



DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
8725 JOHN J. KINGMAN ROAD, SUITE 2533  
FT. BELVOIR, VIRGINIA 22060-6221

DEC 7 1998

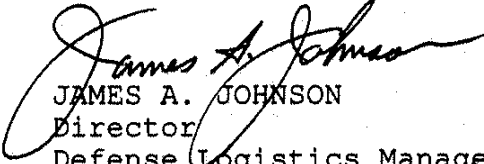
IN REPLY  
REFER TO DLMSO

MEMORANDUM FOR: DISTRIBUTION

SUBJECT: Joint Physical Inventory Working Group (JPIWG)  
Meeting, November 19, 1998

The attached minutes of the JPIWG Meeting are forwarded for your information and appropriate action.

The Defense Logistics Management Standards Office point of contact is Ms. Mary Jane Johnson, (703) 275-5266, DSN 235-5266, or e-mail: maryjane\_johnson@hq.dla.mil.

  
JAMES A. JOHNSON  
Director  
Defense Logistics Management  
Standards Office

Attachment

DISTRIBUTION:  
ADUSD(L)MDM (Ms. Sherry McNeil)  
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DLMSO

DEC 7 1998

MEMORANDUM FOR RECORD

SUBJECT: Joint Physical Inventory Working Group (JPIWG)  
Meeting, November 19, 1998

**Purpose:** The Defense Logistics Management Standards Office (DLMSO) hosted a JPIWG meeting on November 19, 1998, at the DLA Headquarters Complex, Ft. Belvoir, VA. The primary focus of this meeting was to address the importance of timely and accurate submission of Inventory Control Effectiveness (ICE) Reports; to discuss refinement of the DoD record accuracy goal for general supplies; and to discuss proposed improvements to the physical inventory process. The agenda is at Enclosure 1. A list of attendees is at Enclosure 2.

**Brief Summary of Discussion:** Ms. Mary Jane Johnson, JPIWG Chair, provided opening remarks and facilitated discussion of agenda items below:

**a. ICE REPORT.** The need for accurate and timely ICE reports was addressed at the February 4-5, 1998 JPIWG meeting. ICE report submission has improved somewhat since that meeting, however there are still gaps in the quality and timelines of ICE data. DUSD(L)MDM and DLMSO jointly emphasized the importance of the ICE report. OSD uses the data as a tool to assess inventory performance and respond to auditor inquiries. OSD also posts the ICE report to a web page on the Internet at URL <http://www.isis.web-eis.com/supply/ice.htm>. Please note that past problems with data portrayal on the homepage have been resolved.

Marine Corps requested they be provided with a copy of the completed ICE reports. DLMSO does provide the Services and DLA copies of the ICE report when complete data is available. However DLMSO has not provided the report for over a year since DLMSO has not received complete data to compile the report.

Following is a breakdown of the status of Component ICE Report submissions:

Attachment

(1) DLA has not submitted any ICE reports for Fiscal Year (FY) 98. As the primary custodian for DoD wholesale assets, DLA's ICE report input is critical before DoD can produce a meaningful ICE report summary. DLA indicated that complete ICE reporting would be forthcoming for the 3<sup>rd</sup> and 4<sup>th</sup> quarters FY 98. They indicated they could not provide complete information for the 1<sup>st</sup> and 2<sup>nd</sup> quarters FY 98 due to systematic problems. However they would provide data available for the 1<sup>st</sup> and 2<sup>nd</sup> quarters with narrative for any missing data.

(2) Army General Supplies and Ammunition ICE report submissions were up to date. The Army ammunition area appeared to have some problems in compiling the financial portion of the ICE report. Army accepted a DLMSO offer to meet with them to provide guidance on how to compile the data.

(3) Navy General supplies and Ammunition ICE report submissions were up to date and appeared to be complete. The 2<sup>nd</sup> quarter General supplies report which had not been received by DLMSO, had been submitted by Navy and a copy was provided to DLMSO at the meeting.

