

Replace Section 80201 with the following:

**80201 GENERAL** The overall policy concerning logistics support is shown in Section 20202. This section provides guidance in logistics related areas not covered elsewhere in the Manual.

- A. Use of US Logistics System** Implementation of LOAs will be accomplished within the existing organizational and procedural structure of the US military logistics, including acquisition, system. Use of the DTS is an exception to this policy as discussed in section 80206.
- B. Items to Reflect Favorably on US** Items provided under FMS will normally be new or unused or, as a result of rehabilitation, possess original appearance insofar as possible and have serviceability standards prescribed for issue to US forces. If the Purchaser desires exclusively new equipment, this requirement will be stated in the LOA. If the Purchaser desires "as is/where is" items, this will also be stated in the LOA.
- C. Purchaser Service** Delivery performance directly reflects the degree to which the US meets its FMS commitments and is therefore a key element of the supplier-customer relationship. The importance of prompt and effective service to the Purchaser must be continually emphasized to assure overall success in the attainment of FMS program objectives.
- D. Discrepancy Reporting** Every effort must be made to provide the correct defense article or service in the quantity and quality shown in the LOA. Positive actions should be taken to prevent discrepancies. After a discrepancy has occurred, the submission of a discrepancy report should be encouraged. In order to take advantage of a fresh audit trail, Purchasers should be reminded of the importance of reporting discrepancies as soon as possible. SDR (ROD) submissions should be recorded to find and correct program weaknesses and minimize loss of resources and customer confidence. SDRs will be considered based on guidance in Section 80207.
- E. ILCS** The International Logistics Communication System has been developed for the improvement of logistics communications service to SA countries, freight forwarders, and contractors. DLA's DAASO, Wright-Patterson Air Force Base, OH 45433-5328 manages ILCS under DLA General Order 2-83, dated 10 January 1983. As a stand-alone system, or in tandem with processes such as Supply Tracking and Repairable Return/Personal Computer based (STARR/PC), ILCS provides a computer-to-computer telecommunications capability which allows a subscriber to exchange logistics related information with the DoD logistics community and other ILCS subscribers.
- F. Direct Exchange (DX) and Repair and Return Programs** A serviceable item in the stocks of DoD may be exchanged for a repairable item of the same type under certain conditions. The repairable must previously have been obtained under the AECA, must not be an end item, and DoD (including FMS) must have a requirement for the repairable item. Programs may be executed under defined line, BO, or CLSSA LOAs. Also see DoDD 4000.21-1-M.
1. To accept the DX repairable, it must be assured that sufficient customer funds have been provided for the cost of the serviceable replacement. The requisition for the replacement will normally be filled according to normal supply procedures.

2. Repair and return will normally be used when a serviceable replacement is not available from stock on hand or due in within a reasonable time, or if the customer requests repair and return of a specific item. Repair of a customer-owned article requires that the customer return a repairable article under an LOA established for that purpose and await the necessary leadtime for repair. For either DX or repair and return, the total cost will be the same as that charged US forces for similar transactions, plus normal administrative surcharges.

**G. Returns** Returns should be accepted if the defense article (1) was previously provided under the AECA, (2) is not SME, and (3) is in fully functioning condition without need of repair or rehabilitation. DoD, including FMS requirements, must have a funded requirement for the defense article. The customer will not be reimbursed directly, the customer's FMS account must be credited to reflect the transaction, using DoD appropriations or other customer funds, dependent upon the buyer. Also see DoDD 4000.21-1-M and DoD 4140.1-R.

1. Return credits may be added, at customer request, to specific BO or CLSSA LOAs. In order to facilitate program efficiencies (e.g., automated processing), no more than three country LOAs will normally be designated to receive credit funds.

2. Title for returned items will normally accrue to the US following acceptance at the point of US receipt inspection. Returns to or through US controls do not constitute a third party transfer as discussed in 60004.

Paragraph 80206.G.1.c.(1) will be replaced with:

(1) Shipments of sensitive material (Sensitive Arms, Ammunition, and Explosives Categories I, II, III, and IV; see DoD 5100.76-M), including sensitive ammunition, explosives, and other hazardous materiel moving under DTS control, will be shipped DTC 7, 8, or 9, through CONUS water or aerial ports controlled by DoD. FMS shipments of non-sensitive ammunition and explosives or other controlled items, such as pilferable materiel, shown by their Controlled Inventory Item Code (CIIC) to be non-sensitive may be transported to or through Purchaser representatives (normally freight forwarders) and through CONUS commercial airports or seaports, providing:

(a) The Purchaser has directed the shipment in response to a shipper-supplied Notice of Availability (NOA).

