DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

IN REPLY REFER TO DLMSO

February 20, 2004

MEMORANDUM FOR: DISTRIBUTION

SUBJECT: Joint Physical Inventory Working Group (JPIWG) Meeting, February 5, 2004

The attached minutes of subject Meeting are forwarded for your information and action as appropriate. The Defense Logistics Management Standards Office point of contact is Ms. Mary Jane Johnson, (703) 767-0677, DSN 427-0677, or e-mail: Mary.Jane.Johnson@dla.mil.

James A. Johnson

JAMES A. JOHNSON
Director
Defense Logistics Management
Standards Office

Attachment

DISTRIBUTION:
ADUSD(L)SCI
JPIWG
Attendees

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HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
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February 20, 2004

MEMORANDUM FOR RECORD

SUBJECT: Joint Physical Inventory Working Group (JPIWG) Meeting, February 5, 2004

Purpose: The Defense Logistics Management Standards Office (DLMSO) convened a JPIWG meeting, February 5, 2004, at the Andrew T. McNamara Complex, Ft. Belvoir, VA. The agenda is at Enclosure 1. A list of attendees is at Enclosure 2. **All meeting handouts and briefing materials are available as hyperlinks to the JPIWG agenda at: http://www.dla.mil/j-6/dlmso/Programs/Committees/ JPIWG/JPIWG.asp.**

Brief Summary of Discussion: Ms. Mary Jane Johnson, JPIWG Chair/MILSTRAP Administrator, and Mr. Frank St. Mark, Jr., DLMSO contractor support, facilitated discussion:

a. UID BRIEFING. Mr. Bruce Propert, Chair of the Unique Identification (UID) Technical Interface Working Group (TIWG) presented a briefing on the OSD initiative for UID. The DOD has determined that to provide reliable and accurate data for financial accountability, tangible items delivered to the government will be uniquely identified and marked. UID will be required for items based on a set of specific criteria to include acquisition cost over $5,000; serially managed items; and mission essential items. UID will be a mandatory DOD requirement on all solicitations, for tangible assets meeting the criteria, issued on or after January 1, 2004. In addition, Wide Area Work Flow (WAWF) will be modified to capture UID data in April 2004 and form the basis of the DOD "birth record" UID Registry to be maintained by the Defense Logistics Information Services (DLIS). Logistics implementation policy for UID has not yet been defined and documented.

b. DLMS MIGRATION BRIEFING.

(1) Mr. Dale Yeakel, Defense Logistics Management Standards Office (DLMSO) provided a briefing on the "J-6 Information Operations Initiative for Supporting the Warfighter Today and the Future Logistics Enterprise of Tomorrow." The key objective of the briefing was the DUSD Acquisition, Technology and Logistics (AT&L) Memorandum of December 22, 2003, subject: Migration to the Defense Logistics Management Standards (DLMS) and Elimination of the Military Standard Systems (MILS). Mr. Yeakel contended that elimination of the MILS would accelerate the Integrated Logistics Enterprise by enacting best business practices. Further, the DLMS, which is, based American National Standard Institute (ANSI) Accredited Standards Committee (ASC) X12 includes both X12 and Extensible Markup Language (XML) schemas. These transactional exchanges will support unique item tracking throughout the supply chain using Unique Identification (UID) whereby the 40 plus years old MILS which is based on 80 record position technology will not.

Attachment

(2) Although the Components were required by DOD policy published in 1998, to use ANSI ASC X12 when they modernized/replaced their existing systems, some Components opted to use the MILS. Based on the need to support a mechanism to move UID information among supply chain business systems, the decision was made to mandate the use of ASC X12 and key dates for phasing out the MILS were identified. As required by the DUSD AT&L memorandum, the Component draft DLMS migration plans are due in February 2004 and final plans are due in April 2004. The UID/ DLMS Migrations Workshop is scheduled for March 9-10, 2004. Attendees can register for the workshop at: http://www.dla.mil/j-6/dlmso/eapplications/interestapp/public/login.asp.

ACTION: Based on discussions during the briefing, JPIWG members are encouraged to express concerns to their Component DLMS migration POCs, so that they may be taken into consideration in the development of their Component Migration Plans.

c. CFO COMPLIANCE.