(4) Air Force had not submitted any ICE reports for FY 98. Air Force will address this issue.

(5) Marine Corps ICE report submission was up to date and appeared complete.

**ACTION (ICE REPORT): DLA and Air Force will continue efforts to provide ICE reports for FY98. DLMSO will work with Army to identify ways to improve the completeness of their ICE reports as needed.**

**b. GENERAL SUPPLIES INVENTORY RECORD ACCURACY GOAL.** At the February 1998 JPIWG meeting, the JPIWG developed a records accuracy goals for general supplies in response to a DUSD(L)MDM tasking. The recommended goals had a hieracrchal stratification of specific subpopulations as follows:

<b>As Developed at February 1998 JPIWG MEETING:</b>			
JPIWG RECOMMENDED STRATIFICATION SUB-POPULATIONS AND ASSOCIATED RECORD ACCURACY GOALS AND TOLERANCE LEVELS			
CATEGORY	SUB-POPULATION	RECORDS ACCURACY GOAL	TOLERANCE
A	CLASSIFIED AND SENSITIVE	100%	0%
B	UNIT PRICE $\geq$ \$1,000	95%	0%

C	PILFERABLE (excluding Controlled Inventory Item Codes 7, 9, \$, U, and Blank)	95%	0%
D	UNIT OF ISSUE NOT EQUAL TO EACH (note: applicable units of issue will be specified) OR (ON-HAND BAL > 50 AND EXTENDED VALUE < \$50,000) OR NSN ACTIVITY (# transactions affecting balance in one year) > 50	90%	10%
E	DATE OF LAST INVENTORY > 24 MONTHS AND ON-HAND BALANCE < 50	93%	5%
F	ALL OTHER MATERIEL NOT MEETING ABOVE CRITERIA	95%	0%
95% confidence Level ± 4% Bound			
For submission with the 4th quarter fiscal year Inventory Control Effectiveness (ICE) Report (data may be obtained throughout the fiscal year).			

(1) Upon further consideration of implementation impact of the goals developed, as well as the intent of the requirement, Ms. Linda Pavlik, DLA, suggested revising the goals to remove the subpopulations for "classified and sensitive" and "pilferable". The consensus of the JPIWG was that these categories could be removed because they already require 100% inventory annually and there is no significant benefit derived by a separate sampling stratification for the annual records accuracy goal reporting requirement. Removal of these two categories would not eliminate them from the reporting requirement, rather the impacted assets would fall into the one of the other subpopulations for sampling.

***NOTE: After further evaluation by DLMSO subsequent to the meeting, DLMSO notes that the primary purpose for the general supplies inventory record accuracy goal and subsequent JPIWG recommended stratification sub-population was to measure the effectiveness of the physical inventory control program by category. Removing Controlled Inventory Items (CII) that require complete annual physical inventories from the sub-populations and including them in a single "overall" measure may overstate the accuracy of inventory records and understate the accuracy of CII records. Also, due to the significance of CII items and requirement to physically inventory them annually, a separate CII annual report may be necessary if they are removed from the approved sub-population. This impact should be considered and discussed further by the JPIWG and DUSD(L)MDM.***

(2) Cdr. Pete Herold, Navy, suggested having a one tail statistical bound of -4% rather than the two-tail

bound of  $\pm 4\%$ . A one tail bound can simplify programming while focusing on the DoD area of concern of failure to meet the established goals. The group was agreeable to evaluation of a one tail negative bound.

(3) DLA reiterated their need for the development of a single goal for an "overall" measure. Without a single measure, DLA statisticians felt that the DLA workload would more than double. Previous discussions of this issue lent credence to the view that a meaningful single measurement could not be derived when the accuracy goals and tolerances varied by the subpopulations. However DLA indicated that based on discussions with the Defense Operations Research Office (DORO), a single measurement may be possible.

