

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

November 8, 2006

MEMORANDUM FOR JOINT PHYSICAL INVENTORY WORKING GROUP

SUBJECT: Joint Physical Inventory Working Group (JPIWG) Meeting, November 2, 2006

The attached minutes of subject meeting are forwarded for your information and action as appropriate. The next meeting will be convened in May 2007. The Defense Logistics Management Standards Office point of contact is Ms. Mary Jane Johnson, JPIWG Chair, 703-767-0677, DSN 427-0677, or e-mail: Mary.Jane.Johnson@dla.mil.

DONALD C. PIPP

Director

Defense Logistics Management

Standards Office

Attachment

cc:

DUSD(L&MR)SCI Supply Process Review Committee Meeting Attendees



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November 8, 2006

MEMORANDUM FOR RECORD

SUBJECT: Joint Physical Inventory Working Group (JPIWG) Meeting, November 2, 2006

Purpose: The Defense Logistics Management Standards Office (DLMSO) convened a JPIWG meeting, November 2, 2006, at the Andrew T. McNamara Headquarters Complex, Fort Belvoir, Virginia. The agenda is at Enclosure 1. A list of attendees is at Enclosure 2. Meeting handouts and briefing materials are available as hyperlinks to the JPIWG agenda posted 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, facilitated discussion:

a. DEFENSE LOGISTICS MANAGEMENT SYSTEM (DLMS)

JUMPSTART BRIEFING. Mr. John Schwarz, DLMSO, briefed the group on the DLMS Jump Start initiative. DLMS Jumpstart is a Business Transformation Agency (BTA) initiative that encourages DLMS migration (X12 or XML) by providing "start up" funding incentives. DLMS Jump Start supports the phased implementation of current and future high priority DLMS transactions (e.g., RFID, IUID). The high priority transactions support OSD Business Transformation priorities, provide near-term process improvements, and give the components experience in implementing DLMS transactions. There are currently three DLMS migrations underway, and the Jump Start program encourages additional implementations. There are 17 systems nominated by the components in Fiscal Year 2007 for future DLMS migration possibilities and potential support by the Business Transformation Agency (BTA) through the Jump Start Program. Further information about the nominated systems is expected from BTA later in the year. The list of nominated systems is at Enclosure 3.

b. APPROVED MILSTRAP CHANGE LETTER (AMCL) 8A IMPLEMENTATION STATUS

(1) The JPIWG chair had asked the Component to provide updated status for implementation of AMCL 8A, Revised Physical Inventory Procedures. A sample matrix for reporting the information was provided in advance of the meeting, breaking out AMCL 8A by significant sections, so that implementation could be addressed by sections of the change.

<u>DISCUSSION</u>: Ms. Emily Burt-Hedrick, Navy, provided an update using the matrix format provided. Mr. Jeff Bepko (Army), Mr. Don Kringen (Air Force), and MGySGT Eugene Adams (Marine Corps), provided a verbal update and Mr. Terry Simpson (DLA) provided the DLA updated implementation matrix after the meeting:

Updated Service AMCL 8A implementation status provided at the meeting:				
FUNCTIONAL AREA OF AMCL 8A	DOD COMPONENT IMPLEMENATION STATUS			
REQUIREMENT:	USA	USN	USAF	USMC
Single Shared Asset Balance	*Yes w/Army depots No with DSS	No	No	No
Transfer of Accountability to Storage Activity	Yes	Yes	Yes	Yes
Eliminate DKA	Yes	Yes	Yes	Yes
Pass/Accept Adjustments (D8A/D9A)	Yes	Yes	Yes	Yes
Statistical Sampling (Record Accuracy)	Yes (depot)	Yes (depot)	Yes	Yes
End-of-Day Reconciliation	Yes	Yes	Yes	Unknown
Annual Reconciliation.	Yes	Yes	Yes (done monthly)	Yes (done monthly)
Revised Type Physical Inv/Transaction History Codes	Yes	Yes	Unknown	Unknown
New Inventory Request (DJA) Management Codes				
Reject (R)	Yes	Unknown	Yes	Yes
Cancellation (N)	Yes	Unknown	Yes	Yes
Follow-up Process (S, X, Y)	Yes	Unknown	Yes	Yes
Quality Control "checks."	Unknown	Yes (depot)	Unknown	Unknown

^{*} Army depots which will use a single system with Army ICPs under Army's Enterprise Resource Planning (ERP) modernization using SAP. Army storage activities will have a single shared balance with the Army ICP. Army depots include the maintence depot portion of Tobyhanna. Army will not have single shared balance with DSS which is a different system from the Army ERP.

