



OFFICE OF THE SECRETARY OF DEFENSE  
WASHINGTON, D. C. 20301

CAMERON STATION  
DEFENSE LOGISTICS  
STANDARD SYSTEMS OFFICE  
ALEXANDRIA, VA 22304-6100  
DLSSO-BI

12 FEB 1987

SUBJECT: DoD Joint Physical Inventory Working Group (JPIWG) Meeting,  
13-15 January 1987

TO: Commander, U.S. Army Materiel Command  
ATTN: AMCSM-P/AMCRM-F  
Commander, Naval Supply Systems Command  
ATTN: SUP 06/SUP 01  
Commander, Air Force Logistics Command  
ATTN: AFLC-DSS/AFLC-ACF  
Commandant of the Marine Corps  
ATTN: LMM/FDA  
Executive Director, Supply Operations, DLA  
ATTN: DLA-OS  
Comptroller, Defense Logistics Agency  
ATTN: DLA-CF

1. The enclosed Memorandum for Record, dated 12 February 1987, is forwarded for your information.
2. The DLSSO-BI point of contact is Mr. C. Strong, (202) 274-6062 (AUTOVON 284-6062).

1 Encl

cc:  
OASD(L/SD)

JAMES R. LEWIS  
Chief  
Distribution Standard  
Systems Branch

OFFICE OF THE SECRETARY OF DEFENSE  
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MEMORANDUM FOR RECORD

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1. The subject meeting was hosted by DLA and convened at 1300 on 13 January 1987 at DLA Headquarters, Cameron Station, Alexandria, VA. Attendees are listed in enclosure 1.

2. The minutes of the 8-9 September 1986 meeting were reviewed and approved without corrections.

3. The agenda for the subject meeting is at enclosure 2.

a. The JPIWG Chairman opened the meeting and briefed the members on the following:

(1) DoD Physical Inventory Control Course. The Program of Instruction and Student Guide has been completed for the course; however, Headquarters, U.S. Army Materiel Command has indicated that under its current budget constraints, the course cannot be developed and presented unless additional resources are provided by Headquarters, Department of the Army.

(2) MILSTRAP Staff Assistance Visits. The FY 87 MILSTRAP Staff Assistance Visits will take place 13 April through 19 June 1987. The Physical Inventory Control Program Administrator will conduct the Physical Inventory Control (MILSTRAP Chapter 7) on-site review. The on-site review will focus on the Services/Agency Quality Control Program, Internal Management Control Program, Infloat Document Control Program, and Location Reconciliation Program. JPIWG members are not required to participate in the MILSTRAP Staff Assistance visits since the Service/Agency MILSTRAP Focal Points are required to participate; however, JPIWG members are invited to assist the Physical Inventory Program Administrator in the review of their Service/Agency site. The on-site review schedule is at enclosure 3.

b. The first order of business was a presentation of the Below Wholesale Inventory Procedures Study by the Logistics Systems Analysis Office (LSAO). The purpose of the study is to develop a basis for DoD policy and procedures for inventory below the wholesale level. The objective of the study is to compare the Services/Agency retail inventory control programs with DoDI 4140.35 and DoD 4140.22-M (Chapter 7) and recommend DoD policy for control of materiel below the wholesale level. Field research was conducted at several retail storage

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activities and each Service/Agency headquarters. The preliminary findings indicated that there is a definition problem with "below wholesale" level. LSAO is working with DASD(L/SD) and DLSSO to resolve this problem. Other findings indicated that the below wholesale programs resemble wholesale programs; however, most below wholesale activities reported to command level only. Training is also a problem at the below wholesale level. LSAO will present its second in-process review (IPR) to DASD(L/SD) on 22 January 1987.

