

DLMSO

June 27, 1997

MEMORANDUM FOR RECORD

SUBJECT: Summary of DoD Joint Physical Inventory Working Group (JPIWG) Meeting, May 28-29, 1997

**Purpose:** The subject meeting was held and hosted by the Defense Logistics Management Standards Office (DLMSO) at the DLA Headquarters Complex, Fort Belvoir, VA. The purpose of the meeting was to discuss the status of the Component Physical Inventory Control Programs, the implementation status of DoD directed changes, and the proposed MILSTRAP Change Letter to establish a single total item property record. The agenda and list of attendees are at Attachments 1 and 2.

**Brief Summary of Discussion:**

a. Administrative Comments . The Acting JPIWG Chairperson, Mr. Charles Strong, welcomed the members, provided copies of the agenda and handouts, and opening remarks. Mr. Strong noted that it had been about a year since the last meeting due to changes in the DLMSO staffing and other considerations, however, the driving force behind convening the JPIWG was the many changes in the roles and responsibilities of the Component activities engaged in Inventory Management and Physical Distribution and Storage of DoD materiel.

b. Physical Inventory Program Status Report . Mr. Strong briefed the members on the status of the DoD program highlighting the authorizing publications and the roles and responsibilities of the various management levels involved. He stated that the JPIWG is a group chartered by the Assistant Deputy Under Secretary of Defense for Logistics, Material Distribution Management (ADUSD(L)MDM) to assist and provide functional expertise in addressing issues on Physical Inventory. As an advisory group to the Office of the Secretary of Defense(OSD) Staff, the JPIWG is concerned with the broad requirements of physical inventory control and the effectiveness of policies in accounting for DoD materiel. Most of the members being new to the JPIWG, Mr. Strong discussed the evolution of the program and some of the initiatives taken by the group to improve the management of DoD accountable records. Members were

challenged to assess the impact of downsizing and the reductions in resources to accomplish the accountability function; and to consider the changes in the Defense Inventory Management infrastructure, such as transferring the DoD Storage Activity function for general supplies to the Defense Logistics Agency (DLA). They were asked to look at the task of physical inventory control in the light of the emerging technologies and concepts of operation and on that basis evaluate the changes needed to accomplish the task of physical inventory control in the future. The JPIWG members were provided a copy of the JPIWG Charter taken from the DoD 4140.1R, DoD Materiel Management Regulation, Appendix G (Attachment 3).

c. Inventory Control Effectiveness (ICE) Reports . The Vice-Chair of the JPIWG, Mr. Don Collins, presented the role-up report of the Fiscal Year (FY)96 ICE Report for member comment and discussion (Attachment 4). He discussed the DoD requirement for Components to provide the ICE reports to the DLMSO as well as the procedural guidance in the MILSTRAP manual which states reports are to arrive at DLMSO no later than (NLT) 75 calendar days following the end of the reported quarter. Timeliness of reports was an issue the last two quarters of FY96 due to transfers of Service storage facilities to DLA and associated functional and systems problems. Ms. Sherry McNeil, ADUSD(L)MDM advised that DoD 4140.1R is under revision and that there are some due dates being established for year-end report submissions. The Ammunition Report was not discussed since the only Service Ammunition representative present was from the Navy. Members were encouraged to submit ICE reports in a timely manner to allow the DLMSO staff to compile and analyze the reports and to provide the OSD with the information.

d. Proposed Changes to DoD 4140.1R, DoD Materiel Management Regulation . Ms. Sherry McNeil, ADUSD(L)MDM, provided the members with a series of proposed changes to the DoD regulation (Attachment 5). She cited two changes specific to the ICE reporting requirement. One establishing a due date for Components to have their fiscal year-end reports to DLMSO NLT December 31st of each year for the preceding FY, and the second change being the establishment of a due date for DLMSO to provide consolidated reports and analyses to ADUSD(L) by January 31st each year. Ms. McNeil also advised the members that the ICE reports were being posted to a Page on the Internet. The Web Page URL is <http://www.isis.web-eis.com/supply/ice.htm> and provides the year-end statistics for FYs 92-96. The Services and DLA members were asked to review the proposed changes to DoD 4140.1R and to provide Ms. McNeil their recommended edits and changes for consideration prior to formal staffing of the regulation with the Components. She stated that the comments

need to reach her office by June 6, 1997 if there is to be any hope of incorporating the recommendations prior to formal staffing.

