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## Included DLA Inspector General (OIG) Audit Reports

- Internal Controls over the nuclear Weapons Related Materiel (NWRM) Receipt Process at DLA Distribution Facilities, 7 Oct 2014, DLA OIG-FY15-01
- Examination on DLA Environmental Liabilities Management (ELM) Assertion, 7 Jan 2015, DLA-OIG-FY15-04
- Contract Oversight Audit Recommendations, 2 Dec 2013, DLA. OIG-FY14-03
- Maintenance, Repair, and Operations (MRO) Program, 4 Dec 2013, DLA OIG-FY14-01
- Sustainment, Restoration and Modernization Program Europe, 5 Dec 2013, DLA OIG-FY-14-04,
- Follow-Up of Nuclear Weapons Related Material and Small Arms. 17 April 2014, DAO-12-04
- Real Property Additions, Deletions and Construction in Progress, 20 Dec 2012, DAF-12-15
- DLA Support to Hurricane Sandy, 4 Mar 2013, DAO-13-01
- Audit of Logistics Research and Development Funding, 04 November 2011, DAO-10-21
- Audit of Suspended Inventory, 30 July 2012, DAO-10-16
- Audit of Travel Card Usage, 27 Aug 2012, DAO-10-25



**DEFENSE LOGISTICS AGENCY**  
**HEADQUARTERS**  
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**FORT BELVOIR, VIRGINIA 22060-6221**

JUN - 1 2015

This is in response to your April 9, 2015, Freedom of Information Act request for DLA OIG audit Reports Internal Controls over the Nuclear Weapons Related Materiel (NWRM) Receipt Process at DLA Distribution Facilities (7 Oct 2014, DLAOIG-FY15-01), Examination on DLA Environmental Liabilities Management (ELM) Assertion, 7 Jan 2015, DLA-OIG-FY15-04, Contract Oversight Audit Recommendations, 2 Dec 2013, DLA OIG-FY14-03, Maintenance, Repair, and Operations (MRO) Program, 4 Dec 2013, DLA OIG-FY14-01, Sustainment, Restoration and Modernization Program Europe, 5 Dec 2013, DLA OIG-FY-14-04, Follow-Up of Nuclear Weapons Related Material and Small Arms, 17 April 2014, DAO-12-04, Real Property Additions, Deletions and Construction in Progress, 20 Dec 2012, DAF-12-15, DLA Support to Hurricane Sandy, 4 Mar 2013, DAO-13-01, Audit of Logistics Research and Development Funding, 04 November 2011, DAO-10-21, Audit of Suspended Inventory, 30 July 2012, DAO-10-16, and Audit of Travel Card Usage, 27 Aug 2012, DAO-10-25.

The enclosed records are released to you in full.

Should you need further assistance, please contact Ms. Kathy Dixon, DLA Headquarters FOIA Officer, at 703-767-6183 or Kathy.Dixon@dla.mil. Please reference FOIA case number HQ DLA-15-HFP-00031 in any subsequent correspondence.

Sincerely,

PIGOTT.STEVEN  
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Steven Pigott  
Deputy Inspector General for Audits



## *DLA Office of the Inspector General*

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# **Internal Controls over the Nuclear Weapons Related Materiel (NWRM) Receipt Process at DLA Distribution Facilities**

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The DLA Office of the Inspector General Audit Division provides DLA leadership with sound advice and recommendations to assist them in making informed decisions to improve support to the warfighter, and proper stewardship of resources while remaining independent and objective in our auditing approach.

## VISION

Motivated and trusted audit professionals who provide timely and value-added audit services emphasizing collaboration with management, risk mitigation and accountability.

### Suggestion for Audits

To suggest or request audits, contact the office of the Deputy Inspector General for Auditing at [OIG\\_Audit@dla.mil](mailto:OIG_Audit@dla.mil).



### Acronyms Used

CGA	Continuing Government Activity
CIIC	Controlled Inventory Item Code
DSS	Distribution Standard System
DTRA	Defense Threat Reduction Agency
GAGAS	Generally Accepted Government Auditing Standards
LMS	Learning Management System
MOA	Memorandum of Agreement
NIIN	National Item Identification Number
NWRM	Nuclear Weapons Related Materiel
OSD	Office of the Secretary of Defense
RCN	Receipt Control Number
SDR	Supply Discrepancy Report
SITREP	Situation Report
SDP	Strategic Distribution Platform
USAF	United States Air Force



## Executive Summary: Adequacy of Internal Controls over NWRM Receipt Process

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### What We Did and Why

Our audit objective was to determine if DLA Distribution had controls in place to detect and identify a NWRM item at the time of receipt. This audit was identified as a top priority by the DLA Director in our FY14/15 audit plan.

### What We Found

We determined that DLA Distribution designed receiving controls to detect and identify NWRM; however, controls were not always applied or effective. Based on our test work with five packages containing items categorized as NWRM, we found that the depots did not:

- Enter National Item Identification Number into the Distribution Standard System to identify NWRM.
- Submit Supply Discrepancy Reports.
- Induct NWRM test items into DLA Inventory to ensure proper accountability.
- Notify DLA Distribution of a potential NWRM incident.

These issues occurred because NWRM training was inadequate, guidance was conflicting, and the Distribution Standard System NWRM notification was not recognized by depot personnel. As a result, DLA may be at risk of not handling NWRM properly and inadvertently inducting NWRM into our DLA Distribution depots without properly identifying the item at the time of receipt.

### What We Recommend

Our report contains one recommendation addressed to the Director, DLA Logistics Operations and four recommendations addressed to the Commander, DLA Distribution to improve the operations for handling of NWRM. These recommendations include:

- Revise the DLA Instruction 1501 “Nuclear Weapons Related Materiel (NWRM) Management”.
- Develop a separate NWRM Learning Management System course for NWRM awareness training for all depot employees and specific NWRM training for classified employees who would process NWRM.
- Update the Storage and Handling of Classified Material Process Guide.
- Revise the technical exhibit for all contracted depots to reflect the training required by DLA Distribution (DDC) Instruction O-2010-001.
- Enhance the Distribution Standard System RI05 screen that displays the NWRM notification.

### Management Comments and Our Response

Director, DLA Logistics Operations and the Commander, DLA Distribution generally concurred with the recommendations made in this report and agreed to take corrective action.



DEFENSE LOGISTICS AGENCY  
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October 7, 2014

MEMORANDUM FOR DIRECTOR, DLA LOGISTICS OPERATIONS  
COMMANDER, DLA DISTRIBUTION

SUBJECT: Final Report –Internal Controls over the NWRM Receipt Process at DLA  
Distribution Facilities

This is the final report on the Audit of Internal Controls over the NWRM Receipt Process at DLA Distribution Facilities. Our objective was to determine if DLA Distribution had controls in place to detect and identify a NWRM item at the time of receipt.

We determined that DLA Distribution designed receiving controls to detect and identify NWRM; however, controls were not always applied or effective. Based on our test work with five packages containing items categorized as NWRM, we found that the depots did not:

- Enter National Item Identification Number into the Distribution Standard System to identify NWRM.
- Submit Supply Discrepancy Reports.
- Induct NWRM test items into DLA Inventory to ensure proper accountability.
- Notify DLA Distribution of a potential NWRM incident.

Based on our findings, we made one recommendation to the Director, DLA Logistics Operations and four recommendations to the Commander, DLA Distribution. We requested and obtained management comments on a draft of this report. Verbatim management comments are included in Appendix D of this report. We will perform follow-up procedures after corrective actions are implemented and supporting documentation made available.

We appreciate the courtesies and cooperation extended to us during the audit. For additional information about this report please contact Mr. David Bukauskas at DSN 427-7396 or email at [David.Bukauskas@dla.mil](mailto:David.Bukauskas@dla.mil).

A handwritten signature in blue ink that reads "Steven D. Pigott".

STEVEN D. PIGOTT  
Deputy Inspector General  
DLA OIG Audit Division

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# INTRODUCTION

## OBJECTIVE AND CONCLUSION

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The objective of the audit was to determine if DLA Distribution had controls in place to detect and identify a NWRM item at the time of receipt.

We determined that DLA Distribution designed receiving controls to detect and identify Nuclear Weapons Related Materiel (NWRM); however, controls were not always applied or effective. Issues occurred because NWRM training was inadequate, guidance was conflicting, and the Distribution Standard System (DSS) NWRM notification was not recognized by depot personnel. As a result, DLA may be at risk of not handling NWRM properly and inadvertently inducting NWRM into our DLA Distribution depots without properly identifying the item at the time of receipt.

## BACKGROUND

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We conducted this performance audit based on the DLA Director approved FY 14/15 Audit Plan.

A Memorandum of Agreement (MOA) between the U.S. Air Force (USAF), DLA, and Defense Threat Reduction Agency (DTRA) defines the responsibilities of each agency regarding the long-term management of NWRM. Under this agreement, the USAF assumes responsibility for NWRM storage, handling, and accountability; however, DLA remains responsible for handling NWRM when it is erroneously delivered to a DLA facility. DLA Instruction 1501 “Nuclear Weapons Related Materiel (NWRM) Management” dated April 7, 2010, outlines DLA Distribution’s overall NWRM responsibilities and DLA Distribution (DDC) Instruction O-2010-001 “Handling and Processing Nuclear Weapons Related Materiel” dated April 28, 2010, provides DLA Distribution personnel with specific guidance on handling NWRM at the time of receipt.

The DLA OIG previously conducted a series of performance audits on NWRM focused on evaluating the internal controls over the processing of receiving, handling, and transferring NWRM. These reports contained recommendations to strengthen controls surrounding NWRM management within DLA. In 2012, the DLA OIG performed follow up audit (DAO-12-04) on the corrective actions related to the previous audit findings and risks identified in prior DLA OIG audits. However, the DLA OIG’s previous audit work did not directly test the effectiveness of NWRM receiving controls through actual receipt transactions at DLA Distribution depots.

# **RESULTS AND RECOMMENDATIONS**

## **NWRM IDENTIFICATION AND ALERT NOTIFICATIONS**

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We worked with DLA Distribution Subject Matter Experts to test DLA Distribution's NWRM receiving controls by shipping faux NWRM test packages to five DLA Distribution depots on June 3, 2014. The NWRM test was designed to simulate a mis-shipment without the required documentation to determine if depot personnel would properly handle the NWRM test item.

We determined that DLA Distribution designed receiving controls to detect and identify NWRM; however, controls were not always applied or effective. Specifically, depot personnel did not always:

- Enter National Item Identification Number (NIIN) into DSS to identify NWRM.
- Submit Supply Discrepancy Reports (SDRs).
- Induct NWRM test items into DSS to ensure proper accountability.
- Notify DLA Distribution of a potential NWRM incident.

These issues occurred because NWRM training was inadequate, guidance was conflicting, and DSS notification was not recognized by depot personnel. As a result, DLA may be at risk of improperly handling NWRM and inadvertently inducting NWRM into our DLA Distribution depots without properly identifying the item at the time of receipt.

### **NWRM Receiving Controls**

DLA Distribution designed receiving controls to detect and identify NWRM.

DLA Distribution (DDC) Instruction O-2010-001 identifies indicators for suspected NWRM and DSS automatically identifies material as NWRM when depot personnel input the NIIN into the DSS during the receiving process. During the course of our audit, we verified that DSS effectively alerts depot personnel of NWRM when the NIIN it is input into the system. Once depot personnel identify an item as NWRM, the DLA Distribution Instruction directs depot personnel to take the following key actions:

- Provide an initial voice report to DLA Distribution that potential NWRM has been received.
- Submit a SDR through DSS to notify the sender that NWRM was received at a DLA Distribution depot.
- Provide a formal Situation Report (SITREP) to DLA Distribution.
- Induct the NWRM into DSS and stow it in a secure/classified storage regardless of Controlled Item Identification Code (CIIC) or dollar value.

## NWRM Test Results

Although DLA Distribution designed receiving controls to detect and identify NWRM, depot personnel did not always apply the controls to identify NWRM. During our audit, we physically observed the receipt of NWRM test packages at three depots and reviewed post action supporting documentation for two depots. Table 1 summarizes the test results at the five DLA Distribution depots we tested.

Depot	Observation Method	Entered NIIN into DSS	Identified NWRM Test Item	SDR Submitted	Inducted NWRM Test Item	Sent Notification
Hill	On-Site	NO	YES	NO	NO	YES
Warner Robins	On-Site	NO	NO	NO	NO	NO
Richmond	On-Site	NO	NO	NO	NO	NO
Oklahoma	Non-observed	NO	YES	YES	YES	YES
Susquehanna	Non-observed	YES	NO	NO	YES	NO

Table 1

Although two of the five sites identified the NWRM test material, only DLA Distribution Oklahoma City, Oklahoma, generally followed DLA Distribution guidance on identifying and receiving NWRM through DSS. This occurred after depot personnel were made aware of the test. Additionally, we found that the DSS RI05 screen NWRM notification was not an effective control. Depot personnel at DLA Distribution Susquehanna, Pennsylvania passed through the DSS RI05 screen twice without successfully identifying the NWRM test material.

These NWRM test results should be of concern to DLA, because without applying the documented controls at the time of receipt the NWRM test items were not identified, inducted, and depot personnel did not always provide DLA Distribution notification of the NWRM test item.

We discuss the site specific results of our test in Appendix C.

## NWRM Training, Guidance, and DSS Controls

Depot personnel did not always apply the controls to identify NWRM because training was inadequate, guidance was conflicting, and the DSS NWRM notification was not recognized by depot personnel.

**NWRM Training.** NWRM training provided to depot personnel did not meet established training requirements. Office of the Secretary of Defense (OSD) policy requires personnel handling NWRM to obtain awareness training within 60 days of employment and DLA Distribution (DDC) Instruction O-2010-001 requires annual refresher training. Despite these requirements, only two of the five depots we tested were compliant with the OSD NWRM awareness requirement and none of the five test depots were compliant with NWRM refresher training outlined in DLA Distribution (DDC) Instruction O-2010-001.

