

OFFICE OF THE SECRETARY OF DEFENSE

6301 LITTLE RIVER TURNPIKE, SUITE 210
ALEXANDRIA, VA 22312-5044



DEFENSE LOGISTICS
STANDARD SYSTEMS OFFICE

DLSSD-B

12 JUN 1989

SUBJECT: DoD Joint Physical Inventory Working Group (JPIWG) Meeting,
17-20 April 1989

TO: Commander, U.S. Army Materiel Command
ATTN: AMCSM-M/AMCRM-F
Commander, Naval Supply Systems Command
ATTN: SUP 06/SUP 01
Commander, Air Force Logistics Command
ATTN: LPP/FDA
Director, Defense Logistics Agency
ATTN: DLA-OS
Comptroller, Defense Logistics Agency
ATTN: DLA-CF

1. The enclosed memorandum for record is forwarded for your information.
2. The DLSSD-BI point of contact is Mr. Frank St. Mark, (202) 274-6062, AUTOVON 284-6062.


JAMES R. LEWIS
Chief
Distribution Standard
Systems Branch



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MEMORANDUM FOR RECORD

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17 - 20 April 1989

1. The subject meeting was hosted by the Navy and convened at 0900 hours, 17 April 1989, at the Naval Supply Center, San Diego, CA. The list of attendees is at enclosure 1. The agenda for the meeting is at enclosure 2.

2. The minutes of the 12-13 October 1988 meeting were reviewed and approved without correction.

3. The following topics were discussed by the group:

a. Topic 1. National Defense Authorization Act, Fiscal Year 1989.

(1) Discussion: Mr. Dale Yeake1 (DASD(L)SD) briefed the group on the legislation that requires the Secretary of Defense to submit an annual report to the Congress on the "Security and Control of Supplies" for Fiscal Years 1989, 1990, and 1991. The first report is due to Congress in January 1990. Mr. Yeake1 indicated that the report requirements were spelled out in the DASD(L) memorandum of 5 December 1988. Additionally, Mr. Yeake1 pointed out that the report will focus on the Inventory Control Effectiveness (ICE) Report data and that the Components should report any incidents, i.e., items that may be/were publicized in the news media, that were uncovered during the fiscal year. There is no specific format for submitting the information to the DASD(L). In order to meet the January 1990 timeframe, the information requested in the DASD(L) memorandum must be submitted to DASD(L) by 1 November 1989.

(2) Disposition: The request for internal information collection for the Annual Report on the Security and Control of Supplies was approved 28 March 1989.

b. Topic 2. Proposed MILSTRAP Change Letter (PMCL) 114A.

(1) Discussion: The group reviewed the comments/recommendations on PMCL 114A.

(2) Disposition: The comments/recommendations and dispositions are at enclosure 3.

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c. Topic 3. Navy Integrated Storage Tracking and Retrieval System
(NISTARS) tour.

(1) Discussion:

(a) The JPIWG toured the NISTARS operation to gather information to incorporate automated physical distribution system enhancement in DoDI 4140.35 and MILSTRAP Chapter 7. NISTARS is a computer-controlled materiel handling system that provides constant tracking and process control of physical distribution functions from materiel receipt, location assignment, storage, retrieval, shipment consolidation and preparation of delivery documentation. NISTARS also performs physical inventory management, shelf life control, self directed audits and data base reconciliation, customer service inquiries, and management reports.

(b) The NISTARS facility contains 538,000 bin locations, 29,000 rack locations, and 6,300 pallet locations. Movement of materiel through the warehouse is done by conveyor or automated guided vehicles. On all conveyors, materiel is directed to the appropriate destination by bar coded labels. The system modernizes supply operations, increases productivity, improves responsiveness to customer requisitions and increases the accuracy of inventory management.

(2) Disposition: The JPIWG will review the DoD Physical Inventory Control Program policies and procedures and identify the processes that require enhancements to take advantage of the various automated physical distribution systems in operation or planned.

d. Topic 4. DASD(L)SD Analysis of the GAO Statistical Sample.

(1) Discussion:

(a) The purpose of the briefing was twofold: to discuss the effort made to develop new inventory accuracy performance measurements and new causative research selection criteria.

(b) Inventory Accuracy Performance Measurements. To provide a true representation of the health of the DoD's Physical Inventory Program, random statistical sampling must be utilized. 1986 GAO samples taken at Norfolk, New Cumberland and Mechanicsburg, were the only available data closely resembling random statistical sampling. Results of the analysis of this data revealed most inaccuracies are both low dollar and low unit variances, therefore, not significantly impacting funding or readiness. In response to this conclusion, we assumed specific levels of errors to be considered accurate and recalculated various accuracy indicators. Unit and dollar accuracy rates remained relatively unchanged while record accuracy experienced a favorable increase. The conclusion was to establish a dollar/unit variance level for which those errors would be considered accurate and to collectively analyze varying indicators to measure inventory accuracy.