c. The second order of business was a presentation of the "Item Characteristics Contributing to Inventory Turbulence" study by LSAO. The purpose of the study is to provide a basis for improving inventory control policy and practices within the DoD. The first two objectives of the study are to identify Component physical inventory criteria and identify data elements and the sources of data necessary to perform an analysis of item characteristics contributing to inventory variance and record turbulence. The initial phase of the study is to be completed by 23 April 1987. Depending on the outcome of the first two objectives, OASD(L/SD) will determine whether to pursue the remaining objectives. The objectives are to identify item characteristics which may increase susceptibility to inventory variance and develop recommended modifications to existing DoD physical inventory policy. LSAO also provided the JPIWG copies of its Headquarters Questionnaire.

d. The next order of business was an overview of DoDI 4140.35, Physical Inventory Control for DoD Supply System Materiel presented by DASD(L/SD). Significant changes include expanded policy to cover all DoD materiel, annual random statistical sample and goal, specific guidance for selecting and prioritizing items for physical inventory, and separate accuracy and performance goals for ammunition. Other changes discussed were the requirements to ensure that materiel accountability and inventory accuracy are mandatory elements in military and civilian personnel performance standards and that adequate training is provided to supply system personnel who perform functions affecting physical inventory control. The DoDI is expected to be signed by 1 February 1987.

e. The DASD(L/SD) representative also presented an overview of the DoD Annual Statement of Assurance for FY 86 to the President and Congress. Under the Internal Management Control Program, DASD(L/SD) has identified Inventory Control and Security as an area to be addressed. The results of the Inventory Control and Security Vulnerability Assessment was discussed by the Defense Council on Integrity and Management Improvement (DCIMI) at their 18 December 1986 meeting. The statement identified weaknesses in Inventory Control that result in record inaccuracies that make it difficult to identify the reasons for losses or to fix responsibility for them. The sources of weaknesses were identified in several GAO and DoD Inspector General reports. To improve Inventory Control and Security, the DASD(L/SD) identified the following major milestones:

(1) Update and reissue the DoD Five Year Physical Inventory Control Program Plan (FY 86-90) to identify the major areas of emphasis and establish milestones for their accomplishment.

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(2) Reissue DoDI 4140.35, Physical Inventory Control of Supply System Materiel to broaden policy to cover inventories below the wholesale level, to improve guidance on conducting physical inventories, establish statistical accuracy standard, and to require that materiel accountability and inventory accuracy be mandatory evaluation elements in military and civilian personnel performance standards and appraisals.

(3) Reissue DoD 4140.22-M, Chapter 7, Physical Inventory Control to incorporate the changes in procedures recommended by the DoD Inspector General and GAO audit reports and procedural improvements developed by the JPIWG.

(4) Issue new policy guidance on "Safeguarding the DoD Logistics System" to require that each Service/Agency develop, maintain, and execute a comprehensive program for safeguarding the supply system and its inventories.

The above milestone actions are targeted to be completed and policies and procedures in effect by October 1987.

4. Following the discussion of the above subjects, the JPIWG reviewed the draft Proposed MILSTRAP Change Letter (PMCL) 114, Revised Procedures for Physical Inventory Control. The purpose of the review was to refine any area that needed clarification. The review did not result in any significant revisions to the PMCL. The PMCL is scheduled to be staffed prior to 28 February 1987.

5. The final meeting day was set aside to discuss ammunition inventories. The Chairman of the Inventory Accuracy and Control Team (IACT) briefed the JPIWG on their efforts to identify inventory accuracy and control problems at the wholesale level and their recommended "get well" plan of action with milestones. The IACT identified several causes of out-of-balance records and found no evidence of actual theft. To improve ammunition inventory accuracy, the IACT stated the following objectives:

a. IACT Program Objective No. 1 - Improve Record-to-Record Reconciliation Process, i.e., Service-to-SMCA.

(1) Problems - Systemic Errors: Transactions in error; untimely, or not received.

(2) Alternatives -

(a) Accomplish reconciliation per DoD 5160.65-M.

(b) Reduce number of reconciliations through existing system improvements, e.g., develop timely and accurate interface and joint Service standardization.

(c) Appoint SMCA as official record.

(d) Establish a single inventory record system.

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(3) Recommendations -

- (a) Short Term - adopt alternative c.
- (b) Long Term - adopt alternative d.

b. Issue. DI Code DZA (Asset Status Entries), process b. above vs. DI Code DZH (Location Reconciliation Request Entries) Process.

