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24 DEC 1990

DEFENSE LOGISTICS
STANDARD SYSTEMS OFFICE

DLSSD-B

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Minutes: DoD Joint Physical Inventory Working Group (JPIWG) Meeting, November 13-15, 1990

The attached Memorandum of Meeting is forwarded for your information.

The DLSSD-BI point of contact is Mr. Frank St. Mark, (703) 274-6062, DSN 284-6062.

JAMES R. LEWIS
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Attachment:
As stated

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MEMORANDUM OF MEETING

SUBJECT: Minutes: DoD Joint Physical Inventory Working Group (JPIWG) Meeting, November 13-15, 1990

I. PURPOSE: DoD Instruction 4140.35 requires quarterly meetings of the JPIWG. This meeting was convened to address issues subsequent to approved MILSTRAP Change Letter (AMCL) 8, Revised Procedures for Physical Inventory Control. The subject meeting was hosted by the Defense Logistics Standard Systems Divsion (DLSSD) and convened at 6301 Little River Turnpike, Alexandria, VA at 0830 on November 13, 1990. The agenda for the meeting is at attachment 1. The list of attendees is at attachment 2.

II. BRIEF SUMMARY OF DISCUSSIONS:

A. Administrative. The JPIWG Chairperson opened the meeting with introductions and provided administrative comments.

B. Agenda Items:

1. DOD PHYSICAL INVENTORY CONTROL PROGRAM PLAN (PICPP) FY 1990-1994.

a. Discussion: The subject plan is a five year plan that focuses on improving physical inventory policies, procedures, and practices of the physical inventory program elements. The PICPP contains action milestones that guide the joint efforts of the JPIWG and the Services/Agencies in updating their individual improvement planning documents. The November 1989 plan was reviewed and the JPIWG recommended that Part IV - IMPLEMENTATION REQUIREMENTS be deleted since it was mostly redundant and if appropriate, develop a new part of the plan to reflect signficant accomplishments. The FY 1990-1994 PICPP will contain physical inventory control program elements of the DoD Inventory Reduction Plan and Defense Distribution System (DDS) initiatives.

b. Disposition: Part IV of the PICPP will be deleted from the plan for FY 1990-1994. Also, the JPIWG agreed to revise the FY 1991-1995 plan and incorporate milestones based on Service/Agency accomplishments, e.g., AMCL-8 implementation, DDS scheduled implementation, etc. The revision should be completed and approved by third quarter 1991.

2. DDS PHYSICAL INVENTORY INTERFACE.

a. Discussion: The DLA representative presented an overview of the DDS Inventory Interface Meeting, October 30 - November 2, 1990. The meeting brought together Service/Agency physical inventory functional and system experts for the purpose of incorporating the DoD Physical Inventory Control Program requirements into the DDS at the Sharp and Tracy sites. The aim was to assist the systems experts to interface DDS subsystems together so minimum physical inventory requirements would be accomplished in the most efficient manner feasible. Several assumptions were required based on the short time frame to implement DDS at Sharp/Tracy (July 1991), noteably the interface will be limited to current policy and necessary functions. Specific requirements were also developed to accomplish the Navy Integrated Storage and Retrieval System (NISTARS) and DLA Warehousing and Shipping Procedures (DWASP). Subsequent taskings included statistical physical inventory and location survey.

b. Disposition: As with the DDS Inventory Interface Meetings, the JPIWG will be invited to attend all related DDS Inventory Interface Meetings. The next meeting is scheduled for December 3-7, 1990, to discuss discrepant/unissuable and shelf-life materiel.

3. DOD INVENTORY REDUCTION PLAN (PHYSICAL INVENTORY CONTROL PROGRAM).

a. Discussion: The DASD(L)SD representative briefed the group on the Inventory Management Program Inventory Reduction Plan (IRP). The overall objective of the IRP is to do things smarter, which includes minimizing new items entering the supply system, reducing the number and quantity of materiel stocked, look at

commercial alternatives to materiel stocked, and improve materiel control and asset visibility. A "10-Point Program" has been adopted to achieve the IRP objectives. The ASD(P&L) has responsibility and oversight for the "10-Point Program" and the DASD(L) chairs the Materiel Management Board (MMB). The board is comprised of the Provisioning Policy Group, Cataloging Working Group, Supply Technical Policy Group (Requirements and Commercial Items & Practices Sub-groups), and Distribution Council (Materiel Distribution). The briefing also included information on the MMB Interim Standard Systems Component Working Group. The purpose of the group is three fold; (1) Inventory Existing Systems; (2) Identify Interim Systems/Subsystems; and (3) Assign Executive Agents. The group's report was due November 15, 1990 with final publication and tasking of executive agents due December 1, 1990.

b. Dispostion: The subject briefings were used in the JPIWG's deliberation of the remainder of the agenda.

