6.10.1.5. Inventory Practices. This includes checks of inventory counts, location surveys, location reconciliation corrective actions, causative research, and adjustments at both the owner/manager and storage activity.

 C6.10.1.6. Catalog Practices. This includes checks of catalog change processing, accuracy, and timeliness, using the affected recorded locations as the universe.

 C6.10.1.7. Locator File Updates. This includes checking the accuracy of changes to the locator file (e.g., all additions, deletions, and changes of unit of issue, SCC, shelf life).

 C6.10.1.8. Supply Discrepancy Report Processing. This includes checks for processing timeliness and the accuracy of the SDR initiation, follow up and reply, investigation research including identification and correction of supply errors, adjustment of accountable and financial records, and preparation of Financial Liability Investigation of Property Loss Report (DD Form 200).

 C6.10.1.9. Logistics Reassignment Processing. This includes checks to determine whether the logistic reassignment actions were completed (e.g., Losing Item Manager (LIM)/Gaining Item Manager (GIM) records were changed to reflect decapitalization/transfer, LIM directed the storage activity to change the decapitalized/transferred assets to GIM ownership, the storage activity effected and advised the LIM of the change, and the LIM initiated action to resolve any quantity variances.

 C6.10.1.10. Suspended Asset Processing. This includes checks of the timeliness in reclassifying suspended (SCCs J, K, L, Q, R, and X) materiel.

 C6.10.2. Assignment of Responsibility. Whenever possible, quality control checks of these work processes will include identification of the individual performing the tasks. This will facilitate the placement of responsibility for appraising and improving quality with each manager within the chain of command.

 C6.10.3. Command Emphasis. Continued command management emphasis and performance review are essential for the success of the quality control program. Command managers must ensure effective organizational interrelationships among the functional element concerned with the PICP such as: comptroller, data systems, transportation, warehousing, maintenance, quality control, and supply management. The quality control program will include provisions for initiation of corrective action when acceptable quality levels are not met.

C6.11. PHYSICAL INVENTORY CONTROL PROGRAM PERFORMANCE ASSESSMENT. Each DoD Component will collect and maintain performance standards and management data prescribed in paragraphs C6.11.1. and C6.11.2. for all materiel for which the Component maintains the property accountability record. This includes all DoD wholesale supply system assets of principal and secondary items, including package fuels, less all materiel exclusions listed in DoDM 4140.01. When required to report this information to higher authorities Report Control Symbol (RCS): DD-AT&L 935 applies. DD Form 2338-1 (“Inventory Control Effectiveness Report - Ammunition”) and DD Form 2338-2 (“Inventory Control Effectiveness Report - General Supplies”) are available for intra-Component use when required by the DoD Component.

 C6.11.1. General Supplies Performance Standards and Data[[10]](#footnote-11)

 C6.11.1.1. General Supplies Inventory Adjustment Report Data -- Part I. Parentheses with each paragraph number refer to data shown on the Inventory Control Effectiveness (ICE) Report (RCS DD-AT&L 935).

 C6.11.1.1.1. (Line 1.) Number of Physical Inventories and Variance Rate.[[11]](#footnote-12)

 C6.11.1.1.1.1. (Line 1.A.) Number of Inventories Completed. The total number of line items inventoried (scheduled and unscheduled). Each SCC for a stock number at each storage activity is a line item.

 C6.11.1.1.1.2. (Line 1.B.) Number of Inventories with Adjustments. The total number of line items inventoried (scheduled and unscheduled) that had an inventory variance.

 C6.11.1.1.1.3. (Line 1.C.) Inventory Variance Rate. Reflects the percentage of the line items inventoried that had an inventory variance. Compute this figure by dividing the lines with an Inventory Variance by the total line items inventoried and multiplying by 100. ((1B/1A) x 100).

 C6.11.1.1.1.4. (Line 1.D.) Number of Inventory Adjustments Equal to or Greater Than (≥) Causative Research Criteria. The total number of line items inventoried (scheduled and unscheduled) that had an inventory variance (overage or shortage equal to or greater than Causative Research threshold) (dollar value of the variance is ≥ $16,000 for uncontrolled item, $2500 for a pilferable item and all adjustments of sensitive/classified items).

 C6.11.1.1.1.5. (Line 1.E.) Causative Research Variance Rate. The percentage of the total number of line items inventoried (scheduled and unscheduled) that had an inventory variance that met the Causative Research threshold. Compute this figure by dividing the lines that meet Causative Research Criteria by the total line items inventoried and multiplying by 100. ((1D/1A) x 100).

 C6.11.1.1.2. (Line 2.) Number of Adjustments[[12]](#footnote-13)

 C6.11.1.1.2.1. (Line 2.A.) Number of Adjustment Gains (D8A). The total number of inventory gain adjustments.