e. AMCL 8A Implementation Status . The initial strategy for implementing AMCL 8A was through the Joint Logistics Systems Center (JLSC) sponsored Stock Control System (SCS) application and the DLA sponsored Distribution Standard System (DSS) application. During the past year, efforts to develop the SCS application have been suspended and the future of JLSC is in question. Thus, the Components are now faced with modifying their legacy Inventory Control Point (ICP) systems to implement the AMCL. This in turn has had an impact on the DSS implementation of AMCL 8A requiring the interface of DSS with numerous legacy ICP systems. DLA's assumption of responsibility for managing and operating CONUS distribution facilities has, however, promoted the orderly implementation of AMCL 8A as DSS is extended to the previous Service operated storage activities. The implementation of AMCL 8A at ammunition management activities and storage facilities was also discussed. CDR Scott Rizzo stated that the Navy ammo managers believe that the Ammunition Management Standard System (AMSS) being developed under the sponsorship of JLSC will in fact implement AMCL 8A. Full implementation of AMSS is not projected until after the year 2000. Mr. John Milliken, U.S. Army Material Command, stated that the Army had been granted a waiver for Ammunition's implementation of AMCL 8A. Ms. McNeil pointed out that the Army's waiver was about ready to expire and that action is required since further waivers or extensions are unlikely. The Air Force and Marine Corps were not represented at the meeting and their positions are not known at this time. The JPIWG Chair asked members if the corporate wisdom was that JPIWG should recommend to ADUSD(L)MDM that AMSS be given priority for development and fielding as the DoD implementation of AMCL 8A for the Ammunition community. The consensus reached was that a briefing be provided to the JPIWG by the AMSS Program Manager at our next meeting. The members were asked to become conversant with their Service/Agency plans for implementing AMCL 8A in lieu of the JLSC SCS solution. This will be a continuing topic of discussion at future JPIWG meetings, and therefore needs to be addressed by all Components. The Chair stated that this is a primary reason for planning site visits to ICP and Storage Activities in the upcoming months, so that all JPIWG members would become knowledgeable not only of their own Component's efforts, but the other Service/Agency actions as well.

f. DUSD(L) Tasking - Single Item Inventory Record . Mr. Dale Yeakel, ADUSD(L)LBS&TD, briefed the JPIWG on a draft tasking to the DLMSO to establish and maintain the distribution

depot asset balance value as the single authoritative source for asset balance data that is shared by Inventory Control Points and Distribution Depots (Attachment 6). He explained that the intent is to move into an environment of shared data where there is a single authoritative database for specific data elements that is shared with all stakeholders. The JPIWG is being asked to develop a Proposed MILSTRAP Change Letter (PMCL) that enables storage activities to share asset balance data with the ICPs. This concept was introduced in the Third Addendum to AMCL 8A as the Total Item Property Record and "includes, as a minimum, materiel that is due in, in transit, in organic wholesale repair facilities, in a contractor's custody, on loan, on hand in wholesale distribution centers, on hand at retail activities, and for reported assets in the custody of users." The shared database concept will ensure that management at the owner/manager and distribution center are making their decisions based on the same information and eliminate the need for reconciliations. Mr. Yeakel described a possible interim step being that of modifying selected materiel management and distribution center migration systems to move from the current reconciliation of records to an end-of-day processing routine. As documented in AMCL 8A, under the end of day processing routine, both the owner/manager and the distribution center would continue to maintain an on-hand asset balance in their respective systems, however, the on-hand balance of the distribution center would be overlaid on the owner/manager balance at the end of each day for all items that had activity during the day affecting the asset balance.

Mr. Strong advised the group that the Logistics Community Manager (LCM) has also identified the Single Item Inventory Record as an initiative that should be given priority for implementation under the Global Data Management System/Global Combat Support System (GDMS/GCSS) under the JCS Vision 2010. The SIIR is viewed to a large degree by the LCM as a corporate data sharing opportunity and thus should not be limited to the "end of day processing" update of separate databases, but rather a step toward establishing "authoritative" sources for data. A paper discussing Corporate Data Sharing Processes was provided JPIWG members for their information and consideration in assessing the actions necessary to accomplish the DoD tasking (Attachment 7).