4. RECONCILIATION OF OFFICIAL STORAGE ACTIVITY RECORDS WITH AUTOMATED WAREHOUSE RECORDS.

a. Discussion: State-of-the-art automated warehouse systems often require their own data bases, which do not necessarily directly interface with the "official" storage activity records. The process requires reconciliation between the data bases to ensure accurate inventory records. To ensure that current and future systems provide for reconciliation of the data bases, the PICPP calls for developing such a policy statement.

b. Disposition: The JPIWG determined that there is no need to develop such a policy statement. The basic premise on which an integrated automated storage system is based requires it to maintain accurate inventory records whether or not the automated storage system is the "official" storage activity record or the automated storage system has to interface with the "official" storage record. This milestone will be deleted from the PICPP.

5. STATISTICAL LOCATION SURVEY.

a. Discussion: The requirement to conduct annual wall-to-wall location surveys has been debated for a number of years as it relates to automated warehouses. In order to determine the pros and cons of conducting wall-to-wall location surveys in automated warehouses, the Navy and Air Force initiated tests to conduct random statistical sample location survey. Since the automated warehouse systems control locations for both automated and nonautomated warehouses, the test included both types of warehouses. The overall objective of the Navy and Air Force's test was to statistically concentrate on areas where location accuracy is poor and provide a systematic approach to problem identification and correction while maintaining a statistically valid overview.

b. Disposition: The results of the Navy and Air Forces test concluded that a statistical location survey technique was equally as accurate as the annual wall-to-wall location survey. The statistical location survey places emphasis on maintaining quality warehouses and identifying problem warehouses on a continuing basis. The overall benefit of statistical location survey are accurate locations and inventories. Since the Navy and Air Force used similar but different approachs for statistical location survey, the JPIWG agreed to recognize the viability of statistical location survey and recommended that the option to use statistical location survey be incorporated in the physical inventory control program policy and that procedures be developed and incorporated in MILSTRAP Chapter 7. The PICPP will contain the objectives and milestones for developing statistical location survey policy and procedures.

6. DOD 4140.1-M, SUPPLY PROCEDURES MANUAL (CHAPTER 5.G. PHYSICAL INVENTORY CONTROL).

a. Discussion: In July 1989 the Secretary of Defense established a working group to conduct a review of regulatory and other guidance pertaining to the DoD Acquisition System. The purpose of the review was to, among others, examine the process by which guidance is developed, issued and disseminated, and changes recommended to ensure that future guidance is held to the minimum required. DoD Instruction 4140.35, "Physical Inventory Control for DoD Supply System Materiel," was included in the review. The group recommended that DoD Instruction 4140.35 be incorporated in DoD Directive 4140.1, "Inventory Management Policies." The JPIWG

reviewed the proposed rewrite of "DoD Instruction 4140.35" to be incorporated in DoD 4140.1-M, Chapter 5.G.

b. Disposition: Overall, the JPWIG concurred in the proposed rewrite. The Supply Procedures Manual (DoD Directive 4140.1-M) will be staffed with the Services/Agencies.

7. QUALITY CONTROL PROGRAM PROCEDURES.

a. Discussion: DoD Instruction 4140.35 promulgates the requirement to establish a quality control program. MILSTRAP Chapter 7 currently contains the work processes to be included in the program. Based on the JPIWG's evaluation of the program, the group determined that the quality control program requirements should be developed and staffed as a separate MILSTRAP Chapter. The JPIWG also determined that Total Quality Management (TQM) should be recognized in the new chapter. During the March 1990 JPIWG meeting, the Navy was requested to provide additional data on TQM and to enhance the draft quality control program chapter that was developed in FY 89.

b. Disposition: The JPIWG reviewed the Navy's enhanced draft quality control program chapter. The review included development of a definition of quality control and lot. After completing the review, the Navy updated the draft chapter with the group's comments/recommendations. The revised draft chapter is at attachment 3. The group's questions relative to quality control of materiel receipt acknowledgement will be addressed at the next meeting. Members comments/recommendations on the draft chapter are requested thirty days after the date of meeting minutes.

