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

IN REPLY REFER TO J627

May 10, 2011

MEMORANDUM FOR JOINT PHYSICAL INVENTORY WORKING GROUP

SUBJECT: Joint Physical Inventory Working Group (JPIWG) Meeting, March 10, 2011

The attached minutes of subject meeting are forwarded for information and action, as appropriate. The next meeting is scheduled for September 22, 2011.

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.

DONALD C. PIRP
Director,
DLA Logistics Management
Standards

Attachment
cc:
ODASD(SCI)
Meeting Attendees

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MEMORANDUM FOR RECORD

SUBJECT: Joint Physical Inventory Working Group (JPIWG) Meeting, March 10, 2011

**Purpose:** The DLA Logistics Management Standards office convened a JPIWG meeting, March 10, 2011, at Defense Logistics Agency (DLA) Headquarters, at Fort Belvoir, VA. The agenda, attendees list, briefings and distributed documents are posted to the JPIWG website at:

http://www.dla.mil/j-6/dlmso/programs/committees/jpiwg/jpiwg.asp

**Brief Summary of Discussion:** Mr. Lou Madrigal, JPIWG Chair, facilitated discussion

**a. Address Open Action Items**

The JPIWG Chair went through action items that remained open from the November 17, 2009 JPIWG meeting. (Reference the JPIWG Action Item Tracking spreadsheet on the JPIWG website.)

**b. Cycle Counts Proposals**

Mr. Terry Simpson of DLA J33 is aware of recent interest on cycle counting proposals and is interested in determining the impact to DLA.

1) Navy reported looking into cycle counting, but do not believe it will impact DLA. At the moment Navy is more focused on statistical sampling rather than cycle counting.
2) Army was not aware of any cycle counting effort.
3) Marine Corps reported they are looking into cycle counting, but do not believe it will impact DLA.
4) Air Force wanted to know more about DLA's definition of cycle counting.

***ACTION ITEM #1 (ECD: 45 days after published minutes): Mr. Terry Simpson to set-up a meeting to discuss cycle counting, to include Air Force representatives, Ms. Lynn Fulling and Mr. Lou Madrigal.***

*[CLOSED: Subsequent to the meeting on Mar 22 a telecom was led by Mr. Gary Ziegler and attended by the aforementioned.]*

**c. Standardized Inventory Sampling Approach**

Ms. Lynn Fulling, of the Office of Deputy Assistant Secretary (ODASD), Supply Chain Integration (SCI), presented a briefing on a DoD Chief Financial Officer (CFO) effort to develop a DoD standard for sampling plans for yearly inventory value reporting required for Financial Inventory Audit Readiness (FIAR). This project is using the Air Force's sampling plan as a starting point to coordinate among DLA and the Services. The Air Force statistician is Tom Vaden. ODASD(SCI) will introduce the sampling plan approach into 4140.

### d. Accountability and Expensing of OM&S

Mr. Ron Tollefson of the Office of Under Secretary Defense Comptroller explained how the comptroller community is determining how best to expense OM&S material. The debate is whether to expense OM&S items when purchased or consumed. The reason for the issue is that these items would normally wait to be expensed until the final point of sale (POS) after which the item is consumed, but the comptrollers believe it will be hard to know when these items are finally consumed or placed on the shelf.

JPIWG members expressed their understanding that many OM&S items acquired using the purchase card results in the item being considered purchased and expensed at the moment of purchase. It was noted that government IMPAC card purchases are recorded outside the standard systems.

Further discussion examined a number of scenarios for various types of OM&S items. However, no definitive conclusions regarding the proper method to record the expense. JPIWG members recommended a special teleconference be coordinated between stakeholders from JPIWG and comptroller communities to work on the issue.

***ACTION ITEM #2 (ECD: 10 June 2011): Mr. Ron Tollefson to develop specific questions to be addressed in order to resolve issues of when to properly expense OM&S, and coordinate a stakeholder call involving members of the Logistics and Comptroller subject matter experts.***

### e. Update on New Physical Inventory Policy Changes

Lynn Fulling reviewed physical inventory policy changes. She informed the group that DoD Instruction (DoDI) 4140.01 is out for Component coordination. DLA Logistics Management Standards office noted that DoDI 4140.01 will authorize publication of the Defense Logistics Manuals (DLMs) to replace the current DoD 4000.25 series of manuals (i.e., DLMS. MILSTRIP. MILSTRAP, etc) . DLMs will be DoD level publications. Ms. Fulling also reported that DoD Manual (DoDM) 4140.01 is in pre-coordination (i.e. being reviewed by Legal). Since the draft of DoDM 4140.01 was distributed, a significant change was the addition of content specific to Nuclear Weapons-Related Material (NWRM).

