



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

CAMERON STATION
DEFENSE LOGISTICS
STANDARD SYSTEMS OFFICE 22304-6100
ALEXANDRIA, VA 22314
DLSSO-BI

22 AUG 1986

SUBJECT: DoD Joint Physical Inventory Working Group (JPIWG) Meeting,
23-25 July 1986

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 22 August 1986, is forwarded for your information and action on paragraph 5.
2. The DLSSO-BI point of contact is Mr. C. Strong (202) 274-7668 (AUTOVON 284-7668).

1 Encl

cc:
OASD(A&L)LM/SD

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



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MEMORANDUM FOR RECORD

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1. The subject meeting was hosted by the Navy Supply Systems Command (NAVSUP), and convened at 0900 on 23 July 1986 at Park Center Offices, Alexandria, VA. Attendees are listed in enclosure 1.
2. The minutes of the 22-24 April 1986 meeting were reviewed and approved as written. The Chair also recognized the new Navy representative, Mr. Mark Hoffman, who replaces Mr. John Jones. The JPIWG extends its thanks and best wishes to Mr. Jones in his new position with the U.S. Marine Corps.
3. The agenda for the subject meeting is at enclosure 2.
 - a. The first presentation was the DLSSO overview briefing, which addressed the origins, organizational structure, and the logistics standard systems managed under DoD Directive 4000.25. The thrust of the briefing was to show the interfaces and interrelationships of the standard systems and their role in providing support to DoD customers.
 - b. The Air Force presented a briefing on the Air Force Inventory Game Plan. The briefing covered audit findings and recommendations on the AF Inventory Program and initiatives to resolve cited deficiencies. Key elements of the Air Force Plan, include revising inventory research, and adjustment criteria, establishing an inventory prioritization program, as well as extensive automation initiatives to improve accountability in warehousing, wholesale inventory audit, stock control, and distribution systems. By using inventory resources up front to count and seal storage locations, the Air Force believes that a 100 percent, wall-to-wall inventory can be accomplished at its storage activities in the future.
 - c. The next briefing topic presented to the JPIWG was the Navy's Revised Quality Control Program for Stock Point Operations. The objectives of the Navy QC Program are: to improve accuracy and validity of key supply functions, to establish first line supervisors as responsible for quality control, and provide continuous appraisal of quality. Through the application of statistical techniques, the Navy will monitor work performance quality and timeliness within the functional areas of physical distribution and physical inventory.

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d. The Navy also briefed the JPIWG on their efforts to automate the preparation, control, and processing of SF364, Reports of Discrepancy (RODs). Through the use of their internal TANDEM system, the Navy has developed automated programs to access UADPS files for responding to customer RODs against shipments and for initiating RODs on discrepant receipts. The Navy system also establishes a RODs control suspense file and provides management reports on processing performance. Navy Supply Center (NSC) Charleston is the lead activity in designing the RODs software package which will be exported to other Navy NSCs in the September 1986 timeframe.

e. Mr. Dale Yeakel, DASD(L)SD, presented a briefing on DoD Supply System Security. The presentation discussed current events impacting Physical Inventory Control of DoD Supply System Materiel, including recent GAO survey reports, Senate hearings on DoD Component inventory record accuracy and DoD Component assessments of their physical inventory programs. Mr. Yeakel outlined the DoD approach to reducing supply system vulnerabilities and recapped major ongoing actions to resolving deficiencies. The JPIWG was advised that the Logistics Systems Analysis Office (LSAO) has been asked to conduct four studies in the functional area of Physical Inventory Control - Inventory Procedures Below the Wholesale Level, Item Characteristics/Inventory Adjustment Analysis, Evaluation of ICE Reports, and Inventory Adjustment Causative Research. The study of Inventory Control Below the Wholesale Level is being given top priority.