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(c) Causative Research Selection Criteria. The objective was to isolate a workable population of adjustments which would net a high payback. This would reduce resource expenditures and improve quality and timeliness of research. To accomplish this, a dollar value and unit variance cut-off level could be used. Again, using the 1986 GAO sample data, several options surfaced:

- a. > or = \$16K and > or = 10%
- b. > or = \$50K and > or = 10% (Services only)
other criteria for DLA
- c. generic policy
90% of dollar value adjustments and all variances
or = 25%
- d. statistical sampling
- e. other

(2) Disposition: Based on the discussions associated with maximizing inventory resources, monthly location reconciliation, causative research threshold, and the annual random statistical sample, the JPIWG determined that the Minimum Research Requirement for Potential or Actual Physical Inventory Adjustments (Figure 7-1) required revision. The analysis of the GAO data supported the JPIWG's conclusion. The minimum research thresholds were revised as follows:

(a) <u>CONDITION OF DISCREPANCY</u>	<u>REQUIRED RESEARCH</u>
1. Value of \$5000.00 or less, <u>or</u> unit variance of 10% or less.	1. Postcount Validation.
2. Value between \$5000.01 and \$16,000.00 <u>or</u> unit variance between 10% and 25%, <u>but</u> less than \$16,000.00.	1. Postcount Validation. 2. Preadjustment Research. 3. Sample Causative Research.
3. Value greater than \$16,000.01 <u>or</u> unit variance of more than 25%, regardless of dollar value.	1. Postcount Validation. 2. Preadjustment Research. 3. 100% Causative Research.
4. Controlled inventory item.	1. Postcount Validation. 2. Preadjustment Research. 3. 100% Causative Research. 4. Report of Survey.

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e. Topic 5. Air Force Research/Adjustment Policy - A DoD Test.

(1) Discussion: The Air Force member presented a briefing on the results of their test of the AFLC Research/Adjustment Policy. The policy allows potential variances of less than 10% of the units and less than \$5,000 to remain on the accountable record, and defers the workload associated with researching and adjusting those potential variances until such time as they breach the criteria or are corrected through some other inventory action. By deferring this workload on small variances, increased manhours are made available to work those larger potential variances which have a large impact on customer support. In effect, the criteria allows the Air Force to concentrate limited inventory resources on those items which have the most potential for return on resources invested. The policy also ensures that the procurement process is not adversely affected.

(2) Disposition:

(a) The data presented by the Air Force tended to support their position that in the short term, the policy does an excellent job in prioritizing inventory workloads and assuring that scarce resources are efficiently employed. Accuracy measures have been steadily increasing since 1985 and the majority of inventory dollars are being covered by either validation or causative research.

(b) The Air Force intends to continue its research/adjustment policy until after the advent of their new Stock Control and Distribution (SC&D) system. At that time the criteria will be revisited and modified if warranted.

f. Topic 6. NSC San Diego Total Quality Management (TQM) Program.

(1) Discussion: In January 1987, NSC San Diego volunteered to be the Navy Supply Systems Command prototype site for TQM. NSC's first objective was to select and educate TQM leaders and to develop an implementation plan. McClellan AFB, Sacramento, CA, assisted NSC San Diego in educating the TQM leaders and in developing the plan. The implementation plan was divided into three phases. Phase I, August 1987 - June 1988, tested assumptions on implementing a prototype TQM program. Phase II, July 1988 - June 1989, applied lessons learned to change the culture in selected test areas, and Phase III, July 1989, implements TQM across the center. TQM emphasizes group activity based on continuous commitment by management and employees. NSC indicated that improvements as a result of TQM will be measurable; however, up to 30 years is required to achieve the cultural changes necessary for a successful TQM program.

(2) Disposition: The JPIWG will follow the progress of NSC San Diego's TQM program as well as the other Components TQM programs.

4. The remaining topics on the agenda (Improved Causative Research Procedures, Computation of the Average Value of Inventory for the ICE Report, and Draft Quality Control Program) were deferred until the next meeting.

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5. The meeting was adjourned at 1600, on 20 April 1989. The DLSSD will host the next meeting, tentatively scheduled for June 1989. Details will be provided when available.


Francis M. St. Mark, Jr.
Chairperson
DoD Joint Physical Inventory
Working Group

3 Enclosures

AGENDA

DOD JPIWG MEETING

17-20 APRIL 1988

<u>DATE</u>	<u>TIME</u>	<u>TOPIC</u>
17 APR	0900-0930	ADMINISTRATIVE COMMENTS REVIEW/APPROVE MINUTES FROM 12-13 OCT 1988 MEETING
	0930-1000	DASD (L) SD BRIEFING NATIONAL DEFENSE AUTHORIZATION ACT, FISCAL YEAR 1989
	1000-1200	PMCL 114A
	1200-1300	LUNCH
	1300-1600	PMCL 114A
18 APR	0800-1200	PMCL 114A
	1200-1300	LUNCH
	1300-1600	TOUR NAVY INTEGRATED STORAGE TRACKING AND RETRIEVAL SYSTEM (NISTARS)
19 APR	0800-1200	PMCL 114A
	1200-1300	LUNCH

20 APR

1300-1600

NSC SAN DIEGO
PRESENTATION TOTAL
QUALITY
MANAGEMENT/STATIS-
TICAL PROCESS
CONTROL

0800-0900

DASD (L) SD
PRESENTATION
ANALYSIS OF THE GAO
STATISTICAL SAMPLE

0915-1000

IMPROVED CAUSATIVE
RESEARCH
PROCEDURES

1000-1045

AIR FORCE
PRESENTATION
DOD
RESEARCH/ADJUST
CRITERIA TEST

1100-1200

AIR FORCE
PRESENTATION
INVENTORY
PRIORITIZATION
MODEL

1200-1300

LUNCH

1300-1400

COMPUTATION OF THE
AVERAGE VALUE OF
INVENTORY FOR THE
ICE REPORT

1400-1500

DRAFT QUALITY
CONTROL PROGRAM

1500-1600

WRAP-UP