(1) Mr. Bruce Lasswell, DLA Office of Operations Research and Resource Analysis (DORRA) provided an overview of DLA's 2004 Chief Financial Officer's (CFO) Act Inventory Valuation Statistical Sampling plan. DLA will use the plan, which was approved by the DoD Inspector General, to comply with the CFO's Act of 1990 requirement to submit a financial statement to Congress based on the on-hand dollar value of inventory.

(2) Ms. Linda Pavlik, HQ DLA, Asset Management Branch (J-3731) raised the issue of how the Services plan to meet the CFO requirement to validate the on-hand dollar value of inventory line on the financial statement for Service owned materiel. DLA emphasized that this financial requirement is separate from a logistical sample. DLA has hired a contractor to meet the requirement for DLA owned material. DLA requested the Services address this issue with their financial counterparts noting that if there is a Service requirement for DLA to perform additional inventories to satisfy the CFO requirements, DLA will need time (lead-time to let a contract) and money (to pay the contractor). Air Force questioned whether funding for this requirement should fall under normal distribution operations ("business as usual"), and be part of the DLA surcharge.

(3) Should the Components require DLA to physically count their assets to meet the CFO requirement, the timeframes DLA set forth is as follows: Draw data the last week of August; Submit request for inventory to DSS second week of September; Roll inventories forward to September 30 using MIS receipt/issue, etc. data; Complete physical counts and reconcile inventories (postcount validation) first week of October; and Compile statistics by October 18th.

ACTION: Services should meet with their financial counterpart regarding how they will meet the CFO requirement to validate the on-hand dollar value of inventory line on the financial statement, and whether there is a need for DLA to physically count their assets for CFO compliance.

d. CAUSATIVE RESEARCH FOR CIIC 7 ITEMS

(1) Ms. Emily Burt-Hedrick, Navy (NAVICP) presented an overview of the Navy's proposal to raise the causative research dollar threshold requirement for physical inventory adjustment, published in MILSTRAP, from $2,500.00 to $16,000.00 for Controlled

Inventory Item Code (CIIC) 7 assets. The justification for the proposal is based on the fact that CIIC 7 assets require no special storage requirements (cages, etc.) and the level of workload for performing causative research at the $2,500.00 physical inventory adjustment threshold is resource intensive. The DLA representative reported that DLA is currently performing causative research on CIIC 7 physical inventory at the $16,000 threshold despite the DOD requirement that it be performed at the $2,500 level. During ensuing discussions the DLA representative provided the group a copy of a circa 1990s draft letter which requested that the causative research threshold be raised from $2,500 to $5,000. The justification for the letter was based on the $2,500 causative research threshold being resource intensive. Further, the DLA representative reported that the initial requirement for imposing the causative research threshold per the 1987 policy memorandum was based on providing adequate physical security for CIIC 7 assets while in storage, but that CIIC 7 reflects no such physical security requirements. The Army representative suggested that the threshold should be raised but only to a level that would ensure appropriate causative research is accomplished.

(2) Ms. Johnson, JPIWG Chair, noted that the $2500 threshold published in MILSTRAP and DLMS is a reflection of OSD policy. Revising that threshold would require a policy revision. She provided the group with the associated 1987 and 1992 policy memorandums.

ACTION: The Navy representative volunteered to develop a strawman proposal to revise OSD policy to raise the causative research threshold from $2,500.00 to an appropriate threshold for CIIC 7 assets. The proposal will be provided to the JPIWG for review and consideration for submitting to ADUSD(L)SCI, either as a JPIWG proposal, or as a recommendation by Navy and DLA if JPIWG consensus cannot be reached.

e. RESIDUAL MATERIAL RESULTING FROM A CHANGE OF UNIT OF ISSUE FROM EA TO A LARGER QUANTITY, SUCH AS DZ. Ms. Burt-Hedrick, Navy, presented a situation that the Navy and DLA have been attempting to resolve when there are residual assets remaining that do not constitute a unit of issue. Presently, for example when Navy processes a unit of issue change from each (EA) to dozen (DZ), Navy converts the residual assets, regardless of assets remaining, to DZ. DLA, on the other hand, converts the residual, regardless of assets remaining, to zero. In both cases there are assets remaining that do not constitute a unit of issue. Currently there is no DOD policy concerning the disposition of residual assets resulting from a unit of issue change and the scope of the problem is not known. During further discussions it was reported that in the late 1980s Navy brought this same issue to light. The JPIWG attempted to resolve this issue by staffing Proposed MILSTRAP Change Letter (PMCL) 117A, Accountability of Less Than Unit of Issue Materiel, which proposed a standard means for disposition of residual assets. The PMCL was overwhelmingly disapproved by the Components. Since the JPIWG could not get consensus, the JPIWG's resolution was for the Components to continue operating with their internal procedures for disposition of residual assets. The Air Force provided the group their internal procedures for residual assets resulting from a unit of issue change for informational purposes.