 C6.11.1.1.2.2. (Line 2.B.) Number of Adjustment Losses (D9A). The total number of inventory loss adjustments.

 C6.11.1.1.2.3. (Line 2.C.) Number of Gain Reversals (D8A Reversal). The total number of gain reversals of inventory adjustments (from reporting and prior quarters).

 C6.11.1.1.2.4. (Line 2.D.) Number of Loss Reversals (D9A Reversal). The total number of loss reversals of inventory adjustments (from reporting and prior quarters).

 C6.11.1.1.2.5. (Line 2.E.) Total Number of Inventory Adjustments. The total number of inventory gain or loss adjustments including the number of gain and loss reversals (from reporting and prior quarters) processed during the report period. (2A + 2B + 2C + 2D).

 C6.11.1.1.2.6. (Line 2.F.) Number of Issues and Receipts (Transactions). The total number of Issues and Receipts posted during the report period.

 C6.11.1.1.2.7. (Line 2.G.) Number of Adjustments, Gains, and Losses including Book-to- Book Adjustments. The total number of Adjustments, Gains, and Losses including Book-to- Book adjustments posted during the reported period.

 C6.11.1.1.2.8. (Line 2.H.) Transaction Adjustment Rate. The total number of Adjustments, Gains, and Losses including Book-to- Book adjustments posted during the reported period, compared to the total number of Issues and Receipts posted during the report period. Compute this figure by dividing the total number of Adjustments, Gains, and Losses including Book-to- Book adjustments by the total number of Issues and Receipts. (2G/2F).

 C6.11.1.1.3. (Line 3) Monetary Value of Adjustments[[13]](#footnote-14)

 C6.11.1.1.3.1. (Line 3.A.) Value of Adjustment Gains (D8A). Monetary value of gain adjustments excluding the monetary value of gain reversals processed during the report period.

 C6.11.1.1.3.2. (Line 3.B.) Value of Adjustment Losses (D9A). Monetary value of loss adjustments excluding the monetary value of loss reversals processed during the report period.

 C6.11.1.1.3.3. (Line 3.C.) Value of Gain Reversals (D8A). The total monetary value of gain reversals processed during the reporting period.

 C6.11.1.1.3.4. (Line 3.D.) Value of Loss Reversals (D9A). The total monetary value of loss reversals processed during the reporting period.

 C6.11.1.1.3.5. (Line 3.E.) Total Value of Inventory Adjustments. Monetary value of gains and losses resulting from inventory adjustments including the monetary value of gain and loss reversals (from reporting and prior quarters) processed during the report period (3A+3B+3C+3D).

 C6.11.1.1.4. (Line 4) Adjustment Rates[[14]](#footnote-15)

 C6.11.1.1.4.1. (Line 4.A.) Average Value of Materiel in Storage. The average value of on-hand assets as reflected on the storage activity's owner/manager property accountability records for the 12 months prior to the report cutoff date (i.e., current quarter plus three quarters).

 C6.11.1.1.4.2. (Line 4.B.) Record Value of Items Inventoried. The extended value prior to inventory adjustments being posted during the reporting period.

 C6.11.1.1.4.3. (Line 4.C.) Absolute Adjustment Rate for Materiel in Storage. Divide the value of the total number of inventory adjustments (including reversals) by the average value of materiel in storage. ((3E/4A) x 100).

 C6.11.1.1.4.4. (Line 4.D.) Absolute Adjustment Rate for Items Inventoried. Divide the value of the total number of inventory adjustments (including reversals) by the record value of items inventoried. ((3E/4B) x 100).

 C6.11.1.1.4.5. (Line 4.E.) Initial Adjustment Rate as Percentage of Inventory In Storage. Divide the value of the total number of inventory adjustments (without reversals) by the average value of materiel in storage ((3A + 3B) / 4A x 100).

 C6.11.1.1.4.6. (Line 4.F) Initial Adjustment Rate as Percentage of Items Inventoried. Divide the value of the total number of inventory adjustments (without reversals) by the record value of items inventoried. ((3A + 3B) / 4B x 100).

 C6.11.1.1.5. Denial Rates

 C6.11.1.1.5.1. (Line 5.A.) Lines Directed for Shipment. The total number of line items directed for shipment (A5\_ Materiel Release Order (MRO), A4\_ referral order, and A2\_ redistribution order).

 C6.11.1.1.5.2. (Line 5.B.) Total Materiel Release Order Denials. The total materiel denials (sum of total and partial denials and warehouse refusals). Include denial transactions classified by denial Management Codes 1, 2, 3, (subsistence only) 4, and 5 (see Appendix AP2.6) in the total.