8. PHYSICAL INVENTORY OF CONTROLLED MATERIEL.

a. Discussion: During the March 1990 JPIWG meeting the Defense Mapping Agency (DMA) and Navy presented similar concerns on conducting annual inventories on SECRET and CONFIDENTIAL materiel. The JPIWG recommended that DMA and Navy jointly develop a strategy for insuring that SECRET and CONFIDENTIAL items are subject to "minimum" physical inventory requirements and be commensurate with applicable security measures to insure safeguarding of controlled materiel. The Navy presented a joint Navy/DMA approach to inventory large volumes of "paper" inventories that preserves security of materiel and validates material accountability. The proposed approach would use random statistical sampling. The conditions for

using random statistical sampling includes establishing a baseline wall-to-wall inventory, ensuring all security requirements are met, researching all mismatches, performing causative research on all errors, and performing wall-to-wall inventory on all warehouses section/warehouses where errors are not resolved after performing causative research.

b. Disposition: The JPIWG approved the overall, Navy/DMA random statistical sampling approach on the basis that it provides a continous management assessment of controlled inventory items. The approach also identifies/resolves problems more timely. The JPIWG recommended that Navy and DMA request a waiver from the DoD Instruction 4140.35, requirement to conduct 100% annual inventory of controlled inventory items SECRET and below. The JPIWG will also develop a proposed change to DoD Instruction 4140.35 to recognize random statistical inventory sampling of controlled inventory items SECRET and below.

9. ARMY AMMUNITION STATISTICAL PHYSICAL INVENTORY PLAN.

a. Discussion: The Army Materiel Command Deputy Chief of Staff for Ammunition submitted a point paper proposing to conduct random statistical physical inventory of Army ammunition to the JPIWG for consideration/discussion. The proposal excludes random statistical physical inventory of Category I munitions. The JPIWG discussed this agenda item in conjunction with agenda item 8.

b. Disposition: The JPIWG concluded that the choice between using a complete (wall-to-wall) inventory vice a random statistical sample inventory for physical inventory control should be based on the benefits realized for the effort applied. The degree of confidence gained through the use of a complete inventory is temporary. Immediately after the completion of the wall-to-wall inventory, the inventory conditions begins to change. The random statistical sample inventory method is a quicker (identify/resolve problems), less resource intense and smarter method for determining inventory conditions. Overall it is a better business approach. The JPIWG recommended that the Army fully develop its concept for conducting random statistical physical inventory of ammunition (excluding category I) and request a waiver from the DoD Instruction 4140.35 requirement to conduct annual wall-to-wall physical inventory of ammunition.

10. COMPUTATION OF MAJOR ERROR RATE.

a. Discussion: The Air Force was tasked to provide statistics on the Major Inventory Variance Rate to determine if it is a valid entry/measure of inventory control effectiveness. The Air Force concluded that the Major Inventory Variance Rate is misleading in that the implication is that it represents "accuracy of the account" measure, when in reality, it is only reflective of the accuracy of the inventories we were able to accomplish. Because the majority of our inventories are generated by problems, the resulting variance rate is overstated. The Air Force recommended that the Major Inventory Variance Rate be deleted as a pulse point or that the data be reported on the ICE by type of inventory completed.

b. Disposition: The JPIWG concurred with the Air Force recommendation to delete the Major Inventory Variance Rate as a quarterly pulse point since the information is arrayed in Part III (Statistical Sample) of the approved (AMCL-8) ICE Report. The annual statistical sample provides three unbias pulse points: (1) sample inventory record accuracy rate and projected record accuracy rate; (2) total dollar value accuracy rate and projected dollar value accuracy rate; and (3) total unit accuracy rate and projected unit accuracy rate.