During our audit, we found several contributing factors that led to depot personnel receiving inadequate NWRM training. Specifically, we noted:

- NWRM awareness training was provided through a Learning Management System (LMS) course that was not assigned to all DLA Distribution personnel who could receive NWRM.
- NWRM procedures were not addressed in DLA Distribution's Storage and Handling of Classified Material Process Guide and an alternate way of providing refresher training was not developed to ensure all employees remained aware of NWRM procedures.
- NWRM training requirements were identified as every two years instead of annual requirements in the technical exhibits of the contracts for DLA Distribution Hill, Utah, and DLA Distribution Richmond, Virginia.

DLA could ensure NWRM training requirements are met by providing regular awareness training to all DLA Distribution personnel, revising materials used to conduct refresher training, and aligning depot contracts with DLA instructions.

**NWRM Guidance.** DLA provided DLA Distribution Hill, Utah, with conflicting guidance on handling NWRM. Specifically, the USAF/DLA/DTRA MOA, dated December 30, 2010, identifies NWRM receiving requirements that differ from DLA Distribution guidance and depot contracts.

According to the USAF/DLA/DTRA MOA, DLA may erroneously receive NWRM going to a co-located USAF NWRM facility as the result of the item being mis-directed or mis-labeled. If depot personnel discover mis-directed or mis-labeled NWRM, the MOA directs depot personnel to take the following actions:

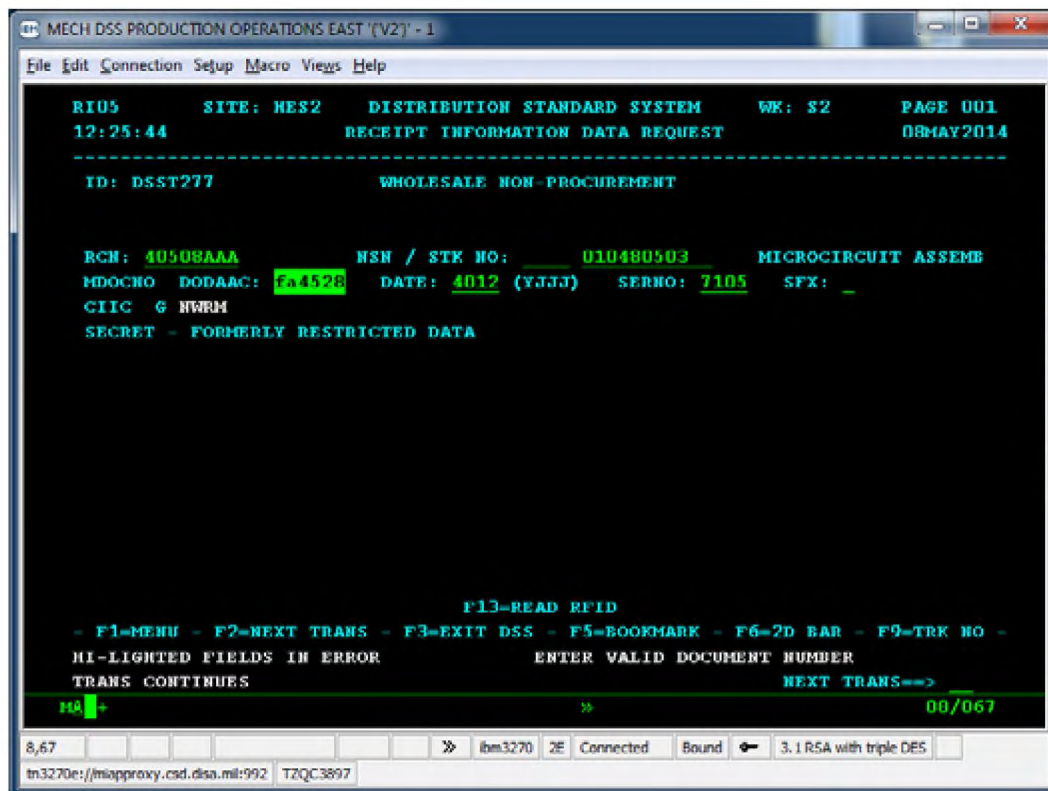
- Redirect the shipment to the appropriate USAF NWRM facility if the error is discovered prior to the departure of the carrier
- Secure the item and immediately contact the appropriate USAF NWRM facility, which will be responsible for retrieving the mis-delivered shipment, if the error is discovered after the carrier departs.

The MOA currently conflicts with DLA Distribution (DDC) Instruction O-2010-001 and DLA Distribution Hill, Utah, Contract SP3300-12-C-5003, Technical Exhibit 5.12, which require depot personnel to, institute classified receiving procedures and stow the NWRM materiel. As a result of this conflict, DLA Distribution Hill, Utah, personnel followed the procedures outlined in the MOA and did not induct the NWRM test item into stock.

DLA could address this issue by clarifying how to handle mis-directed and mis-labeled shipments in DLA Instruction 1501 "NWRM Management."

**DSS Controls.** Although depot personnel generally did not input NWRM NIINs into DSS, we found that the DSS RI05 screen was not an effective control when depot personnel did use DSS to identify material during our audit. The DSS RI05 screen is a key control in the receiving

process because it automatically identifies material as NWRM when depot personnel input the NIIN into the system. This control was not effective because the DSS RI05 screen, as shown in the picture below, only provided a small NWRM notification on the left side of the screen after a NWRM NIIN input into DSS.



Additionally, the DSS RI05 screen did not require depot personnel to take specific actions for identified NWRM and depot personnel could easily back out of the receipt process by canceling the Operational Control Number. As a result, DLA Distribution Susquehanna, Pennsylvania, inducted the NWRM test item without completing a SDR and notifying DLA Distribution.

DLA Distribution could address this issue by enhancing the NWRM notification on DSS RI05 screen and developing automated controls to require appropriate actions to process NWRM once it's identified.

## **Recommendations for Director, DLA Logistics Operations (J3)**

**Recommendation 1.** Revise DLA Instruction 1501 “Nuclear Weapons Related Materiel (NWRM) Management” to document the appropriate handling procedures at DLA Distribution Hill, Utah, when it is appropriate to induct versus to contact the USAF NWRM facility. This revised instruction should clarify the specific depot personnel who should also receive NWRM training.

**Management Comments.** Concur. DLA Instruction 1501 is in coordination for revision with an estimated completion date of 31 Oct 2014.

**DLA OIG Response.** Management’s comments were responsive and addressed the intent of the recommendation.

## **Recommendations for Commander, DLA Distribution**

**Recommendation 2.** Work with DLA J1 Training to develop separate NWRM training courses in the LMS that provide NWRM awareness training for all DLA Distribution employees and specific NWRM training for classified employees who are responsible for processing NWRM. This training should specifically address procedures for handling NWRM at the time of receipt.

**Management Comments.** Concur. NWRM Awareness stand-downs were conducted at all DLA Distribution locations covering the proper procedures if NWRM is advertently received. The NWRM Process Map and Standard Operating Procedure (SOP) was updated and issued to all Distribution Centers. Job Breakdown Sheets (JBS) were also updated. Training courses will be identified in LMS for both NWRM Awareness (all employees) and NWRM training for any employee who work in an area where NWRM may be inducted. Estimated Completion Date (ECD) for completion of separate NWRM training is 30 June 2015.

**DLA OIG Response.** Management’s comments were responsive and addressed the intent of the recommendation.

**Recommendation 3.** Update the Storage and Handling of Classified Materiel Process Guide to include guidance on how to properly handle and process NWRM and ensure the new NWRM guidance is included in the Storage and Handling of Classified Materiel Training course.

**Management Comments.** Non-Concur. Separate NWRM training will be developed (see recommendation 2) and will no longer be included in the Storage and Handling of Classified Materiel Process Guide.

**DLA OIG Response.** The intent of the original recommendation should be met by the updated NWRM Process Map, revised SOP, and the identification of two separate NWRM Training courses in LMS. Management’s comments are accepted and responsive to the recommendation. Based on the management comments for Recommendation 2 the estimated completion date for the separate LMS training is 30 June 2015.

**Recommendation 4.** Revise the current technical exhibits for all contracted depots to accurately reflect the training requirements set forth in DLA Distribution (DDC) Instruction O-2010-001.

**Management Comments.** Non-concur. DLA Distribution Instruction O-2010-001 has been superseded by the updated NWRM Process Map, SOP, and JBS. The processes identified when the references were reissued superseded all previously issued guidance to include DLA Distribution Instruction O-2010-001. The Contracting Officer provided Technical Direction to the contractor to implement the updated guidance/procedures until a modification is executed to replace the technical exhibit.

**DLA OIG Response.** Contracted depots now follow the same process as government operated depots, giving DLA one consistent approach when NWRM is inadvertently received, since the Contracting Officer modified the contract. Management is modifying the contract to formalize guidance provided to the contractor. These actions will meet the intent of the recommendation once contract modifications are executed to replace the technical exhibits for all contracted depots. For tracking purposes DLA Distribution can provide an estimated completion date in Team Central for executing the contract modifications.

**Recommendation 5.** Coordinate with DLA Information Operations New Cumberland to enhance the DSS NWRM notification on the RI05 screen and develop automated controls that would prevent distribution workers from exiting the RI05 screen without taking appropriate action to process NWRM.

**Management Comments.** Concur. A Request for Change (RFC) was developed and programming completed. The changes for the first part (DSS stopping the receipt process) were implemented on August 24. The remaining changes are scheduled for release on September 28.

**DLA OIG Response.** Management comments were responsive and addressed the intent of the recommendation.

## APPENDIX A. SCOPE AND METHODOLOGY

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The FY 2014/2015 DLA OIG Audit Plan included a Red Team effort. This effort was performed to determine if DLA Distribution has controls in place to detect and identify a NWRM item at the time of receipt.

We conducted fieldwork for this performance audit from May 30, 2014 to September 8, 2014 in accordance with Generally Accepted Government Auditing Standards (GAGAS) except for the standard related to external peer review. The DLA OIG has not been the subject of a completed peer review since May 2010. GAGAS General Standards requires audit organizations performing audits in accordance with GAGAS to obtain an external peer review at least once every three years. However, we believe this noncompliance with GAGAS had no effect on the quality of this report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

To determine if DLA Distribution has controls in place to detect and identify a NWRM item at the time of receipt, we:

- Reviewed applicable memorandums, agreements, instructions, standard operating procedures, and prior audit reports.
- Worked with DLA Distribution to ship faux NWRM packages to five DLA Distribution depots to simulate a mis-shipment of an NWRM item. The selected depots were:
  - DLA Distribution Hill, Utah
  - DLA Distribution Warner Robins, Georgia
  - DLA Distribution Richmond, Virginia
  - DLA Distribution Oklahoma City, Oklahoma
  - DLA Distribution Susquehanna, Pennsylvania
- Obtained assistance from DLA Distribution Subject Matter Experts to develop faux NWRM test packages, shipping documents, and ship the packages to the five distribution depots for an overnight delivery on June 3, 2014 via FedEx.
- Performed observations of the processing of the faux NWRM test packages at the three depots located at Hill Air Force Base, Warner Robins Air Force Base, and Richmond, Virginia. The remaining two depots located at Tinker Air Force Base and New Cumberland, Pennsylvania were evaluated post event using electronic documentation; e.g. auditors were not physically on site.
- Met with staff from the five depots as necessary to obtain additional information and clarification.
- Obtained and evaluated training documentation related to required NWRM training.
- Verified DSS tables to the current USAF NWRM list to ascertain DSS accurately reflected the USAF NWRM.
- Utilized DSS scans to substantiate there was no USAF NWRM NIINs in DLA Distribution Inventory.
- Performed a limited judgmental floor to book sample in the three observed classified warehouses.



## **Applicable Policy and Guidance**

The following criteria were significant:

- Under Secretary of Defense, Acquisition, Technology and Logistics Memorandum, Nuclear Weapons-Related Materiel (NWRM), October 2008.
- USAF/DLA/DTRA, Memorandum of Agreement, Nuclear Weapons-Related Materiel (NWRM) Management, December 30, 2010.
- Defense Logistics Agency Instruction (DLAI) 1501, Nuclear Weapons Related Materiel (NWRM) Management, Certified Current February 20, 2013.
- DLA Distribution (DDC) Instruction O-2010-001, Handling and Processing Nuclear Weapons Related Materiel (NWRM), April 2010.
- DLA Distribution Storage and Handling of Classified Material Participant/Process Guide, August 2008, August 2010, and May 2014.
- DLA Distribution Hill, Utah Contract Number SP3300-12-C-5003, Technical Exhibit 5.12, Handling and Processing Nuclear Weapons Related Materiel (NWRM), November 2010.
- DLA Distribution Richmond, Virginia Contract Number SP3300-13-C-5001, Technical Exhibit 5.12, Handling and Processing Nuclear Weapons Related Materiel (NWRM), November 2010.

## **DLA Distribution Depot Selection**

We judgmentally selected five DLA Distribution depots to have faux NWRM packages delivered via FedEx. Three of the five distribution depots, DLA Distribution Hill, Utah, DLA Distribution Warner Robins, Georgia, and DLA Distribution Oklahoma City, Oklahoma were selected because they are collocated with the USAF and thus present the greatest risk of inadvertently receiving NWRM. DLA Distribution Susquehanna, Pennsylvania was selected due to its significance as the largest of the 26 distribution depots. DLA Distribution Richmond, Virginia was selected since it represented a small non-USAF associated distribution depot.

The results of this audit cannot be projected to all DLA Distribution depots.

## **Use of Computer-Processed Data**

In conducting the audit, we relied on computer generated data from DSS. The general application controls for DSS were reviewed in 2009 by the DoD OIG under Audit Assignment No. D-2009-106, who concluded that some general and application controls were not adequately designed and effective. A Federal Information Systems Control Audit Manual (FISCAM) Assessment Report dated April 5, 2013 identified 12 Notices of Findings (NOF) that affected the DSS application security controls.

Due to the issues reported in these two reports, the audit team performed additional procedures to corroborate the DSS data. These additional audit procedures successfully corroborated the data in DSS. During performance of our audit nothing came to our attention that would cause us to doubt the reliability of the DSS data. As a result, we conclude that the DSS data was sufficient to achieve the audit objective.

## APPENDIX B. OTHER AREAS OF CONCERN

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During our audit, we identified an area of concern related to the receipt of classified material in non-classified receiving at two of the DLA Distribution depots where we conducted observations.