(4) DLA addressed the fact that the records accuracy goal does not meet the Chief Financial Officers Act (COFA) of 1990 requirements. The JPIWG chair noted that as discussed at the February 1998 meeting, DLMSO and the DoD Inspector General's (IG) office agreed, in June 1997, that based on the requirement to realign the Defense Business Operating Fund (DBOF) into several separate working capital funds for each Component, the requirement to establish a single statistical random sample to satisfy both logistics and financial communities was no longer feasible. The DoD IG had agreed to develop a statistical sampling model to meet the CFOA requirements. DLMSO agreed that the placeholder in Approved MILSTRAP Change Letter (AMCL) 8A which addresses a single measure to meet the CFOA and inventory records accuracy goal requirements is no longer valid and should be revised.

(5) Ms. Nancy House, Navy, asked for an exemption from incorporating the Inventory Records Accuracy Goal Category D portion related to National Stock Number (NSN) activity  $> 50$  (NSN activity = the number of balance affecting transactions in one year). Navy indicated that their OCONUS depots, which have NSN activity  $> 50$ , will have transitioned to DLA before this goal can be implemented in Navy systems. The only remaining affected Navy sites are their partnering sites. These sites do not have NSN activity  $> 50$  and it would not be cost effective to program for an occurrence not expected to happen. DUSD(L)MDM agreed that Navy can exclude this requirement if it is not applicable to them, if they include a footnote to that effect when reporting their record accuracy goals.

**ACTION (GENERAL SUPPLIES INVENTORY RECORD ACCURACY GOAL):**

**DLA will ask DORO to reevaluate the records accuracy goal revised as discussed above. DLA will also ask DORO if a single "overall" measure can be developed even though the subpopulations have varying goals and tolerances. DLA will provide the results of the DORO evaluation to DLMSO for**

electronic coordination with DUSD(L)MDM, the DoD Inspector General's office, and the JPIWG. This action should be carried out as expeditiously as possible as the goals developed at the February 4-5, 1998 meeting stand as the DoD Records Accuracy Goals until such time as any revisions are approved by DUSD(L)MDM.

NAVY will include a footnote when submitting their records accuracy goals citing the reason for their exclusion from the category D requirement related to NSN activity > than 50.

DLMSO will make an administrative change when publishing AMCL 8A in DoD 4000.25-2-M, MILSTRAP, to remove reference to a single methodology to satisfy both the CFOA and the DoD record accuracy requirement.

**c. FINANCIAL LIABILITY FOR SERVICE OWNED ASSETS UNDER PHYSICAL CUSTODY AND ACCOUNTABILITY OF DISTRIBUTION DEPOTS.**

Maj. Andy Starr, Marine Corps, raised the issue of financial liability for assets at DLA distribution depots. The current DoD policy places financial responsibility for assets with the owner, while inventory accountability resides with the custodial depot. It was noted that the policy in place was established prior to implementation of Defense Management Report Decision 902 under which DLA assumed responsibility for DoD distribution depots, and AMCL 8A which placed inventory accountability for assets with the distribution depot having physical custody. Much discussion ensued over the current policy and the extensive impact of any revision of that policy to include consideration of the overall impact of all inventory adjustments (i.e., gains as well as losses and adjustment reversals); the potential need for a working capital to accommodate the continual back and forth financial flow; the overall net impact of what might be gained and at what cost. In concluding the discussion the JPIWG acknowledged some concern over the current policy; the complexity of revising the policy; and the uncertainty of the net gain if the policy were revised. The JPIWG chair noted that this was an area that falls under the purview of the DoD Comptroller and suggested the members pursue concerns through their comptroller channels.

**d. AMCL 8A INVENTORY PRIORITIZATION MODEL.** DLA raised the possibility of removing the AMCL 8A Inventory Prioritization requirement which calls for inventory selection based on a physical inventory prioritization system that considered various item characteristics for inclusion in the model (see AMCL 8A, Third Addendum, Enclosure 2, chapter 7, paragraph B10c(5)). Mr. Don Kringen, Air Force, noted that this was originally included in AMCL 8A as it provided the only automated means for the ICP to identify assets for inventory. After much

discussion, the consensus of the JPIWG was that the requirement for a prioritization model was valid, but that the characteristics cited for inclusion in the model may need revision. The JPIWG chair noted that a change proposal would be required to revise the approved procedure. The group agreed to draft a change proposal during the next JPIWG meeting.