11. DOD PHYSICAL INVENTORY CONTROL PROGRAM COURSE.

a. Discussion: The Army was tasked to develop a DoD-wide physical inventory control program course in FY 87. Due to funding constraints the Army was unable to budget for developing the course until FY 90. The draft course was developed by the Army Logistics Management College (ALMC).

b. Disposition: The JPIWG members were tasked to review the course and provide comments/recommendation to DLSSD-BI by December 31, 1990. The comments/recommendations will be reviewed by DLSSD-BI and forwarded to ALMC. Depending on it's funding, the course may be completed and available to the Services/Agencies beginning FY 1992.

12. STANDARDIZE CAUSATIVE RESEARCH PROCEDURES.

a. Discussion: The current MILSTRAP, Chapter 7, nor the rewrite of MILSTRAP, chapter 7 (AMCL-8) include comprehensive data on causative research. The JPIWG reviewed the individual Service/Agency causative research procedures and decided to also include postcount validation and preadjustment research in a paragraph entitled "Levels of Research."

b. Disposition: DLSSD-BI will develop a strawman paragraph on levels of research that will include postcount validation, preadjustment research, and causative research. Each level will contain depth of research, types of transactions to include in the research, composition of files (audit trail), etc. The strawman will be staffed with the JPIWG prior to the next JPIWG meeting.

13. DOD ACCOUNTING MANUAL - NEW CHAPTER 38 (PROPERTY ACCOUNTABILITY).

a. Discussion: The purpose of the new chapter is to provide guidance on establishing property accountability records for DoD personal property and to prescribe the minimium requirements for property accountability records. The JPIWG did a cursory review of the chapter and concluded that it was too lengthy to review in detail in the time remaining in the meeting. Also the due date was too short (comments were due November 15, 1990) for response to the OASD Comptroller.

b. Disposition: The JPIWG reviewed the comments prepared by DLSSD-BI. The JPIWG agreed with DLSSD-BI comments, but concluded that the chapter was of little or no value to the supply community. The group believes that the chapter should refer to the proper supply regulation; i.e., DoD Instruction 4140.35 and MILSTRAP, for specific supply procedures such as record content, frequencies of inventories, etc. The OASD Comptroller will staff the chapter with the Services/Agencies.

14. SECURITY AND CONTROL OF SUPPLIES ANNUAL REPORT.

a. Discussion: The JPIWG was reminded that their updates of the baseline report are due by November 19, 1990.

b. Disposition: None.

III. DECISIONS REACHED: Decisions reached are as described in the discussion paragraph.

IV. FOLLOWUP ACTIONS REQUIRED: The next meeting was not scheduled because of on-going Defense Distribution System inventory interface meetings that involve the JPIWG members.

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Chairperson
DoD Joint Physical Inventory
Working Group

Approved By: James R. Lewis

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Chief
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Attachments:
As stated

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QUALITY CONTROL PROGRAM

A. GENERAL. This chapter provides standardized quality control methods and measures for assessing work processes and actions within the distribution system that affect record accuracy and inventory accuracy. The purpose of the quality control program is provide managers with tools and methods to quantify those procedural, system and/or human errors that negatively impact the quality of services provided. In keeping with Total Quality Management (TQM) methods and philosophies, the quality control program should be used as the data collection mechanism for measuring process improvement and highlighting problem areas. The procedures in this chapter identify the work processes to be checked using quality control methods, the inspection characteristics of the identified work processes and the reporting requirements and follow-up procedures.

B. POLICY. In accordance with DoD I 4140.35, DoD components are required to establish a quality control program to assist management in identifying those human, procedural, or system errors that affect the accuracy of asset records.

1. The overall objective of the quality control program is to improve the quality of services provided by identifying functions experiencing errors. The quality of services will then only be improved if the root causes of the errors are identified and corrective actions are taken to remove the cause.

2. Quality control programs shall be conducted as described in this chapter, with the flexibility to respond to local problems and individual areas needing attention.

3. Work processes will be monitored and evaluated based on improvements and performance trends, not numerical goals. Quality improvements should be monitored using independent measures such as Location Survey Accuracy Rate, Material Denial Rate, Reports of Discrepancy (ROD) as a percent of issues, and the Variable Line Item Accuracy Rate from statistical physical inventory sampling. Performance trends from sampling should be monitored using Statistical Process Control (SPC) tools.