**DLA Distribution Richmond, Virginia:** FedEx delivered the test package to the contractor operated non-classified hazardous material receiving in Building 44 as a result of an incorrect shipping address. Contractor personnel identified the test package as a classified shipment based on the “secret” markings stamped on the interior shipping container and notified a manager. Although there was a secure storage area immediately adjacent to receiving in Building 44, the manager transported the test package alone in his private vehicle to the Continuing Government Activity (CGA) offices, where he transferred the test package to a CGA staff member. This transfer occurred without the verification the individual’s security clearance or completion of a DLA Form 27 to document the transfer.

**DLA Distribution Hill, Utah:** FedEx mistakenly delivered the NWRM test package to the non-classified receiving. However, the central receiving personnel identified the package as classified and placed it back on the FedEx truck instead of immediately securing the package in a secure holding area.

We identified these transactions as an “other area of concern” because they were not processed in accordance with DLA Distribution guidance and could potentially put DLA at risk for mishandling classified materiel. Although we issued no formal recommendations to address this concern, DLA Distribution can address this concern by providing additional training on how to handle classified items at the time of receipt.

## APPENDIX C. DETAILED TEST RESULTS BY DEPOT

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In the following sections, we provide the detailed results of our test and factors that contributed to the inconsistent application of the documented controls.

**DLA Distribution Hill, Utah.** This depot is contractor operated and is co-located with the Ogden Air Logistics Center at Hill Air Force Base. Depot personnel successfully identified the NWRM test item. Depot personnel then followed instructions in the USAF/DLA/DTRA MOA and worked with USAF personnel to research the material; instead of inducting the material into inventory in accordance with DLA Distribution guidance. During our observations, we noted the following key points:

- FedEx incorrectly delivered the test package to unclassified central receiving, where contractor personnel recognized that the packaged was mis-delivered and placed the package back on the FedEx truck to be delivered to classified receiving.
- Classified receiving personnel identified the NWRM test item by incorrectly checking an outdated hardcopy NWRM list from May 2013. The test item's NIIN was never entered in DSS as part of the induction process which would have displayed the DSS RI05 screen NWRM notification.
- Receiving personnel contacted the USAF as required by the USAF/DLA/DTRA MOA to identify the test item.
- DLA Distribution Hill, Utah Director provided DLA Distribution with a voice notification and would have submitted a SITREP, but the test was cancelled prior to the SITREP submission.
- No SDR was submitted and the test item was not inducted into DLA Distribution inventory.

Depot personnel adhered to the USAF/DLA/DTRA MOA, however, that MOA conflicts with DLA Distribution (DDC) Instruction O-2010-001 and the technical exhibits in the contract that state the NWRM item should be inducted.

**DLA Distribution Warner Robins, Georgia.** This depot is a government operated facility that serves as one of DLA Distribution's four Strategic Distribution Platforms (SDP). Depot personnel at DLA Distribution Warner Robins, Georgia, did not identify the test item as NWRM. During our observations, we noted depot personnel initiated the receipt process by placing a Receipt Control Number (RCN) on the test item. However, we noted the following key points:

- Test package was received by classified receiving personnel who placed a RCN on the box.
- An inexperienced depot worker attempted to process the NWRM test item, but could not find any information in Web Federal Logistics Information System (WebFLIS) or locate a part number during the bare item inspection. The test item's NIIN was never entered into DSS as part of the induction process which would have displayed the DSS RI05 screen NWRM notification.

- No SDR was submitted and the test material was not inducted into DLA Distributions inventory.
- No voice notification or SITREP was submitted to DLA Distribution.
- NWRM test was cancelled at the end of the work day.

The following day, the audit team conducted a post-test walk through of the receiving process. During the walk through an experienced depot worker failed to recognize the DSS RI05 screen NWRM notification; indicating inadequate NWRM training had been provided.

**DLA Distribution Richmond, Virginia.** This depot is operated by both contractors (hazardous materials) and government employees (former DLA Mapping functions). In January 2014 DLA Distribution Richmond absorbed the primary functions of DLA Mapping and in the months preceding the test vacated some warehouse space. The depot address in DSS did not reflect the space reduction and the test package was addressed to an area which was no longer occupied.

The onsite audit team observed the processing of the NWRM test package and noted the following key points:

- Due to an incorrect address on the test package, the package was received by contractor personnel working in the non-classified central receiving.
- Based on the “secret” stamps on the inside packaging the material was quickly identified by contractor personnel as classified material.
- The test item’s NIIN was never entered into DSS as part of the induction process which would have displayed the DSS RI05 screen NWRM notification.
- The contractor employees in non-classified receiving were unsure of how to handle classified material.
- The test item was transported to another building and turned over to the CGA.
- No SDR was submitted and the test item was not inducted into DLA Distribution inventory.
- No voice notification or SITREP was submitted to DLA Distribution.
- Test was cancelled when CGA personnel attempted to contact the USAF.

The depot quickly identified the material as classified material, but never concluded it was NWRM. However, the contractor personnel working in unclassified receiving were uncertain how to properly handle a classified item when received in unclassified receiving.

**DLA Distribution Oklahoma City, Oklahoma.** This depot is a government operated facility that serves as one of DLA Distribution’s four SDPs. We did not conduct observations at DLA Distribution Oklahoma City, Oklahoma, but reviewed post action supporting documentation for the NWRM test transactions as part of our audit. Based on the documentation we reviewed, we noted the following:

- Test package was received by classified receiving personnel who placed a RCN on the box.

- Classified receiving personnel identified the NWRM test item by using DSS Quantity by Location (QBL). The test item's NIIN was never entered into DSS as part of the induction process which would have displayed the DSS RI05 screen NWRM notification.
- DLA Distribution Oklahoma City, Oklahoma Deputy Director contacted DLA Distribution and notified them of the receipt of NWRM. A few minutes later, DLA Distribution notified the depot that it had been part of a test.
- Subsequent to being informed that it had been a part of a test, the depot submitted an SDR and inducted the material.

Depot personnel generally adhered to the DLA Distribution (DDC) Instruction O-2010-001, but were alerted of the test soon after the voice notification to DLA Distribution.

**DLA Distribution Susquehanna, Pennsylvania.** This depot is a government operated facility and is the largest of DLA Distribution's four SDPs. We did not conduct observations at DLA Distribution Susquehanna, Pennsylvania, and reviewed post action supporting documentation for the NWRM test transactions as part of our audit. Based the documentation we reviewed, we noted depot personnel:

- Test package was received by classified receiving personnel. Receiving personnel attempted to induct the material inputting the NIIN and passing through the RI05 screen; without recognized the significance of the DSS RI05 NWRM notification. Unable to complete dual inspection the employee backed out of the first attempt to process the NWRM test item.
- Working with a more experience employee the NIIN was again inputting into DSS and for a second time the DSS RI05 NWRM notification went unrecognized.
- The test material was inducted into inventory and a put-away label clearly showing "NWRM" was applied to the package. None of the employees recognized NWRM as requiring special handling.
- No SDR was submitted.
- No voice notification or SITREP was submitted to DLA Distribution.

Subsequent discussions with classified receiving staff indicated that they did not recall receiving NWRM training, and were unaware that it required special handling.

# APPENDIX D. MANAGEMENT COMMENTS



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

25 September 2014

MEMORANDUM FOR DLA OIG

SUBJECT: Management Comments on Draft Audit Report – Internal Controls Over the Nuclear Weapons Related Materiel (NWRM) Receipt Process at DLA Distribution Facilities

The following DLA OIG recommendation for DLA Logistics Operations (J3) has been reviewed concerning NWRM procedures:

Recommendation 1: Revise DLA Instruction 1501 – Nuclear Weapons Related Material (NWRM) Management. (OPR: DLA J3)

- 1) Management Concurrence : **Concur**
- 2) Corrective Action: DLA Instruction 1501 is in coordination for revision.
- 3) ECD: 31 Oct 2014
- 4) POC: Lt Col Rich Fillman - J313F, 703-767-0914, [richard.fillman@dla.mil](mailto:richard.fillman@dla.mil)

Point of contact for this action is Col Paul Pidgeon, USAF, J313F, at 703-767-1222, or [paul.pidgeon@dla.mil](mailto:paul.pidgeon@dla.mil).

A handwritten signature in black ink, reading "V. Griffith", is positioned above the printed name.

VINCE GRIFFITH  
Rear Admiral, SC, USN  
Director, DLA Logistics Operations

cc:  
DLA Distribution



DEFENSE LOGISTICS AGENCY  
DISTRIBUTION  
5081 J AVENUE  
NEW CUMBERLAND, PENNSYLVANIA 17070-5059

SEP 24 2014

MEMORANDUM FOR DIRECTOR, DLA OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Management Comments on Audit Report DLAOIG-FY-14-12

DLA Distribution offers the following management comments in response to subject audit report, Internal Controls over the Nuclear Weapons Related Materiel (NWRM) Receipt Process at DLA Distribution Facilities.

In the draft report, it is noted that the on-site observers may have made decisions that may have influenced the results of the test. Since the test was stopped at certain locations, we may not have been provided the complete picture we would have if the test were allowed to continue. Although we agree with some of the recommendation and have already taken action to strengthen some processes related to NWRM, we firmly believe that those processes were already effective in preventing NWRM from entering (or exiting) DLA Distribution control. We concur that those procedures were not always applied properly.

Recommendation 2: Work with DLA J1 Training to develop separate NWRM training courses in the LMS that provide NWRM Awareness training for all DLA Distribution employees and specific NWRM training for classified employees who are responsible for processing NWRM. This training should specifically address procedures for handling NWRM at the time of receipt.

Management Comments: Concur. NWRM Awareness stand-downs were conducted at all DLA Distribution locations covering the proper procedures if NWRM is inadvertently received. The NWRM Process Map and Standard Operating Procedure (SOP) was updated and issued to all Distribution Centers. Job Breakdown Sheets (JBS) were also updated. Training courses will be identified in LMS for both NWRM Awareness (all employees) and NWRM training for any employee who work in an area where NWRM may be inducted. ECD for completion of separate NWRM training in 30 June 2015.

Recommendation 3: Update the Storage and Handling of Classified Materiel Process Guide to include guidance on how to properly handle and process NWRM and ensure the new NWRM guidance is included in the Storage and Handling of Classified Materiel training course.

Management Comments: Non-concur. Separate NWRM training will be developed (see recommendation 2) and will no longer be included in the Storage and Handling of Classified Materiel Process Guide.

Recommendation 4: Revise the current technical exhibits for all contracted depots to accurately reflect the training requirements set forth in DLA Distribution (DDC) Instruction O-2010-001.

Management Comments: Non-concur. DLA Distribution Instruction O-2010-001 has been superseded by the updated NWRM Process Map, SOP and JBS. The processes identified when the references were reissued superseded all previously issued guidance to include DLA Distribution Instruction O-2010-001. The Contracting Officer provided Technical Direction to the contractor to implement the updated guidance/procedures until a modification is executed to replace the technical exhibit.

Recommendation 5: Coordinate with DLA Information Operations New Cumberland to enhance the DSS NWRM notification on the R105 screen and develop automated controls that would prevent distribution workers from exiting the R105 screen without taking appropriate action to process NWRM.

Management Comments: Concur. A Request for Change (RFC) was developed and programming completed. The changes for the first part (DSS stopping the receipt process) were implemented on August 24. The remaining changes are scheduled for release on September 28. The full RFC requirements are identified below:

- 1) DSS should display a larger warning that the material is NWRM. The message should be (two lines) **\*\*\*NWRM CONTACT SUPERVISOR/LEAD AND DEPOT COMMAND\*\*\***  
**\*\*\* FOLLOW NWRM SOP TO PROCESS RECEIPT\*\*\***
- 2) For DLA Distribution Sites, DSS should stop the receipt process on the initial receipt screen (i.e. R105) and require the receivers supervisor to sign in to approve the receipt processing (the process should follow the dual approval used on the R195 screen). The current dual approval should also be retained. Once the dual approval is verified (systemic access controls) the receiver can continue the induction of the NWRM IAW the NWRM SOP.
- 3) NWRM Material should be systemically receipted in to CC/K regards of the CC input by the receiver.
- 4) Any SDR created for an NWRM receipt should be hard coded to include the following comments "STORAGE OF NWRM NOT AUTHORIZED AT THIS SITE. PLEASE PROVIDE AN A2A DOCUMENT FOR SHIPMENT TO AUTHORIZED AIR FORCE PIC FACILITY".
- 5) DSS will generate an email to recipients listed on load and maintain table when the first dual approval occurs (i.e. R105 Screen). This email will be generic stating the site received an NWRM item. Follow NWRM SOP for required notifications.
- 6) SDRs generated from the QD00 screen/program (Create with OCN or using ENTER a Y) will need to be validated against the NWRM criteria. If the NSN is an NWRM item, DSS will need to place the item in CC/K (DAC) and submit an SDR with the same comments as in #4. DSS should also generate an email as listed in #5.



My point of contact for questions relating to Audit Report DLAOIG-FY-14-12 (NWRM Receipt Process at DLA Distribution Facilities) is Patty Myers, [patty.myers@dla.mil](mailto:patty.myers@dla.mil).

  
TWILA C. GONZALES, SJS  
Deputy Commander



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

December 31, 2014

**MEMORANDUM FOR DLA EXECUTIVE BOARD PRINCIPLES**

**SUBJECT: Final Report-Examination of the DLA Environmental Liabilities Management (ELM) Management Assertion, Report No. DLA OIG-FY15-04 (FY14-DLAOIG-10)**

DLA contracted with the Independent Public Accounting firm (IPA), Kearney and Company (Kearney), to perform an examination of the ELM Management Assertion as of September 30, 2013, and to provide a report on the fairness of the assertion. The audit scope in the contract required Kearney to rely on substantive tests of details to support management's assertion, and internal controls were not reviewed as part of the attestation engagement.

