IN REPLY
REFER TO

November 26, 2012

MEMORANDUM FOR JOINT PHYSICAL INVENTORY WORKING GROUP

SUBJECT: Joint Physical Inventory Working Group (JPIWG) Meeting, October 25, 2012

    The attached minutes of subject meeting are forwarded for information and action, as appropriate. Action items are included on the JPIWG Action Item Tracking Sheet provided on the JPIWG home page.

    The DLA Logistics Management Standards Office point of contact is Mr. Lou Madrigal, JPIWG Chair, 703-767-2011, DSN 427-2011 or email luis.madrigal@dla.mil.

DONALD C. PIPP
Director,
Defense Logistics Management
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Attachment
As stated

cc:
ODASD(SCI)
Meeting Attendees

DEFENSE LOGISTICS AGENCY
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November 26, 2012

MEMORANDUM FOR RECORD

SUBJECT: Joint Physical Inventory Working Group (JPIWG) Meeting, October 25, 2012

Purpose: The DLA Logistics Management Standards Office convened a meeting of the JPIWG on October 25, 2012, at DLA Headquarters in Fort Belvoir, VA with participation through Defense Connect Online (DCO). The agenda (with hyperlinks to briefing materials) and a list of attendees are available on the JPIWG Webpage at www.dla.mil/j-6/dlmso/programs/committees/jpiwg/jpiwg.asp.

Brief Summary of Discussion: Mr. Lou Madrigal, JPIWG Chair, facilitated the discussion. A summary of the agenda topics discussed follows:

1. Address Open Action Items. There are two open action items, both assigned to Army. Mr. Madrigal had provided updated information for both items to the Army ahead of the meeting, however, no Army representative was available on the call to discuss the Service's response. See the JPIWG website for open action item status information.

2. OUSD(C) FIAR Update. Mr. John Crowley, Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), provided a brief on the status of Financial Improvement and Audit Readiness (FIAR) and its relationship to inventory management. The October 2011 Defense Secretary memo to achieve audit readiness by the end of 2014 has accelerated the Component efforts to have inventory existence and completeness assertions made and verified. Mr. Crowley shared the latest high-level targets for Component audit readiness of Operating Materials & Supplies (OM&S) inventories in the coming years, which reflected some Component targets having to push FY13 targets out to FY14. Components provide the FIAR office their support documents as part of ensuring they are ready to assert existence and completeness. Once the Component asserts audit readiness, the Inspector General validates the assertion. After the validation, audit readiness enters a sustainment process to ensure that a validated group stays audit ready. Here is a link to the FIAR website, which provides guidance for audit readiness: http://comptroller.defense.gov/fiar/.

3. OASD(SCI). Ms. Lora Conrad of Office of the Assistant Secretary of Defense (Supply Chain Integration) (OASD(SCI)) provided an update on the topics of Asset Tracking/In-Transit Visibility (AT/ITV), Item Unique Identification (IUID), and republication of DoD 4140.1-R, "*DoD Supply Chain Materiel Management Regulation*," as DoD 4140.01-M. .

a. The discussion that took place after the Government Accountability Office (GAO) sought input earlier this year on how best to audit Automated Information Technologies led to OASD(SCI) directing the development of an audit of AT/ITV to focus on the release from distribution until placement in the customer's hand. Many stove pipe AIT efforts exist,

complicating consistent evaluation. A core end-to-end AT/ITV strategy document is under development to document a common, enterprise-wide, baseline approach. The target delivery date for the strategy document is the end of 2012. RAND Corporation is conducting a top-down study to identify gaps in the technology currently in place and, how it is used. While this effort will have no immediate impact on physical inventory, it has the potential to increase Components' in depth analytics.

b. IUID

(1) As of October 17, 2012, the IUID registry included 19.9 million records. Defense Procurement and Acquisition Policy (DPAP) continues to work to ensure inclusion of IUID requirements in contracts, along with the IUID program progressing on registering legacy items. DLA representatives asked about IUID markings on some legacy items that may not derive the value desired. OASD(SCI) does not prescribe which legacy items to mark, but does advise to do it smartly (for example, leave marking of Class 9 Consumables toward the end of the IUID timeline, since these items may be consumed prior to the time systems will be able to utilize the IUID to provide benefits and value to the supply chain.). The "$5000" valuation threshold rule for identifying legacy items for marking is being discussed with consideration of replacing it with "do it smartly" guidance. OASD(SCI) was informed that Army prefers the $5000 threshold to be in line with property books. A possible guidance change may be to use the $5000 rule as a target of opportunity, as opposed as a firm policy dollar value threshold.