Updated DLA AMCL 8A implementation status provided after the meeting:				
FUNCTIONAL AREA OF AMCL 8A	DLA Activity/System			
REQUIREMENT:	Depot/DSS	DLA ICP/Legacy	DLA ICP/BSM	
Implement Single Shared Asset Balance	No	No	No	
Transfer of Accountability to Storage Activity (SA)	Yes (driven by owner)	Yes (driven by SA)	Yes (driven by SA)	
Eliminate DKA	Yes (for intra- service; still available for inter-service)	Yes (capability still exists for certain interservice interfaces)	Yes (capability still exists for certain interservice interfaces)	
Pass/Accept Adjustments (D8A/D9A)	Yes	Yes	Yes	
Statistical Sampling (Record Accuracy)	Yes	NA	NA	
End-of-Day Reconciliation	Yes	No	Yes	
Annual Reconciliation	Yes	Yes (performed monthly and/or quarterly)	Yes	
Revised Type Physical Inv/Transaction History codes	Yes	Yes	Yes	
New Inventory Request (DJA) Management Codes:				
Reject (R).	Yes	No	Yes	
Cancellation (N).	Yes	Yes	Yes	
Follow-up Process (S, X, Y)	No	No	No	
Quality Control "checks"	Yes	No	Yes	

- (2) The feasibility of a single shared record between the owner/manager and storage activity was questioned for Service ICPs interfacing with DSS. Even within DLA, a single shared record between the DLA depot system and DLA ICPs was not anticipated as BSM uses an ERP while DSS does not. On the other hand, Army indicates that under their ERP, they will have a single shared record using the same system between the Army owner/manager and Army storage activities. At this time both DOD 4140.1-R and MILSTRAP/DLMS call for a single shared record.
- (3) During discussion, the chair noted that OSD had initially granted Ammunition a waiver from AMCL 8A compliance. Subsequent to the meeting, the chair provided the group a copy of the OSD memorandum rescinding the ammunition waiver with implementation of the Joint Ammunition Management Standard System (JAMSS). By e-mail, the chair noted that with the demise of JAMMS, the Services should have implemented AMCL 8A for ammunition in their Component systems, and asked them to provide an AMCL 8A implementation update for ammunition.

ACTION: DLMSO will provide a copy of AMCL 8A to the group after the meeting. Request by **November 15, 2006**, the <u>Services</u> verify and provide updates to the AMCL 8A implementation status provided in the table above, to include specific answers to the questions posed in the meeting agenda, and addressing items for which the status was unknown. Request Services also provide their ammunition implementation status as requested by the November 3, 2006, follow-on e-mail from the chair.

c. DLA TOPICS. Mr. Terry Simpson, DLA JPIWG representative, presented the following topics for discussion:

(1) Inventory Control Effectiveness (ICE) Report – Revise current ICE report format to make it easier to understand and include Absolute Adjustment Rate

<u>DISCUSSION</u>: The Defense Distribution Center (DDC) uses the ICE Report (DD Form 2338-2, Sep 2000) as a management tool to measure the performance of the Distribution Standard System (DSS). DDC also forwards an ICE Report to each Component for their material stored in DSS and Headquarters DLA on a quarterly basis. In an effort to make the report user friendly, DLA presented a proposal to revise and update the Physical Inventories section of the ICE report to make it easier to understand and analyze. The proposal would eliminate the computations for the Gross Inventory Adjustment Rate, Gross Monetary Adjustment Rate, Monetary Value of Location Reconciliation, and Monetary Value of End of Day Processing. The Absolute Adjustment Rate would remain unchanged. Also, as previously approved by the JPIWG, the top ten NSNs experiencing adjustments this quarter will be included in the ICE report, at the depot level and at the system level. This section will include a text explanation, by NSN, of the reasons for the high adjustments and the actions taken by the depot to reduce the need for adjustments.

