



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

March 16, 2016

**MEMORANDUM FOR DOD JOINT PHYSICAL INVENTORY WORKING GROUP**

**SUBJECT: DOD Joint Physical Inventory Working Group (JPIWG) Meeting 16-01, February 25, 2016**

The attached minutes of subject meeting are forwarded for information and action, as appropriate. The minutes are available on the DOD JPIWG Webpage [www2.dla.mil/j-6/dlmsso/programs/committees/jpiwg/jpiwg.asp](http://www2.dla.mil/j-6/dlmsso/programs/committees/jpiwg/jpiwg.asp).

The Defense Logistics Management Standards Office (DLMSO) point of contact is Mr. Rafael Gonzalez, DOD JPIWG Chair, 717-770-6817, DSN 771-6817 or email [rafael.gonzalez@dlm.mil](mailto:rafael.gonzalez@dlm.mil).

DONALD C. PIPP  
Director,  
Defense Logistics Management  
Standards Office

Attachment  
As stated

cc:  
ODASD(SCI)  
DOD JPIWG Meeting Attendees  
Supply PRC



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MEMORANDUM FOR RECORD

SUBJECT: DOD Joint Physical Inventory Working Group (JPIWG) Meeting, February 25, 2016

**Purpose:** DLMSO convened a DOD JPIWG teleconference on February 25, 2016 with representatives of DOD Components to discuss the latest topics impacting physical inventory procedures. The agenda, attendance list, briefings, and distributed documents are available in the JPIWG webpage at: [www2.dla.mil/j-6/dlms/programs/committees/jpiwg/jpiwg.asp](http://www2.dla.mil/j-6/dlms/programs/committees/jpiwg/jpiwg.asp)

**Brief Summary of Discussion:** Mr. Rafael Gonzalez, DOD JPIWG Chair, facilitated the discussion.

1. **Opening Remarks.** Mr. Rafael Gonzalez, DOD JPIWG Chair, provided opening remarks.
2. **Recent changes to DODM 4140.01 affecting Physical Inventory Control.**

**a. Draft Administrative Approved DLMS Change (ADC) 1205 to DLMS Procedures to Support DODM 4140.01, DOD Supply Chain Materiel Management Procedures for a Collaborative Single Item Inventory Record, February 10, 2014.** Mr. Gonzalez provided an overview of the draft administrative ADC 1205 which revises DLM 4000.25, Defense Logistics Management Standards (DLMS), Volume 2, and DLM 4000.25-2, Military Standard Transaction Reporting and Accountability Procedures (MILSTRAP), affecting DOD Physical Inventory Control procedures in support of the DODM 4140.01, Volume 5 Delivery of Materiel, February 2014 publication. Volume 5 included new language requiring that inventory control points (ICPs) and storage activities collaborate to ensure that the inventory data in their respective systems is the same, thus becoming, in effect, a single item inventory record. DLMSO identified residual narrative regarding Single Item Inventory at the end of paragraph 9.b.1. on page 35 of Enclosure 3, and has recommended OSD/SCI to research and amend as necessary. However the intent to remove the requirement for single shared asset records is clear. Existing DLMS and MILSTRAP publications reflect guidance from the cancelled May 2003, DOD 4140.1-R, DOD Supply Chain Materiel Management Regulation, which directed that "A single item-inventory record shall be shared to provide materiel asset information. Duplicative records maintained by ICPs and storage activities shall be consolidated into one inventory record." Subsequently, DODM 4140.01, replaced DOD 4140.1-R. Mr. Gonzalez advised the working group that this ADC has no programming or transaction impact to the community, since the Components are already executing the guidance published in the DODM 4140.01. The sole purpose of this ADC is to ensure DLMS 4000.25 stays current with existing policy and in alignment with DODM 4140.01 end of day processing procedures. As a result, there will be no coordination with the DOD Components.

**b. Withdrawal of ADC 21, Storage Activity On-hand Asset Balance Data Sharing.** Mr Gonzalez provided a summary of the Withdrawal of ADC 21, Storage On-hand Asset Balance

Data Sharing. DODM 4140.01, February 10, 2014, superseded DOD 4140.1-R, May 23, 2000. DODM 4140.01, Volume 5, Delivery of Materiel, replaced the shared single item-inventory record requirement formerly published in DOD 4140.1-R, with a less technically demanding requirement. Current policy states that “inventory control points (ICPs) and storage activities will collaborate to ensure that the inventory data in their respective systems is the same, thus becoming, in effect, a single item inventory record.” As a result, Mr. Gonzalez requested the withdrawal of ADC 21 as this functionality was never implemented.

