



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

IN REPLY
REFER TO J627

October 18, 2011

MEMORANDUM FOR JOINT PHYSICAL INVENTORY WORKING GROUP

SUBJECT: Joint Physical Inventory Working Group (JPIWG) Meeting, September 22, 2011

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 distributed shortly after the meeting reflecting agreed upon due dates.

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.

A handwritten signature in blue ink, appearing to read "Donald C. Pipp".

DONALD C. PIPP
Director,
Defense Logistics Management Standards

Attachment

cc:
ODASD(SCI)
Meeting Attendees



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SUBJECT: Joint Physical Inventory Working Group (JPIWG) Meeting, September 22, 2011

Purpose: The DLA Logistics Management Standards office convened a meeting of the JPIWG on September 22, 2011, in McLean, Virginia. The agenda is enclosed. A list of attendees and materials presented are available on the JPIWG webpage at <http://www.dla.mil/j-6/dlms/Programs/Committees/JPIWG/JPIWG.asp>.

Brief Summary of Discussion: All topics of the enclosed agenda are briefly summarized below. New action items are shown at the end of the relevant discussion topic and have been added to the action item track sheet available on the committee webpage. Mr. Lou Madrigal, JPIWG Chair, facilitated the discussion.

1. **Address Open Action Items.** Mr. Madrigal stepped through the open action items from the November 2009 and March 2011 meetings. The status of each was recorded in the Action Item Tracking Spreadsheet available on the JPIWG website. Open actions items that requested to close within two weeks of this meeting. Replies to open action items were requested by October 6, 2011.

2. **OM&S Q&A on when to expense properly.** Ron Tollefson (OUSD (C)) briefly summarized the issue he is working for the comptroller community to address the proper expensing of OM&S materiel. Currently, the process has been to expense OM&S materiel when consumed, but he is evaluating if the proper method is to expense the item when it is purchased. The existing consumption method requires recording OM&S materiel as an asset until consumed, but it is difficult to determine when OM&S materiel is actually consumed causing problems for audits. While the process of moving to the purchase method eliminates the issue of trying to track and determine consumption, the result would be misleading if the OM&S materiel sits in a warehouse rather than with an end user. Mr. Tollefson explained that the purchase method may work if there was a way to delineate the materiel that will be used within the current reporting period (i.e. within the FY). He is attempting to meet with NASA counterparts who appeared to have found a solution.

ACTION ITEM 1: Mr. Tollefson will prepare a white paper to explain the OM&S issue and what feedback he is seeking from JPIWG members.

3. **Update on DMISA workload visibility.** Mr. Gary Ziegler (DLA/J33) briefed on the accountability issue with implementations of the Depot Maintenance Inter Service Support Agreement (DMISA). The original DMISA allowed two methods for transferring materiel for inter service maintenance. The proper method utilizes an MRO to account for the transfer of accountability. However, the alternate method was to use an Inventory Adjustment – Dual (Condition Transfer) (MILSTRAP Document Identifier Code DAC functionality) to change

materiel to Supply Condition Code (SSC) “M” (Suspended (In Work)). This method keeps the item on DLA books even though the item has transferred to a Service for maintenance and could be issued to a customer upon completion of maintenance without notifying DLA.

Previous meetings have discussed disallowing use of an Inventory Adjustment – Dual (Condition Transfer) (DAC) to ‘M’ for re-warehousing materiel to maintenance activities to be in compliance with current MILSTRAP/DLMS DOD Physical Inventory Control procedures implemented as a result of Approved MILSTRAP Change Letter (AMCL) 8A. Air Force uses the materiel release order (MRO) process which is compliant with AMCL 8A. DLA has been working with Army and Navy to implement the MRO. However, DLA learned from NAVSUP on September 20th that when they communicated with LMP, LMP could not support the process. Navy would like a workflow diagram to use in discussions with LMP people.

ACTION ITEM 2: Mr. Ziegler will provide Navy with the five DMISA test case scenarios for sending reparables to maintenance. As additional information, Ms. Ellen Hilert will provide to the Chair an existing diagram developed to show how the Services use the transactions for recording accountability during maintenance. *[Subsequent to meeting this action was completed.]*

4. FY 2011 CFO Inventory Sampling Plan Execution. Mr. Gary Ziegler briefed on the DLA’s first execution of the CFO inventory sampling plan. The notice to proceed with the FY 2011 plan was signed out on August 16th. Subsequently, DLA pulled together the component stakeholders to execute the plan between September 1st – 30th. Component auditors were invited to observe at the sampling sites.

The plan randomly selected 3700 NIINs at 19 CONUS sites and 9 OCONUS sites. As of September 20th, 17 sites were finished with an overall 91% completion status. DLA Operations Resource and Research Analysis (DORRA) needs input from services on the POCs to be provided access to the results. Each service will then need to review and provide reports to their senior leadership. DLA will only be reporting on their own materiel.