**e. PROPOSED MANAGEMENT CODE TO IDENTIFY MATERIEL LOST IN RECEIPT PROCESSING.** The draft DLA initiated change proposes a new Management Code to identify materiel, for which the depot has proof of delivery but no physical evidence of receipt, and an automatic inventory adjustment is required. DLA will draft associated procedures for MILSTRAP, chapter 4 and provide them to DLMSO.


**ACTION:** DLA will develop procedures for chapter 4 of MILSTRAP. Upon receipt of the procedures, DLMSO will incorporate them into the change and staff the proposal informally with the JPIWG prior to formal staffing through the Supply Process Review Committee.

**f. ACTIVITY REVIEWS/SITE VISITS.** DLA suggested reviving the site visits formerly conducted by the JPIWG. DLMSO noted that such visits have not been conducted since the late 1980s. The impact of downsizing makes visits of the magnitude conducted in the 1980s unfeasible for most activities. It was suggested that a site visit could be conducted as part of the semi-annual JPIWG meetings by scheduling the meeting for 1 week, with 1-2 days devoted to the formal meeting and the remainder of the time devoted to the site visit. The JPIWG chair agreed to bring the recommendation back to the Director, DLMSO for disposition; noted that if approved it would likely be an annual occurrence rather than semi-annual; and noted that DLA, as the proponent for the DoD Distribution Depots, could pursue conducting more frequent site visits, in conjunction with the Services, if needed.

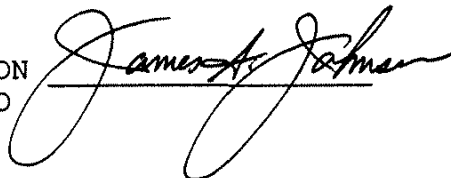
**ACTION:** The JPIWG Chair will address this issue with the DLMSO Director and advise the JPIWG of his decision at the next JPIWG meeting.

**g. STATUS OF PROPOSED DEFENSE LOGISTICS MANAGEMENT SYSTEM (DLMS) CHANGE 19, STORAGE ACTIVITY ON-HAND ASSET BALANCE DATA SHARING.** The proposed change designates the storage activity (wholesale and below wholesale) on-hand balance as the authoritative source value under the data sharing concept. Responses to this proposed change were due October 19, 1998 but DLMSO had not received Component responses at the time of the meeting.

**h. STATUS OF DoD IMPLEMENTATION OF DLMS AMERICAN NATIONAL STANDARDS INSTITUTE (ANSI) X12 STANDARDS COMMITTEE LOGISTICS TRANSACTIONS.** The JPIWG Chair provided the group with a copy of a draft Defense Reform Initiative Directive (DRID) (Enclosure 3) calling for DoD adoption of the ANSI X12 commercial standards. The draft DRID has been reviewed and approved by the Services and Agencies and was being submitted for signature by the Honorable John J. Hamre, Deputy Secretary of Defense. The DLMS provides the policies, procedures, and ANSI X12 standards available for use by DoD in the area of logistics. The DLMS ANSI X12 transactions can be accessed from the DLMSO Homepage at <http://www.dlms0.hq.dla.mil>.