ACTION: Components are encouraged to review their internal documentation/ procedures, as well as PMCL 117A, and be prepared to discuss this issue at the June meeting. A copy of PMCL 117A, along with the Component responses to PMCL 117A, is available from the JPIWG agenda on the DLMSO website.

f. ACCOUNTABILITY DURING MAINTENANCE ACTIONS. Ms. Pavlik, DLA, provided an update on the Joint Group Materiel Management (JGMM) subgroup for Supply to Inter-Service Depot Maintenance recommendation for AMCL 12/43, Maintaining Accountability During Maintenance. Ms. Pavlic reported that the JGMM Inter-service Supply Support to Depot Maintenance (ISS to DM) Sub-Group was being disestablished but the Asset Visibility Team agreed to continue to work together to resolve the outstanding issues related to AMCL 12/43.

ACTION: Prior to the next Supply Process Review Committee meeting (April 20-22, 2004), Ms. Pavlik to provide DLMSO a draft addendum to AMCL 12/43, incorporating revisions recommended by the JGMM subgroup, for review and staffing.

g. Development of Measure to Evaluate Physical Inventory Adjustments. Mr. Frank St. Mark, DLMSO, provided a draft Proposed DLMS Change (PDC) to define, establish and report physical inventory statistics identified as Absolute Adjustments. Absolute Adjustments are defined as: "The extended value of line items inventoried or adjusted prior to actual inventory or adjustment." During the discussions it was determined that the PDC did not necessarily meet the desired objectives of a stand-alone report. Instead it was agreed that absolute adjustment statistics should be added to the DOD Inventory Control Effectiveness (ICE) Report as Part 10 "Absolute Adjustments." Part 10 will also contain "Major Adjustment Frequency," and as recommended "Major Adjustment Frequency by Dollar Value." Major Adjustment Frequency reports the top ten >6 adjustments in any one month reporting period. Major Adjustment Frequency by Dollar Value reports the top ten >6 adjustments in the quarter. Components are required to collect and maintain DOD ICE statistics and will use the DOD ICE report format when required to report to higher authority or when required for intra-Component use. Currently DLA is providing DOD ICE statistics to the Navy and Air Force.

ACTION: DLMSO will develop a revised PDC to incorporate Absolute Adjustments in the DOD ICE Report. The PDC will be provided under separate cover by March 12, 2004.

h. NEXT MEETING: Ms. Johnson thanks all the participants for their attendance, continued support, and contributions to the JPIWG. **The next JPIWG meeting is scheduled for June 9, 2004.**

_____//S//_____
MARY JANE JOHNSON
Chair, DOD JPIWG

APPROVED BY:
JAMES A. JOHNSON _____//S//_____
Director, DLMSO

Enclosures

JOINT PHYSICAL INVENTORY WORKING GROUP MEETING

AGENDA

February 5, 2004

Andrew T McNamara Complex, Conference Room 3501
8725 John J Kingman Rd, FT Belvoir, VA 22060