(2) The IUID registry is being updated to add identification of the "item owner" for querying purposes. There is also a requirement being worked to add the national stock number (NSN) to the IUID registry. No clarification of the status nor how to backfill the NSN was available. DLA Logistics Management Standards advised that a human readable serial number (SN) has also been discussed by the IUID Working Group and is being considered for inclusion in the IUID registry. Last year, GAO remarked that the population of NSNs that are subject to IUID cannot be identified. DLA Logistics Information Service is currently working with the Components to identify the pool of NSNs to which the IUID Indicator Y (Yes) and IUID marking should be assigned. This effort includes a requirement for the Components to inform DLA which DLA managed items they want to be IUID tracked. The Component responses are due back to DLA Logistics Information Service in November 2012. The target for the IUID Indicator to be available in the DLA Logistics Information Service Master Data Capability (MDC) is April 2013. OASD(SCI) is looking to eliminate virtual marking in the registry and will follow-up with formal guidance to do so. OASD(SCI) informed the committee that the default IUID Indicator (a yes/no indicator) is set to an explicit N.

c. OASD(SCI) anticipates that the draft DoD 4140.01-M. "*Supply Chain Materiel Management Procedures*" will be released for Component comments in November 2012. The current estimated publication date is April 2013, but this will depend on the volume of comments received. All comments are to be submitted through the DOD publications portal. Mr. Gary Zeigler (DLA-J33) noted that DLA has discovered an area of DOD owned materiel accountability that DLA would like to strengthen in the new manual.

4. PDCs Supporting DoD IUID Supply Policy.

  a. Ms. Ellen Hilert, Supply PRC Co-Chair, presented a proposed DLMS change (PDC) prepared in support of emergent IUID policy. PDC 1030 incorporates communication of IUID data content in the DLMS 856S Shipment Status and 842A/W Supply Discrepancy Report transactions. Significant issues addressed in developing PDC 1030 include:

- pending full transition to the DOD IUID Supply Policy using the unique item identifier (UII), processing of outgoing shipments does not stop due to lack of a viable UII and/or serial number when the NSN contains an IUID Indicator Y,
- for NSNs with an IUID Indicator Y, the DLMS 856S Shipment Status will carry the <u>UII and/or the machine readable serial number, when available</u>, at the time of shipment; include both when both are available. The UII and/or serial number is a desired entry but is not mandatory at this time.,
- for items managed under an approved Unique Item Tracking (UIT) program, the UII (when available) and the serial number is mandatory in the DLMS 856S Shipment Status transaction. Serial number without the applicable UII may only be used during MILSTRIP/DLMS transition and pending implementation of IUID capability,
- owners/managers will not be required to receive/transmit the IUID information; impact is primarily focused at the storage activity and receiving activities,
- for DVD shipments, the manager will not provide the IUID content in the DLMS 856S. The assumption is that the receiving activity is DLMS complaint and will receive a copy of the Wide Area Work Flow (WAWF) 856 Advance Ship Notice with IUID content,
- for Lateral Redistribution Orders directed by the item manager citing Distribution Code 2 or 3,the shipping activity will provide the IUID information in the 856S (AS6) to the manager. When the 856S (AS6) contains IUID content, DLA Transactions Services mapping will be used to prepare an 856S perpetuating the IUID content to the ship-to activity. The manager will transmit under normal MILSTRIP routing rules the 856S without the IUID content. The customer supply system must ensure that the 856S from the manager does not overlay the one from DLA Transaction Services that perpetuated the IUID content.
- modification of the 856S to handle multiple freight piece shipments (one TCN assigned to multiple freight boxes) allowing for identification of the UIIs contained in each freight box and passive RFID.