(b) The shipment, if hazardous, is certified by the shipping activity for commercial shipment in accordance with 49 CFR (Code of Federal Regulations)/IMDG (International Maritime Dangerous Goods code)/ ICAO (International Civil Aviation Organization)/IATA (International Air Transportation Association) requirements. The Purchaser representative must also comply with international, federal, state, and local codes when handling, storing, and exporting the materiel.

(c) Any classified material is transitioned from DTS to non-DTS channels in accordance with the approved transportation plan developed by the Purchaser (see Table 503-4).

This guidance will normally allow items initially moved via DTS to be released to a Purchaser representative for temporary storage and movement beyond CONUS when the representative has demonstrated experience or the capability to safely and securely ship similar items, from FMS or commercial sources. This will include

movement of most Hazard Division 1.4 items, such as CAD/PAD. If doubt exists, the IA should confirm experience or capability by obtaining, from the Purchaser representative prior to shipment, information showing comparable items have been handled in the past, or other information which confirms capability.

Paragraph 80206 will also be changed by replacing Paragraphs N. and O. with the following (Paragraph P., Documentation, has been moved to Section 80207.C):

N. **Tracers** When the IA has furnished status showing item pickup by a carrier, but materiel has not been received, the Purchaser is responsible for conducting tracer action. Regardless of whether the shipment was tendered on a prepaid or collect basis, and whether shipment was a small parcel or freight size carrier, DoD shipping activities will assist by providing evidence of shipment documents, or pertinent information from the documents, so the Purchaser can effect the tracer action.

1. For all shipments processed through a freight forwarder, tracers should first be directed to the freight forwarder and, if the item has been transshipped, to the addressee.
2. If it is believed that the item has not been received by the freight forwarder, a request for shipping information should be sent to the activity from which shipment status was received. That activity will provide a copy of the bill signed by the carrier and shipping information such as TCN, bill of lading number, carrier, and date of shipment. Further follow-up should then be made to the freight forwarder to ascertain if the item has, in fact, been received.
3. If the item is still missing, the Purchaser should assure the freight forwarder starts tracer action with the carrier, obtains proof of delivery, or makes a claim against the carrier on behalf of the Purchaser. During the intransit stage of movement (carrier departure at origin to arrival at destination), the IA ILCO may be contacted for coordinating correction of potential discrepancies; e.g., to redirect a shipment which would otherwise go astray.

O. **Transportation Discrepancies** If the DTS ships an item (GBL or small parcel carrier) to an FMS recipient, including a recipient freight forwarder, and loss or damage occurs, the recipient must file any claim with the carrier. If resolution with the shipper is unsuccessful, recipient may submit qualifying SDRs per section 80207 to request additional shipment or billing information or to obtain IA assistance in resolving the discrepancy. The USG has responsibility for filing and processing claims with carriers when shipment is made on a prepaid basis to DoD activities. When the USG files the claim, the benefits will be reimbursed to the Purchaser. The US shipper should provide information, complementing that provided under paragraph N above, needed to support claims discussed in this paragraph.

New section 80207 will be added as follows:

#### **80207 PROCESSING SUPPLY DISCREPANCY REPORTS (formerly RoDs)**

A. **General** This section provides SA-unique guidance for processing of SDRs (SF 364). Further guidance, such as definitions, instructions for SF 364 completion, DoD processing timeframes, and responsibilities may be found in Joint Regulation DLAI 4140.55/AR 735-11-2/AFJMAN 23-215/NAVINST 4355.18, "Reporting of Supply Discrepancies," hereafter referred to as JR 4140.55. Initial screening of FMS SDRs is outlined in Table 802-1. Table 802-2 summarizes the financing of SDRs. See Section 80206 for additional guidance regarding transportation tracers and discrepancies and 130802 for

further financial guidance. Should guidance elsewhere appear to conflict, guidance herein will normally be followed.

1. AECA Sec 21 and 22 requirements that USG recover full costs under FMS also apply to SDRs. FMS customers directly or indirectly fund DoD procurement, DBOF item surcharge, and other costs related to discrepancies. Emphasis should be placed on providing articles and services under terms and conditions shown on the LOA, at minimum cost and with maximum customer satisfaction.