Ms. Fulling discussed the draft DoDM 4140.01, volumes 5 ("DoD Supply Chain Materiel Management Procedures: Delivery of Materiel") and 11 ("DoD Supply Chain Materiel Management Procedures: Management of Critical Safety Items, Controlled Inventory Items including Nuclear Weapons-Related Materiel").

JPIWG members raised questions regarding DoDM 4140.01, Volume 5, Sub-Section 9.b.(1)(f), which proposed pilferable items be included in a requirement for 100% physical inventories. Services noted that 100% physical inventory requirements has not previously been required of pilferable items. SCI explained the change to propose pilferables going to 100% was triggered by SCI concerns for tightening controls.

Services were concerned that this new requirement on pilferables would be too time and labor intensive on low cost (i.e. AA batteries) items. SCI stated that the components were welcome to provide their inputs on the 100% inventory requirement for pilferables

**f. Preparations for DoDM 4140.01 (Vol. 5 & 11) Impacts to MILSTRAP (Ch.7) and DLMS (Vol. 2, Ch.6)**

Mr. Dale Yeakel followed up Ms. Fulling's presentation to note that a draft Defense Logistics Manuals (DLMs) will be aligned with DoDM 4140.01 inventory policy changes.

**g. Services Briefs on Inventory Control Effectiveness (ICE) Reporting Capability and Frequency**

1) Ms. Fulling asked for a survey of each services' ICE reporting methodology and frequency. Mr. Marin reported no one from the Navy has been looking into the ICE report in detail, but that will be his job. Mr. Tony Scherm walked though a briefing of Air Force methodology. On a quarterly basis, Air Force tallies of assets by owner, and reports inventory accuracy rates by items and dollar value. Mr. John Edalgo of the Marine Corps reported that he has not seen the ICE reports.

***ACTION ITEM #3: Army and Marine Corps are to report back on their ICE report methodology and frequency.***

***ACTION ITEM #4: All components to report on ICE reports they generate from DSS.***

2) DLA noted that having a specific POC for sending ICE reports is problematic, rather than a generic mailbox that can be assigned to a service POC. DLA Distribution (formerly DDC) requires a static POC to ensure inventory reports are transmitted to the Services consistently and without interruption. Over many years DLA has experienced multiple changes of the Services POC's and bounce backs of email addresses that are no longer valid. Subsequently it has been repeatedly noted (by the Service POCs) in the JPIWG and other forums that they have not received/seen the reports for several years. This isn't a case of not providing the inventory reports but more of a case of not receiving updated Service POC information to send the reports. A "Service Organizational Email Box" would provide a consistent method for DLA Distribution and the Services to ensure mutual correspondence.

***ACTION ITEM #5: Navy, Marine Corp and USCG are to establish an organizational mailbox to receive ICE reports.***

***ACTION ITEM #6: Prior to getting organizational mailboxes DLA Logistics Management Standards office will validate the POCs for ICE reports.***

***ACTION ITEM #7: Army and Air Force are to validate the POCs monitoring their organizational mailbox for ICE reports.***

**h. ICE Report Requirements**

Ms. Fulling provided a short brief about the inclusion of ICE reporting requirements being incorporated into the draft of DoDM 4140.01. The Marine Corps representative asked about the scope of ICE reporting. Ms. Fulling clarified the ICE reporting requirement is for wholesale inventory captured in DSS.

***ACTION ITEM #8: SCI will review and revise ICE requirements in policy draft***

*[Closed: After the meeting SCI reviewed and agreed to a change in DoDM 4140.01, volume 5 for ICE reporting requirements. The accepted language that follows clarifies the scope to report only material recorded in DSS until Service ERPs are stood-up and available to provide ICE reports outside DSS:*

> *"Inventory Control Effectiveness (ICE) reports will be submitted by DLA to ODASD (SCI) quarterly, effective immediately for all materiel stored within the Distribution Standard System (DSS). ICE reports for material not stored in DSS and in Military Service storage facilities will be reported to ODASD (SCI) upon implementation of their respective Enterprise Resource Planning (ERP) efforts for distribution information."]*

**i. Update on PDC 299A – Revise ICE Report**

Ms. Mary Jane Johnson emailed draft ADC 415 (for PDC 299A) to the group the day of the meeting for their review and comment. She requested a two week turn around to review the draft ADC. Ms. Johnson also asked DLA to provide a definition for "book-to-book adjustments" to include in draft ADC 415 for publication in MILSTRAP/DLMS. The revised ICE report captures information on book-to-book adjustments, but no definition of these adjustments was currently available in MILSTRAP/DLMS.