4. In implementing Total Quality Management (TQM), it is recognized that Process Action Teams (PATs) are convened to build an understanding of the process, identify sampling points, develop recommendations and implement the necessary changes for known problem areas. During PAT team evaluation, sampling should be waived while sampling points are evaluated. Once corrective actions have been implemented, regular sampling should be used to assess effectiveness of the change and determine if further improvement is required to maintain control of functional areas f responsibility.

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5. Program oversight shall be performed by an organization independent of the distribution and inventory operations with the responsibility for maintaining effective communications and coordination with first line supervisors and management to implement necessary corrective actions.

C. QUALITY CONTROL METHODS.

1. The majority of distribution system work processes and actions require the use of proportional random sampling techniques to obtain statistically valid assessments.

2. Those work processes involving a discrete lot of items that can be assessed on an accept/reject basis, i.e., location surveys and physical inventory counts, will follow the methods outlined in MIL-STD-105D.

3. Processes that have an uninterrupted material flow or operate in a paper-less environment should be sampled at the point where the process logically ends. Feedback on the process should then be provided to the appropriate participants in the process.

4. A baseline measurement of accuracy must be established by each Component/activity for each work process identified in Section D. The baseline measurement is a periodic (annual or semi-annual) independent sample conducted during a short time period (usually one month) to compare accuracy trends for a particular function or process to previous baselines or routine sampling. In support of continuous process improvement, baselines are more effective if they are conducted at the first-line supervisor level for a specific area of responsibility.

5. For those areas that do not lend themselves to normal statistical sampling techniques, a method must be devised to validate the effectiveness and efficiency of the process. This process should include a verification of established functional responsibilities, procedures and guidance to actual operating practices.

6. For purposes of determining quality level attained, errors should be segregated into two categories. One category should be those errors that affect inventory and record accuracy and the second category would be those errors that are administrative in nature.

7. Acceptable Quality Levels (AQL) are a deterrent to continued process improvement and should not be used to measure performance.

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D. WORK PROCESSES. Item characteristics identified for the following distribution system work processes require quality control sampling, baselines and assessments:

1. Receiving.

a. Storage Activity.

(1) Inbound transportation. Verify accuracy of the incoming transportation process by comparing the number of transportation units received with proper annotation on the Bill of Lading/transportation documents.

(2) Receipt documentation. Verify accuracy of annotated receipt documentation compared to physical material received including item, unit of issue, quantity, supply condition code, document/contract number and physical condition of material.

(3) Receipt posting. Determine processing timeliness, accuracy of receipt data posted to the storage activity record, including stock number, unit of issue, quantity, supply condition code and document/contract number.

(4) Discrepancy Reporting. Determine accuracy and timeliness of preparation, follow-ups and replies, and correction of supply and financial errors identified including Report of Survey preparation, if required.

(5) Material Receipt Acknowledgment (MRA). Determine accuracy and timeliness of MRA submission. (See encl 1 to Att 1)

b. Inventory Control Point.

(1) Receipt posting. Determine processing timeliness, accuracy of receipt data posted to the Inventory Control Point record, including stock number, unit of issue, quantity, supply condition code and document/contract number.

(2) Discrepancy Reporting. Determine accuracy and timeliness of preparation, follow-ups and replies, and correction of supply and financial errors identified including Report of Survey preparation, if required.

2. Storage. (Storage Activities Only)

a. Locator file. Determine accuracy of additions, deletions and changes posted to locator file and proper completion of changes required to the physical material and/or bin markings.

b. Shelf-life file. Determine accuracy of shelf-life markings, updates and surveillance.

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c. Techniques. Survey and evaluate storage techniques used including identification of material, mixed stock, and rewarehousing projects. This would be a process validation candidate.

d. Surveillance. (Definition to be provided by DLA) (See encl 1 to Att 1) **

3. Issuing.

a. Issue documents. Determine legibility and completeness of issue documents.

b. Stock selection. Determine accuracy of stock selected including stock number, unit of issue, quantity, supply condition code and shelf-life.

c. Marking. Determine accuracy of marking on outbound shipments including address/routing and special material markings, if applicable.

d. Outbound transportation. Determine accuracy of carrier documentation compared to physical material ready to be transported.

4. Inventory.

a. Storage Activity.

(1) Inventory counts. Determine accuracy of physical counts completed.