The contract required Kearney to conduct the examination in accordance with generally accepted government auditing standards (GAGAS) and American Institute of Certified Public Accountants' (AICPA) attestation standards. Kearney's examination resulted in a modified opinion; qualified over inability to obtain independent validation of Remedial Action Cost Engineering Requirements (RACER) cost table information. Kearney identified deficiencies with Internal Controls over Financial Reporting that constituted material weaknesses. These internal control deficiencies are addressed in a separate Report on Internal Controls over Financial Reporting addressed to those charged with governance. The specific results of Kearney's examination are presented in the attached report.

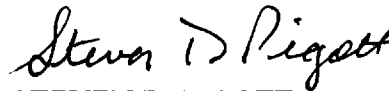
The DLA OIG was responsible for providing technical assistance and monitoring contract performance as the contracting officer representative. The DLA OIG's technical assistance to Kearney was aligned with contract requirements and did not constitute management of audit work. Our review of Kearney's report and related examination documentation was conducted to determine whether the contractor performing the audit services complied with the reporting requirements of GAGAS and the statement of work. To accomplish our responsibilities in monitoring the IPA, as outlined in the DoD Audit Manual, we:

- Assigned personnel with the skills, knowledge, and training to monitor the contract,
- Prepared a quality control review guide to monitor Kearney's contract performance,
- Attended an opening conference with the contractor and other agency officials to start the task order,
- Attended key meetings with contractor and agency personnel
- Attended an exit conference with the contractor and agency officials,
- Monitored and evaluated contractor progress and work, including audit plans, audit documentation, and final reports,

- Performed an acceptance review of Kearney's completed audit work before final contract payment was approved, and
- Reviewed and approved contractor progress billings for payments.

Our review of Kearney's report and related examination documentation disclosed no instances where Kearney did not comply, in all material respects, with GAGAS. Our review was not intended to enable DLA OIG to express, and we do not express, an opinion on DLA's Schedule of the Working Capital Fund (WCF) and General Fund (GF) Environmental Liabilities, as of September 30, 2013 (Schedule of Environmental Liabilities). Kearney is responsible for the attached auditor's report and the conclusions expressed in the report.

We appreciate the courtesies and cooperation from your staff during this examination. For additional information about this report, please contact Ms. Patricia Sizemore, DLA OIG Audit Manager, at 614-692-8188 or email at [patricia.sizemore@dla.mil](mailto:patricia.sizemore@dla.mil).



STEVEN D. PIGOTT  
Deputy Inspector General  
DLA OIG Audit Division

Attachment:

1. Final Examination Report



***DLA Office of the Inspector General***

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# **Implementation of Prior Contract Oversight Audit Recommendations**

## MISSION

The DLA Office of the Inspector General Audit Division provides DLA leadership with sound advice and recommendations to assist them in making informed decisions to improve support to the warfighter, and proper stewardship of resources while remaining independent and objective in our auditing approach.

## VISION

Motivated and trusted audit professionals who provide timely and value-added audit services emphasizing collaboration with management, risk mitigation and accountability.

## Suggestion for Audits

To suggest or request audits, contact the office of the Deputy Inspector General for Auditing at [OIG\\_Audit@dla.mil](mailto:OIG_Audit@dla.mil).



## Acronyms Used

APL	Acceptable Performance Level
BOSS	Base Operating Support System
CGA	Continuing Government Activity
COP	CGA Oversight Program
CQA	Contract Quality Assurance
CQAPO	Contract Quality Assurance Program Office
EDA	Electronic Document Access
FAR	Federal Acquisition Regulation
PWS	Performance Work Statement
QASP	Quality Assurance Surveillance Plan
QC/CSP	Quality Control/Customer Satisfaction Plan
QMSIT	Quality Management System Integration Tool



## **Executive Summary: Audit of DLA Distribution Contract Oversight Follow-up**

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### **What We Did and Why**

Our audit objectives were to determine whether the DLA Distribution and DLA Land and Maritime: (a) implemented recommended corrective actions related to the previous audit of DLA Distribution Contract Oversight (DAO 09-20, dated October 21, 2010), and (b) corrective actions address the risks associated with contract award and oversight of depot operations.

DLA OIG conducted this audit to support the agency's audit readiness program and follow-up initiative to ensure open audit recommendations have been implemented and corrected identified weaknesses.

### **What We Found**

Overall, DLA Distribution and DLA Land and Maritime had addressed risks and strengthened management controls associated with contract award and oversight of depot operations. Specifically, DLA Distribution and DLA Land and Maritime acquisition operations personnel implemented or satisfactorily resolved 9 of the 11 recommendations previously reported. However, DLA Distribution did not fully correct or implement previously reported conditions for two recommendations. Specifically, DLA Distribution Contract Quality Assurance Program Office personnel did not always ensure the Quality Management System Integration Tool properly reflected changes to the current performance work statement for depot contracts or ensure the contract

quality handbook was updated with changes to policy. These conditions occurred because the Contract Quality Assurance Program Office personnel did not effectively implement controls to address previously reported weaknesses. If a policy and procedure does not accurately set forth a process, then employees may perform the process incorrectly or fail to perform required procedures. Oversight and surveillance is an ongoing process to ensure that DLA Distribution contractors are providing supplies or services on time and in conformance with quality, timeliness and contractual requirements.

### **What We Recommend**

Because all 11 recommendations were implemented before or during the audit and the corrective action addressed the weaknesses, we did not identify any new recommendations in this audit. All 11 recommendations are satisfactorily resolved and closed.

### **Management Comments and Our Response**

DLA Distribution and DLA Land and Maritime took corrective actions on all previously reported recommendations either prior to or during the course of this audit. Therefore, we did not make any new recommendations and management was not required to provide any management comments.



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

December 2, 2013

MEMORANDUM FOR COMMANDER, DLA DISTRIBUTION  
COMMANDER, DLA LAND AND MARITIME

SUBJECT: Draft Report – Audit of DLA Distribution Contract Oversight Follow-up

This is our final report on the Audit of DLA Distribution Contract Oversight Follow-up. This report contains our audit results on whether DLA Distribution and DLA Land and Maritime: (a) implemented recommended corrective actions related to the previous audit of DLA Distribution Contract Oversight (DAO 09-20, dated October 21, 2010), and (b) corrective actions address the risks associated with contract award and oversight of depot operations.

Overall, DLA Distribution and DLA Land and Maritime had addressed risks and strengthened management controls associated with contract award and oversight of depot operations. Specifically, DLA Distribution and DLA Land and Maritime acquisition operations personnel implemented or satisfactorily resolved 9 of the 11 recommendations previously reported. However, DLA Distribution did not fully correct or implement previously reported conditions for two recommendations. Specifically, DLA Distribution Contract Quality Assurance Program Office personnel did not always ensure the Quality Management System Integration Tool properly reflected changes to the current performance work statement for depot contracts or ensure the contract quality handbook was updated with changes to policy. These conditions occurred because the Contract Quality Assurance Program Office personnel did not effectively implement controls to address previously reported weaknesses.

Because all 11 recommendations were implemented before or during the audit and the corrective action addressed the weaknesses, we did not identify any new recommendations in this audit. All 11 recommendations are satisfactorily resolved and closed. Management comments received from DLA Land and Maritime were incorporated in this report and are included in Appendix B of this report. DLA Distribution did not provide management comments.

We appreciate the courtesies and cooperation extended to us during the audit. For additional information about this report please contact Ms. Jessy Joseph at 703-767-7484 or email at [jessy.joseph@dla.mil](mailto:jessy.joseph@dla.mil).

A handwritten signature in blue ink that reads "Steven D. Pigott".

STEVEN D. PIGOTT  
Deputy Inspector General  
DLA OIG Audit Division

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# INTRODUCTION

## OBJECTIVE AND CONCLUSION

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Our audit objectives were to determine whether the DLA Distribution and DLA Land and Maritime: (a) implemented recommended corrective actions related to the prior audit of DLA Distribution Contract Oversight (DAO 09-20, dated October 21, 2010), and (b) corrective actions taken adequately address the risks associated with contract award and oversight of depot operations. This audit report included 11 recommendations that addressed needed improvements in pre-award, continuing government activity, acceptable performance levels, and contract administration (See Table 1).

Overall, the DLA Distribution and DLA Land and Maritime have addressed risks and strengthened management controls associated with contract award and oversight of depot operations. Specifically, DLA Distribution and DLA Land and Maritime acquisition operations personnel implemented or the satisfactorily resolved 9 of the 11 recommendations from the prior audit of DLA Distribution Contract Oversight.

Prior Audit			Current Audit	
Subject Area	DLA Organization	Number of Recommendations	Number of Recommendations Closed	Number of Recommendations Open
Pre-Award	Land and Maritime	1	1	0
Continuing Government Activity (CGA), Quality Assurance Surveillance Plan (QASP), Quality Control/Customer Satisfaction Plan (QC/CSP)	Distribution	4	2	2
Acceptable Performance Levels	Distribution	2	2	0
Contract Administration	Distribution	4	4	0
Total		11	9	2

Table 1.

DLA uses TeamCentral, a web based audit and issues database that captures project information and findings to track the implementation status of previously reported recommendations. Since the issuance of the recommendations, management had submitted documentation to TeamCentral showing implementation of the recommendations. Our initial review of the documentation showed that management had implemented some of the recommendations, so we reported those recommendations as “closed, not verified.” During the audit, we found that DLA Distribution had only partially implemented corrective actions in response to recommendations 3 and 5. In both cases, the previously reported condition continues to exist or the implemented corrective

action did not satisfy the intent of the previous recommendation with the action taken. Specifically, we found that DLA Distribution, Acquisition Operations personnel had for:

- Recommendation 3 - Partially implemented the corrective action, but the action taken did not satisfy the intent of the recommendation. We previously reported that the depot contract quality assurance surveillance plans did not always reflect significant mission requirements contained in the performance work statement (PWS). In this audit, while none of the PWS requirements were included in the quality assurance surveillance plans, DLA Distribution Contract Quality Assurance Program Office (CQAPO) personnel did not always ensure the Quality Management System Integration Tool (QMSIT) properly reflected changes to the current PWS for the depot contract reviewed. The QMSIT is a software tool that DLA Distribution use to document the surveillance plan, record surveillance activities and develop reports.
- Recommendation 5 – Partially implemented the corrective action; one of five detailed corrective actions was not implemented. Specifically, CQAPO personnel did not ensure that the contract quality assurance (CQA) handbook was updated with changes to policy contained in the quality alert issuances. A quality alert is interim guidance or policy distributed to CQA personnel until formal policy is updated.

These conditions primarily occurred because the CQAPO personnel did not effectively implement controls to address previously reported weaknesses. The Federal Acquisition Regulation (FAR) and CQA handbook prescribe the following overarching guidance to DLA Distribution Quality Assurance Program.

- The inspection and acceptance clauses contained within the contract allow the quality teams to implement quality assurance procedures. The DLA Distribution, Acquisition Operations is responsible for quality assurance, surveillance, monitoring, and evaluation of the contractor's quality performance. This concept, defined in FAR 46.101, states Government contract quality assurance means "the various functions, including inspection, performed by the Government to determine whether a contractor has fulfilled the contract obligations pertaining to quality and quantity". The PWS is a statement of work for performance-based acquisitions that describes the required results in clear, specific, and objective terms with measurable outcomes.
- The purpose of the CQA handbook is to provide the overarching requirements, guidance, and procedures that serve as the foundation to the DLA Distribution CQA. The handbook will guide the quality teams through the many components that comprise the CQA Program. Areas covered in the handbook focus on the mission, roles, responsibilities and guidance to successfully perform quality surveillance activities.

Oversight and surveillance is an ongoing process to ensure that DLA Distribution contractors are providing supplies or services on time and in conformance with quality, timeliness, and contractual requirements. If a policy and procedure does not accurately set forth a process, then employees may perform the process incorrectly or fail to perform required procedures.

## BACKGROUND

---

**Prior Audit.** On October 21, 2010, the DLA Accountability Office issued the Enterprise Audit of DLA Distribution Contract Oversight, report number, DAO 09-20. The audit concluded that 11 deficiencies presented weaknesses in the contract award and oversight of depot operation contracts. The report included 11 recommendations that addressed needed improvements in pre-award, continuing government activity, acceptable performance levels, and contract administration for three contractor operated DLA Distribution depots (See Table 2).

DLA Depots	Contract Number	Award Date	Contractor
Barstow, CA	SP3100-07-C-0033	September 28, 2007	Akima Logistics Services
Jacksonville, FL	SP3100-05-D-0004	March 30, 2005	EG&G Technical Services
Richmond, VA	SP3100-07-D-0014	August 17, 2007	Genco Infrastructure Solutions

Table 2.

**Mission.** In support of DLA's mission, the Defense Distribution Center (DLA Distribution) is a combat support organization providing a single, unified material distribution system for DoD under DLA management. The DLA Distribution mission is to provide an integrated pipeline that sustains our Armed Forces around the world with innovative and tailored logistics services that are ever improving in terms of cost, timeliness and relative value. The DLA Distribution vision is to provide best value, competitive distribution services to the war fighter around the world, around the clock. The DLA Distribution responsibilities include receipt, storage, issue, packaging, and worldwide transportation of all items placed under its accountability by the DLA and the military services. The DLA Distribution also performs distribution services that are unique to a particular customer.

**Magnitude.** The DLA Distribution currently has Distribution Centers located throughout the world that store four million stock numbers in over 200 million square feet of storage space and process over 32 million transactions annually.

**Reorganization.** Prior to FY 2002, only minimally structured quality processes were in place. In partial response to a DoD IG report issued during FY 2003, DLA Distribution began designing and implementing a CQA program to monitor DLA Distribution Centers and Installation Services Operations performed by contractors. As of April 2010, the DLA Distribution has rolled out the CQA Program to 13 Distribution Centers and 2 Installation Services locations. DLA Distribution is actively working to extend the CQA Program concepts to all Distribution Centers across the enterprise, both CONUS and OCONUS as well as other contract initiatives throughout DLA.

**Contract Quality Assurance Program.** DLA Distribution J-7 established a CQA Program to ensure DLA Distribution quality teams have the training, tools, and policy guidance necessary to monitor contract compliance. To provide overall support and to help ensure long term sustainability, the CQAPO monitors and partners with local-level quality teams to ensure scheduled surveillances are performed according to the DLA Distribution's CQA. The quality

team is the term used to identify those individuals at a distribution center that have been assigned quality related roles and responsibilities. This term is also referred to as the continuing government activity (CGA) at contractor-operated sites.