  b. PDC 1030 also identified Supply Discrepancy Report (SDR) requirements in support of the DOD IUID policy. Receiving activities will prepare SDRs to report mismatched IUID data between the shipment status and item or its packaging. The current thought is that IUID issues encountered during the receipt of wholesale new procurement will be suspended, but some direct need situations will likely result in an information only SDR, but not be suspended. Ms. Hilert is requesting Component input on the wording for when to suspend materiel. She also noted the ideal situation would be to integrate the SDR business process directly into receiving systems, rather than standalone SDR application. Particularly, with IUID, tying the creation of an SDR directly from receiving applications will reduce significant needs to re-key SDR information particularly the lengthy UII.

c. Ms Hilert noted that the previously issued Approved DLMS Change (ADC) 399 established a continuation page for 2D bar codes to show linkages between serial numbers and UIIs. ADC 399 also supports linear barcodes and human readable serial number on the continuation page. The Marine Corps discovered that the encoding process used for the 2D bar code did not work as planned. To address this, PDC 399A establishes an enveloping structure that links the UII to the serial number for each individual item. The serial number used for tracking/management purposes is to be provided independent from the serial number that might be incorporated in the UII. .

5. USAF Requested SDR IPT Discussion Topics. Ms. Merita Briggs raised some topics that originated out of a Supply Discrepancy Report (SDR) Air Force Integrated Project Team (IPT) that she has been having troubles getting addressed. Ms. Briggs acknowledged that these items likely cannot be resolved by JPIWG, but the group was happy to review the issues and identify where to direct topics for resolution. The JPIWG Chair shared the suggested actions captured in the enclosure with the Supply Process Review Committee for consideration as the more appropriate venue for coordinating resolution.

a. The Air Force is seeing challenges to the condition code cited on the receipt of reparables based on a visual inspection during the receipt process. For instance, the individual processing a receipt not believing an "A" condition item is actually "A" condition. There are also instances where materiel is brought in as "J" condition and during the receipt process the true condition cannot be determined. Ms. Briggs questioned how visual, rather than engineering, challenges are allowed. Ms. Briggs was advised to look for a document called "Have You Heard" distributed by Joe Manta, DLA Distribution advising not to suspend stock when receiving sees a particular condition code (for example Condition Code G). Ellen Hilert, the Supply PRC Co-Chair noted that dismissing a revised judgment of condition during the receiving process should be weighed against the risk of releasing an "A" Condition item that may not truly be "A' Condition. The point was made that distribution personnel are not technical experts, so it is understandable that they may tend to err on the side of caution. To better decide how to handle this issue there needs to be a better understanding of the scope (i.e. number and location). It was recommended that a member of the SDR IPT see if Joe Manta could be invited to participate.

b. Discussion ensued regarding the Air Force request to segregate suspended Critical Safety Items using Supply Condition Code (SCC)J (which is inappropriate for this purpose);(all other Components use SCC K for segregating materiel suspended during receipt. Air Force requested the exception to ensure faster resolution. However, ADC 1022 harmonizes timeframes for processing of SCC J and K suspended materiel, making the Air Force justification for the exception use of Condition Code J moot. DLA also noted an irregularity applicable to the Navy. If standard procedures are to be followed, then the storage activity should not continue to suspend quality deficient Navy materiel using SCC L when SCC Q is required. . Also, there is a need to address Air Force use of SCC X, which is supposed to be reserved for DoD use. The reissue of the MILSTRAP manual is an opportunity to re-enforce the policy of no exceptions to standard usage of condition codes. However, Air Force asked about the SDR IPT concern for how to segregate items that cannot be repaired at that time. A management code can segregate items in the supply system, but not at the depot. So the question was asked, is there a condition code that could be used? Ms. Briggs will communicate with the Air Force Supply PRC

representative, Ms. Gloria Torres, to request a new condition code, or management code, for this scenario.