Mr. Gonzalez stated that the withdrawal of ADC 21 is part of the changes to align DLMS 4000.25 manuals with DODM 4140.01. The withdrawal of this ADC had no impact to current transactions or procedures. A letter was distributed to the DOD Components on February 9, 2016 indicating the withdrawal of this ADC. No further action is required from the DOD Components or DLA.

**c. ADC 33, Revised Inventory Prioritization, December 6, 2000.** Mr. Gonzalez, also reviewed ADC 33, Revised Inventory Prioritization December 6, 2000, which revised DLMS physical inventory procedures to place responsibility for the inventory prioritization methodology/model with the owner and not distribution depot. As a result, the following footnote was added to DLMS Volume 2, Chapter 6 Materiel Returns, Retention, and Disposition, Page 12: “The Distribution Standard System is capable of accepting Physical Inventory Request Transactions with Type of Physical Inventory/Transaction History Code I; however, the DOD Services have not implemented this capability. The DOD Service Supply PRC representatives are to notify the DLMS Office when an implementation date is known per ADC 33.” DLA Distribution Standard System (DSS) implemented ADC 33 on May 31, 2001, but we have no status on implementation for other DOD Component systems. Mr. Gonzalez requested feedback from the community to determine whether the need for this capability still exists or it can be removed. If this capability will remain as part of the inventory procedures in Chapter 6, Mr. Gonzalez is requesting the current status and implementation dates from the DOD Components.

**Action Item 1:** DOD Components to provide implementation status for ADC 33 to DLMSO and include whether the capabilities detailed on ADC 33 are still a requirement (Physical Inventory/Transaction History Code I in DLMS 846P). Responses are within 30 days of the publication of these minutes.

**3. Annual Chief Financial Officer’s (CFO) Statistical Sample Inventory.** Mr. Gonzalez reviewed the current DOD CFO Statistical Sample Inventory requirements. The Chief Financial Officer’s Act (CFOA) of 1990 requires that the Department of Defense, the Military Services, and Defense Agencies submit financial statements to the Congress. The purpose of the Annual CFO Statistical Sample Inventory is to enable the Components to estimate the dollar value of the non-fuel portion of the DOD on-hand inventory held in storage for annual financial statement reporting. The CFO Statistical Sample is conducted annually during the month of August. DLA Distribution has 30 days from August to complete the inventory. The inventory results are exported to a spreadsheet by DORRA and sent to each Military Service around October. DLA J345 and DORRA have been holding meetings with all the Military Services to explain the methodology and the results of the CFO Statistical Sample Inventory.

The current DLMS 4000.25, Volume 2, Chapter 6, Physical Inventory Control, requires that each year’s DOD CFO Annual Statistical Sample Report be provided to the JPIWG Chair for posting to the DLMSO’s committee’s Web Page. Although these procedures are part of Chapter 6, current

practices reflect that there is no need for this requirement as DORRA and DLA Distribution provide this information directly to all DOD Components. Mr. Troy Brown, DLA J345, stated that having the CFO report in the DLMSO website can become Operations Security (OPSEC) non-compliance due to its content. Additionally, the DOD JPIWG Chair asked if any of the DOD Components were not receiving the CFO reports from DORRA. Mr. Brown confirmed that the CFO Report is being distributed to all DOD Components and none of the Services disagreed. Mr. John Lafalce reported that Army currently receives the CFO report from DLA and uses it with no outstanding issues. The JPIWG Chair will develop an administrative change to remove this requirement from Chapter 6.

**Action Item 2:** DLMSO to provide an administrative change to remove statement from Chapter 6 that requires CFO Reports to be posted in the DLMSO Committee's webpage.