 C6.11.1.1.5.3. (Line 5.C) Materiel Denial Rate. Compute this figure by dividing the total denials by the line items directed for shipment and multiplying by 100. ((5B /5A) x 100).

 C6.11.1.2. General Supplies - Accuracy and Performance Data -- Part II. Each DoD Component will collect and maintain visibility of the following performance data for collective analysis of accuracy trends and corrective actions required.

 C6.11.1.2.1. Receipt Processing. The accuracy rate is computed by dividing the total number of receipts (all types, e.g., new procurements, redistributions, returns from maintenance) posted and stored to the property accountability record on time by total number of receipts and multiplying by 100 during the reporting period. The Components may separately measure receipt processing timeframes by the type of receipt (e.g., D4\_, D6A, D6Ks) based upon business processes and negotiated agreements.

 C6.11.1.2.2. Location Survey. The accuracy rate is computed by dividing the locations with discrepancies (Types 1 and 2) by the total locations surveyed (during the reporting period), multiplying by 100, and subtracting the result from 100 percent.

 C6.11.1.2.3. Location Reconciliation. This performance figure represents the total number of reconciled location records (i.e. sum of line items on the Inventory Manager's record and line items that were not on the Inventory Manager's record but were on the storage activities' records) during a specified reporting period. The accuracy rate is computed by dividing the number of discrepancies (as defined in paragraph C7.6.2.2.) by the number of reconciled records, multiplying by 100, and subtracting the result from 100 percent.

 C6.11.1.2.4. Record Accuracy. This performance element represents the results of Type Physical Inventory/Transaction History Code N Sample Inventories. The sampling model incorporates a hierarchical approach where the total population of items is included and a single sample is randomly selected. Each selected line item (NSN/SCC) is placed in only one of the four categories by determining whether it meets a category's criteria, in sequential order. Table C7.T1. provides General Supplies Record Accuracy categories, goals and tolerances.

 C6.11.2. Ammunition Performance Standards and Data. (The information in this section corresponds to information shown on DD Form 2338-1.)

 C6.11.2.1. Performance - Part I

 C6.11.2.1.1. Materiel Denials. DoD Components will identify denials separately for low risk and high-risk items.

 C6.11.2.1.1.1. (Line 1.A.) Lines Directed for Shipment. The total number of line items directed for shipment (MROs, referral orders, redistribution orders (DLMS 940R Material Release)).

 C6.11.2.1.1.2. (Line 1.B.) Total Materiel Denials. The total materiel denials (sum of total and partial denials, and warehouse refusals DLMS 945A, Materiel Release Advice). Include denial transactions classified by denial Management Codes 1, 2, 5, 6, and 7 in the total.

 C6.11.2.1.1.3. (Line 1.C.) Material Denial Rate. Compute this figure by dividing total denials by the line items directed for shipment and multiplying by 100. ((1B / 1A) x 100) The DoD performance goal for the materiel release denial rate is not greater than 1 percent.

 C6.11.2.1.2. Receipt Processing Performance.

 C6.11.2.1.2.1. (Line 2.A.) Receipts Posted and Stored. The total number of line item receipts posted and stored to the total item property record.

 C6.11.2.1.2.2. (Line 2.B.) Receipts Posted and Stored on Time. The total number of line item receipts that were effectively posted and stored within the timeframes. Both storing and posting actions are considered complete when the item is in the storage location, or available for issue, and the quantity is posted to the total item property record.

 C6.11.2.1.2.3. (Line 2.C.) On Time Receipt Rate. Compute this figure by dividing the total number of receipts posted and stored on time by the total number of receipts and multiplying by 100. ((2B / 2A) x 100) The DoD performance goal for posting and storing receipts on time is 90 percent.

 C6.11.2.1.3. Record Reconciliation Program. Shows the results of the location survey (ratio of accurate storage activity locator records to storage activity locations surveyed) and the location reconciliation[[15]](#footnote-16).

 C6.11.2.1.3.1. (Line 3.A.) Locations Surveyed. The number of storage activity locations surveyed.

 C6.11.2.1.3.2. (Line 3.B.) Survey Errors. The total number of location discrepancies as defined in subparagraph C6.8.1.8. Report only one error per stock number per location.

 C6.11.2.1.3.3. (Line 3.C.) Survey Accuracy. Compute this figure by dividing the locations with discrepancies by the total locations surveyed multiplying by 100, and subtracting the result from 100 percent, (100 - ((3B / 3A) x 100)). The DoD goal for location survey accuracy is 98 percent.

 C6.11.2.1.3.4. (Line 3.D.) Locations Reconciled.[[16]](#footnote-17) The total number of location records reconciled (i.e., the sum of line items on the owner's/Inventory Manager’s record and line items not on the Inventory Manager's record but were on the storage activities' records).