Members were provided copies of the draft DoD tasking and the Corporate Data Sharing Processes white paper. They were asked to review the draft tasking and to provide comments and questions to the Chair NLT June 30, 1997 for consolidation and forwarding to ADUSD(L) LBS&TD.

g. Proposed Site Visits - ICPs and Storage Activities

The final item on the agenda was a discussion of the need for site visits. Mr. Strong stated that there have been many personnel turnovers that have occurred in the Components and JPIWG membership and the knowledge base of the members is limited to their own Component practices. Additionally, there have been numerous changes in management responsibility for physical inventory control due to DMRD 902 and BRAC actions. In view of the role the JPIWG plays in drafting proposed policy and procedures, the Chair believes that some first hand knowledge of Component organizations and practices is necessary. On that basis, Mr. Strong asked the members to review a list of survey questions used by the JPIWG during its last series of site visits and to think about those activities within their Component that may be potential sites for the JPIWG to visit (Attachment 8). He stated that because of the significant changes in the wholesale material functions performed previously at an ICP may now be the responsibility of the Storage Activity or may no longer be required. Thus, the list of questions is merely a starting point for developing a survey for the sites to answer prior to our visit. That way the site will be aware of our interests and we will have an appreciation of how they operate. JPIWG members concurred with the proposal to conduct on-site visits. The members were asked to review the survey questionnaires used in the previous JPIWG site visits and asked to provide comments and recommendations at the next meeting. They were also asked to consider what sites they would recommend for the JPIWG to visit and to provide those recommendations at the next meeting as well.

**Decisions Reached:** Decisions reached are as discussed in the above discussion paragraphs.

**Follow-up Action Required:**

a. JPIWG members were requested to provide Ms. McNeil their comments on the proposed draft change to DOD 4140.1R NLT June 6, 1997.

b. The representatives are asked to review draft DoD tasking (paragraph f/Attachment 6) and provide comments to the JPIWG Chair NLT June 30, 1997.

c. DLMSO (JPIWG Chair) will consolidate member comments on draft tasking for Single Item Inventory Record and forward to ADUSD(L) LBS&TD.

d. JPIWG members will develop a list of proposed sites for JPIWG visits and review the survey questionnaires for the

site visits and prepare comments for the next JPIWG meeting tentatively scheduled for the week of August 4, 1997.

/s/

\_\_\_\_\_  
CHARLES W. STRONG, JR.  
Acting Chairperson, DoD JPIWG

APPROVE: /s/  
J. A. JOHNSON \_\_\_\_\_  
Director, DLMSO

Attachments

# **DOD JOINT PHYSICAL INVENTORY WORKING GROUP (JPIWG)**

## **AGENDA**

- Administrative Announcements
  - Introductions
  - Physical Inventory Program Status Report
  - Inventory Control Effectiveness (ICE) Reports
  - AMCL 8A Implementation Status
  - DUSD(L) Tasking - Single Item Inventory Record
  - Proposed Site Visits - ICP's and Storage Activities
- |             |         |
|-------------|---------|
| Mr. Strong  | Members |
| Mr. Strong  | Members |
| Mr. Collins | Members |
| Mr. Yeakel  | Members |

## Joint Physical Inventory Working Group Tasking

**TASK:** Develop a Proposed MILS Change Letter (PMCL) to establish and maintain the distribution depot asset balance value as the single authoritative source for asset balance data that is shared by Inventory Control Points and Distribution Depots.

**PURPOSE:** The primary purpose of this tasking is to develop a process within the Defense Logistics Management Systems Office (DLMSO) structure where all stakeholders access the same distribution depot inventory balance information for actions and decision making. This will reduce stock denials caused by the use of different data with the same meaning but different contents. It will also eliminate the need for reconciliation between different data.

A secondary purpose is to develop a process that moves the Logistics community toward an environment where Logistics applications directly share data without regard to machine boundaries, either the source machine or the data presentation machine, and where data is specifically managed for access and change as a separate business asset.

DLMSO in concert with the DoD Components has developed a mature process for implementing process changes based upon the current transaction exchange environment. This tasker will build upon that process and tailor it, as needed, to accommodate the shared data environment. The concept of shared asset balance data is being used as a prototype for developing/implementing the broader data sharing goals within the logistics community.

### SUPPORTING POLICY:

(1) DoD 4140.1-R, DoD Materiel Management Regulation, dated January 1993, states that; "A single Item inventory record shall be shared to provide materiel asset information. Duplicate records maintained by Inventory Control Points and Supply Distribution Depots will be consolidated into one inventory record."

(2) DoD 4000.25-2-M, Chapter 7, Procedures for Physical Inventory Control, Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP) states that: "A single total item property record shall be shared to provide materiel asset information. The total item property record shall, as a minimum, include materiel that is due in, intransit, in organic maintenance facilities, in a contractors custody, on loan, on-hand in distribution centers, reported on-hand at retail activities, and for reported assets in the custody of users."

(3) DoD Directive 8320.1, DoD Data Administration. The data required to implement the concept of the shared asset data will be standard data as required by the DoD policy and as registered in the Defense Data Model and the Defense Data Dictionary System.