# RESULTS AND RECOMMENDATIONS

## POSITIVE IMPLEMENTATION OF CORRECTIVE ACTIONS

### Improved Management Oversight of Contract Award and Administration.

DLA Distribution and DLA Land and Maritime acquisition operations personnel implemented or satisfactorily resolved 9 of the 11 recommendations previously reported. During the current audit, we verified the status of the previously reported nine recommendations to ensure they were implemented or satisfactorily resolved and closed.

The details are provided in the following table for the nine closed recommendations.

Prior Recommendation		DLA Land and Maritime
1	DLA Land and Maritime Procurement Support comply with the requirement set forth in FAR 9.405(d) and verify that potential contractors are not debarred via the Excluded Parties List System.	Our review of a judgmentally selected sample of DLA Land and Maritime contracts disclosed that adequate documentation existed in support of the pre-award verification of the GSA Excluded Parties List System for the five contracts reviewed, therefore decreasing the risk of contract award to an ineligible contractor.
Prior Recommendations		DLA Distribution
2	Defense Distribution Richmond, Virginia CGA in conjunction with DLA Distribution J-7 conduct a review to determine the number of surveillances that should be scheduled for completion by the CGA to ensure sufficient contractor performance oversight and should then revise their surveillance workload after receiving the approval of DLA Distribution J-7.	DLA Distribution Acquisition Operations held an off-site meeting from August 17 through 21, 2009, resulting in the updated surveillance templates and checklists. The completed surveillances in the QMSIT have consistently met the green metric of 95 percent or greater for the months of April through June 2013. A review of QMSIT records showed deleted surveillance checklist questions for the Richmond depot contract were greatly reduced from 299 from July 1, 2009 through October 31, 2009 to 32 from Oct 1, 2012 through June 30, 2013, thereby increasing DLA Distribution's ability to provide adequate contractor oversight.

Prior Recommendations		DLA Distribution
4	Review all quality control/customer satisfaction plans (QC/CSPs) and contract modifications issued revising the PWS for all contracted depots; and request that the contractor revise the QC/CSPs to incorporate the required changes to address all areas of the PWS.	DLA Distribution Acquisition Operations issued a letter to each contractor operating a DLA distribution depot citing FAR 52.246-1 and requiring the company to update their QC/CSP to identify changed inspection requirements as a result of modifications to contract requirements. Our review of contract modifications for Richmond, Barstow, and Jacksonville depot contracts showed the QC/CSPs were current and reflected changed PWS requirements, thereby decreasing the likelihood of unmonitored performance.
6	Develop a process to be followed in revising the acceptable performance levels (APLs). In addition, DLA Distribution J-7 should review their internal process for developing and issuing modifications to ensure that issued modifications completely and accurately reflect the intentions of the contracting parties. Once these processes are understood and defined/refined a written and properly authorized policy and procedure should be issued clearly stating the process to be followed when issuing modifications. The official policy should then be made available to all impacted persons and reviewed in staff meetings to help ensure compliance.	DLA Distribution Acquisition Operations has developed and implemented new contract change procedures to help reduce contract modification errors when revisions are required to the contractor's acceptable performance levels (APLs), which decreases the possibility of a contractor's performance being improperly accessed.
7	Develop and implement practices that provide consistent APLs across contracted depots.	DLA Distribution Acquisition Operations has developed and implemented consistent APLs across distribution depots operated by service providers. Also, audit testing disclosed APL and non-APL quality assurance surveillance metrics and review questions exist for all critical DLA Distribution functions, thus increasing DLA Distribution's ability to adequately define and assess minimum performance.
8	In order to comply fully with the DoD Electronic Document Access (EDA) Program Business Rules that require only 'approved' legal documents are converted and placed on EDA we recommend that Base Operating Support System (BOSS) be configured not to send "unofficial" modifications to EDA.	For financial record keeping, BOSS has not been the system of record for over three years. Furthermore, DLA Distribution has been using EProcurement as the contracting writing system since April 2011. Therefore, recommendation 8 is no longer applicable.

Prior Recommendations		DLA Distribution
9	Ensure that undefinitized change orders are definitized in a timely manner and in accordance with contractual timeframes. Should unforeseen delays arise that prevent the current schedule from being met, DLA Distribution J-7 should issue a modification setting forth a new definitization schedule.	DLA Distribution Acquisition Operations has developed and implemented new procedures for undefinitized change orders and a process to monitor undefinitized contracting actions. Although no undefinitized contract changes have occurred since 2009, the guidance from the SOP and the tracking mechanism implemented will minimize the additional cost and performance risk to government.
10	Ensure that all details of an Award Fee Plan are included in the plan at time of contract award and that DLA Distribution complies with all terms and conditions in the Award Fee Plan when administering the contract. DLA Distribution J-7 should review the award fee evaluation process and attempt to revise the internal process to enable DLA Distribution to meet the contractual obligations with respect to award fee.	DLA Distribution Acquisition Operations personnel stated there have been no award fee contracts awarded since 2009, and none are currently scheduled. Therefore, recommendation 10 is no longer applicable.
11	Obtain copies of the annual incurred cost submissions for contractor's having auditable contracts that J-7 retained contract administration responsibilities. Once received, J-7 can perform a cursory review of Incurred Cost Submission to ensure that the contractor has submitted a submission as required by FAR 52.216-7 "Allowable cost and Payment Clause" and that the auditable contracts administered by DLA Distribution J-7 are appropriately included in the submission.	DLA Distribution Acquisition Operations issued a letter to applicable contractors re-emphasizing the requirement for contractors to submit annual incurred cost submissions IAW 52.216-7. For applicable contracts reviewed in our sample, all annual incurred cost submissions were submitted for 2011 and 2012. Incomplete cost submissions could complicate contract closeout procedures and cause the contract not to be audited by the Defense Contract Audit Agency.

These nine recommendations were closed because DLA Land and Maritime and DLA Distribution took positive steps to improve the management controls and risks and prevent a recurrence of the condition associated with the nine recommendations from the 2010 audit report. A comprehensive quality assurance program and continuous improvement helps DLA Distribution achieve the goal of ensuring products and services conform to contract requirements, and contribute to the customer receiving the right item at the right place, at the right time.

# STRENGTHEN CONTROLS OVER THE CONTRACT QUALITY ASSURANCE PROGRAM

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## **Recommendation 3 - Quality Management System Integration Tool was not properly updated to reflect current Performance Work Statement.**

The DLA Distribution Acquisition Operations, CQAPO personnel did not always ensure the QMSIT was properly updated and reflected the current PWS for the Jacksonville, Florida depot contract. Recommendation three required CGAs to review and revise their QASP to reflect the most current PWS and ensure the QMSIT surveillances are updated. The QMSIT is a software tool used to document the annual surveillance plan, record surveillance activities, and reports developed at the Distribution Centers. The PWS is a statement of work for performance-based acquisitions that describes the required results in clear, specific, and objective terms with measurable outcomes. The quality assurance surveillance plan directly corresponds to the performance objectives and standards specified in the PWS.

This condition occurred primarily because CQAPO personnel did not effectively implement management controls, i.e., the use and retention of the checklist change forms to document the actions taken to appropriately effect QMSIT surveillance checklist questions, to ensure the surveillance questions contained detailed and accurate PWS requirements. Oversight and surveillance is an ongoing process to ensure that DLA Distribution contractors are providing supplies or services on time and in conformance with quality, timeliness and contractual requirements. Therefore, the level of detail and thoroughness of the surveillance checklist questions in QMSIT is critical.

**Details of Testing.** In an effort to ensure uniformity of the QASP among all contractor-operated distribution centers, DLA Distribution Acquisition Operations personnel took corrective action by revising and reissuing the QASPs for all depot contracts. The new QASP is generic for all contractor operated depots and is intended for enterprise wide application and doesn't contain surveillance checklist questions; however, this action did not satisfy the intent of the recommendation.

We reviewed 53 contract modifications for the Jacksonville, Florida depot contract [SP3300-10-C-0006] that contained 25 PWS changes effecting the QMSIT surveillance checklist questions. Specifically, we found 6 of 25 (24 percent) PWS changes were not accurately reflected in the QMSIT surveillance checklist questions. Examples of discrepancies between the PWS and the QMSIT question are indicated in bold text:

- “When disposition instructions are not received **within 55 calendar days**, the Contractor shall submit a follow-up inquiry **IAW T.E. 5.13** DLA Distribution Standard Operating Procedures SDR/SQCR Follow-Up Procedures”.
- “Did the service provider process resolve frustrated material within 10 calendar days of arrival, which may include, but is not limited to, redirecting the shipment



or receipting the material to stock **and stowing the material in a permanent storage location outside the secured area?"**

- Did the SP retain source documents IAW DLAD 5025.30, DLA One Book, Chapter: Distribution and Reutilization, Title: Source Document Retention, including but are not limited to receipts, issues, shipments, transfers, supply CC changes, and inventory/financial adjustments **and packaging work orders?** (See Table 3.)

Contract Mod	Revised PWS Section	QMSIT Template Reference	Details of the Discrepancy between the PWS and QMSIT
P00007	3.6.13 B	T6455	Omitted "and packaging work orders?"
P00007	3.6.13 B4	T6455	Omitted "and Packaging".
P00018	5.2.2.8	T6462	Omitted "and stowing the material in a permanent storage location outside the secured area?"
P00032	5.2.1.4.1G	T6462	Omitted "within 55 days" and " IAW T.E. 5.13"
P00041	5.6.4.3	T6440	Incorrect DOD reference in QMSIT
P00037	5.8.D	T6467	Omitted "IAW C-5.6.1"

Table 3.

These six PWS changes were not reflected in the QMSIT surveillance checklist questions because:

- CQAPO personnel believed, and continue to assert that a change to the QMSIT is not necessary if the PWS change did not significantly alter the spirit and intent of the surveillance checklist question. For example, according to Acquisition Operations personnel, modification P00007 added “and packaging work orders” to the PWS narrative to provide an additional example for clarification but does not imply a change to the requirement or impact the overarching requirement “to retain source documents”.
- CQAPO personnel did not always use the checklist change form, as required by local policy
- Change forms were not always retained, which prevents tracking QMSIT surveillance checklist questions back to checklist change forms.

Effective oversight and surveillance helps identify contractors that may have performance problems so that corrective actions can be taken before actual performance is affected.

### **Management Corrective Action.**

During the audit, the DLA Distribution Acquisition Operations, CQAPO supervisor implemented additional corrective action to improve procedures for handling contract modifications effecting the QMSIT surveillance checklist questions. Specifically, the CQAPO supervisor developed and

implemented a new checklist change form and assigned a CQA analyst who will have the sole responsibility for receiving, reviewing, tracking, monitoring, coordinating, and maintaining all checklist change forms and contract modifications revising PWS requirements. Management's corrective actions and the supporting documentation were designed to address the condition but we did not test the overall effectiveness of this new process. Management retains responsibility for ensuring that corrective actions are fully and properly implemented and that they prevent a recurrence of the condition. Because these actions adequately addressed the related issues in the audit results, we did not include any additional recommendations in this report. Recommendation 3 from the prior audit is closed.

### **Recommendation 5 - The Contract Quality Assurance handbook was not properly updated to reflect changes in policy.**

DLA Distribution Acquisition Operations personnel did not always update the CQA handbook with changes to policy contained in quality alerts issuances or changes to reflect current quality on-site visit procedures.

The prior audit recommended that DLA Distribution J-7 should:

- Develop and maintain the J-7 on-the job training roster as required by the current COP.
- Conduct CGA on-site surveillances on the prescribed monthly basis, or document the reason, citing the factors in decision, for conducting them on a quarterly basis.
- Require the COP analyst to comply with the COP and prepare a separate surveillance report in QMSIT for each one-on-one CGA member evaluation during on-site surveillance.
- Revise the COP to remove the monthly report requirements that are no longer applicable and specify the current expectation.
- Revise the CGA Oversight Program (COP, currently referred to as the CQA handbook) to incorporate the changes documented in the numerous undated CGA policy guidance letters issued since COP implementation and revise the COP periodically to incorporate the changes prescribed in the quality alert updates.

The CQA handbook provides the policy and procedures to implement oversight of the surveillance activities. However, the program office had not adequately incorporated quality alerts – interim guidance or policy – into the document. This condition occurred primarily because the CQAPO supervisor, due to a lack of management attention, did not properly conduct the semi-annual reviews of the CQA handbook to ensure all necessary changes were included. If a policy and procedure does not accurately set forth a process, employees may perform the process incorrectly or fail to perform required procedures.

**Details of Testing.** Although DLA Distribution Acquisition Operations took corrective action addressing four of five discrepancies included in recommendation 5, one discrepancy

continues to exist. Specifically, in our review of the CQA Handbook, changes to policy contained in six quality alerts issued since July 19, 2011 were not always incorporated. While four of the six quality alerts were included in the CQA handbook, we noted two of six quality alerts (dated March 27, 2012 and June 19, 2012) were not. The details are provided in table 4.

CQA Handbook			Number of Quality Alerts				
Change History	Reason for Change	Date	July 19, 2011	March 1, 2012	March 27, 2012	June 19, 2012	April 9, 2013
Basic	Initial Issue	January 4, 2011					
Revision 1	Review	March 1, 2012	1	2			
Revision 2	6 Month Review	September 1, 2012			1	1	
Revision 3	6 Month Review	April 12, 2013					1

Table 4.

While procedures for updating the CQA handbook previously existed, procedures were not always followed. We found that the quality alert update for March and June 2012 were not incorporated into the CQA handbook. Specifically:

- The CQA Handbook doesn't contain detailed instructions emphasizing the importance of the performance improvement plan documentation being maintained in the QMSIT. However, the quality alert dated March 27, 2012, contained mandatory instructions and assignment of responsibility for completing performance improvement plan documentation and narrative comments in QMSIT.
- The CQA Handbook contains references to the surveillance action selection tool however, the quality alert dated June 19, 2012, discontinued the use of the surveillance action selection tool.