c. Loss of item visibility for Depot Maintenance Inter-Service Support Agreement (DMISA) worked items until they are received was another topic addressed. Ms. Hilert explained that the problem is lack of compliance with DLM 4000.25-2, MILSTRAP, C4.12.2.6. The Air Force was requested to follow these procedures to establish a Pre-positioned Material Receipt (PMR) to identify a due-in for expected returns from Government maintenance activities. The PMR needs to be in place to create the receipt to the correct owner when materiel arrives. The creation of the PMR should not be delayed pending the actual return date; instead the PMR should be established well in advance of the return and later updated when the shipment date becomes available. DLM 4000.25, DLMS Manual Vol 2, C5.1.3.1. addresses the requirement for maintenance activities to provide shipment notification to the receiving activity when materiel is shipped to the distribution depot. A related PDC 449, to disallow the Inventory Adjustment transaction (DIC DAC) for moving material from storage to maintenance will help improve asset visibility. However, PDC 449 is still open to address Component comments. Ms. Johnson noted that a joint JPIWG and Supply Process Review Committee single topic meeting to address PDC 449 comment resolution will be scheduled.

d. Air Force noted that Corpus Christi and Tobyhanna are submitting a Document Identification Code (DIC) DZC transaction through DLA Distribution Standard System (DSS) to correct misidentified ownership. Using the DIC DZC in this way creates a problem in that it fails to adjust the monetary value. The MILSTRAP Administrator noted that DIC DZC is an incorrect solution for the described scenario. The DZC Logistics Reassignment Storage Information transaction is only for use as a result of a logistics reassignment. In fact, while there are multiple ways to perform ship-to-owner, all are susceptible to problems without establishing a PMR. The Air Force agreed to pursue use of the PMR as the mechanism to fix the situation. While pursuing the PMR solution, the Air Force is advised to reverse the incorrect receipt, and process a correct receipt, in order to identify correct owner RIC.

The Air Force explained that they were sent a receipt for an item indicating it was an Air Force item, but it is actually an item for another Service. In trying to correct the information Air Force was sent an email instructing Air Force to send a DIC DZC transaction.

The thought was also raised that some scenarios could be the result of unauthorized returns into the DLA depots. DLA was advised to bill for unauthorized returns, which can help deter unauthorized returns and implement ADC 1022 procedures for dissemination of SDRs to the returning activity.

e. Ms. Briggs informed the JPIWG about a Hill AFB policy memo regarding exhibit disposition. The unilateral action had impacts for all other Air Logistics Centers (ALCs). JPIWG members agreed that Hill should not have unilaterally changed the procedures. Recommend the relevant parties review SDR procedures under DLM 4000.25 Vol 2, Chapter 17 and ADC 1007,[1] which sets the systemic game plan for Product Quality Deficiency Report

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[1] ADC 1007, New DLMS 842P, Product Quality Deficiency Report (PQDR) Data Exchange and Enhanced Exhibit Tracking via Standard Logistics Transactions.

exhibit tracking. It was suggested that Ms. Briggs could pursue buy-in from Air Force to use the logistics transactions. When the item is receipted it is tagged with a PQDR Report Control Number (RCN), which goes on the receipt. The Product Data Reporting and Evaluation Program (PDREP) gets a copy which will update the Joint Deficiency Reporting System (JDRS) and any other Service system. When the item is shipped out, DSS should include the PQDR RCN on the shipment status, and the PDREP DoDAAC as the "Party to Receive Copy" to trigger further distribution of the notification.

6. DLMS Support for Standard Line of Accounting.

   a. Bob Hammond, Chair, Finance Process Review Committee (PRC), briefed on Standard Financial Information System (SFIS), Standard Line of Accounting (SLOA), and the role of DLMS in enabling the exchange of SFIS/SLOA requirements within applicable transactions. SFIS is part of the Business Enterprise Architecture and mandates particular data elements and business rules for systems processing financial information. SLOA is a joint requirement of the OUSD(C) and the Deputy Chief Management Officer (DCMO) to include a subset of SFIS data on transactions that have financial implications. Since most of the logistics business processes have financial impacts, some DLMS supplements will have to be modified to enable exchange of SLOA data elements as discrete data for DLMS-compliant systems.

   b. DLA Logistics Management Standards Office identified a draft data mapping for the SLOA elements to a set of DLMS transactions currently believed to be relevant to SLOA. A draft PDC 1043, being developed to incorporate SLOA into DLMS, was discussed at a joint Finance and Supply PRC meeting November 7, 2012. Separate DLMS Changes will be needed as process voids requiring business process reengineering (BPR) are identified and evaluated, and the process owner determines the appropriate course of action. These include logistics process/support services where the requirement is initiated outside the Service-sponsored system, which comprise a significant portion of logistics processes.