A lesson learned from this first year of the CFO sampling plan is that in the future DLA will ask for requests to observe be provided no later than two weeks in advance of the CFO Inventory (i.e. August 17th in 2012). The short window this year led to problems in making sure site security and administrative actions had time to be worked prior to the visiting auditors. As part of the request to observe, DLA will want to know the desired site visit, but cannot guarantee that the observer can go to the specific site. The auditor community will receive the notice to provide requests to observe.

Ms. Merita Briggs (AF/A4LM) was curious as to why observers were limited to auditors. Mr. Ziegler responded that the inventory was in support of the CFO act and that the short preparation window led DLA to focus on making sure the auditing community had an opportunity to observe, but is not opposed to others observing.

Ms. Briggs noted that she has been made aware of general difficulties among weapons system engineers, equipment specialists, and item managers in getting access in a timely manner to suspended stock to address technical data issues.

ACTION ITEM 3: DLA to Improve the timeliness for Equipment Specialists, Inventory Managers, and Weapons Systems Engineers physical access to investigate suspended stock.

Ms. Denise Kurtz informed the group that DLA is encouraging people to come in and view the suspended stock. DLA has a tiger team led by Mr. Christian Lubic that is targeting suspended stock. DLA recognizes problems with visits delayed for administrative paper work required by base security, which may require more than one security office to coordinate. Ms. Briggs asked why so many Air Force receipts are ending up suspended. Ms. Kurtz verified the tiger teams are looking at root causes of suspended stock.

ACTION ITEM 4: Each of the service IPTs investigating depot SDRs to brief on “to-date” findings available as of the next JPIWG meeting.

Ms. Ellen Hilert (DLMS) is preparing PDC 403A which provides guidance relevant to suspension during the depot receiving process. A common cause of SDRs is suspended materiel resulting from unauthorized returns. Appropriate use of the MILSTRIP materiel return program would go a long way to correcting this situation. SDRs identifying suspended materiel have also been seen due to the depot changing SCC from ‘H’ to ‘K’ when automatic disposal is not possible due to recently tighter criteria being applied on what can be sent to disposal. Ms. Kurtz said that SCC ‘H’ materiel should never be sent to the depot, but to Disposition Services.).

Ms. Hilert noted that as the tiger teams help identify the resolution for open SDRs for suspended materiel; the Services should follow-up with closing the SDRs.

ACTION ITEM 5: Ms. Kurtz and Mr. Lubic are to verify if the Services are sending the SDR reply transactions via WebSDR as part of completing a tiger team site visit.

5. Draft PDC 449, Maintaining Accountability During Maintenance: Ms. Mary Jane Johnson, DOD MILSTRAP Administrator, introduced draft PDC 449. This change proposes:

- Eliminating authorization to use an Inventory Adjustment –Dual (Condition Transfer) transaction as a means to move materiel from a storage activity into a maintenance facility (i.e., DAC to “M”), in favor of using accountable issue and receipt transactions for moving assets to and from maintenance. This change supports DOD 4140.1-R Physical Inventory policy placing accountability for materiel with the activity having custody of the assets, and improves accountability for DOD inventory. In addition, this change proposes:
 - Eliminate Management Code “V” (Materiel intended for immediate transfer to maintenance, by ICP directed release or maintenance induction, in accordance with agreed procedures)
 - Eliminating Procurement source MILSTRAP DI Codes D4G, D4H, D4L, and D4N in favor of using the corresponding nonprocurement source DI Code D6_. Rationale is that the return of government owned materiel which had been furnished to a maintenance contractor would be accomplished using the corresponding non-procurement source receipts.

Ms. Johnson requested initial JPIWG feedback on the draft PDC 449 by October 6, 2011. She is looking to formally staff the PDC through the Supply Process Review Committee in October 2011, and will provide a courtesy copy to the JPIWG.

ACTION ITEM 6: All components were to review the draft PDC and provide any comments back to the MILSTRAP Administrator by October 6, 2011.

Ms. Hilert asked DLA if there is any existing logic around Management Code “V” which would determine if the code could be repurposed for another process.

ACTION ITEM 7: DLA to investigate if there is any logic in place for Management code “V” for ‘due-in’, ‘PMR’, and/or ‘receipt’ transactions. *[Subsequent to the meeting Mr. Ziegler confirmed that there were no DLA programs using Management Code V. Action completed.]*

6. CFO Standard Physical Inventory Sampling Plan. Ms. Lynn Fulling, OSD/SCI briefed how DLA and the services worked to develop a standard for all services to conduct the end of FY CFO inventory sampling based on the existing sampling plans of the DLA and Air Force. The Army, Navy and Marine Corps did not have sampling plans, so they will be able to benefit by using the standard to conduct sampling plans for their service inventories held in service managed warehouses.

The basics of the sampling plan stratify inventories based on extended dollar value (standard price X number of units), and then allocates stratum sample size proportional to total dollar value. Each service has a minimum sample size (800 for Army, Air Force, Navy; and 500 for Marine Corps). On August 16, 2011 the Deputy Assistant Secretary of Defense for Supply Chain Integration signed out a memorandum for executing the FY 2011 CFO sampling plan. FY 2011 was the first year of execution, but these sampling plans will be an annual requirement.