***ACTION ITEM #9: All Components to provide comments back to the MILSTRAP Administrator on draft ADC 415 by March 25, 2011.*** *[Subsequent to the meeting, Ms Johnson is updating the draft ADC based upon DLA input and will resend to the JPIWG for review within 30 days of published minutes,]*

**j. Draft ADC 414 (PDC 341A) – DLMS/MILSTRAP to Address Owner/Manager Research of Inventory Adjustment (Accounting Error) (D8B/D9B, DLMS 947I)**

Ms. Johnson noted that a draft ADC 414 had been distributed to the JPIWG for review on February 28, 2011. She has asked that components provide comments back on the draft ADC within a week of the meeting.

***ACTION ITEM #10: All Components are to provide comments back to the MILSTRAP Administrator on draft ADC 414 by March 17, 2011.***

*[Closed: Subsequent to the meeting, ADC 414 was released on 28 Mar 2011.]*

JPIWG members asked what the impetus was for ADC 414. Ms. Fulling explained that it boils down to the DoD IG call for end-of-day causative research on daily and annual location reconciliation. However, the requirement does not mean that causative research will be required every day. It only applies when the threshold is met.

Air Force raised a staffing issue. Prior to 2006 Air Force personnel were transferred to DLA as part of BRAC, and Air Force no longer has the staff to support causative research. However, the intent for Service participation in causative research is not for the storage activity portion, but for support from their item managers in reviewing/researching information and collaborating on solutions.

### k. USAF Analysis of Inventory Reversals

Mr. Tony Scherm discussed some research on "unnecessary" inventory adjustments and determined that about a 1/3 of adjustments fell in this group. His paper presents the start of their analysis towards determining the impact of reversal adjustments due to ODASD/SCI by 11 August 2011. However, this is a standing topic from prior JPIWG meetings. The Air Force position is that causative research should be performed in the pre-inventory adjustment stage. DLA stated they have operational requirements which make it difficult to do pre-causative research. Air Force understands that DLA is following policy, but doesn't agree with the policies that lead to the problem of "unnecessary" adjustments.

### l. Update on Maintaining Accountability During Maintenance PDC

Current MILSTRAP/DLMS procedures for maintaining accountability during maintenance allow for materiel scheduled for organic maintenance by Depot Maintenance Inter-Service Support Agreements (DMISA). The agreement shall specify the materiel control requirements to include whether the material will be transferred to Maintenance with a MILSTRIP materiel release order (MRO). The storage activity posting an issue; or transfer the materiel to the maintenance using MILSTRAP DI Code DAC, Dual Inventory Adjustment-Supply Condition Code (SCC) Change transaction, to transfer the materiel to SCC M (Suspended (In Work)). The option to use a DAC transaction was inappropriate under Approved MILSTRAP Change Letter (AMCL) 8A which placed accountability at the depot for assets in their custody. Ms. Johnson proposed to develop a PDC to revise the current procedures to disallow use of the DI Code DAC for Component ERPs to move assets from a storage activity to a maintenance activity.

DLA Defense Distribution Center (DDC) representatives noted that they have an ongoing problem with assets being DAC'd to SCC M when the movement to maintenance crosses Services lines. It appears to DDC that the Services do send an MRO to DLA DSS when directing the movement of Service materiel to their own Service maintenance sites, but when they cross Service lines they do not use an MRO. This was a particular issue at Tobyhanna depot as discussed in paragraph m. below.

***ACTION ITEM #11: The MILSTRAP Administrator will develop PDC for JPIWG review, by May 30, 2011. All Components except Navy are to document what transactions will be used in their ERPs to send material to maintenance by DMISA, by March 31. 2011.***

*[See enclosure for point paper, developed subsequent to the meeting, which has been submitted for JPIWG discussion.]*

**m. Tobyhanna Depot – Problem with Assets in SCC 'M'**

DDC reported a problem regarding Navy material at Tobyhanna Army Maintenance Depot on DSS distribution depot record in SCC "M". As noted above, DSS had to process a DAC to "move" the materiel from depot storage to maintenance because no MRO was sent to DSS by the owner. DSS would like a material release order (MRO) to move the material off the distribution depot record (since the materiel is no longer in their custody) and to the appropriate owner account.

This accountability and visibility problem occurs when Navy sends items to DLA Tobyhanna distribution depot stock. When the materiel is scheduled for maintenance, DLA has to 'DAC' the materiel to SCC 'M' with a location identification showing it at Tobyhanna Distribution Depot. However, the materiel is no longer in the distribution depot custody and DLA is not updated with a clean audit trail of what eventually happens to the maintenance item (returned in other condition codes or condemned) unless it comes back to DLA in SCC 'A'. This leads to DLA losing visibility and sometimes, possibly having to write-off the item.

***ACTION ITEM #13: Request Army review this issue and report findings/action taken, to the JPIWG Chair and the DLA JPIWG representative, Mr. Gary Ziegler, by 45 days of published minutes.***

**n. Using IUID to Serially Manage Inventory**

Ms. Kathy Smith provided an IUID update. There have been a number of working group meetings of IUID. Once the meetings are done and policy stabilizes, DLA Logistics Management Standards office will update the inventory procedures to reflect management of high and standard intensity items.