(1) Discussion: The proposed short term solution to this objective appears to have merit; however, it is not clear whether the DZA or DZH process would be used to accomplish the record-to-record reconciliation. If the DZA process is used, the periodicity of the reconciliation (e.g., daily, monthly, yearly, etc.,) needs to be specified. Also, it is not clear where the DZA process would take place, i.e., between storage activity and SMCA or between SMCA and Service. If the DZH process is used as recommended in Objective No. 2, the periodicity and reconciliation points also need to be specified.

(2) Disposition: The JPIWG Chairman recommended that the IACT take a hard look at its recommendation and outline where and how it intends to implement the record-to-record reconciliation. Specifics such as system interfaces and resources to reconcile mismatches must be considered. Based on decisions reached on the above, a decision can be made on which reconciliation process (DZA or DZH) to implement. The JPIWG Chairman also agreed with the IACT recommendation to appoint (designate) the SMCA record as the official wholesale ammunition record.

c. IACT Program Objective No. 2 - Improve non-SMCA Storage Custodial Record-to-Service Accountable Record Reconciliation.

(1) Problems - Systemic Errors: Transaction in error; untimely or not received.

- (a) Infrequent record reconciliation.
- (b) Service supply systems are not standardized for location audits and physical inventory reconciliations.

(2) Alternatives:

- (a) Reduce the number of out-of-balances through system improvements, e.g., develop timely and accurate interface and joint Service standardization.
- (b) Storage sites provide location audit reconciliation documents (DZH) quarterly (vice yearly) to Service and include quantity.

(3) Recommendation - Adopt both alternatives a and b.

d. Issue. Non-SMCA Records vs. SMCA Records.

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(1) Discussion: Based on the discussions of Objective No. 1, the same principles should apply for the non-SMCA records. If the decision is to use the DZA and/or DZH process for SMCA items, the same rules would apply for non-SMCA items since it is desirable to standardize the total ammunition supply system both intra- and inter-Service.

(2) Disposition: The JPIWG Chairman recommended that the IACT consider standardizing both intra- and inter-Service ammunition supply systems.

e. IACT Program Objective No. 3 - Reduce inventory adjustments (initial NSN accuracy to 85% with final dollar adjustment no more than 1%) and provide meaningful reporting to address protection of ammunition assets.

(1) Problems -

- (a) ICE data does not measure ammunition inventory effectiveness.
- (b) System errors and lack of Service standardization (e.g., adjustment processing).
- (c) Ineffective research and quality control program.
- (d) No closed loop reconciliation of records.

(2) Alternatives -

- (a) Change ICE data for ammunition items (report actual losses and controlled items separately).
- (b) Reduce adjustments through system improvements, e.g., standardize adjustment procedures.
- (c) Improve causative research and quality control, e.g., challenges, checklists, and level of review.
- (d) Require ICE data reporting from all record keepers.

(3) Recommendation - Adopt all alternatives.

f. Issue. Change ICE data for ammunition items (report actual losses and controlled items separately).

(1) Discussion: The JPIWG Chairman posed the question: "How does the IACT propose coding Class V items into controlled and non-controlled?" and further stated that there are many items identified as Class V, but in fact all do not have explosive properties, e.g., rocket fins. The Marine Corps representative stated that the Marine corps would have no problem separating controlled from non-controlled items for reporting purposes manually, but doubted that the other Services would or could separate controlled from non-controlled items for reporting purposes unless a new identifier code could be developed for that

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purpose. Other representatives questioned the need for separating controlled from non-controlled items for ICE reporting purposes.

(2) Disposition: The JPIWG Chairman recommended that the IACT separate controlled from non-controlled adjustment data for internal purposes if possible; however, for DoD reporting purposes, the ICE report would remain unchanged pending approval of standard DoD codes for identifying Class V controlled from non-controlled items.

g. Issue. Adjustments (Gains and Losses).