f. The final briefing was on DoD Component preparation of Inventory Management Reports of Materiel Assets, DD Form 1138-1. The Chairman had requested that each JPIWG representative arrange through their Comptroller point of contact a short briefing of what is reported to DoD on principal and secondary inventories. The Chairman's interest was prompted by a DoDIG recommendation that the Services/DLA separately report principal and secondary items in their ICE reports. The Navy was the only Service prepared to present a discussion of DD Form 1138-1 preparation. The briefing was beneficial to the JPIWG in that it was pointed out that there is no standard code or method of breaking out principal from secondary items within the Service/Agency inventories. While DoD Instruction 4140.18, Inventory Management Reports of Materiel Assets, provides Category of Materiel Codes for reporting, these codes are not Defense Integrated Data System (DIDS) standard codes assigned to individual items or perpetuated in item identification records. The Navy uses "cognizance codes" while the Army uses "supply class" and Financial Inventory Accounting (FIA) codes in preparing DD Form 1138-1 reports. It was also noted that DLA reports only in-store secondary assets and fails to identify in-use principal and secondary materiel. Thus, the JPIWG can see no opportunity for using reporting procedures under DoDI 4140.18 in breaking out principal and secondary items on future ICE reports.

4. Subsequent to the formal presentations, the JPIWG devoted the remaining time to the review of the draft proposed change to MILSTRAP Chapter 7. Major issues discussed are as follows:

a. Issue 1. Administrative changes to the Report of Inventory Control Effectiveness Format.

(1) Discussion: The Chairman advised JPIWG members that some administrative changes were necessary to the DD Form 2338 to reflect revised Report Control Symbol (RCS) and MILSTRAP changes impacting lines on the report.

(a) RCS was changed from DD-MIL(Q)935 to DD-A&L(Q)935 in accordance with WHS DIOR direction.

(b) A new block was added to the report format to identify the Materiel Category (General Supplies/Ammunition) that the report covers. Implementation of Approved MILSTRAP Change Letter (AMCL) 41 in October 1984 requires separate ICE reports for general supplies and ammunition. The addition of this block will make it readily visible as to what materiel is covered by the report.

(c) Use of the term "Line items" was eliminated because of variations in how Services/Agency were interpreting the term. Navy perceived it to mean an NSN by condition code, while others perceived it to mean the total NSN (sum of all condition codes). This variance caused disparity in reported figures - Navy reported the number of inventories as the number of condition codes counted while other Services/Agency reported the number of NSN's inventoried.

(d) Line 4c of the ICE Report was retitled as Inventory Adjustment Rate because Inventory Accuracy Rate was inappropriate. The Chairman stated that the erroneous conclusions reached by individuals and activities quoting ICE statistics warranted a change in title to more accurately state the product of the mathematical transaction. Inventory accuracy can only be inferred and does not reflect the general condition of assets in storage in that for the majority of NSNs counted we already know or suspect that an error exists already.

(2) Disposition: JPIWG members recommended the following additional changes to ICE Form:

(a) Line 3a. change to read "Number of storage locations surveyed."

(b) Line 3b. change to read " Number of storage locations surveyed with discrepancies."

(c) Line 4a. change to read "Total scheduled and unscheduled inventories completed."

(d) Line 4c. change to read "Major inventory variance rate."

The JPIWG Chairman will take action to assure these changes are made to the revised DD Form 2338.

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b. Issue 2. Location Reconciliation. The controls over the reconciliation process, as well as the effectiveness of location reconciliation in keeping custodial and accountable records in agreement were challenged in the DoDIG Audit Report on Physical Inventory Adjustments of 10 August 1985. The draft proposed procedures for location reconciliation establish control documents between storage activities and accountable activities to assure proper control and acknowledgment of receipt of reconciliation request documents. The draft proposal also establishes a schedule for semiannual Inter-Service Reconciliation. During the 22-24 April 1986 JPIWG meeting an alternative schedule was tentatively approved by the JPIWG without the benefits of DLA representation.

(1) Discussion:

(a) Under the draft proposed change, control of location reconciliation request documents would be accomplished by new transactions. Four new document identifiers would be established to advise accountable activities of the number of requests being sent by storage activities, for accountable activities to advise of serial numbered request transactions not received from storage activities, to allow acknowledgement of receipt of reconciliation requests and to followup on non-acknowledged requests.

(b) JPIWG members agreed that automated transactions for controlling location reconciliations were desirable, however, they voiced concern that a required systems programming would delay implementation. It was suggested that a manual alternative be established.

(c) During the Inter-Service Location Reconciliation Workshop hosted by the Navy, 2-3 April 1986, procedures and message formats were agreed to for controlling inter-service reconciliations. These formats were considered by all to be a viable alternative.

(d) Concerning the scheduling of Inter-Service Location Reconciliations, DLA stated that it would be physically impossible to accomplish the process proposed in the April meeting. Transaction volumes for DLA would stifle the program.