  
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MARY JANE JOHNSON  
Chair, DoD JPIWG

APPROVE:  
JAMES A. JOHNSON  
Director, DLMSO

  
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JAMES A. JOHNSON

Enclosures



**JPIWG AGENDA**  
**NOVEMBER 19, 1998**  
**Headquarters Complex, Ft. Belvoir VA**

Thursday, Nov 19, beginning at 0830 hours		
	TOPIC	LEAD
	Opening Remarks	DLMSO
<b>a</b>	INVENTORY CONTROL EFFECTIVENESS (ICE) REPORT SUBMISSION STATUS	DUSD(L)MDM DLMSO
<b>b</b>	GENERAL SUPPLIES INVENTORY RECORDS ACCURACY GOALS	DLA NAVY
<b>c</b>	FINANCIAL LIABILITY FOR SERVICE OWNED ASSETS UNDER PHYSICAL CUSTODY AND INVENTORY ACCOUNTABILITY OF DISTRIBUTION DEPOTS	MARINE CORPS
<b>d</b>	AMCL 8A INVENTORY PRIORITIZATION MODEL	DLA
<b>e</b>	PROPOSED MANAGEMENT CODE TO IDENTIFY MATERIEL FOR WHICH THERE IS PROOF OF DELIVERY, BUT WHICH IS SUBSEQUENTLY LOST IN THE RECEIPT PROCESS	DLA
<b>f</b>	ACTIVITY REVIEWS/SITE VISITS	DLA
<b>g</b>	STATUS OF PROPOSED DLMS CHANGE 19, STORAGE ACTIVITY ON-HAND ASSET BALANCE DATA SHARING	DLMSO
<b>h</b>	STATUS OF DLMS ANSI X12 LOGISTICS TRANSACTIONS IMPLEMENTATION	DLMSO

# DRAFT

DRAFT--October 1998

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
CHAIRMAN OF THE JOINT CHIEFS OF STAFF  
UNDER SECRETARIES OF DEFENSE  
DIRECTOR, DEFENSE RESEARCH AND ENGINEERING  
ASSISTANT SECRETARIES OF DEFENSE  
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE  
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE  
DIRECTOR, OPERATIONAL TEST AND EVALUATION  
ASSISTANTS TO THE SECRETARY OF DEFENSE  
DIRECTOR, ADMINISTRATION AND MANAGEMENT  
DIRECTORS OF THE DEFENSE AGENCIES  
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Department of Defense Reform Initiative Directive #XX - Adoption of ANSI X12 Commercial Standards in DoD Business Systems

A Joint Service/Agency Committee was established in response to Management Reform Memorandum #11 to address issues and concerns relating to the conversion of DoD business systems to use of commercial identifiers. The Joint Service/Agency Committee recently recommended that the scope of the commercial identifiers be expanded to include the full range of commercial standards that have been documented and approved by the American National Standards Institute (ANSI) X12 Standards Committee. The rationale for this recommendation is that the existing DoD-unique transaction formats are impediments to business process changes required to support the war-fighting mission. Adoption of commercial standards is a prerequisite condition for process re-engineering, incorporating many commercial practices and a greater reliance on the commercial sector for required products and services. Replacing DoD's proprietary formats with the X12 standards will also serve as a necessary stepping-stone to moving our automated systems towards international open systems standards.

To ensure that the Department exploits available commercial standards through an integrated approach to its business system upgrades, I am directing that the Joint Electronic Commerce Program Office (JECPO) form an Integrated Product Team (IPT) to develop a comprehensive implementation plan in conjunction with the Military Services and Defense Agencies. The plan shall identify a phased implementation approach to migrate to commercial standards to simplify DoD interfaces with the private and federal civilian sectors, and to enable the required changes to the Department's logistics business processes.

Services and Agencies will support the JECPO in the development of the phased implementation plan. IPT points of contact shall be identified to the JECPO within thirty days. Services and Agencies will execute and fund implementation through process improvements and business system upgrades.

# **DRAFT**

The Under Secretary of Defense for Acquisition and Technology, in coordination with the DoD Chief Information Officer, shall provide policy and procedures to effect use of ANSI X12 standards for all new and planned business systems within ninety days.

The JECPO shall provide monthly progress reports on these efforts to the DoD Deputy Chief Information Officer, and Director, Defense Reform Initiative. This Directive supersedes Management Reform Memorandum #11.

John J. Hamre