(1) Discussion: The IACT addressed inventory losses throughout its presentation but did not address inventory gains. During the discussion, it was pointed out that inventory gains deserve the same attention as inventory losses because they likewise indicate erroneous inventories, missing/erroneous receipt documentation, under issues, etc. The IACT was also apprised that the revised Report of Survey procedures specifically address inventory gains.

(2) Disposition: The IACT was provided a copy of the revised draft DoD 7200.10-M, Department of Defense Accounting and Reporting of Government Property Lost, Gained, Damaged, or Destroyed and requested to provide comments/recommendations to their Service designated focal points.

h. IACT Program Objective No. 4 - Train and certify supply and inventory staffs for ammunition inventory proficiency.

(1) Problems -

(a) Inter-Service training not available for ammunition inventory process.

(b) Certification/qualification program requires enhancement to include inter-Service application.

(2) Recommendations -

(a) Develop inter-Service training package.

(b) Develop certification/qualification program.

(c) Develop inventory review program.

(d) Develop cross-Service training.

i. Issue. Training/Certification Programs

(1) Discussion: The JPIWG Chairman pointed out that DoD tasked the Secretary of the Army to develop a DoD Physical Inventory Control course. Since the course is designed as a one week overview of physical inventory control situations and requirements common to all Services, it can be tailored to meet

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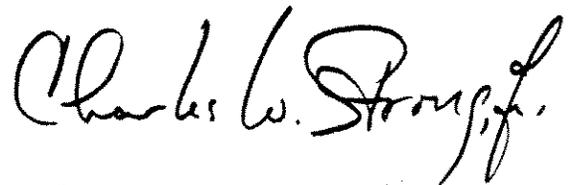
the needs of the ammunition community. The Chairman also pointed out that the Navy already has a Competency Base Certification (CBC) program in place at its Naval Supply Centers and that the Naval Supply Systems Command, Office of Human Development and Equal Opportunity (SUP OOC2) could provide information on establishing a certification program.

(2) Disposition: The JPIWG Chairman provided the IACT Chairman copies of the draft DoD Physical Inventory Control course Program of Instruction and Student Guide and recommended that the IACT Chairman contact the Naval Supply Systems Command for information on the Navy's CBC program.

6. The overall consensus of the JPIWG was that the IACT presentation was beneficial and contained similar issues outlined in the Physical Inventory Control Program Plan FY 86-90. It was also determined that the JPIWG must be sensitive to ammunition issues when reviewing the comments/recommendations on PMCL 114 and any proposed changes to MILSTRAP Chapter 7.

7. The JPIWG Chairman thanked the IACT Chairman and Service ammunition inventory representatives for participating in the JPIWG meeting. The JPIWG Chairman also thanked the JPIWG members for their participation and announced that the next JPIWG meeting will be hosted by the Air Force at Hill AFB, Ogden, UT, the week of 22 June 1987. Details concerning the meeting will be provided under separate cover. The meeting was adjourned at 1300 hours, 15 January.

3 Encl



Charles W. Strong, Jr.  
Chairperson  
DoD Joint Physical Inventory  
Working Group

DOD JPIWG MEETING

13-15 JAN 1987

AGENDA

| <u>TIME</u> | <u>DATE</u> | <u>TOPIC</u>   |
|-------------|-------------|--|
| 1300-1345   | 13 JAN      | ADMINISTRATIVE COMMENTS, REVIEW/<br>APPROVE MINUTES FROM SEP 86 MTG                            |
| 1345-1445   |             | BELOW WHOLESALE LEVEL INVENTORY<br>PROCEDURES (LSAO) STUDY                                     |
| 1445-1530   |             | ITEM CHARACTERISTICS CONTRIBUTING<br>TO INVENTORY TURBULENCE (LSAO)                            |
| 0900-0930   | 14 JAN      | DOD 4140.35, PHYSICAL INVENTORY<br>CONTROL FOR DOD SUPPLY SYSTEM<br>MATERIEL (DASD(L/SD))      |
| 0930-1000   |             | DOD ANNUAL STATEMENT OF ASSURANCE<br>FOR FY 1986 TO THE PRESIDENT AND<br>CONGRESS (DASD(L/SD)) |
| 1000-1200   |             | PMCL-114 (DLSSO-BI)  |
| 1200-1300   |             | LUNCH  |
| 1300-1530   |             | DOD PHYSICAL INVENTORY CONTROL PLAN<br>FISCAL YEARS 1986-1990                                  |
| 0900-1000   | 15 JAN      | AMMUNITION INVENTORY ACCURACY AND<br>CONTROL INITIATIVES (IACT CHAIR)                          |
| 1000-1200   |             | AMMUNITION INVENTORY DISCUSSION  |
| 1200-1300   |             | LUNCH  |
| 1300-1500   |             | AMMUNITION INVENTORY DISCUSSION  |
| 1500-1530   |             | WRAP UP  |