 C6.11.2.1.3.5. (Line 3.E.) Reconciliation Errors. The total number of discrepant location records as defined in subparagraph C6.8.2.2. Count one error per location reconciliation request (line item) or unmatched Inventory Manager's record.

 C6.11.2.1.3.6. (Line 3.F.) Reconciliation Accuracy. Compute this figure by dividing the number of discrepancies by the number of records reconciled, multiplying by 100, and subtracting the result from 100 percent, (100 - ((3E / 3D) x 100)). The DoD goal for location reconciliation is 98 percent.

 C6.11.2.2. Physical Inventory Adjustments – Part II

 C6.11.2.2.1. Physical Inventories

 C6.11.2.2.1.1. (Line 1.A.) Number of Scheduled and Unscheduled Inventories Completed. The total number of line-items inventoried (scheduled and unscheduled). Each SCC for a stock number at each storage activity is a line item.

 C6.11.2.2.1.2. (Line 1.B.) Number of Inventories with Variances. The total number of line items inventoried (scheduled and unscheduled) that had an inventory variance.

 C6.11.2.2.1.3. (Line 1.C.) Inventory Record Accuracy. Reflects the percent of lines inventoried without an inventory variance. Compute this figure by dividing the lines with an inventory variance by the total lines inventoried and multiplying by 100, and subtracting the result from 100 percent, (100 - ((1B / 1A) x 100)). The DoD inventory record accuracy goal for ammunition is 95 percent.

 C6.11.2.2.2. Number of Inventory Adjustments from Other Than Physical Inventories.[[17]](#footnote-18)

 C6.11.2.2.2.1. (Line 2.A.) Number of Location Reconciliation Adjustments. The number of location reconciliation adjustments (DLMS 947I with Quantity or Status Adjustment Reason Code AB; MILSTRAP legacy DIC D8B/D9B).

 C6.11.2.2.2.2. (Line 2.B.) Number of End of the Day Processing Adjustments. The number of end of the day processing adjustments (DLMS 947I with Quantity or Status Adjustment Reason Code AB; MILSTRAP legacy DIC D8B/D9B).

 C6.11.2.2.2.3. (Line 2.C.) Total. Absolute total of adjustments from other than physical inventories, (2A + 2B).

 C6.11.2.2.3. (Line 3.) Total Inventory Adjustments. The sum of number of inventories with variances and the number of adjustments from other than physical inventories.

 C6.11.2.2.4. Number of Reversals of Inventory Adjustments.

 C6.11.2.2.4.1. (Line 4.A.) Number of Gain Reversals. The number of gain reversals of inventory adjustments.

 C6.11.2.2.4.2. (Line 4.B.) Number of Loss Reversals. The number of loss reversals of inventory adjustments.

 C6.11.2.2.4.3. (Line 4.C.) Total. Absolute total of inventory reversals (gains and losses).

 C6.11.2.2.5. Monetary Value.

 C6.11.2.2.5.1. (Line 5.A.) Average Value of Inventory. The average value of on-hand assets as reflected on financial records for the 12 months prior to the report cutoff date (i.e., current quarter plus last three quarters).

 C6.11.2.2.5.2. (Line 5.B.) Record Value of Items Inventoried. The extended value prior to actual inventory of line-items inventoried (scheduled and unscheduled) during the reporting period.

 C6.11.2.2.5.3. Value of Inventory Adjustments

 C6.11.2.2.5.3.1. Physical Inventory Adjustments:

 C6.11.2.2.5.3.1.1. (Line 5.C.(1)(A)) Gains. Monetary value of gains resulting from inventory less the monetary value of gain reversals (from current and prior quarters) processed during the report period.

 C6.11.2.2.5.3.1.2. (Line 5.C.(1)(B)) Losses. Monetary value of losses resulting from inventory less the monetary value of loss reversals (from current and prior quarters) processed during the report period.

 C6.11.2.2.5.3.1.3. (Line 5.C.(1)(C)) Gross Adjustments. Computed as lines (5C(1)(A) + 5C(1)(B)).

 C6.11.2.2.5.3.2. Reversals--Current Quarter

 C6.11.2.2.5.3.2.1. (Line 5.C.(1)(A)) Gains. The total monetary value of decreases to the record balances as a result of reversing gain adjustments processed during the reporting period. Compute the Fiscal Year (FY) to Date value for reversal of current quarter gains by adding the quarter ending value for reversal of current quarter gains to the prior quarter FY to Date value of reversal of current quarter gains.

 C6.11.2.2.5.3.2.2. (Line 5.C.(1)(B)) Losses. The total monetary value of increases to the record balances as a result of reversing loss adjustments processed during the reporting period. Compute the FY to Date value for reversal of current quarter losses by adding the quarter ending value for reversal of current quarter losses to the prior quarter FY to Date value for reversal of current quarter losses.