During the discussions the Navy representative recommended that the performance measures for Material Release Denials and Receipt Processing remain a part of the ICE Report. Based on further discussions it was agreed that Air Force, Navy and DLA would jointly develop and propose DLMS change (PDC) to the current ICE Report.

<u>ACTION</u>: DLA, Air Force, and Navy will jointly develop a PDC with recommendations for revising the ICE Report.

(2) Accuracy Goal for Controlled/Sensitive Items

<u>DISCUSSION</u>: DLA recommended that the current statistical sample 85 percent assurance level for controlled items that are not subject to an annual complete physical inventory be raised to 95%. The group agreed that the level could be raised.

ACTION: DLA develop a PDC to increase the assurance level from 85 to 95 percent.

(3) Inventory Prioritization Model

DISCUSSION: The Inventory Prioritization model, as approved by Approved DLMS Change (ADC) 33, requires that "Owners may select items for inventory based on the owner physical inventory prioritization methodology or model which considers characteristics identified by each Service based on Service priorities, readiness drivers; etc." At the time of publication in MILSTRAP/DLMS, DLA had indicated DSS was prepared to accept the requests, however, the Services indicated they had not yet implemented the change from the owner perspective. The Services were to notify DLMSO when implementation date for this function was known. DLA asked if the Services were working to implement this function and noted that the DSS SCR to implement this change was written, but not yet implemented, as no trading partners had implemented the change. The Services had not yet implemented, but wanted the option to be available. DLA proposed that the footnote published with the change be eliminated. The footnote stated that "The DSS is capable of accepting DI Code DJA with Type Physical Inventory/Transaction History Code I, however the Services had not yet implemented the capability. Service Supply PRC representatives are to notify DLMSO when implementation date is known per ADC 33." The JPIWG agreed the footnote could be deleted. Implementation of this function requires that the owner and depot negotiate projected workload at least once annually.

<u>ACTION</u>: DLMSO will delete the footnote as an administrative change in an upcoming MILSTRAP reissue.

(4) MILSTRAP DZB transactions for Storage Item Data Correction/ Change

BACKGROUND: The MILSTRAP Document Identifier (DI) Code DZB Storage Item Data Correction/Change transaction was developed in 1972 to provide a means for an Inventory Control Point (ICP) to provide data corrections to storage activities for a stock/part number. It is sent by an ICP to a storage activity to change specific data elements: stock/part number, unit of issue, shelf-life code, controlled inventory item code, and demilitarization code.

<u>DISCUSSION</u>: DLA proposes that ICPs go directly to the Federal Logistics Information System (FLIS) to correct records rather than send a DZB to the storage activity. DLA indicates FLIS is the DOD mandated repository for all item data characteristics. All ICPs and using Services are required to send any item data changes or updates through FLIS. DSS maintains direct connectivity to FLIS, and DSS records are matched to FLIS. DSS only accepts cataloging data form the Lead or Integrated Item Manager designated as the Primary Inventory Control Activity (PICA). DSS automatically reconciles with FLIS

every 90 days for added assurance the item data in DSS matches FLIS and to comply with DLA's annual reconciliation policy. When the DZB transaction is received by DSS, no changes are made immediately. Instead, DSS generates an inquiry transaction (FLIS DI Code LTI) to FLIS. FLIS responds by returning whatever cataloging data is recorded its database. If DSS records match FLIS, no changes are made to DSS regardless of what the DZB states. If DSS does not match FLIS, the change will be created in DSS immediately to match the data recorded in FLIS. DLA DSS recommended that ICPs (both DLA and the Services) stop generating DZB transactions for item data discrepancies, and instead reconcile their records with data stored in FLIS.