**SCOPE:** The item managers (IMs) at inventory control points (ICPs) require timely and accurate asset knowledge as described above to effectively manage the items assigned to them. The ultimate goal of asset balance data sharing is that the systems supporting the IMs reach out and into the source systems that contain each element (on order, intransit, on loan, in

maintenance, on-hand at distribution depots, etc.) of asset data on an immediate, interactive basis. However, this tasking is limited only to developing the process for sharing the available on-hand asset balances at distribution centers with ICP systems. The PMCL developed will need to consider all the ICP processes that require the use of distribution center on-hand asset data, i.e., requirements computation, returns for credit processing, disposal processing, requisition processing, etc.

**ASSUMPTIONS:** The authoritative source system for the available on-hand asset balances at distribution depots is the Distribution Standard System (DSS).

There will be a phased implementation among Service/Agency ICPs and distribution depots that will have to be carefully scheduled and managed.

The necessary elements of the Global Combat Support System (GCSS), specifically the Global Data Management System (GDMS) will serve as the data management system identifying authoritative data source, data location, and user access privileges.

That the technical hardware/software and communications are in place that will enable the transfer of the data in the time frames specified by the PMCL.

#### **BACKGROUND/JUSTIFICATION:**

The following background information was taken from Appendix A - Focus Areas of the Logistics Business Strategic Plan for Corporate Information Management published in 1993. There were 94 Business Improvement Strategies (BISs) identified in the document, one of them was the shared asset record. While some of the workload figures cited have changed they are essentially in the ball park and the concepts stated remain valid. (Bold font clarifications have been added where necessary)

#### Chapter XII - BIS 2.11 Detail

#### 2.11 Establish Distribution Center On-Hand Asset Data Sharing By All Functional Activities/Users.

##### A. Introduction

Effective management of the logistics pipeline is highly dependent upon timely and accurate on-hand asset knowledge. The specific improvement is the elimination of duplicative on-hand asset information maintained by owner/manager activities and Distribution Center activities and the establishment of shared on-hand asset information.

##### B. Current Assessment

Since the early 1980s inventory control has been a subject of continuing interest in both the Senate and the House of Representatives. The DoD has continually been called upon to provide testimony on this subject at Congressional hearings and the General Accounting Office (GAO) has continued to focus its attention on this area. The Department has given this subject top management attention resulting in improvements; however, inventory accuracy continues to be a problem area. One of the historical problems in maintaining accurate physical inventories is the duplicative record keeping and artificial organizational boundaries that have developed over time. A prime example of the problems created by having multiple data bases of the same information is the Distribution Center on-hand asset balance of the items stored at the supply depot.

- Each owner/manager maintains an item record which among other things, contains the on-hand stock balance for the item that is held at each of the Distribution Centers where the item is stored.
- Distribution Centers also maintain one or more records for the same item, reflecting the on-hand balance and physical locations of the item.
- At any point in time there are as many as three on-hand record balances for the quantity of an item: (1) the record balance the owner/manager maintains, (2) the record balance the Distribution Center maintains, and (3) the automated warehouse system on-hand balance. **(As the Distribution Standard System (DSS) is deployed to DLA depots, the AWS balances are being eliminated, leaving only two balances - the owner/manager system balance and the DSS balance.)**
- Lastly, there is the actual physical quantity on-hand in the warehouse storage locations, which is the quantity of materiel that all the records should reflect.
- In addition to the above multiple supply inventor record there are financial inventory records which must also be reconciled to the supply records.

There are a number of other critical data elements, such as Condition Code, that are common to the multiple data bases and required by both owner/managers and distribution centers. In order to ensure that the records maintained by the owner/manager and the distribution center are the same, reconciliations among the various data bases must be conducted and discrepancies among them must be identified, researched, and corrected.

Today, DoD owner/managers and distribution centers reconcile approximately 18 million records annually, of which approximately 650,000 have discrepancies. These discrepancies must be researched and corrected to bring the records back into agreement. The volumes of discrepancies are so large that they frequently cannot all be resolved before the next reconciliation is initiated causing the owner/manager and distribution center on-hand balance to be out of balance for many months. The effort to research the discrepancies is extremely labor intensive, requiring trained analysts to review and match the owner/manager and distribution center transaction histories, review hard copy source documents, and conduct physical inventories and research in the warehouse itself. This process of reconciliation represents a significant effort to correct errors

that were introduced into the system unnecessarily.