**Management Corrective Action.** During the audit, DLA Distribution, Acquisition Operations personnel took corrective action to update the CQA handbook, dated September 2013, revision 5, to include the March and June 2012 quality alerts. Specifically:

- Personnel reinforced the CQA handbook revision procedures by developing and implementing a notification system to include a higher level of visibility for the review cycle.
- The DLA Distribution Acquisition Operations Director added the CQA handbook review cycle as suspense to his calendar to ensure completion.
- The CQAPO supervisor will also have this as an action item and will ensure internal reviews are established prior to the document being electronically signed, posted, and disseminated.

Management corrective actions and supporting documentation were designed to address condition, but we did not test the overall effectiveness of this new process. Management retains responsibility for ensuring that corrective actions are fully and properly implemented and that

they prevent a recurrence of the condition. Because these actions adequately addressed the related issues in the audit results, we did not include any additional recommendations in this report. Recommendation 5 from the prior audit is closed.

## APPENDIX A. SCOPE AND METHODOLOGY

**Audit Coverage.** On July 18, 2013, the DLA OIG announced the Audit of DLA Distribution Contract Oversight Follow-up. We reviewed documents (depot contracts and supporting documentation, contractor submissions, local guidance and policy) dated between March 2005 and August 2013. We conducted fieldwork for this performance audit from August 13, 2013 to October 16, 2013 and issued a draft report on November 18, 2013.

**Auditing Standards.** We accomplished audit work in accordance with the generally accepted Government auditing standards issued by the Government Accountability Office except for the standard related to organizational independence. This organizational impairment resulted from the DLA Office of the Inspector General (OIG) Audit Division (formerly DLA Accountability Office Audit Division) not being accountable to the head or deputy head of DLA, and conducting non-audit services related to OMB Circular A-123, Appendix A, Management's Responsibility for Internal Control. To correct this, we have established policies and procedures to provide reasonable assurance of conforming to applicable professional standards. However, the impairment had no effect on the quality of this report as the generally accepted government auditing standards requires that we plan and conduct the performance audit to obtain sufficient, appropriate evidence. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

**Internal Controls.** We included tests of internal controls as considered necessary to determine implementation of the prior audit's recommendations. Specifically, we evaluated controls by analyzing source documents and data applicable to contract award and oversight of depot operations contracts; reviewed updated policies and procedures as a result of previously reported recommendations; and held discussions with DLA Distribution, Acquisition Operations personnel.

**Audit Scope.** Our scope included a review of contracts and supporting documentations for three contractor operated DLA depots between March 2005 and August 2013 (See table 5). We visited DLA Distribution Headquarters, Acquisition Operations, and the CQAPO to perform audit testing on the corrective action addressing recommendation 3. Audit work for recommendations 1, 2, and 4 through 11 requiring auditor interactions with DLA Distribution personnel was conducted through teleconference, telephone calls and email communications.

DLA Depots	Contract Number	Award Date	Contractor
Barstow	SP3100-07-C-0033	September 28, 2007	Akima Logistics Services
Barstow	SP3300-12-C-5001	June 28, 2012	Wolverine Services
Jacksonville	SP3100-05-D-0004	March 30, 2005	EG&G Technical Services
Jacksonville	SP3300-10-C-0006	December 24, 2009	EG&G Technical Services
Richmond	SP3100-07-D-0014	August 17, 2007	Genco Infrastructure Solutions
Richmond	SP3300-13-C-5001	February 4, 2013	Olgoonik Technical Services

Table 5.

**Sampling Methodology.** To determine whether the corrective action for recommendation one was implemented, we judgmentally selected the sample data from the Federal Data Procurement System to identify contracts awarded from February 27, 2013 through August 27, 2013. We selected the five highest dollar value contracts with the highest number of offerors among large businesses awarded contracts with full and open competition.

**Data Reliability.** Although we relied on computer-generated data from the Federal Data Procurement System, we did not evaluate the adequacy of general and application controls. However, we believe that the data obtained were sufficiently reliable to support our findings and conclusions based on our audit objectives.

## APPENDIX B. MANAGEMENT COMMENTS



DEFENSE LOGISTICS AGENCY  
LAND AND MARITIME  
P.O. BOX 3990  
COLUMBUS, OHIO 43218-3990

NOV 27 2013

MEMORANDUM FOR DLA OFFICE OF INSPECTOR GENERAL

SUBJECT: DLA Land and Maritime Management Comments on Draft Audit Report,  
Implementation of Prior Contract Audit Recommendations, Audit Report:  
DAO 13-03, dated November 18, 2013

DLA Land and Maritime appreciates the opportunity to review and provide comments on the attached Draft Audit Report, Implementation of Prior Contract Audit Recommendations Report.

DLA Land and Maritime respectfully requests DLA OIG consider revising the Report to clearly identify that only one of the 11 recommendations in the original audit report applied to DLA Land and Maritime. There are three instances in the draft report which imply that the 11 recommendations specified in the original report applied equally to both DLA Distribution and DLA Land and Maritime.

A handwritten signature in black ink, appearing to read "D. Pimpo", is positioned above the printed name.

DAVID R. PIMPO  
RDML, SC, USN  
Commander

Attachment:  
As stated



## ***DLA Office of the Inspector General***

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# **Audit of the Maintenance, Repair, and Operations (MRO) Program**





# Executive Summary

Audit Report DLA OIG-FY14-01 (Project No. DAO-12-22)  
December 4, 2013

## Audit of the Maintenance, Repair, and Operations (MRO) Program

### Results

We determined that it was feasible to obtain customer receipting information for non-CENTCOM Maintenance, Repair, and Operations (MRO) orders from the U.S. Air Force's (USAF) system to support customer goods receipts in DLA systems. This was not realized previously because DLA Troop Support tried to receive the USAF data without having it sent through DLA Transaction Services. Since the receipt information was not obtained from the customer; other options were explored that could potentially cost DLA more funds.

Additionally, we determined USAF receipting information could not be used to receipt MRO orders in DoD Electronic Mall (EMALL); and receipting information entered into EMALL did not flow transparently into the Electronic Business System (EBS). The use of EMALL was not feasible in support of MRO customer goods receipts because typically the customers did not enter the receipt information into EMALL. In most instances, DLA personnel posted the receipts; and the identity of the person who posted the receipt did not transfer from EMALL to EBS. As a result the validity of the receipt information was questionable; and it did not provide an adequate audit trail.

The USAF was posting receipts in their own system, the Civil Engineering Materiel Acquisition System (CEMAS). As a result, we determined that the receipt information from CEMAS could be used to post goods receipt information in EBS via DLA Transaction Services. To test whether this process was feasible, we asked the USAF to send receipting information from CEMAS to DLA Transaction Services, using the Military Standard Requisitioning and Issue Procedures (MILSTRIP) format. The file was compatible and DLA Transaction Services was able to route and post the MRO order receipt information into EBS.

Our primary recommendation is to work with the USAF to send receipt information from CEMAS into EBS through DLA Transaction Services to improve the visibility over MRO receipts by using information directly from the customer. This would assure the customer actually received the goods ordered. By implementing our first recommendation, DLA could also pursue obtaining MRO receipt information for all of its customers. This would provide more receipts for MRO orders in EBS. Since the information would be received electronically; and directly from the customer, it would provide an effective audit trail at a lower cost or funds put to better use.

### Why DLA OIG Did this Review

DLA OIG performed this audit to provide MRO management with a prospective analysis and possible workable solution for obtaining materiel receipt acknowledgement information to comply with DoD Acquisition policies and provide an adequate audit trail.

### What DLA OIG Did

Determine whether it was feasible to obtain customer receipting information for C&E MRO non-CENTCOM orders from the U.S. Air Force's system to support customer goods receipts in DLA systems. Specifically, we determined whether: (1) the U.S. Air Force receipting information could be used to receipt orders in EMALL; and (2) the receipting information entered into EMALL could flow transparently into EBS.

### What DLA OIG Recommends

This report contains two recommendations addressed to the Commander, DLA Troop Support to:

(1) Use DLA Transaction Services for obtaining MRO receipts directly from CEMAS into EBS.

(2) Provide proper authorization for MRO management to utilize DLA Transaction Services to receive receipt information from all of its customers electronically.



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

December 4, 2013

MEMORANDUM FOR  
Director, DLA Acquisition  
Commander, DLA Troop Support

Our objective was to determine whether it was feasible for DLA Troop Support C&E to obtain customer receipting information for non-CENTCOM Maintenance, Repair and Operations (MRO) orders from the U.S. Air Force's (USAF) system. Specifically, we determined whether: (1) the USAF receipting information could be used to receipt orders in DoD Electronic Mall (EMALL); and (2) the receipting information entered into EMALL could flow transparently into the Electronic Business System (EBS).

We determined that it was feasible to obtain USAF MRO receipting information by routing the data from DLA Transaction Services into EBS. Since the USAF was normally not using EMALL to receipt MRO orders, we determined that EMALL was not useful for receipting information. In addition the information entered into EMALL on behalf of the customer did not flow transparently into EBS. DLA Troop Support was exploring using contractors to provide proof of delivery information that was available electronically from the USAF. The audit team determined other DLA Supply Chains were already obtaining customer data electronically.

This report contains two recommendations addressed to the Commander, DLA Troop Support for improving the operation of the MRO program. Management concurred with Recommendation 1 and conditionally concurred with Recommendation 2. Verbatim management comments are included in Appendix D of this report. DLA Troop Support's comments were responsive to the intent of our recommendations.

We appreciate the courtesies and cooperation extended to us during the audit. For additional information about this report, contact the audit manager, Mr. Marcos Contreras at 703-767-1558 or email at [Marcos.Contreras@dla.mil](mailto:Marcos.Contreras@dla.mil).

A handwritten signature in blue ink that reads "Steven D. Pigott".

STEVEN D. PIGOTT  
Deputy Inspector General  
DLA OIG Audit Division

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## **INTRODUCTION**

### **OBJECTIVES, SCOPE, AND METHODOLOGY**

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Our objective was to determine whether it was feasible for DLA Troop Support Construction and Equipment (C&E) to obtain customer receipting information for non-CENTCOM (U.S. Central Command) Maintenance, Repair, and Operations (MRO) orders from the U.S. Air Force's (USAF) system. Specifically, we determined whether: (1) the USAF receipting information could be used to receipt orders in DoD Electronic-Mall (EMALL); and (2) the receipting information entered into EMALL could flow transparently into Enterprise Business System (EBS).

On January 30, 2013 we announced the audit with the objective of determining if summary or detailed requisitions were adequate to ensure customers received what they requested. Thereafter during survey phase, we determined DLA MRO management faced a challenge with obtaining receipt data. On May 9, 2013 we re-announced the audit to better address the risk environment and add value to the program. The revised scope of the audit focused on the processes related to the receipting of MRO supplies to support payment for the goods received. Fieldwork was conducted at the USAF to assess the information that was available from the Civil Engineering Materiel Acquisition System (CEMAS); and whether it could support materiel receipt information in DLA systems. We decided to audit non-CENTCOM because the volume of MRO orders was larger than CENTCOM.

The selection of the USAF as the MRO customer was based on the fact that MRO program management personnel reported that the USAF expressed willingness to establish a connection between CEMAS and DLA systems. In addition, our analysis of MRO sales from October 1, 2012 to April 30, 2013 showed that the USAF ordered about \$156 million in this timeframe which accounts for about 23% of all MRO orders.

To accomplish the above objective, we reviewed the following regulatory guidance:

- Federal Acquisition Regulation, 32.905, "Payment Documentation and Process"
- Federal Acquisition Regulation, 42.2, "Contract Administration Duties"
- Federal Acquisition Regulation, 46.5, "Acceptance"
- Defense Logistics Manual 4000.25, Volume 2 "Supply Standards and Procedures", Chapters 10 "Materiel Receipt Acknowledgement" and 13 "Materiel Receipt"
- Defense Logistics Manual 4000.25-1 "Military Standard Requisitioning and Issue Procedures", Chapter 1
- Defense Logistics Acquisition Directive Part 32, Subpart 32.9, Prompt Payment

In addition we:

- Reviewed two internal review reports; one focusing on Fast Pay and one concerning MRO CENTCOM contracts.
- Reviewed two GAO and three DODIG reports; however all of them focused on contract requirements, not proof of delivery or customer receipting information.

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- Assessed the risk associated with the MRO program and added steps to our audit program to mitigate identified risks. The key risks identified was that DLA could be paying the contractor for goods not received by the customer and that the vendor could bill DLA for goods that were not shipped.
- Conducted walkthroughs with MRO personnel at DLA Troop Support.
- Interviewed MRO Customer and Supplier Operations personnel, Tailored Vendor Logistics Specialists, and DLA Finance, Philadelphia (J8P).
- Obtained information from DLA Logistics Operations (J3) regarding EMALL.
- Analyzed data transfers, reviewed functional manuals, and obtained flowcharts of the process.
- Obtained information from the USAF regarding CEMAS data; and interviewed Air Force personnel associated with maintaining CEMAS.
- Identified the systems used to process receipt information entered by DLA and/or the USAF.
- Obtained information from DLA Transaction Services regarding data processing.
- Performed tests to ensure that CEMAS data could be transmitted successfully into EBS.

We obtained MRO sales data from DLA Troop Support on approximately 7,400 transactions that were made through the USAF's system CEMAS, from October 1, 2012 to April 30, 2013. Using Government Accountability Office (GAO) guidance, we selected a random sample to assess the reliability of computer processed data and to trace the MRO transactions from EBS to CEMAS and back. Our review showed that one sample item was not a valid requisition number, so we eliminated it from our sample, and compared identifying information in CEMAS and EBS (item description, number of items ordered) for the remaining items.

We found two potential discrepancies in the 44 sample items. One potential discrepancy was that the description in the screen print of EBS did not match the description in CEMAS. But upon further research we found that the information in EBS did match CEMAS. The other potential discrepancy we noticed was for an order of oil – CEMAS data had 2,000 gallons and EBS had a unit of 1. We asked MRO managers about the unit of issue discrepancy and they stated that; because CEMAS does not allow multiple lines for a requisition, the customer must submit materiel and the incidental service together. Therefore, the order submitted by the contractor and approved by the Contracting Officer (KO) Portal, matched because CEMAS contained more complete information about the order. Ultimately, this resulted in matching EBS and CEMAS information in these instances.