7. 2012 CFO Inventory Sampling Plan Update. Mr. Gary Zeigler (DLA J33) provided a report on the 2012 Chief Financial Officer (CFO) Inventory Sampling Plan executed this past September. Planning for the effort began this past July. New aspects to the 2012 plan are the inclusion of General Fund OM&S, selection of sampling national item identification numbers (NIIN) separated by condition code, adding a seventh stratum for items with zero standard unit price to avoid inclusion in first strata, and a blind Floor-to-Book Completeness check according to FIAR guidance. Execution of the sampling plans was conducted between September 4 and 30, 2012. Statistics from the sampling are included in the presentation linked to from the agenda of the enclosure. Components are validating the results before submission to the CFO. DLA Finance will get the outcomes once finalized.

The ultimate goal is to have an enterprise approach for extrapolating a dollar value of inventory based on sampling. Lessons learned from this year's sampling will facilitate a cleaner process for completeness. A steady decline of zero dollar strata items is also anticipated.

8. Strategic Network Optimization. LCDR Manuel Ganuza (DLA J33) introduced Strategic Network Optimization (SNO), which looks at various aspects of the supply chain to identify opportunities for improving parts of the global distribution network (inventory, stock

positioning, transport, etc.). SNO's integrated development approach analyzes existing resources to develop network and inventory optimization approaches, which are run through simulations and modeling to verify cost/benefits. Simulations are run at the NIIN level to assess time to source the NIIN and determine the impact to inventory and operations. The simulations have not considered dormant stock, but that will be part of phase II in order to assist with warehouse footprint optimization. Prior models used MROs from recent fiscal years, but now utilize requisitions in order to include back orders in the simulations. JPIWG advised that asset visibility capability not be lost as a factor during optimization.

Current target implementation phases focus on transportation (SNO Phase I, FY14), inventory (SNO Phase II, FY15), and infrastructure (SNO phase II, FY16). Components are expected to program for implementation of SNO plans and some have already submitted their plans. Anticipated savings are targeting $424 million net across the network.

Next Meeting: The next JPIWG meeting is planned for October 24, 2013.

Enclosure

PREPARED BY:

APPROVED:

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Enclosure: Suggested Actions for Addressing USAF SDR IPT Discussion Topics

ISSUESUMMARY	SUGGESTED ACTION
Services are improperly utilizing SCCs to segregate stock.	DLA Distribution must disseminate/re-emphasize guidance to depot receiving personnel to discontinue the inappropriate use of SCC J to suspend materiel during receipt processing.
Storage activities should not continue to suspend quality deficient Navy materiel using SCC L when SCC Q is required.	Follow-up with Navy to address not using SCC L when Q is correct now that their ERP is implemented.
Loss of item visibility for Depot Maintenance Inter-Service Support Agreement (DMISA) worked items until they are received is a problem where a PMR is not prepared.	Components to review procedures to provide PMRs, status, and receipts according to procedure. Ensure DMISA repair activities prepare shipment status according to the procedures noted in this discussion. Confirm that this business process is correct in ERPs.
Air Force noted that Corpus Christi and Tobyhanna are submitting a Document Identification Code (DIC) DZC transaction through DLA Distribution Standard System (DSS) to correct misidentified ownership. When discussing the issue with DLA, Air Force was sent an email from DLA instructing advising use of the DIC DZC transaction	The DZC is no longer to be used to correct misidentified ownership (as it is only for logistics reassignment), and correct action is to reverse the receipt.
	Gary Ziegler, DLA J33 will take the lead to correct DLA activities encouraging incorrect use of DIC DZC.
	All services need to establish PMR generation and enforce MRP.
Hill AFB issued a unilateral policy memo regarding exhibit disposition which impacts all other Air Logistics Centers (ALCs).	DLA to provide an update regarding development of a systems change request for ADC 1007 implementation. Additionally, DLA (Joe Manta) will ensure the existing SCR for ADC 245 and Addendums will call for separate data elements for the Deficiency Report Unique Identifier (DRUI) and PQDR RCN on the DLMS 842A/W for PQDR exhibit receipt notification (vice inclusion in the comments field).