Ms. Smith clarified that IUID information will be included in transactions, though it might not be in all transactions. Specifically, the IUID is not anticipated to be included in transactions where the specific item might not yet be identified (i.e. PMR). Although, Air Force noted that they do know the specific instance of an item before the PMR, so they could identify by specific UII. In any event, DLA Logistics Management Standards office would need a change to the DLMS to make sure the transactions support the UII where needed.

This is all predicated on DLMS implementation. Many transactions already support UII, but future workshops are planned and DLA Logistics Management Standards office will be developing PDCs for IUID implementation.

***ACTION ITEM #13: Mr. Lou Madrigal to send Mr. Colquitt a list of all the transactions that support UII.***

*[Closed: Subsequent to the meeting Mr. Lou Madrigal did send Mr. Colquitt an email with all the list of all DLMS transaction with current IUID Capability.]*

DLA asked to clarify the degree that UII will be used in managing items over concern of having to store like items broken into groups by owner. SCI noted that part of the reason for having high intensity vs. standard was to lessen the burden as to which items need to be stored separate by owner. There are no plans to issue by UII but tracking the issuance by owner. In practice, however, to simplify the process and guard against errors, storage locations can expect to segregate high intensity items by owner to avoid issuing an item to the wrong owner. FMS Customers with DOD repair support agreements will be a likely first owner who wants to get back exactly the same UII item they sent for repair.

Lot controlled assets tend to be managed by grouping and will not have individual UIIs (i.e. bullets). For UII, pilferable items to be managed serially only applies to specific items. There will be Serialized Item Management (SIM) Guidance to assist with IUID implementation, but it is just guidance and will not override or conflict with policy documents.

Air Force asked about UII tracked items that are embedded into a higher assembly which has its own serial number. The understanding is that the component item loses its identity when embedded into the next higher assembly serialized item. If the higher assembly item gets broken apart later the item re-establishes its own identity. Joint Ordinance Coordinating Group (JOCG) has a sub-committee to talk about these issues. The JOCG IUID sub-group would be a POC (Damine Englen) to get a meeting rolling.

**o. Next JPIWG Meeting**

The JPIWG Chair announced that the next meeting has been scheduled for September 22, 2011.

PREPARED BY:

LUIS G. MADRIGAL
DOD JPIWG CHAIR

APPROVED:

DONALD C. PIPP
DEFENSE LOGISTICS MANAGEMENT STANDARDS

Enclosure

POINT PAPER

SUBJECT: Proposed Topic for JPIWG - Stocks to Maintenance

BACKGROUND:

- Not all the Services are in compliance with Approved MILS Change Letters (AMCL) 12 (MILSTRAP) and 43 (MILSTRIP) that set the requirements for maintaining accountability of stock during maintenance actions. DOD 4000.25-2-M (MILSTRAP), Chapter 3, Paragraph C3.3.2, Requirements, states "material will be transferred to Maintenance with a MILSTRIP materiel release transaction. The action shall be posted to the property accountability record using either a DI Code D7K issue transaction or the MILSTRIP transaction coded to indicate a relocation between storage activities without change in ownership." Paragraph C3.3.2.3.2 states: "Total item property records for materiel released to maintenance activities are maintained and adjusted based on the quantity of materiel actually returned and will support the DoD 7000.14-R financial accounting and reconciliation requirements."

DISCUSSION:

- When the Services are not compliant with the MILSTRAP requirements stated above, we are forced to develop workarounds.

- For the Air Force, we developed Pseudo RIC's in DSS so the Air Force operating system will recognize another Services stocks in maintenance.

    - Pseudo RIC 1AA identified Army Owned assets
    - Pseudo RIC 4MM identified Marine Corp Owned assets
    - Pseudo RIC 5NN identified Navy Owned assets

- For the Army, we change the condition code of the material to "M" when material has been physically transferred to maintenance to provide visibility to the Owner that their material is in maintenance.

- At co-located Navy sites, it appears to work normally.

- Neither these methods relieve the DDC from accountability for the material when in a maintenance activity. The maintenance activity may issue the repaired item direct

Enclosure

to customer vice returning to DDC to close out the records. This leads to loss transactions to balance the accountable record or continued open records in DSS.

- Accountability needs be transferred to the co-located Maintenance activity when material has been transferred into the maintenance facility.

RECOMMENDATION: We request this be added as a topic of discussion during the upcoming JPIWG meeting to ensure the Services include resolution to this matter when they convert to their respective EBS systems so they will be compliant with the regulations stated above. Also request timeline for resolution.

Brian Mackie /DDC-J3-MA/DSN 771-6401/11-05-09

Enclosure