**4. Draft PDC 1198, Capital Equipment Visibility via Serial Number and Unique Item Identifier (UII).** Mr. Dale Yeakel, DLMSO, provided an informational brief on draft Proposed DLMS Change (PDC) 1198, Capital Equipment Visibility by Serial Number and UII. Changes outlined in PDC 1198 are the most significant in JPIWG recent history. When the PDC is signed out for formal staffing, JPIWG members are encouraged to carefully review it and provide their comments to their respective Supply PRC representatives who will be providing a coordinated Component response on PDC 1198. The Committee was also advised that PDC 1198 is still in draft mode and additional changes may occur.

**Subsequent to the meeting:** DASD SCI update focused on capital equipment, and did not address generic high intensity management procedures. Accordingly DLMSO removed the new draft Chapter 30 for High Intensity Management Items, and inserted capital equipment/capital equipment candidate procedures into applicable DLMS, Volume 2, chapters. The chapter had been a DOD Enterprise framework for future expansion to other high intensity management item materiel as requirements are documented.

Topics regarding PDC 1198 were discussed as follow:

**a. Capital Equipment Defined.** Capital equipment is defined as tangible personal property items that: (1) have an acquisition cost at or above the current capitalization threshold, with a useful service life of two or more years; (2) are functionally complete for their intended purpose, durable, and nonexpendable; (3) are not intended for sale in the ordinary course of business; (4) do not ordinarily lose their identity or become a component part of another article when put into use; and (5) are available for the use by the reporting entity for its intended purpose (Reference DODI 5000.64) Source of definition: Guidelines for Registering Government Serialization, Type Designation and Ownership of Major End Items, Assemblies and Subassemblies and Capital Equipment in the IUID Registry, Version 1.1 October 15, 2007.

**b. Capital Equipment Candidates** are items that meet the following criteria:

- (1) Has a FLIS IUID Indicator Y; and
- (2) Is within Classes of Supply II, VII, and VIII; and
- (3) Has a current Unit Price recorded in the FLIS of at least \$100,000.

Meeting discussions between members suggested that programming a higher level indicator would be a better method of capital equipment item identification in the long term and would decrease reclassification cost and frequency based on criteria fluctuations. Tim Adkins, NAVSUP, agreed

that the indicator would be preferred over programming lower level individual business rules and would also prevent future expense on system development. Ms. Jan Mulligan, ODASD(SCI), mentioned that regardless of the method there are going to be programming changes.

**c. Policy Foundation:**

(1) DODI 5000.64, Accountability and Management of DOD Equipment and Other Accountable Property, May 19, 2011,

(2) DOD Instruction 8320.04, Item Unique Identification (IUID) Standards for Tangible Personal Property, dated September 3, 2015 states “The unique item identifier (UII) will be used globally as the common data key in financial, property, acquisition, and logistics (including supply and maintenance) automated information systems to enable asset accountability, valuation, life-cycle management, and counterfeit materiel risk reduction. ”DODM 4140.01, DOD Supply Chain Materiel Management Procedures, February 10, 2014, provides overarching guidance for the DLMS and documents the use of UIIs to improve property accountability and to enhance product lifecycle management transition from uniquely identifying items using serial number to use UII. Includes the use of UII functional databases to enable information sharing and information access to achieve collaboration between already existing, or emerging item management systems, capture retain and provide current and historical data regarding uniquely tangible items by UII, and develop capability to exchange IUID data using DLMS and Invoicing, Receipt, Acceptance, and Property Transfer (iRAPT) transactions.

(3) DOD 7000.14-R, Defense Financial Management Regulation, Volume 4, Accounting Policy, Chapter 6, Property, Plant and Equipment.

(4) OUSD(AT&L) and OUSD(Comptroller) Memorandum, "Elimination of Military Equipment Definition and Increase to Capitalization Thresholds for General Property, Plant and Equipment", September 20, 2013.

**d. The Capital Equipment Visibility Requirement:** ODASD/SCI amended the DOD Integrated Requirements Set (IRS) for IUID in Supply Business Processes on July 1, 2015, to include the requirement that all balance affecting transactions and discrepancies associated with condition or missing/mismatched IUID data for capital equipment candidates maintain serialization data visibility between storage activities and owner/manager systems.