We conducted this performance audit from January 30, 2013 to October 25, 2013 in accordance with generally accepted government auditing standards (GAGAS) issued by GAO with exception for the standard related to organizational independence. This organizational impairment resulted from the DLA Office of the Inspector General (OIG) Audit Division (formerly DLA Accountability Office Audit Division) not being accountable to the head or deputy head of DLA, and conducting non-audit services related to OMB Circular A-123, Appendix A, Management's Responsibility for Internal Control. To correct this, we have established policies and procedures to provide reasonable assurance of conforming to applicable professional standards. However, the impairment had no effect on the quality of this report as GAGAS requires that we plan and conduct the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion.

## BACKGROUND

---

The MRO program is part of the C&E Supply Chain and is managed at DLA Troop Support. The program is designed to allow customers to order supplies, and equipment to fulfill their world-wide maintenance, repair and operations mission. MRO has contracts with Prime Vendors who ship the customers, MRO materials directly. Some of the items that can be ordered include:

- Electrical supplies
- Lumber
- Plumbing equipment
- Prefabricated Structures
- Variety of small tools

The following information systems were significant to accomplishing the audit:

- EBS was DLA's financial system.
- EMALL was an online ordering service that provides access to more than 24 million items and is used by more than 36,000 people supporting the warfighter globally.
- KO Portal was used by the MRO program to receive and process customer requirements.
- CEMAS was the USAF's system used for materiel purchasing and management.

Under the tailored vendor relationship MRO materiel was shipped from the vendor directly to the customer. As a result, MRO personnel had different payment processes based on the value of the order. The process used for MRO order payment was, Fast Pay for orders under \$100,000, and Prompt Pay for orders over \$100,000. The receipt was the responsibility of the customer; but Fast Pay orders did not typically have receipts.

DLA's Tailored Vendor Logistics Specialist (TVLS) typically posted the receipt in EMALL for the Prompt Pay process. During our walkthrough, the TVLS at DLA Troop Support demonstrated that they received the invoice, proof of shipment, approval from the contracting officer. They then posted the goods receipt, also known as the Materiel Receipt Acknowledgement (MRA).

We obtained additional guidance concerning MRAs and the use of MILSTRIP:

- Defense Logistics Manual 4000.25, Volume 2 "Supply Standards and Procedures," Chapter 10, C.10.2.5.7, *MRA for Tailored Vendor Relationships*, dated June 13, 2012, states that DLA and components have implemented tailored vendor relationships (TVR). TVR is a business process where there is a direct relationship between the customer and the vendor where customers can place orders directly with the Prime Vendor. EBS receives copies of transactions in order to maintain line item accountability. Materiel Receipt Acknowledgements can be obtained from EMALL or customer systems.

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- Defense Logistics Manual 4000.25-1 Military Standard Requisitioning and Issue Procedures (MILSTRIP), Chapter 1 General Information, sections C1.2.1 and C1.3.2, dated June 13, 2012 prescribes uniform procedures, data elements and codes, formats, forms and time standards for the interchange of logistics information. These mandatory procedures relate to requisition, supply advice, supply status, materiel issue/receipt, lateral redistribution, and materiel return processes relating to DoD Components.
- Defense Logistics Acquisition Directive, Part 32, Subpart 32.9, *Prompt Payment*, dated March 2013 specifically states that transporter proof of delivery is not a substitute for any other requested receipt and acceptance documentation. Transporter proof of delivery can be used to supplement mandatory documentation.

## **RESULTS, RECOMMENDATIONS, AND CONCLUSIONS**

### **RESULTS AND RECOMMENDATIONS**

---

We determined that it was feasible to obtain customer receipting information for non-CENTCOM MRO orders from the USAF's CEMAS system and transfer customer goods receipts into DLA systems. DLA Troop Support did not realize it was possible to transfer goods receipt data into DLA systems because they previously tried to obtain the information directly from the USAF without going through DLA Transaction Services. Since the information was not being obtained directly from the customers, DLA Troop Support was exploring paying a contractor to obtain this information.

Additionally, we found that USAF receipting information was not used to document receipt of the material in EMALL, nor did that information flow transparently into EBS. This occurred because customers are not typically entering receipt information into EMALL, rather customers are relying on DLA personnel to post receipt information for them. As a result, when information is transferred from EMALL into EBS the original customer receipt information is lost and it appears that DLA personnel were approving and accepting the order, resulting in an inadequate audit trail.

We discuss this information in two areas:

- Obtaining Customer Receipting Information from the USAF System
- Receipting Information Interface in DLA Systems

### **OBTAINING CUSTOMER RECEIPTING INFORMATION FROM THE USAF SYSTEM**

We determined that it was feasible to obtain customer receipting information for MRO orders from the USAF's CEMAS system. DLA Troop Support did not obtain this information electronically because the capabilities and interfaces of DLA Transaction Services were not widely known across the enterprise. As a result, MRO management should be utilizing DLA Transaction Services to import MRA data directly from the USAF rather than looking for alternative options such as outside contracted services.

In 2008 DLA Troop Support and the USAF entered into an agreement to provide receipting information for MRO goods. However, the receipts from the USAF were being rejected, because this interface was set up without the inclusion of DLA Transaction Services.

The Defense Logistics Manual 4000.25-1, Military Standard Requisitioning and Issue Procedures (MILSTRIP), prescribes uniform procedures, to be utilized for the interchange of logistics information related to requisition, supply advice, supply status, materiel issue/receipt. To test whether the process to receive receipts from CEMAS was feasible; we asked the USAF to send receipting information from CEMAS in MILSTRIP format to DLA Transaction Services. DLA Transaction Services used the MILSTRIP file to import the CEMAS data into EBS and post receipts, proving that the CEMAS file data was compatible with DLA systems data; and that it can be utilized to electronically post the receipt



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information for MRO customers. DLA Transaction Services stated that they were already providing this service for other DLA Supply Chain organizations.

To determine how many USAF receipts were posted in EMALL; we analyzed MRO goods receipt information for our sample transactions. We obtained the details on the approximately 7,400 sales made by the USAF through CEMAS, from October 1, 2012 to April 30, 2013. We selected a random sample of 45 MRO transactions. One sample item matched as invalid in both CEMAS and EBS, leaving a valid sample of 44. We determined that none of our sample items had materiel receipt acknowledgements in EBS. This happened because receipts were only consistently documented by TVLS in EMALL for transactions above \$100,000. Of the approximately 7,400 transactions only 30 were over \$100,000 and none were selected as part of our sample. Because of the low dollar value of the transactions, the majority of MRO orders made by the USAF did not have receipt information in either EMALL or EBS.

Since MRO managers determined that EBS did not contain many receipts for the majority of the goods ordered; they began to look for solutions. We believe that DLA Troop Support should consider utilizing DLA Transaction Services to import MRA data directly from the customer rather than hiring a contractor to provide transporter proof of shipment or delivery. Additionally, using DLA Transaction Services would provide more accurate data that would help ensure compliance with DoD Acquisition policies and audit readiness. Asking customers to send receipt data through DLA Transaction Services into EBS electronically is a low cost option.

DoD customers already use the MILSTRIP format; information in this format can be transmitted to DLA Transaction Services and utilized to post the receipt. Additionally, this method could be utilized for other MRO customers who should have the ability to provide MRA data in the standard MILSTRIP format to DLA Transaction Services for importation into EBS.

### **Recommendation 1, for Commander DLA Troop Support:**

Use DLA Transaction Services on obtaining receipts for MRO items directly from CEMAS into EBS.

### **Management Comments:**

Concur. DLA Troop Support stated that C&E will fully coordinate with J6 and the USAF Civil Engineering Material Accountability System (CEMAS) Program Office to determine the requirements involved in the transmission of all applicable CEMAS Goods Receipts for AF MRO orders to DLA Transaction Services for the purpose of importing into EBS. In addition, C&E will execute the necessary actions to send the receipt data to DLA Transaction Services.

DLA Acquisition concurred with DLA Troop Support's comments as written.

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Verbatim management comments are included in Appendix D.

### **DLA OIG Response:**

Management comments were responsive to satisfy the intent of the recommendation.

## **RECEIPTING INFORMATION INTERFACE IN DLA SYSTEMS**

We determined the USAF receipting information could not be used to receipt MRO orders in EMALL; and that receipting information entered into EMALL did not flow transparently into EBS. This was due to the fact that few receipts were being posted by the customer. Therefore, DLA personnel were typically posting the receipts. The identity of the person posting the receipt was not transmitted from EMALL into EBS. As a result, it could not easily be determined if the receipt was posted by the customer or by DLA. The validity of the receipt information was questionable and an adequate audit trail was lacking. By obtaining the receipt information directly from the customer's system into EBS, DLA will know that the customer has actually received the items they ordered.

In 2005, DLA identified many open sales orders in EBS. At that time they created an interface between EBS and EMALL to facilitate receipt posting. It was envisioned that customers would go into EMALL to post receipts for the goods they ordered, and this information would be transmitted into EBS. It proved difficult for customers to post the receipts EMALL since the goods were ordered from another system - KO Portal. As a result, MRO personnel were having a difficult time getting customers to post the receipt in EMALL; since that was not the system the customers used to order the goods. We determined that USAF personnel were posting the receipt in CEMAS, and they typically did not post receipts twice.

MRO receipts for transactions over \$100,000 were posted in EMALL, but the identity of the person posting the receipt does not flow into EBS. So to determine if the identity of the person posting the receipt was being transferred from EMALL to EBS we selected 4 additional transactions that were over \$100,000. By tracing these transactions we were able to determine that when receipts are posted in EMALL some of the information did not transfer to EBS. The identity of the person posting the receipt was needed because it cannot be determined if the customer posted the receipt or the DLA's TVLS. This is important because the TVLS were posting the receipt in EMALL using the invoice; proof of shipment; and approval from the contracting officer. The Defense Logistics Manual 4000.25, Volume 2, Chapter 10, MRA for Tailored Vendor Relationships, states that transporter proof of delivery is not a substitute for materiel receipt acknowledgements. That means just because the order was shipped, it cannot be assumed it was received. Information from the DLA personnel posting the receipts in EMALL was not as accurate or authentic as the customers themselves posting the receipt.

Finance personnel in Philadelphia had concerns about the identity of who was posting the goods receipt for customer direct orders in EMALL and submitted a deficiency report regarding this in late 2012. No action was taken by audit readiness to address this issue because after review it was determined that this issue did not have a great impact on audit readiness. But, the discrepancy also stated that there was not an

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adequate audit trail due to this issue. Last, DLA senior officials are currently discussing the need for a policy change in order to use transporter proof of delivery as a substitute for materiel receipt acknowledgement; however, during the course of the audit nothing came to our attention on such effort being finalized.

Because MRO C&E could not easily determine who posted the receipt in EMALL, they could not be certain if the MRO goods were received by the customer. So, if the customer did not complain; then issues with customer receipts might not be identified at all. DLA could be paying the vendor for MRO goods that were not received by the customer. An adequate audit trail is also lacking since there was no receipt information in EMALL or EBS for most of the MRO transactions. Because the identity of the person posting the receipt was not transferred from EMALL to EBS, we recommend that that receipt should be posted directly by the customer, through their system into EBS.

By obtaining the receipt information directly from the customer's system into EBS, DLA would have receipt information for all MRO transactions and not just supplement documentation for those over \$100,000. The TVLS would no longer be required to post receipts; leaving them free to perform other duties or functions. Also, this would provide MRO managers with a more complete picture of what was received; and give DLA an effective audit trail.

### **Recommendation 2, for Commander DLA Troop Support:**

Provide proper authorization for MRO managers to utilize DLA Transaction Services to receive receipt information from all of its customers electronically.

### **Management Comments:**

Conditionally Concur. DLA Troop Support stated that coordination and assistance with DLA HQ will be required as well as with each of the respective Services in order to execute the recommendation.

DLA Acquisition concurred with DLA Troop Support's comments as written.

Verbatim management comments are included in Appendix D.

### **DLA OIG Response:**

Management comments were responsive to satisfy the intent of the recommendation.

## **CONCLUSION**

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We determined that it was feasible for DLA Troop Support C&E to obtain customer receipting information for non-CENTCOM MRO orders from the U.S. Air Force CEMAS system. The information must be routed through DLA Transaction Services into EBS. In addition, establishing the routing of receipting information from other customers could be feasible as MILSTRIP procedures prescribes uniform interchange logistics information related to materiel receipt acknowledgement.

## SUMMARY OF RECOMMENDATIONS

	<b>Recommendation</b>	<b>Addressee</b>	<b>Status of Corrective Action</b>	<b>Estimated Completion Date</b>
1	Use DLA Transaction Services for obtaining MRO receipts directly from CEMAS into EBS.	Commander of DLA Troop Support	Open	July 31, 2014
2	Provide proper authorization for MRO managers to utilize DLA Transaction Services to receive receipt information from all of its customers electronically.	Commander of DLA Troop Support	Open	December 31, 2014

**ABBREVIATIONS USED**

C&E	Construction and Equipment
CEMAS	Civil Engineering Materiel Acquisition System
CENTCOM	U.S. Central Command
EBS	Enterprise Business System
EMALL	DoD Electronic-Mall
FAR	Federal Acquisition Regulation
KO Portal	Contracting Officer's Portal
MRA	Materiel Receipt Acknowledgement
MRO	Maintenance, Repair and Operations
TVLS	Tailored Vendor Logistics Specialists
TVR	Tailored Vendor Relationship
USAF	U.S. Air Force

**ACKNOWLEDGMENTS AND OTHER SUPPLEMENTAL  
INFORMATION**

Mr. Marcos Contreras, Audit Manager  
Ms. Renee Fannasy, Audit Lead  
Mr. Jonathan Gallinger, Senior Auditor  
Ms. Lynne Brown, Senior Auditor  
Ms. Marlene Krell, Senior Auditor

## MANAGEMENT COMMENTS



DEFENSE LOGISTICS AGENCY  
TROOP SUPPORT  
700 ROBBINS AVENUE  
PHILADELPHIA, PENNSYLVANIA 19111-5092

NOV 21 2013

**MEMORANDUM FOR DLA ACQUISITION (J7)  
DLA OFFICE OF INSPECTOR GENERAL**

**SUBJECT: Management Comments on DLA OIG Draft Report: Audit of the Maintenance, Repair, and Operations (MRO) Program (Project No. DAO-12-22)**

DLA Troop Support has read the attached subject draft report. The purpose of this memorandum is to provide Troop Support's response to your request for management comments on the subject audit. The following comments are provided for inclusion in the final report.

a. Finding 1: MRO management should be utilizing DLA Transaction Services to import MRA data directly from the USAF rather than looking for alternative options such as outside contracted services.