2. Item discrepancies are often not due to USG erroneous action or inaction. Further, not every USG erroneous action or inaction gives rise to responsibility for SDR compensation from USG or FMS funds. Table 701-1, LOA Standard Terms and Conditions, should be studied by the IA and FMS customers, with particular attention to 1, 3, 5.4, 6, and LOA supplemental conditions pertaining to assumption of risk. There should be no automatic approval of SDRs based solely on dollar value. Until final decisions are available, commitments to the customer for US financing of discrepancies will not be made.

3. Due to loss of information and customer confidence with the passage of time, SDRs will be addressed as thoroughly and quickly as possible. SDR responses should be provided by the IA within timeframes established by JR 4140.55. Any extension must be approved by the IA FMS SDR focal point. Any required DSAA review should be completed within 30 days of receipt within DSAA.

4. DSAA approval will be obtained when (1) The IA determines the USG is liable for correction of the SDR under terms of the LOA and recommends use of FMS Funds, and the value is in excess of \$50,000; or, (2) The SDR involves an issue likely to be raised at DSAA or higher levels, such as treatment to one country which is not consistent with guidance herein.

5. Each IA is responsible for designating to FMS customers the single point(s) of contact for SDR corrective action. Only those points and DSAA are authorized to accept and convey USG liability or originate a commitment for corrective action.

6. When customer countries re-requisition items, the current price should be paid without regard to the price under the original requisition.

7. Any problems involving GFE furnished per Section 603 should be directed by the foreign customer to the contractor. FMS funding and FMS SDR processing do not apply to these sales.

B. **Supply Discrepancies** These include shortages or overages due to incorrect quantity counts, improper packing or marking, duplicate shipments, incorrect items, and condition or quality discrepancies (including damage) prior to release to the carrier by the origin shipper. They also include, for security assistance purposes, documentation, including billing, errors and deficiencies in performance of services. Non-receipt of shipment units qualify only if no evidence of shipment (signed carrier receipt and shipping document) can be produced by the shipper. The IA, in conjunction with the DoD or commercial supply source, retains responsibility for resolving these problems and determining financial responsibility.

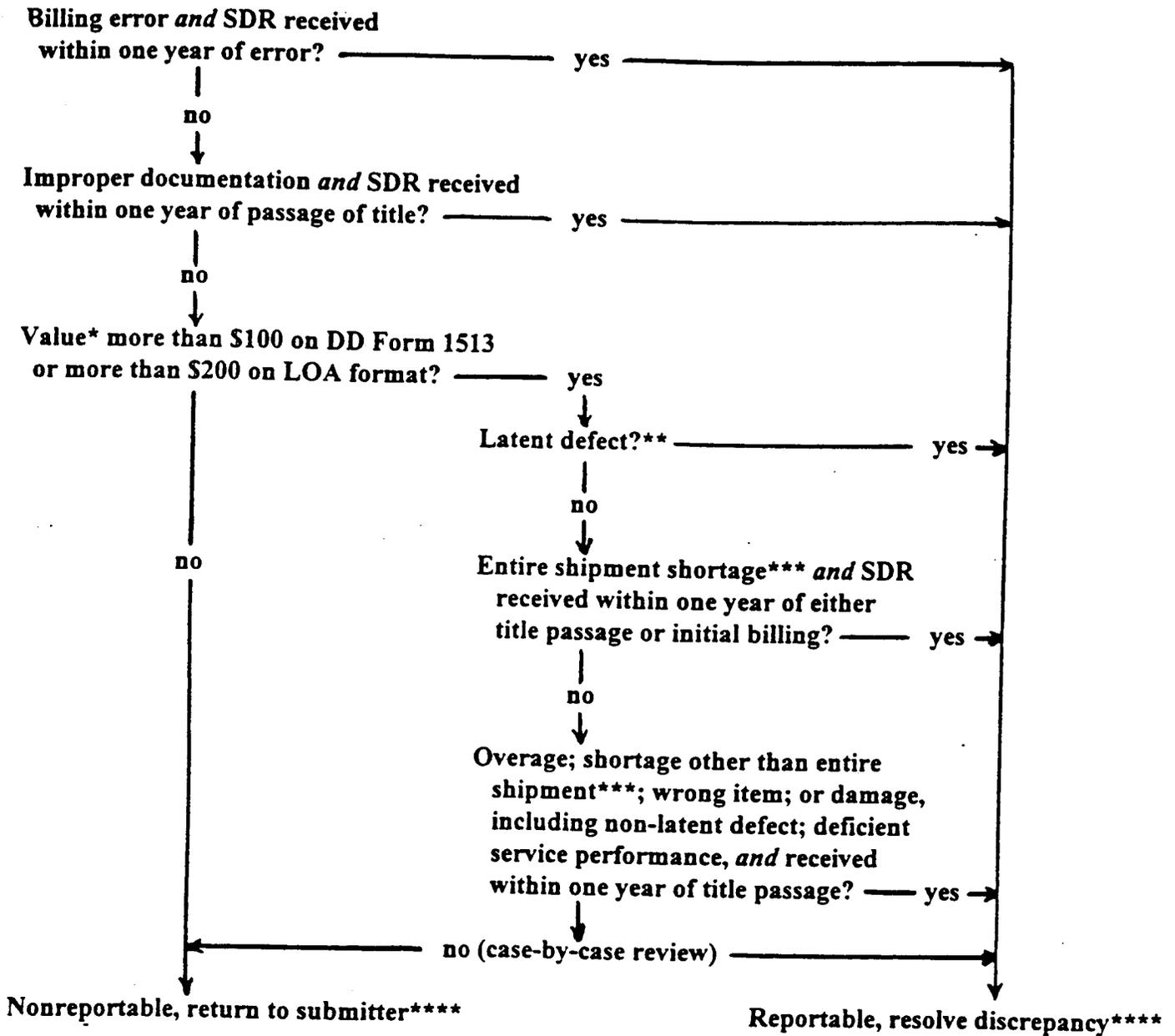
C. **Shipment Documentation** Any movement document or receipt, signed by a carrier representative, which shows that the US has shipped or released materiel to a carrier for shipment to the country's designated representative, constitutes evidence of shipment. Such documents generally show the