(2) Location surveys. Determine accuracy of all location survey elements identified in Chapter 7 for location survey actions completed.

(3) Inventory adjustments. Determine accuracy of adjustment determination and processing to storage activity record.

(4) Causative Research. Determine accuracy and completeness of documentation, timeliness of completion of research, accuracy of reversals if required, and accuracy of error code classification assigned.

(5) Location reconciliation. Determine completeness of location reconciliation process including follow-ups initiated, inventories requested, inventories completed, inventories cancelled/rescheduled, and corrections processed to the storage activity record.

b. Inventory Control Point.

(1) Inventory adjustments. Determine accuracy of adjustment determination and processing to Inventory Control Point record.

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(2) Causative Research. Determine accuracy and completeness of documentation, timeliness of completion of research, accuracy of reversals if required, and accuracy of error code classification assigned.

(3) Location reconciliation. Determine completeness of location reconciliation process including follow-ups initiated, inventories requested, inventories completed, inventories cancelled/rescheduled, and corrections processed to the Inventory Control Point record.

5. Catalog data. Determine accuracy of catalog change processing including changes properly posted to the storage activity record and completion of changes required to the physical material and/or bin markings.

6. Logistics reassignment.

a. Storage Activity. Determine accuracy of logistics reassignment processing including posting of changes in ownership to both Gaining Inventory Manager (GIM) and Losing Inventory Manager (LIM) records.

b. Inventory Control Point. Determine accuracy of logistics reassignment processing including posting of changes in ownership to both Gaining Inventory Manager (GIM) and Losing Inventory Manager (LIM) records.

7. Suspended assets.

a. Storage Activity. Determine timeliness of suspended asset processing.

b. Inventory Control Point. Determine timeliness of suspended asset processing.

E. REPORT, ANALYSIS AND FOLLOW-UP REQUIREMENTS. Each component must determine and document the following:

1. A schedule for performing quality control assessments of individual work processes identified in section D, with the flexibility to increase or decrease the checks required based on performance over time.

2. Specific procedures for conducting quality control assessments of the individual work processes identified in section D and other work processes identified locally and for reporting results of assessments. As a minimum, Components will analyze and explain errors identified and determine corrective actions required.

3. Individuals, actions, and processes requiring greater management attention such as additional training and/or supervision required to correct deficiencies.

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4. Procedural and systems deficiencies and both immediate and long-term resolutions appropriate to the deficiencies.

F. MANAGEMENT ACTION.

1. Continued command management attention and review of performance results are essential for the success of the quality control program.

2. Command managers must ensure coordination of performance evaluation and resolution of deficiencies among the affected functional areas, i.e., finance, data processing, transportation, warehousing, maintenance, quality control, and supply management.

3. The quality control program must include specific provisions for initiation of required corrective actions and follow-up to completion of the corrective actions.

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DEFINITIONS

1. Lot - The work conducted by an individual worker in a specified period of time, usually either a full workday or half of a workday. A lot must be able to be rejected and reworked in its entirety if the number of acceptable errors is exceeded.

2. Quality Control- A planned and systematic evaluation of work processes to assist management in identifying and correcting those human, procedural or system errors which adversely affect the efficiency and effectiveness of services provided.

QUALITY CONTROL

1. To comply with the requirements of chapter 7, section H, ICPs and reporting activities shall include the evaluation of internal MRA processing in their quality control programs. The following work processes shall be included: accuracy of MRA initiation or followup, submission timeliness, and investigative research to determine and correct processing errors.

2. Command managers shall assign to specific organizations the responsibility for directing and monitoring corrective action. The purpose of the program is to assist management in identifying those human, procedural, or system errors which adversely affect the MRA process or indicate potential deficiencies in the control over intransit assets.

3. Command managers must ensure effective organizational inter-relationships among the functional operations/processes concerned with MRA, such as: supply, procurement, financial, inventory management, transportation, quality assurance, and storage.

Reference Quality Control Program draft, para. 2.b:

Propose 2.b. read as follows:

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Surveillance. Determine the accuracy and timliness of extendable shelf-life materiel inspection, condition code changes, discrepancy reporting, disposition instruction follow thru, and the marking/segregation of stocks.

Rationale: Surveillance encompasses shelf-life materiel care/control.