 C6.11.2.2.5.3.2.3. (Line 5.C.(1)(C)) Total. Absolute total of reversals of current quarter gains and losses. Computed as lines (5C(2)(A) + 5C(2)(B)).

 C6.11.2.2.5.3.3. Reversals--Prior Quarters

 C6.11.2.2.5.3.3.1. (Line 5.C.(2)(A)) Gains. The total monetary value of decreases to record balances as a result of reversing gain adjustments reported in prior quarters. Compute the FY to Date value for reversal of prior quarters gains by adding the quarter ending value of reversal of current quarter gains to the prior quarter gains.

 C6.11.2.2.5.3.3.2. (Line 5.C.(2)(B)) Losses. The total monetary value of increases to record balances as a result of reversing loss adjustments reported in prior quarters. Compute the FY to Date value for reversal of prior quarters’ losses to the prior quarter FY to Date value for reversal of prior quarters’ losses.

 C6.11.2.2.5.3.3.3. (Line 5.C.(3)(C)) Total. Absolute total of reversals of prior quarter gains and losses. Computed as (5C(3)(A) + 5C(3)(B)).

 C6.11.2.2.5.3.4. (Line 5.C.(4)) Total Reversals. The total of reversals of current quarter and prior quarter gains and losses. Computed as (5C(2)(C) + 5C(3)(C)).

 C6.11.2.2.5.3.5. (Line 5.C.(5)) Total Record Imbalances. The total of gross adjustments and total reversals. Computed as (5C(1)(C) + 5C(4)).

 C6.11.2.2.6. Gross Adjustments As a Percent of.

 C6.11.2.2.6.1. (Line 6.A.) Average Value of Inventory. Divide the total value of gross adjustments by the average value of inventory and multiply by 100. ((5C)(1)(C) / 5A) x 100).

 C6.11.2.2.6.2. (Line 6.B.) Value of Items Inventoried. Divide the total value of gross adjustments by the record value of items inventoried and multiply by 100. ((5C)(1)(C) / 5B) x 100).

 C6.11.2.2.7. Total Record Imbalances As a Percent of:

 C6.11.2.2.7.1. (Line 7.A.) Average Value of Inventory. Divide the value of the total record imbalances by the average value of inventory. ((5C)(5) / 5A) x 100).

 C6.11.2.2.7.2. (Line 7.B.) Value of Items Inventoried. Divide the total value of gross adjustments by the record value of items inventoried and multiply by 100. ((5C)(5) / 5B) x 100).

 C6.11.2.2.8. Monetary Value of Location Reconciliation.

 C6.11.2.2.8.1. (Line 8.A.) Value of Line Items Reconciled. The extended value of line-items reconciled during the reporting period.

 C6.11.2.2.8.2. (Line 8.B.) Gains. The monetary value of gains resulting from reconciliation during the period.

 C6.11.2.2.8.3. (Line 8.C.) Losses. The monetary value of losses resulting from reconciliation during the period.

 C6.11.2.2.8.4. (Line 8.D.) Total. Absolute total of location reconciliation gains and losses. (8B + 8C).

 C6.11.2.2.9. Monetary Value of End of the Day Processing.

 C6.11.2.2.9.1. (Line 9.A.) Gains. The value of gains resulting from end of the day processing.

 C6.11.2.2.9.2. (Line 9.B.) Losses. The value of losses resulting from end of the day processing.

 C6.11.2.2.9.3. (Line 9.C.) Total. Absolute total of end of the day processing gains and losses. (9A + 9B).

| Table C6.T3. Minimum Research Requirements for Potential or Actual Physical Inventory Adjustments |
| --- |
|  | **CONDITION OF****DISCREPANCY** | **REQUIRED RESEARCH** |
|  |  | **Post Count****Validation** | **Pre-adjustment****Research** | **Causative****Research** |
| 1. | < $1,000 | NO | NO | NO |
| 2. | > $1,000 but < $5,000 and < 10 percent unit variance | YES | NO | NO |
| 3. | > $1,000 but < $5,000 and > 10 percent unit variance | YES | YES | NO |
| 4. | > $5,000 but < $16,000 and < 25 percent unit variance | YES | YES | SAMPLE |
| 5. | > $5,000 but < $16,000 and > 25 percent unit variance | YES | YES | YES |
| 6. | > $16,000 | YES | YES | YES |
| 7. | Controlled Inventory Item | YES | YES | YES[[18]](#footnote-19) |
| 8. | Suspected Fraud, Waste, or Abuse | YES | YES | YES |

C6.12. STORAGE ITEM DATA CORRECTION/CHANGE NOTIFICATION

 C6.12.1. This section provides standard procedures required by ICPs to provide for the correction and/or updating of storage activity records when:

 C6.12.1.1. Reported transactions indicate that the ICP and storage activity records are inconsistent.