quantity, NSN, mode of shipment, date, TCN, notice of availability number, bill of lading/parcel post insured or registered number, addressee, vessel/voyage or flight number (to the extent possible), and name of the shipper and carrier. This information is essential for adjudication of SDRs. If the freight forwarder has not received the consignee copy of the bill of lading, and proof of delivery to a carrier is requested, a duplicate of the appropriate documents establishing evidence of shipment will be provided to the customer representative.

D. **SDR Documentation** The documentation package is often the key to effective SDR resolution. It should be initiated carefully but quickly after a discrepancy is reported and expedited through each step. The following are required when SDRs are submitted to DSAA and should be merged into IA procedures tailored for effectiveness (e.g., less research/documentation for low value and non-sensitive item SDRs):

1. Copy of the SDR, SF 364, and supporting data from the customer.
2. Copy of the LOA and any Amendment or Modification bearing on the discrepancy.
3. Chronology of events. The following statement covers pertinent events for most SDRs: "The SDR was filed within the time period allowed by the LOA, which in this instance is [period, normally "one year"] from ["the date of shipment"/"the date of furnishing of services" or "the date of billing"]. Date of ["shipment"/"completion of services"] was [date]. Date of billing was [date]. The SDR was received by [organization] on [date] with document origination date of [date signed by initiator]." Principal SDR processing actions and dates, present status of any assets, and other substantial information pertinent to the SDR background should also be included.
4. An IA General Counsel position regarding USG liability, to include "This office was furnished relevant documents pertaining to SDR [number]. The determination of USG liability for this SDR is supported by [list LOA General Terms and Conditions paragraph(s), footnotes, attachments, legal principle, legal precedent, or other bases for the determination]."
5. Options, with costs, to remedy the SDR. Discuss article or service the USG was responsible to provide. How does that differ from what the country was provided? Will the supply source repurchase the item(s), hold item(s) for DoD/FMS sale, repair, or replace the item? Provide detailed cost estimates, including transportation, TDY, and other associated charges for each remedy. If rework or repair is indicated, include source documents, if possible, from the office responsible for correcting the SDR upon receipt of authority.
6. Corrective action. Discuss policy, procedure, or systems change; education; or other actions to reduce probability of reoccurrence.
7. Retention of records. Show status of records required for resolution, including present and anticipated preservation.

**TABLE 802-1  
INITIAL SUPPLY DISCREPANCY REPORT (SF 364) SCREENING**



\* Example - Ten items, with a U/P of \$100, are shipped together. When received, five have damage which will cost \$150 to repair. Four are missing. The SDR value is \$550 plus transportation, PC&H, or other directly related costs.

\*\* Detection of reduced item operability is dependent upon initial operation or extensive testing, disassembly, or other extraordinary receipt inspection.