#	TOPIC	LEAD
	Opening Remarks	**0900**
1	**Unique Identification (UID) Briefing** (See http://www.acq.osd.mil/uid/ for information on UID)	**0910,** **UID Office**
2	**DLMS Migration Briefing**	**DLMSO** **Dale Yeakel**
3	**CFO Compliance** How do the Service/Service auditors plan to "validate" the on-hand dollar value of inventory line on the financial statement. DLA wants to emphasize that CFO compliance cannot be accomplished via the "logistical sample" and DOD requires compliance by FY2007. If DLA is to perform additional inventories to satisfy Service CFO requirements, DLA contends they will need time and money, (leadtime to let a contract and money to pay the contractor). DLA notes that they have developed a sampling plan/model for DLA-owned assets which the DOD IG has "approved" as a "sound approach" and DLA will execute their first financial sample this FY. It will take 7 months to put on contract (SOW in development now) and roughly $1.4M to accomplish.	**1100** **DLA** **Linda Pavlik** **Bruce Lasswell, DORRA** to brief DLA's financial sampling plan
4	**Causative Research for CIIC 7 Items** In the MILSTRAP manual, chapter 7, page C7-27, there is a footnote 16 that states: ".....Causative research will be conducted on all adjustments (gains and losses) of pilferable items, and CIIC 7 items, with an extended value greater than $2500, and all adjustments with an extended value of greater than $16,000 or greater than 25 percent unit variance and greater than $5000." Navy proposes to modify that footnote to require causative research for CIIC 7 items only if extended value exceeds $16,000. Both Navy and DLA have concluded that the workload for CIIC 7 items is too great for their resources to accomplish. Navy feels that it is better to put resources into causative research on classified, sensitive and pilferable, and treat CIIC 7 the same as Unclassified items for purposes of the causative research dollar threshold.	**Navy** **Emily Burt-Hedrick**

#	TOPIC	LEAD
5	**RESIDUAL MATERIAL RESULTING FROM A CHANGE OF UNIT OF ISSUE FROM EA TO A LARGER QUANTITY, SUCH AS DOZEN.** This is result of a discussion Navy had with DLA (Bruce Burbage, as well as Linda Pavlik, Marge Sullivan) and FISC Pearl. In the case in question, when the U/I change occurred, FISC Pearl had 6 EA stored in DDPH warehouse. Navy U2 converted the quantity to 1 DZ, while DSS converted the quantity to zero, since they round down to nothing. This left the material in limbo. Navy could take a loss for 1 (dozen), but DSS would be unable to do anything, since they officially have nothing in the warehouse--even though there are 6. The problem is that this can't even be ordered for disposal now. So 6 of these items still sit in the warehouse, and there is no way to straighten this out. Per Bruce, each service has a different policy on residual material; he recommended bringing this up at a MILSTRAP meeting. Is a single DOD policy needed on how to deal with such residual material?	**Navy** **Emily Burt-Hedrick**
6	**Accountability During Maintenance** Update on Joint Group Materiel Management (JGMM) subgroup for Supply to Inter-Service Depot Maintenance recommendations for AMCL 12/43, Maintaining Accountability During Maintenance Actions. (carryover from June 2003 meeting)	**DLA** **Linda Pavlik**
7	**Development of Measure to Evaluate Physical Inventory Adjustments** DRAFT Proposal (carryover from June 2003 meeting)	**DLMSO** **Frank St. Mark**

JPIWG MEETING ATTENDEES
February 5, 2004
McNamara Complex, Room 3501
Ft. Belvoir, VA

NAME	Organization	Phone	DSN	Email
Bruce E Lasswell	DLA	804 279-4897	695	bruce.lasswell@dla.mil
Linda F Pavlik	DLA	703-767-2536	427	linda.pavlik@dla.mil
Beth Altman	DLA	703-767-2531	427	Beth.Altman@dla.mil
Mary Jane Johnson	DLMSO	703 767-0677	427	Mary.Jane.Johnson@dla.mil
Francis M St. Mark, Jr.	DLMSO	252-223-2896		pcci-cc@ec.rr.com
Monica Rodriguez	DLMSO	703-767-2175	427	Monica.Rodriguez@dla.mil
Ellen Hilert	DLMSO	703-767-0676	427	ellen.hilert@dla.mil
Dale Yeakel	DLMSO	703-767-6983	427	Dale.Yeakel@dla.mil
Ronald J Bepko	USA	703-806-8299	656	rbepko@hqamc.army.mil
Kenneth R Deans	USA	703-806-8296	656	Kenneth.Deans@us.army.mil
Donald K. Kringen	USAF	937-257-4465	787	donald.kringen@wpafb.af.mil
Charles Black	USMC	703-432-3120		BlackCD@mcsc.usmc.mil
Emily L Burt-Hedrick	USN	717 605-7513	430	emily.burt-hedrick@navy.mil
Christian B Lubic	USN	717-605-1437	430	christian.lubic@navy.mil
Bruce Propert	DOD UID Program Office	703-681-1051		bruce.propert@saalt.army.mil