 C6.12.1.2. A catalog/stock list change is processed against an ICP record that affects stock control data maintained at the storage activities.

 C6.12.2. Inventory Control Point Action. ICPs use the Storage Item Data Correction/Change Transaction to provide storage activities with data record changes on supply items. The ICP enters the “correction/change code for storage item records” in the transaction to provide information on the nature of the change, actions to be taken, and data affected by the change.

 C6.12.3. Storage Activity Action. Storage activities will use the Storage Item Data Correction/Change Transaction to update stock records, item locator records, and bin tags.

C6.13. CAPITAL EQUIPMENT[[19]](#footnote-20)

 C6.13.1. General. This section addresses additional procedures applicable to capital equipment.

 C6.13.1.1. Capital Equipment. Serial number tracking does not automatically apply to capital equipment. The materiel owner will evaluate capital equipment items and assign the appropriate UIT designator code only when the item requires serial number tracking at the DoD level. In support of Financial Improvement and Audit Readiness (FIAR), accountability and management of capital equipment assigned under an established UIT program requires management and visibility by both the owner and storage activity by serial number (and unique item identifier (UII) if available). Owners will, within their AISs, have constant knowledge of the physical location (DoDAAC/RIC level) of each instance of an item uniquely identified by its serial number (and UII if available). The owner of the item will maintain records of which storage activity has a particular instance of an item identified by its serial number (and UII if available). This requires record keeping by the owner and storage activity and the constant exchange of all balance affecting transactions between them to ensure that the records of both reflect the correct NSN, storage location, owner, supply condition code and serial number (and UII if available). Storage activities will maintain locator records by NSN, owner, supply condition code and serial number (and UII if available). Owners will maintain records on their Accountable Property System of Record (APSR) by NSN, storage activity (DoDAAC/RIC level), SCC, and serial number (and UII if available).

 C6.13.1.2. Capital equipment items are items must; (1) have a FLIS IUID Indicator (Y); (2) are within Classes of Supply II, VII, and VIII; and (3) have a current Unit Price recorded in the FLIS of at least $100,000. Not all capital equipment items will require serial number tracking. Materiel Owners will enable serial number tracking by assigning an active UIT designator code to each selected capital equipment NSN.

 C6.13.1.3. Serial Number Tracking for Capital Equipment. Capital equipment items that meet the criteria in the previous paragraph and require serial number tracking throughout the product’s life cycle, must have an active UIT program assigned. The materiel owner will evaluate the item and select the most appropriate UIT program code. When none of the other UIT programs applies, and the item still requires serial number tracking, the materiel owner will use UIT Designator Code AAK – Other Serially Managed Items. This will ensure the storage activity will recognize the NSN as capital equipment requiring serial number tracking.

 C6.13.2. Conduct of Physical Inventories. The transaction history request, response to transaction history request when no history is available, physical inventory request, response to physical inventory request and end of day transaction count will not contain serial numbers or UIIs However, when the owner initiates a physical inventory request for a capital equipment item (assigned under an established UIT program) to assist in resolving discrepancies where the only difference between the owner records and the storage activity records is the serial number (or UII if available), the physical inventory request will contain Type of Physical Inventory Code B. Owners will initiate a physical inventory when a mismatched condition on serial number (and UII when available) is identified between its records and transactions received. The owner will first request a physical inventory of all owners be conducted by the storage activity that sent the transaction generating the mismatched condition. If the initial physical inventory is unable to resolve the mismatched condition the owner may need to coordinate requests for physical inventories with DLA Distribution to conduct inventories of all owners at all other storage activities storing that NSN.

 C6.13.2.1. Owner/manager processing a materiel release confirmation from a storage activity where the owner does not have a matching record of the serial number (and UII if available) or the owner/manager records have that serial number (and UII if available) located at other than the storage activity reporting the release/issue of the item. Either of these conditions may necessitate a complete inventory be taken at all storage locations for all owners and supply condition codes.

 C6.13.2.2. Owner/manager processing receipts, issues, or inventory adjustments from storage activities where there is a mismatch on serial number (and UII if available) between the owner records and storage activity transactions reporting which serial number (and UII if available) may at a minimum necessitate an inventory and research to resolve the discrepancy.

 C6.13.2.3. Owner/managers processing location reconciliation history transactions resulting from End-of Day processing or an owner initiated location reconciliation request where there is a mismatch on serial number (and UII if available) between the owner records and the storage activity transactions. The history transactions for capital equipment items assigned under an established UIT program will perpetuate the serial numbers (and UIIs if available) that were included on the original transactions.