**e. High Intensity Management Items Defined:** One approach considered for supply chain control of capital assets called for a category of items referred to as high intensity management items. In this scenario, high intensity management items are those items that require owners to have constant knowledge of the physical location (DODAAC/RIC level) of each instance of an item uniquely identified by its UII and/or serial number if UII is unavailable. The owner of the item will maintain records of which storage activity has a particular instance of an item identified by its UII and/or serial number. This requires record keeping by both the owner and storage activity and the constant transaction exchange at the item instance level by UII and/or serial number to ensure that the records of both reflect the correct UIIs and/or serial numbers, by storage location, owner, and supply condition code.

Subsequent to the JPIWG meeting ODASD/directed that the terminology “High Intensity Management Items” be removed from draft PDC 1198 prior to final formal staffing.

**f. DLMS Transactions Impacted:** Transactions that convey the capital equipment/capital equipment candidate serial number & UII if available:

- (1) 527R Receipt (527R with 1/BR02/020 Transaction Type Code D4)
- (2) 867I Issue
- (3) 842A/W SDR Submission
- (4) 842S/Q Storage Quality Control Report
- (5) 846R Location Reconciliation
- (6) 856R Shipment Status Materiel Returns
- (7) 856S Shipment Status
- (8) 945A Materiel Release Confirmation/947I Inventory Adjustments

**g. DLMS 846P The Transaction History Request:** Response to Physical Inventory Request, Response to Transaction History Request (No History Available), and End of Day Transaction Count transactions will not contain UIIs and/or serial numbers. Owners will initiate a physical inventory due to mismatched UII(s) and/or serial numbers when a mismatched condition on UII and/or serial number is identified between its records and transactions received.

**h. Physical Inventory Control Program Process Impacts:**

(1) **Positive Outcome:**

(a) Provides first full up usage of DLMS supply standard transactions to provide high intensity management of items by NSN, Owner, Supply Condition Code, and UII and/or Serial Number. For capital equipment candidate items serial number is required and UII if available. Only DLMS compliant systems can implement this requirement.

(b) Meets the FIAR visibility and tracking requirement capital equipment.

(2) **Concerns:**

(a) No standard simple methodology for systems to identify items requiring management by UII and/or serial number.

(b) No DOD-wide standard dollar criteria for capital equipment.

(c) Capital equipment candidate criteria cast a wide net; some number of the items tracked will ultimately not be included as capital assets in financial reports.

(d) Management by serial number/UII will result in higher operational costs.

**i. Staffing Notes that Need to be Addressed:** The PDC will include staffing notes for the Components. Once PDC 1198 is published, Mr. Gonzalez requested that all DOD Components carefully review the PDC, provide their response/comments, and respond to the staffing notes.

**j. PDC 1198: Current Status (as of February 25, 2016):** Ms. Mulligan, ODASD (SCI), is currently reviewing PDC 1198, and the final version may not be exactly the same after OSD makes its comments. Ms. Denise Kurtz, DLA Distribution, commented on the aggressive timeline laid out in PDC 1198 and is concerned about funding to cover the cost of implementing PDC 1198. Bob Hammond, DLMSO, explained that each Component, including DLA, must discuss and resolve funding short falls with their individual comptroller offices to assess funding. If there is a shortfall, language should be included in the coordinated comments in response to the

PDC. DLMSO was careful to include concerns regarding cost restraints and to advise that cost of the program is to be absorbed by each organization.

**k. Open Discussion and New Topics. NAVSUP HQ Inventory Control Effectiveness (ICE) Report Stratification Requirements:** Mr. Tim Adkins, NAVSUP, reported having difficulties identifying materiel in the current four categories/levels of the ICE report stratification for accuracy goals. Reports received from DLA for performance based agreements are not identified in the report. NAVSUP requested a proposed re-categorization of the ICE report to better support inventory accuracy goals. Mr. Gonzalez recommended Mr. Adkins to prepare a presentation to discuss the proposed changes to the ICE report in the next DOD JPIWG meeting tentatively scheduled for August 2016.

**Action Item 3:** NAVSUP to assess the current ICE report categories and submit PDC with proposed updates to be discussed at the next DOD JPIWG meeting.

**5. Upcoming DOD JPIWG Meetings in 2016.** Mr. Gonzalez thanked all participants for their attendance, continued support, and contributions to the JPIWG. The chair will announce the next date once a meeting schedule has been set.

PREPARED BY:

APPROVED:

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Mr. Rafael Gonzalez  
DOD JPIWG Chair

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