While the identification and correction of discrepancies among records consumes significant resources, the more significant problem is the fact that until the discrepancies are corrected the information used by the owner/manager and the Distribution Centers in making business decisions is inconsistent. These inconsistencies can and do cause incorrect business decisions to be made. The differing on-hand balances used by the owner/manager and distribution centers for their respective day-to-day business operations and decisions create many problems such as:

- Owner/managers directing distribution centers to ship quantities of an item that is not on-hand.
- Directing shipments from other than the preferred distribution center because the owner/manager on-hand balance indicates the preferred distribution center cannot provide the desired support.
- Requesting the conduct of physical inventories due to the uncertainty of the on-hand asset balance at the distribution center.
- Initiating procurement actions too early or too late due to incorrect on-hand asset balance information.

These kinds of problems negatively affect the logistics pipeline by; (1) increasing costs and/or delivery times, (2) creating long supplies where materiel is ordered too early, and (3) decreasing customer confidence when materiel is out of stock which can result in stockage of larger quantities at the customer level. In those cases where the owner/manager directs a distribution center to ship quantities it cannot support, a denial is generated by the distribution center. The denial prompts a physical inventory to be conducted and causes the owner/manager to direct the customer requirement tor. The redirection of the customer requirement to another distribution center administratively lengthens the pipeline time by one to three days and may further lengthen the pipeline delivery time due to increased distances or require premium transportation to reduce the delivery time.

### C. Description of Need/Capability

A key concept of our systems modernization effort is the use of shared data bases. The goal of this concept is to eliminate duplicative data bases and eliminate the requirement for their reconciliation. This goal was articulated by the DASD for Logistics in November of 1988 and has most recently been committed to a DoD policy objective in the Draft DoD Materiel Management Regulation, DoD 4140.1-R which states that: **(NOTE: this policy became effective in January 1993, the precise wording is contained in the POLICY section above)**

"A single item inventory record shall be shared to provide materiel asset information. Duplicative records maintained by Inventory Control Points and Supply Distribution Depots will be consolidated into one inventory record."

and

"The Supply Distribution Depot is responsible for the content, changes and accuracy of the inventory held at distribution activities under its control."

The shared data base concept will ensure that management at the owner/manager and distribution center are making their decisions based on the same information and eliminate the need for reconciliations. The reconciliation process and resultant research and correction resources expenditures will no longer be required. Both the owner/manager and the distribution center as well as others will have access to the data in the time frames necessary to conduct effective business operations. Strict controls will be built into the system identifying the distribution center as the steward of the data, i.e., the organizational entity that has the authority to change the on-hand asset balance record and identifying the other activities that are authorized access to the data.

In order to capitalize on the benefits of the shared data base approach it may be necessary to take an interim step by modifying the selected materiel management and distribution center migration systems to move from the current reconciliation of records to an end of day processing routine. Under the end of day processing routine both the owner/manager and the distribution center would continue to maintain an on-hand asset balance in their respective systems, however, the on-hand balance of the distribution center would be overlaid on the owner/manager balance at the end of each day for all items that had activity during the day affecting the asset balance. While this is sub-optimal to the ultimate objective of a true shared data base, it will eliminate the need for reconciliation and insure that at the start of each day the on-hand asset balances of the owner/manager and the distribution center are in complete agreement. **(NOTE: this interim end of day process is documented in AMCL 8A, however, AMCL 8A clearly states that end of the day processing procedures are interim and that the fundamental requirement is to implement the technical capability for a shared asset balance.)**

The elimination of duplicative asset balances provides significant benefits, some are easily quantifiable and some are not. While not easily quantified, the fact that both the depot and the owner/manager are using the same on-hand balance for their respective day-to-day business operations and decisions eliminates many current problems such as: (1) owner managers directing distribution centers to ship quantities of an item that is not on-hand, i.e., denials due to record imbalances will be eliminated, (2) directing shipments from other than the preferred distribution center because the owner/manager on-hand balance indicates the preferred distribution center cannot provide the desired support, (3) requesting the conduct of physical inventories due to the uncertainty of the on-hand asset balance at the distribution center or (4) initiating procurement actions too early or too late due to incorrect on-hand asset balance information.

The elimination of the requirement to reconcile records and correct the resultant discrepancies is quantifiable. Based on the opinions of experts in the field, \$20 dollars is a conservative estimate of what the average discrepancy costs to identify and correct. Elimination

of the reconciliation process will save approximately \$13 million dollars annually. These savings were derived by multiplying the 650,000 reconciliation variances by the \$20 it cost to identify, research and correct the variance. There are other savings that result from elimination of the reconciliation scheduling difficulties among activities and computer time needed to reconcile the 18 million records. Additionally, as indicated above, the costly problems resulting from poor business decisions based on inconsistent information will be eliminated and the logistics pipeline will be shortened and better managed.