 C6.13.2.4. To increase auditability of physical inventory requests, serially managed items will include a unique document number. The document number will help relate a physical inventory request with the appropriate response. The owner will provide a document number in the Physical Inventory Request. The storage activity will perform the necessary physical research as described in Chapter 6 Physical Inventory Control. The physical inventory response will carry the same document number provided by the owner. These procedures are required for UIT programs and recommended for all other commodities.

 C6.13.3. Location Survey

 C6.13.3.1. Location survey requires a physical verification, other than actual count, between assets and recorded location data to ensure that all assets are properly recorded.

 C6.13.3.2. Due to the nature of capital equipment items assigned under an established UIT program, these items are frequently in individual storage locations within the storage activity. The storage activity may, for items of this nature, include the serial number (and UII if available) verification as part of the location survey. When a discrepancy is identified during the location survey program (Type I or Type II error (see paragraphs C6.8.1.2.1. and C6.8.1.2.2.)), 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).

 C6.13.4. Reconciliation of Serially-Managed Items.

 C6.13.4.1. Storage activities will prepare location reconciliation requests by line item. For capital equipment assigned under an established UIT program, the line item = NSN + SCC + serial number + UII (when available).

 C6.13.4.2. In addition to the responsibilities described under paragraph C6.2.6, storage activities and owners/managers will include the UII/serial number when reconciling records to ensure proper accountability of serially-managed items. For mismatches between system records, the storage activity will collaborate with the owner/manager to ensure proper research and resolution.

 C6.13.4.3. The combination of UII and serial number increases the accuracy of inventory records across the DOD. When a serially managed item lacks a UII, there is a potential for duplicate serial numbers. A duplicate serial number may surface as a result of the record reconciliation. For mismatches due to a duplicate serial number, the owner is responsible for taking the necessary steps to resolve the discrepancy.

 C6.13.5. Inventory Adjustments under Capital Equipment. The inventory adjustment function encompasses increases, decreases, or dual adjustments. The C6.4 procedures for processing and reporting of Inventory Adjustments (Physical Inventory) are applicable with the following additions:

 C6.13.5.1. Capital equipment items inventory adjustment (gain, loss, or dual) transactions will include the serial number/UII when adding, removing, or correcting a serial number/UII.

 C6.13.5.2. Capital equipment items when a discrepancy exists solely on mismatched serial number and/or UII, the storage activity will transmit a DLMS 947I Inventory Adjustment, Inventory Transaction Type Code DU (Inventory Adjustment Dual), Quantity or Status Adjustment Reason Code AQ (Inventory Adjustment (UII and/or serial number mismatch)) to correct the serial number/UII in question. The storage activity will collaborate with the materiel owner(s) to research inventory adjustments due to serial number/UII discrepancies resulting in a mismatch (Quantity or Status Adjustment Reason Code AQ). Two inventory adjustment transactions are required to correct the mandatory serial number/UII and to update the SCC.

 C6.13.5.2.1. The storage activity will prepare a separate dual inventory adjustment transaction for each item to identify the original “from” and corrected “to” IUID values. Only one item will be identified in each dual inventory adjustment.

 C6.13.5.2.2. A dual inventory adjustment transaction will be required to cite the impacted serial number(s)/UII(s) to update the suspended item(s) from the suspended SCC to the appropriate SCC.

 C6.13.5.3. Capital equipment items assigned under an established UIT program where a discrepancy exists solely on missing serial number/UII requires a dual inventory adjustment transaction. The storage activity will transmit a DLMS 947I Inventory Adjustment, Inventory Transaction Type Code DU (Inventory Adjustment Dual), Quantity or Status Adjustment Reason Code AM (Missing Unique Item Identifier (UII)/Serial Number) to add the serial number/UII in question to the existing records. The storage activity may add multiple missing serial number/UII for the same item using a single transaction. The storage activity response will contain all related serial numbers/UIIs. Two inventory adjustment transactions are required to identify the mandatory serial number and, when available, the associated UII, and to update the SCC.

 C6.13.5.3.1. The storage activity will prepare a dual inventory adjustment transaction to identify missing IUID values for each applicable item. Multiple items may be identified in each dual inventory adjustment transaction.

 C6.13.5.3.2. A dual inventory adjustment transaction will be required to cite the impacted serial number(s)/UII(s) to update the suspended item(s) from the suspended SCC to the appropriate SCC.