Mr. Kringen, USAF, noted that locally procured stock numbers interface with DSS, and that locally assigned stock numbers do not have FLIS records. DZB Transactions are used to update those items which would indicate there may be a continued limited requirement for DZB even if not used for FLIS NSNs.

DLMSO noted that changes to existing MILS/DLMS procedures must be submitted as a PDC to DLMSO so that the requirement can be fully staffed with, and analyzed by, the DOD Components.

ACTION: DLA will submit a PDC to DLMSO for this issue. The PDC should take into consideration the locally assigned numbers for which there are no FLIS records.

- (5) NIIN Status Code 4 & 8 Do services agree with a blanket policy to allow DDC to dispose of items coded 4 & 8. DLA deferred this topic as a Supply Process Review Committee topic. The next SPRC meeting is scheduled for Nov 28-30, 2006, and if DLA submits this as an agenda item, DLMSO will notify the JPIWG of a specific date /time for discussion and provide a call in phone number for JPIWG members to participate if desired.
- (6) Controlled Inventory Item Code for Radioactive Materiel. DLA deferred this topic for further review and update, and addressing through another forum.

(7) Chief Financial Officer's Act Compliance

<u>DISCUSSION</u>: Ms. Gail Burton, DLA, presented the status of the Service Plans to meet the CFO requirements. The DODIG has reviewed the Army and Air Force Inventory Valuation Sampling Plan. The next step is for the Army and Air Force to submit raw data for DLA to fully assess their plan. The raw data will be used to provide a rough cost estimate for performing the CFO sample. DLA will require reimbursement since the financial requirement is separate from a logistical sample. The Navy and Marine Corps have not submitted their plan.

ACTION. No JPIWG action as a result of this briefing. This was an information update.

d. NAVY TOPIC: SAP ALTERNATIVE TO LOCATION SURVEY

DISCUSSION: Ms. Emily Burt-Hedrick, Navy JPIWG representative, stated that Navy, Army and DLA are moving to SAP for enterprise logistics applications. Navy is going to use SAP's Warehouse Management (WM) modules to manage the warehouses. The WM module has a many good physical inventory tools, but lacks the capability to do Location Surveys. Accordingly, Navy indicated that when they transition to SAP, they will no longer be able to do Location Surveys. Navy proposed that instead they will do cycle counting and expanding use of RFID to compensate for this deficiency. The group was uncertain how the SAP functions would compensate for the absence of location survey. A specific example cited is that when an item was placed in the wrong bin, that error surfaces during location survey which requires a physical verification, other than count, between the physical assets and the recorded location. Cycle counting would not catch such errors. During the discussions the Army representative informed Navy that SAP is performing locations survey for the Army. The Army representative volunteered to work with Navy and provide information on how Army is using SAP to perform locations survey.

<u>ACTION</u>: Navy agreed to investigate further how SAP compensates for the absence of location survey. Navy will work with Army to see how Army accommodated the DOD location survey requirement under SAP.

e. MILSTRAP REISSUE

<u>DISCUSSION</u>: The JPIWG Chair/MILSTRAP Administrator is reissuing DOD 4000.25-2-M, MILSTRAP. In advance of the meeting she provided the JPIWG a draft copy of the chapter 7 physical inventory procedures for review. The Navy representative identified the following areas of chapter 7 for discussion and as possible candidates for change:

(1) Paragraph C7.1.1.2. "Management control of all DOD wholesale supply system materiel...". Navy questioned why the MILSTRAP physical inventory control program (PICP) procedures are limited to wholesale supply system materiel, while the overarching DOD 4140.1-R policy (para C5.7.5.1.1) states that "A Physical Inventory Control Program (PICP) shall be established for DoD supply system materiel (both wholesale and below wholesale) and maintained by each DoD Component to provide for the economical and efficient stewardship of DoD supply system materiel." DOD 4140.1-R further states that the detailed procedures for the DOD PICP are in MILSTRAP and DLMS. The chair was not certain what impact there would be on the Services if the MILSTRAP PICP procedures were mandated for below wholesale. The Navy representative noted that Navy requires both their wholesale and below wholesale activities to follow the MILSTRAP PICP procedures.