(2) Disposition:

(a) The JPIWG Chairman and Vice Chairman agreed that the concerns were valid. The medium for transmitting these transactions; i.e., message, letter, etc., will be left up to the Services/Agency, however, the procedural requirements to notify of reconciliation requests, acknowledge receipt of requests and follow-ups will remain as drafted in the Inter-Service Location Reconciliation Workshop.

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(b) In view of the impact of scheduling of Inter-Service Location Reconciliation and the need to control the process, the Chairman has decided to retain the original proposal for scheduling Inter-Service reconciliations as is shown below:

<u>DoD Component Storage Activity</u>	<u>Cutoff Date</u>	<u>Due Dates After Cutoff</u>
Army	1st Tues-Feb & Aug	15th day
Navy	1st Tues-May & Nov	"
Marine Corp	1st Tues-Jan & Jul	"
Air Force	1st Tues-Mar & Sep	"
DLA	1st Tues-Apr & Oct	"

The impact on Service/Agency Accountable activities is deemed as minimal in view of the fact that the majority of the DoD Components are currently conducting at least quarterly intra-service reconciliations and the added volume would be insignificant.

c. Issue 3. Overall Inventory Record Accuracy.

(1) Discussion:

(a) The draft revised DoD Instruction 4140.35, Physical Inventory Control for DoD Supply System Materiel, proposes procedures for the use of the random statistical sample inventory technique to measure overall inventory record accuracy. The draft DoDI also establishes a statistical accuracy goal of 85 percent. The revised DoDI has not been published to date.

(b) DLA and Army JPIWG representatives indicated that their Service/Agency non-concurred with the requirement for random statistical inventories.

(c) The JPIWG Chairman and Vice Chairman expressed the opinion that random statistical sampling is the only affordable and achievable method for estimating the true accuracy of inventory records. The use of prioritization models or any of the current methods for selecting items for inventory interject bias into the resulting accuracy figures.

(d) The Army and DLA representatives argued that random statistical sample inventories would require resources to count items that in some cases have little or no supply significance and that those resources could be better used counting items of greater importance. Further, the management statistics resulting from use of sampling techniques are only politically meaningful and do not indicate supply support effectiveness.

(e) By using a standard textbook formula for computing sample size the JPIWG Chairman demonstrated that the number of sample inventories could be limited to approximately 1400 counts and still provide the confidence desired

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by OSD in estimating inventory record accuracy. The JPIWG Chairman and Vice Chairman agreed that inventory record accuracy statistics do not reflect supply support effectiveness, however, there are other MILSTEP statistics that reflect performance against those management goals.

(f) There was general agreement that the random statistical sample inventory technique if managed and reported from the Accountable Activity Level rather than Custodial Activity Level would provide the desired management information.

(2) Disposition: The JPIWG Chairman and Vice Chairman will redraft the proposed procedural change to orient the management and reporting of random statistical sample inventory requirements to the Accountable Activity.

d. Issue 4. Controlled Inventory Item Codes.

(1) Discussion:

(a) In the recent DoDIG Audit Report on Physical Inventory Adjustments, 10 Aug 85, there was concern that all controlled item inventories were not accomplished IAW DoDI 4140.35. A contributing factor to this finding was the lack of a standard code for identifying controlled items.

(b) The current MILSTRAP manual, DoD 4140.22-M, Figure 7-3, provides a general list of types and categories of items to be considered as controlled. The list, however, does not provide standard Defense Integrated Data Systems (DIDS) codes that can be used to identify individual items as controlled.

(c) In the interest of effectively identifying all controlled (Classified, Sensitive, and Pilferable) items for inventory without establishing a new set of codes, the DIDS Physical Security/Arms Ammunition and Explosives Security Risk/Pilferage Codes will be cited in MILSTRAP as Controlled Inventory Item Codes. As standard item data elements these codes already exist in DoD Component inventory management systems and individual item data records.

(2) Disposition: MILSTRAP Controlled Inventory Items, Figure 7-3, will be revised to cite Security/Risk codes as the standard code for identifying items for annual inventory.

e. Issue 5. Type of Physical Inventory/Transaction History Codes.