Mr. Gary Ziegler reiterated the need for services to provide POCs to receive the results and designate their preference for format. The following were identified as POCs or persons DLA should contact for input:

- Air Force - Marita Briggs, Thomas Vaden, and Steven Northenor
- Navy - Ramon Marin and Randall Williamson
- Army – ask John Lafalce for POCs
- Marine Corp - ask John Edalgo for POCs
- OSD - Lynn Fulling (summary report only).

7. Item Unique Identification (IUID) Update. No formal briefing provided. The presentation linked to in the agenda is for information only.

8. Ammunition System Compliance with AMCL 8A. Ms. Johnson briefly summarized that when AMCL 8A was issued, OSD granted Army Ammunition a waiver exempting them from transferring ammunition accountability from the Inventory Control Point to the storage activity. The waiver was issued in October 1995, but OSD subsequently cancelled the AMCL 8A waiver in October 1997, and Army was to implement AMCL8A for ammunition in their modernized system. At previous JPIWG meetings, Army stated that AMCL 8A compliance would be implemented in their ERP, Logistics Modernization Program (LMP). An email

discussion over the summer brought attention to the DLA Logistics Management Standards office that AMCL 8A, may not be implemented as part of LMP in regards to ammunition.

AMCL 8A is fully incorporated in the MILSTRAP/DLMS Physical Inventory Control procedures. Refer to MILSTRAP chapter 7 or DLMS, Volume 2, chapter 6 (DOD 4000.25-2-M and DOD 4000.25-M respectively). Both manuals are available at: http://www2.dla.mil/j-6/dlmso/eLibrary/Manuals/dlalmso_pubs.asp

ACTION ITEM 8: Services are requested to review their Ammunition System compliance with MILSTRAP/DLMS Physical Inventory Control procedures (MILSTRAP Chapter 7; DLMS Volume 2, chapter 6) (e.g. requirement for daily reconciliation in accordance with MILSTRAP Chapter 7). Services are to report back by October 30, 2011 in order to facilitate follow on discussion during the JPIWG telecon planned toward the end of 2011.

9. **USAF Analysis of Inventory Reversals.** Mr. Tony Scherm was unable to present at the meeting. *[Note: After the meeting the JPIWG Chair followed-up with Mr. Scherm to request information about the Air Force findings which could be distributed with these minutes. See enclosure 2.]*

10. **Next Meeting.** A survey of components supported regular semi-annual meetings, with additional meeting as needed. Participants agreed a DCO/conference call in about 3 months should be scheduled to follow-up on action items and discuss any additional agenda items identified. The next face-to-face JPIWG meeting is scheduled for March 15, 2012.

PREPARED BY:


Luis Madrigal
JPIWG Chair

APPROVED:


Donald C. Pipp
Director,
Defense Logistics Management Standards

JOINT PHYSICAL INVENTORY WORKING GROUP (JPIWG)

Agenda for September 22, 2011 JPIWG Meeting

STARTING AT 0830 HOURS EST

LMI (Conference Room: MCC3, 2nd Floor)

2000 Corporate Ridge, McLean, VA

DCO: <https://connect.dco.dod.mil/jpiwg> CALL-IN NUMBER: 703-767-5141; DSN 427-5141

#	TOPIC	LEAD
	Opening Remarks	0830 EST J627
1	Address Open Action Items	J627 / Lou Madrigal
2	OM&S Q&A on when to expense properly	OSD / Ron Tollefson
3	Update on DMISA workload visibility	DLA / Gary Ziegler
4	FY 2011 CFO Inventory Sampling Plan Execution	DLA / Gary Ziegler
5	Maintaining Accountability During Maintenance PDC to remove authorization to move material from a storage activity into a maintenance facility via an Inventory Adjustment transaction (i.e., DAC to "M")	J627 Mary Jane Johnson
	Lunch	1100 – 1200
6	CFO Standard Physical Inventory Sampling Plan (Memo)	SCI / Lynn Fulling
7	IUID Update	<i>(Informational Only, Not Presented)</i>
8	AMCL 8A Compliance for Ammunition Systems	Services
9	USAF Analysis of Inventory Reversals	USAF / Tony Scherm
	Wrap up & Action Items	4:00 PM EST

AF Global Logistics Support Center (AFGLSC)

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Inventory Adjustment Study

Anthony Scherm, GS-13

D035K System OPR



Sep 2011



Analysis Goals



- **Determine if the DoD policy for inventory adjustments is causing**
 - Buys
 - Buy cancellations
- **Make a final determination as to validity of Air Force assertion that inventory churn is a problem**
- **Determine magnitude of problem**

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MILSTRAP Policy



- **Perform a physical inventory count**
- **Input the balance**
 - If match – process complete
 - If no match – adjustment processed
- **Conduct research if required**
- **If research reveals a transaction that caused the out-of-balance, then:**
 - Reverse the original adjustment
 - Fix the erroneous transaction

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Analysis Results



- **Unable to determine if the adjust/research/reverse policy causes buys/cancellations**
- **Inventory churn doesn't appear to be causing a problem**
 - **Only one stock number seemed to be having a minor problem**
- **The Air Force considers the matter closed**

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