ACTION: DLMSO will further review the DoD 4140.1-R and MILSTRAP/DLMS PICP requirements regarding wholesale and below wholesale applicability.

(2) Paragraph C7.2.5.1. "The storage activity maintains the property accountability record for all materiel in storage and is responsible, as a minimum, for materiel custody, care, receipt, storage, and issue; safeguarding, and re-warehousing materiel; physical inventory, and research; location survey/reconciliation; quality control checks; supply discrepancy report initiation, research and resolution; 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."

<u>DISCUSSION</u>: Navy expressed dissatisfaction that the storage activity (i.e. usually DLA), determines financial liability but is not required to provide an explanation for losses to the materiel owner, i.e. the Services. After some discussion, Navy requested that the MILSTRAP be modified to require DLA to provide copies of the Inventory Adjustment Vouchers (IAVs) for adjustments over \$16,000, to the owner of the material, when requested, either as a one-time request or an ongoing request.

<u>ACTION</u>: Navy will submit a PDC to DLMSO for staffing with the Components, if pursuing this change.

(3) Paragraph C7.1.12.5 General Supplies Record Accuracy Goals,

footnote 2: "Within 30 days after the end of the 4th quarter each fiscal year, Components must submit record accuracy goals information to ADUSD SCI, via electronic mail. Submit to: Debra.Bennett@osd.mil. Data may be obtained throughout the year."

<u>DISCUSSION</u>: Navy questioned what was meant by Components submitting their "goals information" to OSD, what does OSD do with the information, and why the requirement was a footnote rather than a statement in the procedures. The group agreed the footnote should be a paragraph in the procedures if it is a requirement, and the wording should be revised to clarify that the intent is to provide performance information rather than goals. From the discussions it did not appear that any Component has been sending the information to OSD despite publication of the requirement in MILSTRAP in 2000.

<u>ACTION</u>: DLMSO will verify with DUSD(L&MR)SCI that the requirement for submission to OSD is still valid. DLMSO will develop a PDC to update the requirement as needed after discussion with OSD.

(4) Paragraph C7.6 Location Audit Program

<u>DISCUSSION</u>: Navy questioned the phrase "Location Audit Program" and the grouping of location survey and location reconciliation under that umbrella. The terminology was deemed confusing and it was recommended that the section be revised to eliminate the term location audit, and have distinct sections for Location Survey and Location Reconciliation. It was also suggested the term location reconciliation be reconsidered in favor of something more descriptive of the function being performed. The group was generally in agreement with Navy's recommendation that the terms are confusing and should be reviewed/changed to more accurately reflect the process.

ACTION: DLMSO will develop a PDC for staffing with the DOD Components, to revise section C7.6 terminology.

f. NEXT MEETING: Ms. Johnson thanked all the participants for their attendance, continued support, and contributions to the JPIWG. The next meeting will be convened no later than May 2007.

MARY JANE JOHNSON Chair, DOD JPIWG

APPROVED BY:

DONALD C. PIPP Director, DLMSO

Enclosures

JOINT PHYSICAL INVENTORY WORKING GROUP (JPIWG) MEETING

AGENDA

November 2, 2006

McNamara Headquarters Complex, Conference Room 3501 8725 John J Kingman Rd, FT Belvoir, VA 22060-6217