\*\*\* When shipped through a freight forwarder, return to submitter if freight forwarder verification that material has not been received on the TCN that applies is not provided.

\*\*\*\* All SDRs which contain sufficient information to be useful in trend analysis should be recorded and, based on continuing process refinements, minimized.

TABLE 802-1. Initial Supply Discrepancy Report (SF 364) Screening

**TABLE 802-2**

**FINANCING SUPPLY DISCREPANCY REPORTS**

The table below shows the most common SDRs and methods of financing when IA research results in approval of an item discrepancy. In summary, corrections will normally be financed:

- (1) Within contract costs for DBOF, O&M, PA, and RDT&E items obtained from procurement.
- (2) Within the surcharge for DBOF items or services supplied from stock.
- (3) From the O&M, PA, or RDT&E account for O&M, PA, or RDT&E items supplied from stock.

(4) From the FMS (Administrative, Transportation, or PC&H) Fund accounts when sources above do not apply. These SDRs are to be financed from current year FMS Administrative/Logistics Support Expense (LSE) budget obligation authority, or reissuance of past unused budget authority.

<u>Nature of Discrepancy</u>	<u>FMS Funds \1</u> (Admin, PC&H, Transportation)	<u>USG Funds/Appropriations</u> (DBOF, PA, O&M, RDT&E)
1. Damage, Defect, or Other Deficiency		
a. From Procurement \2	Generally not applicable except where US action or inaction caused inability of USG to obtain satisfaction from contractor for customer	Generally not applicable. Usually corrected by contractor within existing contract terms.
b. From Stock	Peripheral costs of correction (e.g., testing, transportation, TDY)	Replacement, refund to customer account, or rework of defective items for costs not listed under FMS Fund heading
2. Nonreceipt or Shortage		
a. From Procurement \2	Generally not applicable except where US action or inaction caused inability of the USG to obtain satisfaction from contractor for customer	Generally not applicable (Normally corrected by contractor within existing contract terms)

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**TABLE 802-2. Processing Supply Discrepancy Reports**

b. From Stock	Not applicable except where item shipped DTS and US action or inaction caused inability to obtain satisfaction from carrier (see 80206 and USG Fund/Appropriations column at right)	(Shortage/misdirection at origin based on no evidence of shipment) Credit to customer account, charged to USG fund or appropriation initially credited. Lost items will be absorbed as inventory losses.
3. Overage		
a. From Procurement <u>2</u>	Generally not applicable	Generally not applicable
b. From Stock	Generally not applicable See next column.	If billed and customer does not want item, amount charged will be refunded to customer account and USG appropriation fund charged. If USG directs no return, will be absorbed as inventory loss
4. Incorrect Item		
a. From Procurement <u>2</u>	Generally not applicable See next column.	Generally not applicable. Normally corrected by contractor within contract terms.
b. From Stock	Generally not applicable See next column.	Unless the item manager chooses to reissue, refund to the customer account, charged against appropriation or fund initially credited. If USG directs no return, absorb as inventory loss.
5. Missing or Improper Documentation		
a. From Procurement <u>2</u>	Generally not applicable See next column.	Generally not applicable. Normally corrected by contractor.
b. From Stock	Generally not applicable See next column.	Issue documentation and/or proper items without additional charge to FMS customer. If not available for issue, refund against USG appropriation/fund initially credited. If USG directs no return, absorbed as inventory loss.

TABLE 802-2. Processing Supply Discrepancy Reports

6. Duplicate or Erroneous Billings (From procurement <u>1</u> or stock)	Generally not applicable See next column.	Refund or adjustment to customer account. Adjustments charged against appropriate USG or customer account.
7. Loss of Customer Item (provided for repair, etc)	Reimburse customer when item is nonstandard (no longer maintained in USG inventory)	Reimburse customer when item is DoD standard (currently maintained in USG inventory) and the loss is bookkeeping or inventory control only.

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1 In some instances, Administrative, Transportation, or PC&H funds may complement other financing for SDR resolution. For example, it could be appropriate to reimburse PC&H or transportation costs for initial delivery of an overage when this is the sole means for resolution.

2 Procurement includes defense articles and services acquired to fill the FMS requirement and therefore not supplied from on-hand DoD assets. Both stock and procurement guidance may apply in some instances (e.g., item on hand in DoD inventory reworked through a commercial contract prior to shipment).

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**TABLE 802-2. Processing Supply Discrepancy Reports**