(1) Discussion:

(a) To support the shifts in controlling and reporting of physical inventory performance, new definitions have been proposed for Type Physical Inventory/Transaction History Codes. The new definitions would allow DoD Components to monitor accomplishment of controlled item inventories, identify random statistical sample inventories for evaluation and reporting and continue to allow identification of unscheduled inventories.

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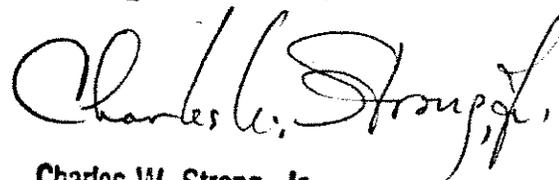
(b) JPIWG representatives expressed concern that any major changes to the codes would necessitate ADP systems changes that could delay implementation. All agreed that transaction code changes should be kept to the minimum.

(2) Disposition: The JPIWG Chairman and Vice Chairman will review the current codes in conjunction with proposed new codes and try to adapt existing codes to new requirements.

5. The proposed MILSTRAP Change Letter revising Chapter 7, Physical Inventory Control was to be completed by the JPIWG and ready for staffing in the September 1986 timeframe. Proposed major changes to the DoD Physical Inventory Program and delays in obtaining approval and publication of DoD Instruction 4140.35, Physical Inventory Control for DoD Supply System Materiel have made it impossible to achieve this milestone. The JPIWG agreed, therefore, to redraft the PMCL to address only those areas that are not sensitive to proposed DoDI 4140.35 changes; i.e., Location Audit Program, Controlled Item Inventory Codes, ICE Report, and Physical Inventory Procedures. The PMCL will be prepared in final draft for discussion by JPIWG members in a special meeting to be held 8-9 September 1986. The Navy has agreed to once again host the JPIWG meeting at the Park Center Building, Room 124.

6. The JPIWG Chairman thanked the Navy for their support in hosting the meeting and JPIWG members for their participation. The meeting was adjourned at 1530 hours 25 July 1986.

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

DoD JPIWG MEETING
23-25 July 1986

ATTENDEES

<u>NAME</u>	<u>DATES ATTENDED (JULY)</u>	<u>ORGANIZATION</u>	<u>TELEPHONE</u>
C. Strong (Chairman)	23-24-25	DLSSO-BI	274-7668
F. St. Mark (V. Chairman)	23-24-25	DLSSO-BI	274-7667
D. Hartzell (Member)	23-24-25	Army	274-9445
M. Hoffman (Member)	23-24-25	Navy	697-8575
C. Farley (Alternate)	23-24-25	Navy	697-0589
F. Bible (Member)	23-24-25	Air Force	8/787-3373
R. Patterson (Member)	24-25	Marine Corps	694-1600
F. O'Rourke (Alternate)	23	Marine Corps	694-1600
M. Kelley (Observer) Member	23-24-25	DLA	274-6193
J. Flint (Observer)	23	DLA	274-6193
M. Kenna (Observer)	23	DLSSO-BR	274-7861
M. Schaefer (Observer)	23	Navy	697-2359
L. Lauderdale (Observer)	23	Navy	697-8575
E. Johnson (Observer)	23	Navy	695-4508
D. Yeakel (Observer)	23	OASD(A&L)LM/SD	697-5216
N. Manion (Observer)	23-24-25	OASD(A&L)SD	697-9978

JPIWG MEETING
23-25 JULY 1986

<u>TIME</u>	<u>DATE</u>	<u>DISCUSSION TOPIC</u>
0900-0930	23 July 86	DLSSO OVERVIEW
1000-1045		AIR FORCE INVENTORY GAME PLAN
1045-1130		NAVY'S REVISED QUALITY CONTROL PROGRAM
1130-1200		NAVY'S ROD AUTOMATION
1200-1300		LUNCH
1300-1530		SUPPLY SYSTEM SECURITY
1400-1615		(1138 REPORT PREPARATION PRESENTATIONS)
0900-1200	24 July 86	PROPOSED CHANGES TO MILSTRAP CHAPTER 7
1200-1300		LUNCH
1300-1530		PROPOSED CHANGES TO MILSTRAP CHAPTER 7
0900-1200	25 July 86	PROPOSED CHANGES TO MILSTRAP CHAPTER 7
1200-1300		LUNCH
1300-1430		PROPOSED CHANGES TO MILSTRAP CHAPTER 7
1430-1500		WRAP UP