#	TOPIC	LEAD
	Opening Remarks	0900 DLMSO
1	Overview Briefing of the Business Transformation Agency (BTA) initiative that encourages DLMS migration (X12 or XML) by providing "start up" funding incentives. DLMS Jump Start coordinates the phased implementation of current and future high priority transactions (e.g., RFID, IUID) that support OSD Business Transformation priorities.	DLMSO Mr. John Schwarz
2	AMCL 8A Implementation Status Request Components provide updated status on the extent of AMCL 8A implementation broken by major areas of AMCL 8A (matrix example for presenting status) Specific questions: Have Air Force (wholesale materiel at non-colocated DSS sites), USMC and CECOM at DDTP implemented the capability to accept adjustments (D8/9A) in lieu of non-AMCL 8A compliant count transactions (DKA)? Issue of Non-Compliant Storage Activities (Non-compliant with DoD 4140.1-R policy and DLMS/MILSTRAP procedures): request JPIWG be prepared to discuss magnitude of noncompliance; is this still an issue? If yes, reason(s) for noncompliance; is compliance a goal?; when?	DLA and Services

#	TOPIC	LEAD
3	DLA TOPICS:	
	 ICE Report – Revise current format to make it easier to understand and include Absolute Adjustment Rate 	DLA
	◆ Accuracy Goal for Controlled/Sensitive	DLA
	◆ Inventory Prioritization Model – Are services working? (Inventory Prioritization model is discussed in MILSTRAP Chap 7, C7.2.10.3.5. "Owners may select items for inventory based on the owner physical inventory prioritization methodology or model which considers characteristics identified by each Service based on Service priorities, readiness drivers; etc" IAW MILSTRAP/DLMS, the Services are to notify DLMSO when implementation date for this function is known per ADC 33.	Services and DLA
	 DZB's (Storage Item Data Correction/Change) – Propose the services go directly to FLIS to correct records. 	DLA
	 NIIN Status Code 4 & 8 – Do services agree with a blanket policy to allow DDC to dispose of items coded 4 & 8. [DLA deferred topic] 	DLA
	◆ CIIC for radioactive Materiel [DLA deferred topic]	DLA
	◆ Chief Financial Officer's Act Compliance	DLA
	DLMSO NOTE : DLA will present these topics (Service status requested for Inv Prioritization Model). A proposed DLMS change with justification and procedures will be required from DLA after the meeting, for staffing any proposed changes.	
4	Navy Topic: SAP Alternative to Location Survey:	
	Navy, Army and DLA are moving to SAP for enterprise logistics applications. Navy (Navy doesn't know about Army) is going to use SAP's Warehouse Management (WM) modules to manage the warehouses. The WM module has a lot of good physical inventory tools, but lacks the capability to do Location Surveys. So when Navy moves to SAP, they will no longer be able to do Loc Surveys. Navy proposes that instead their ability to do cycle counting and expanding use of RFID may compensate for this deficiency.	
	DLMSO NOTE : A proposed DLMS change with justification and procedures will be required from Navy after the meeting, for staffing the proposed process. Note to DLA for this discussion: Are the DLA Distribution depots scheduled to go under SAP, or will they continue to operate outside of SAP? Please provide timeframe if scheduled to go under SAP. Note to Army for this discussion: What Army storage activities, if any, will go under the SAP? Please provide timeframe if scheduled to go under SAP.	
5	MILSTRAP Reissue DLMSO is preparing to reissue MILSTRAP. MILSTRAP Chapter 7, Physical Inventory Control, was provided for JPIWG review. The reissue chapter 7 incorporates ADC 197 and ADC 198.	
6	Wrap-up, schedule next meeting	DLMSO

DLMS Jumpstart - FY07 Nominated Systems

Following is a list of systems nominated to BTA for FY07 Jumpstart funds. It is unknown at this time which systems will actually be funded. This list is not in any particular order so no priorities should be inferred by the order they are listed. It was also noted that FY06 money went to Army LMP.

DLMS Jumpstart - FY07 Nominations		
Component	Nominated System (by Component)	
Air Force	ILS/S	
7.11 1 0100	CMOS (DPO System)	
	RSupply	
Navy	OIMA	
livavy	OMMS NG	
	OOMA	
	MAISTER	
	TDMS	
USMC	MOWASP	
	STORES	
	STRATIS	
	AMS-TAC	
	IBS	
TRANSCOM	WPS/GATES	
(Distribution	FACTS	
Process Owner)	DSS	
Owner,	TC-AIMS II	