15 January 1987

ITINERARY FOR MILSTRAP FY 87 STAFF ASSISTANCE VISITS

| <u>DATE(S)</u> | <u>TIME</u> | <u>ACTION</u>               | <u>REMARKS</u>                |
|----------------|-------------|-----------------------------|-------------------------------|
| 12 Apr         | -----       | Travel to Albany, GA        | Pick up rental car(s)         |
| 13-14 Apr      | 0830-1530   | MCLB Albany                 | Need room at MCLB             |
| 15 Apr         | 0830-1130   | Write Observations          |                               |
| 15 Apr         | Afternoon   | Drive to Jacksonville, FL   | Write observations at COB     |
| 16 Apr         | 0830-1530   | NSC Jacksonville            | Write observations at COB     |
| 17 Apr         | 0830-1130   | NSC Jacksonville            | Need room at NSC Jacksonville |
| 17 Apr         | 1230-1530   | Write Observations          | Drop rental car(s)            |
| 17/18 Apr      | COB/Morning | Return                      |                               |
| 26 Apr         | -----       | Travel to San Antonio, TX   | Pick up rental car(s)         |
| 27-28 Apr      | 0830-1530   | San Antonio ALC             | Need room at SAALC            |
| 29 Apr         | Morning     | Write Observations          | Drop/pick up rental car(s)    |
| 29 Apr         | Afternoon   | Fly to Corpus Christi       | Write observations at COB     |
| 30 Apr         | 0830-1530   | CCAD                        |                               |
| 1 May          | -----       | Free Day                    |                               |
| 2 May          | -----       | Fly to St. Louis, MO        | Drop/pick up rental car(s)    |
| 3 May          | Afternoon   | AVSCOM                      | Write observations at COB     |
| 4-5 May        | 0830-1530   | ALMSA                       | Write observations at COB     |
| 6-7 May        | 0830-1530   | Return                      | Drop rental car               |
| 8 May          | Morning     |                             |                               |
| May            | 0830-1130   | DLSSO, Alexandria, VA       | South/Midwest wrapup          |
| May            | 1300-1600   | HQ GSA, Washington, DC      |                               |
| 15 Jun         | Morning     | Travel to Mechanicsburg, PA |                               |
| 15 Jun         | 1230-1530   | SPCC                        | Write Observations at COB     |
| 16 Jun         | 0830-1530   | SPCC                        | Write Observations at COB     |
| 17 Jun         | 0830-1530   | FMSO                        |                               |
| 18 Jun         | Morning     | Drive to Chambersburg, PA   | Write Observations at COB     |
| 18-19 Jun      | 0830-1530   | LEAD                        |                               |
| 19 Jun         | Evening     | Return                      |                               |
| 1 Jun          | Afternoon   | Travel to Richmond, VA      | Write Observations at COB     |
| 2-3 Jun        | 0830-1530   | DGSC                        |                               |
| 4 Jun          | Morning     | Drive to Norfolk, VA        | Only If Needed                |
| 4 Jun          | Afternoon   | NSC Norfolk                 |                               |
| 5 Jun          | Morning     | Return                      |                               |

REQUEST ENTRANCE AND EXIT INTERVIEW FOR MILSTRAP SYSTEM ADMINISTRATOR AT EACH SITE.

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