 C6.13.5.4. In response to a Physical Inventory Request, the storage activity will transmit to the owner a DLMS 947I Inventory Adjustment with zero quantity, Quantity or Status Adjustment Reason Code AA (Physical Count) by line item indicating the completion of the inventory. Inventory adjustment transactions with Quantity or Status Adjustment Reason Code AA and zero quantity must include all serial number/UII(s) associated to the NSN, Condition Code, and Owner from the initial request. The storage activity will send all gain, loss, or dual adjustment transactions prior to sending the final inventory adjustment transaction (Reason Code AA, zero quantity) containing all serial numbers/UIIs. The owner will process all inventory adjustments prior to processing the final inventory adjustment.

 C6.13.5.5. Owner/managers processing location reconciliation history transactions resulting from End-of Day processing or an owner initiated location reconciliation request where there is a mismatch on serial number/UII between the owner records and the transactions received from the storage activity. The history transactions will perpetuate the serial numbers/UIIs included in the original transactions.

 C6.13.6. Research of Potential or Actual Inventory Adjustments (UII and/or serial number mismatch) (DLMS 947I with Quantity or Status Adjustment Reason Code AQ).

 C6.13.6.1. DoD Components will ensure that potential or actual inventory adjustments for capital equipment items assigned under an established UIT program that result in an inventory adjustment are reported with Quantity or Status Adjustment Reason Code AQ and are researched in accordance with the procedures paragraph C6.4.

 C6.13.6.2. Due to the value of capital equipment items, discrepancies will always require the most demanding research requirements set forth in Table C6.T3.

1. Applicable Units of Issue: AT, AY, BF, BK, CD, CF, CZ, DZ, FY, FT, FV, GP, GR, HD, KT, LB, MR, OZ, OT, PG, PR, SE, SF, SO, SP, SY, TD, TE, TF, TN, TO, TS, MC, MX, YD [↑](#footnote-ref-2)
2. Refer to ADC 415 available at the DLMS ADC 400-499 page. [↑](#footnote-ref-3)
3. Ibid [↑](#footnote-ref-4)
4. The owner/manager may use Error Classification Codes in Inventory Adjustment (Accounting Error) Transactions (DLMS 947I with Quantity or Status Adjustment Reason Code AB; MILSTRAP legacy DIC D8B/D9B) pending establishment of single shared asset balances (see paragraphs C6.2.2. and C6.2.4.). [↑](#footnote-ref-5)
5. Refer to ADC 415 available at the DLMS ADC 400-499 page. [↑](#footnote-ref-6)
6. Refer to ADC 414 available at the DLMS ADC 400-499 page. [↑](#footnote-ref-7)
7. The owner/manager may use Error Classification Codes in Inventory Adjustment (Accounting Error) Transactions (DLMS 947I with Quantity or Status Adjustment Reason Code AB; MILSTRAP legacy DIC D8B/D9B) pending establishment of single shared asset balances (see paragraphs C6.2.2. and C6.2.4.). [↑](#footnote-ref-8)
8. The location reconciliation process will not be required with the establishment of single shared-asset balances (see paragraphs C6.2.2. and C6.2.4.). [↑](#footnote-ref-9)
9. The location reconciliation process will not be required with the establishment of single shared-asset balances (see paragraphs C6.2.2 and C6.2.4). [↑](#footnote-ref-10)
10. Refer to ADC 415 available at the DLMS ADC 400-499 page. [↑](#footnote-ref-11)
11. Book-to-Book Adjustments are not included in section 1. [↑](#footnote-ref-12)
12. Book-to-Book Adjustments are included in section 2. [↑](#footnote-ref-13)
13. Book-to-Book Adjustments are included in section 3. [↑](#footnote-ref-14)
14. Book-to-Book Adjustments are included in section 4. [↑](#footnote-ref-15)
15. The location reconciliation process will not be required with the establishment of a single shared asset balances (see paragraphs C6.2.2. and C6.2.4.). [↑](#footnote-ref-16)
16. Performance data maintained by owner/Inventory Manager regardless where material is stored. [↑](#footnote-ref-17)
17. The end of day process and location reconciliation process will not be required with the establishment of single shared asset balances (see paragraphs C6.2.2 and C6.2.4). [↑](#footnote-ref-18)
18. Sample causative research in lieu of complete causative research for pilferable and CIIC 7 item discrepancies with a value from $.01 to $2,500 may be accomplished to serve as a deterrent to fraud, waste, or abuse and to identify systemic inventory and security problems. Causative research will be conducted on all adjustments (gains and losses) of classified and sensitive items regardless of dollar value of item or extended dollar value of adjustment. Causative research will be conducted on all adjustments (gains and losses) of pilferable items, and CIIC 7 items, with an extended value greater than $2,500, and all adjustments with an extended value of greater than $16,000 or greater than 25 percent unit variance and greater than $5,000. [↑](#footnote-ref-19)
19. Refer to ADCs 1198, 1198A, and ASC 1198B. [↑](#footnote-ref-20)