Recommendation 1: DLA Troop Support MRO should use DLA Transaction Services on obtaining receipts for MRO items directly from CEMAS into EBS.

Concur - Troop Support C&E will fully coordinate with J6 and the USAF Civil Engineering Material Accountability System (CEMAS) Program Office to determine the requirements involved in the transmission of all applicable CEMAS Goods Receipts for AF MRO orders to DLA Transaction Services for the purpose importing into EBS. Once this is completed, execute the necessary actions to send the receipt data to DLA Transaction Services.

b. Finding 2: Customers are not typically posting receipts in EMAIL. Receipts are posted by DLA's TVLS using delivery information for MRO transactions over \$100,000. Also the interface between EMAIL and EBS does not transfer the identity of the person posting the receipt. Information is not being received from the customer directly by using DLA Transaction Services.


Recommendation 2: Provide proper authorization for MRO managers to utilize DLA Transactions Services to receive receipt information from all of its customers electronically.

Conditionally Concur - As this is essentially an expansion of Recommendation 1, that is, to work with the other Services to develop interfaces that will allow the Services' systems (e.g. MAXIMO, LMP) to electronically send receipts through DLA Transaction Services to EBS,



coordination and assistance with DLA HQ will be required as well as with each of the respective Services in order to execute recommendation. It is unknown what requirements may be involved with customer's systems in order to import Goods Receipt information into EBS.

Point of contact for this action is Mr. Chet Evanitsky, FC, 215-737-8048, DSN 444-8048, or email: chet.evanitsky@dlamail.



STEVEN A. SHAPIRO  
Brigadier General, USA  
Commander

Attachment  
As stated

**From:** Beebe, Matthew R SES DLA CIV ACQUISITION  
**Sent:** Friday, November 29, 2013 10:24 AM  
**To:** Contreras, Marcos R DLA CIV OFFICE OF THE INSPECTOR GENERAL  
**Cc:** Pigott, Steven D DLA CIV OFFICE OF THE INSPECTOR GENERAL; Dover, Shauna J DLA CIV ACQUISITION; Mullori, Joy E DLA CIV ACQUISITION; Kenny, William SES DLA CIV TROOP SUPPORT  
**Subject:** DAO-12-22 Management Comments, Audit of the MRO Program

Marcos,

I have reviewed DLA Troop Support's management comments on project number DAO-12-22, Audit of the Maintenance, Repair, and Operations (MRO) Program. DLA J7 will assist DLA Troop Support as needed in the execution of the recommendations.

My point of contact for this action is Joy Mullori, 703-767-9389.

R/  
Matt



***DLA Office of the Inspector General***

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**Audit of the Sustainment, Restoration,  
and Modernization Program - Europe**

# Executive Summary

Report No. DLAOIG-FY14-04 (Project No. DAO-11-01)

December 05, 2013



## Audit of the Sustainment, Restoration, and Modernization Program in Europe

### Results

Our audit determined that SRM funds in Europe were not always used in accordance with applicable laws and regulations.

DLA Energy management has not identified, developed, or consistently implemented key controls in the SRM process for the initiation and execution of SRM projects. Specifically, the programmatic management reviews and budget level approval controls were not applied consistently in accordance with DLA program instruction and standard procedures.

For example, for 39 samples tested for internal controls, projects lacked engineer review and certification; project approval and acceptance by project managers; proper MIPR review and approval; and approval for budget threshold levels. Also, DLA accepted risk associated with not certifying and reconciling all disbursements from DFAS Columbus, which increased the possibility of inaccurate and improper payments for the SRM program. The overall lack of internal controls increased the risk of misuse of SRM funds.

DLA Energy management did not provide sufficient project oversight and monitoring primarily due to the reliance on execution agents and Services after committing and obligating SRM funds. Additionally, DLA SRM office receives minimal documentation after initiation of the project, which led to the inability to properly manage ongoing projects. Sufficient supporting documentation is required for audit readiness and to ensure that any remaining funds of completed projects are promptly deobligated.

For 20 of the 36 projects tested for existence, the actual work performed onsite was not consistent with the scope of work described in SRM-E or the evidence of actual work was insufficient. SRM-E does not provide a complete population of SRM projects. Five of the 34 project files tested for completeness could not be traced back to the system. In addition, 10 of the 27 SRM disbursement transactions selected from the project files did not trace to the disbursement file. Also, SRM funding for completed projects are not closed-out timely.

SRM program requirements are not robust and lacked standardized guidance, monitoring policies and training regarding the SRM program. Without adequate project oversight and monitoring the potential exists for ADA violations, project splitting or misclassification, and the inappropriate use of SRM funds.

### Why DLA OIG Did this Review

DLA Energy Management requested DLA OIG to perform an audit of the SRM program as a result of fraud risk concerns over certain SRM projects. Management expressed concerns with four specific projects, and we expanded our audit scope to 39 projects in order to assess the SRM program pertaining to projects executed in Europe.

### What DLA OIG Did

We reviewed SRM operations at nine sites in Europe to determine if SRM funds in Europe were used in accordance with applicable laws and regulations.

### What DLA OIG Recommends

This report contains six recommendations addressed to DLA Energy, to help strengthen controls for the oversight and monitoring of the SRM program funds.

Recommendations include:

- Identify, perform, and document key internal controls related to technical, programmatic, and funding reviews of SRM projects.
- Implement periodic review to ensure that payments are accurate, authorized, and not in excess of available and authorized SRM funding.
- Implement formal policies and procedures to perform periodic reconciliations between the system of record and the actual project.
- Develop and enforce a memorandum of agreement with each execution agent to clearly define the required roles and responsibilities of each party.

Management concurred with four of six recommendations. DLA Energy did not concur or non-concur on the remaining two recommendations and indicated that these recommendations address issues with DFAS or procedures being changed by EBS and refinement of the roles and responsibilities between Energy and Installation Support for Energy.



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

December 5, 2013

MEMORANDUM FOR DIRECTOR DLA LOGISTICS OPERATIONS (J3)

SUBJECT: Final Report: Audit of Sustainment, Restoration and Modernization, Report Number DAO-11-01.

This is our final report on the audit of the Sustainment, Restoration and Modernization funds in Europe. Our objective for this audit was to determine if Sustainment, Restoration, and Modernization (SRM) program funds in Europe were used in accordance with applicable laws and regulations.

We determined that SRM program processes and controls were not always properly designed or operating effectively to ensure compliance with applicable laws and regulations. As a result of this finding we issued six recommendations address to DLA Energy to improve controls over the SRM program and the oversight and monitoring of SRM program funds. Management concurred with four of six recommendations. DLA Energy did not concur or non-concur on the remaining two recommendations and indicated that these recommendations address issues with DFAS or procedures changed due to updated processes and refinement of the roles and responsibilities between Energy and Installation Support for Energy. Additionally, DLA Energy did not provide any target date for implementing the recommendations. Management comments received from DLA Energy were incorporated in this report and are included in Appendix D of this report.

We appreciate the courtesies and cooperation extended to us during the audit. For additional information about this report, contact Ms. Jessy Joseph at (703)-767-7484 or email at [Jessy.Joseph@dla.mil](mailto:Jessy.Joseph@dla.mil).

A handwritten signature in blue ink that reads "Steven D. Pigott".

STEVEN D. PIGOTT  
Deputy Inspector General  
DLA OIG Audit Division

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# INTRODUCTION

## OBJECTIVES, SCOPE, AND METHODOLOGY

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The objective of this audit was to determine if Sustainment, Restoration, and Modernization (SRM) program funds in Europe were used in accordance with applicable laws and regulations.

### SCOPE

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The scope of our audit included SRM projects from FY 2006 through FY 2011. The scope of the audit was limited because of our inability to ensure the completeness of the population of projects in the Sustainment, Restoration, and Modernization – Energy (SRM-E) database. SRM-E is a stand-alone database used by the SRM program management to track new deficiencies as they flow through the process to become SRM funded projects. The SRM-E database maintains projects funded from FY 2006 through FY 2011. Although we could not reconcile the SRM project data to financial data to confirm the completeness of the database, SRM-E was the only available source of SRM projects we used to select our sample population.

DLA OIG judgmentally selected 39 SRM projects conducted in Europe from the SRM-E database. We selected the SRM projects based on management concerns, estimated cost, and geographical location. The following table gives a breakout of the number of projects reviewed by geographical location as part of our audit:

**SRM Projects**

<b>Geographical Location</b>	<b>Number of Projects Reviewed</b>
United Kingdom – Royal Air Force Lakenheath	5
United Kingdom – Royal Air Force Mildenhall	5
Spain – Naval Station Rota	5
Spain – Moron Air Base	4
Germany – Ramstein Air Force Base	7
Germany – Ansbach Army Base	2
Germany – Illesheim Air Force Base	2
Germany – Spangdahlem Air Force Base	3
Italy – Aviano Air Force Base	6
Total	39

For existence test work, we selected a subset of 36 projects from our original 39 projects. In addition to our original sample projects we selected an additional 34 sample projects onsite during our fieldwork to test completeness of the SRM-E database population. We also selected a sample size of 27 invoices onsite to test the completeness of Defense Fuel Automated Management System (DFAMS) disbursement population.

## **METHODOLOGY**

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To determine whether applicable laws and regulations were followed, we:

- Reviewed regulations and guidance related to the SRM program and funding.
- Interviewed DLA personnel responsible for approving, funding, and oversight of SRM projects.
- Conducted walkthroughs at DLA headquarters and Defense Finance and Accounting Service (DFAS) Columbus to obtain an understanding and document the SRM program processes and procedures.
- Interviewed Service and execution agent personnel responsible for the execution of SRM projects.
- Identified and tested significant controls to determine if they were properly designed and effective in mitigating risks.
- Selected samples of SRM projects to perform tests of controls, compliance, and certain substantive procedures.
- Obtained and analyzed project file documentation from the field sites and the SRM-E database.
- Compared project file documentation to physical existence observations conducted at the field sites.

We conducted this performance audit in accordance with generally accepted government auditing standards issued by the Government Accountability Office except for the standard related to organizational independence. This organizational impairment resulted from the DLA Office of the Inspector General Audit Division (formally DLA Accountability Office Audit Division) not being accountable to the head or deputy head of DLA, and conducting non-audit services related to the Office of Management and Budget (OMB) Circular A-123, Appendix A, Management's Responsibility for Internal Control. To correct this, we have established policies and procedures to provide reasonable assurance of conforming to applicable professional standards. However, the impairment had no effect on the quality of this report, as these standards require that we plan and conduct the performance audit



to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

## **BACKGROUND**

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The audit of the DLA SRM program was the result of a request from DLA Energy in June 2010 in which they expressed concerns with four specific projects in England. We expanded our scope to 39 projects in order to assess the SRM program for all of Europe.

SRM program funds provide resources for SRM projects, which provides, operates, and sustains the facilities necessary to support military forces in both peace and war. SRM program funds in Europe provide resources for the repair, maintenance and replacement of fuel distribution equipment and facilities. The SRM program affects all military services and locations with capitalized fuel operations.

DLA Energy centrally manages the Defense Department's SRM program for fuels infrastructure. Specifically, DLA Energy provides oversight for 628 worldwide defense fuel support points and ensures that SRM projects are scheduled and funded to maximize warfighter potential by providing agile, responsive, and integrated installation support. From FY 2006 to FY 2011, the DLA Energy SRM program spent about \$163 million on 416 projects in 11 European countries.

## **CRITERIA**

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In conducting this audit, we relied on the following key regulations and guidance:

- DOD Instruction 5010.40, Managers' Internal Control Program Procedures, dated July 29, 2010.
- OMB Circular A-123, Management's Responsibility for Internal Control, dated December 21, 2004.
- 10 United States Code Section 2805 - Title 10 - Armed Forces, Unspecified Minor Construction.
- DoD Manual 4140.25-M, Volume II, Petroleum Management, Chapter 8 - Management of Storage and Distribution Facilities, dated June 22, 1994.
- DoD Financial Management Regulation Volume 4, Chapter 6, Section 060204 Improvements to Existing General PP&E, dated June 2009.
- FAR Subpart 4.805, Storage, handling, and disposal of contract files.

- Defense Logistics Agency Directive 5025.30, DLA One Book, October 2008.
- DLA Energy SRM Funding Policy for Fixed Petroleum Facilities, Policy Number DESC-P-12, dated May 3, 2010.
- DLA Energy SRM Program Roles and Responsibilities Documents for Engineers and Project Managers (SRM Process Flowchart), dated July 28, 2011.
- DES-I Facility SRM Project Funding Threshold Approval Limits Memo, dated April 12, 2007.

## **SYSTEMS**

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DLA Energy's DFAMS interfaces with the DFAS' Distributed Data Archive and Retrieval System (DDARS), DFAS's system in which disbursements transaction detail is processed, stored and subsequently interfaced within DFAMS.

In 2006, DLA transitioned from using the Maintenance/Repair and Environmental (MRE) database to the SRM-E database. According to DLA Energy personnel, the purpose of SRM-E was to allow the Services to submit facility deficiencies for possible SRM projects to DLA throughout the year. Historically, DLA received deficiencies for the creation of SRM projects once a year.

SRM-E was the system used by the Services to submit deficiency statements for capitalized fuel facilities. DLA personnel would review the deficiency and determine whether an SRM project should be initiated. Project information, to include the deficiency statement, approvals, notes, and funding information were located in SRM-E.

In March 2012, DLA began to use Enterprise Business System (EBS) and phase out SRM-E. The majority of the SRM-E project information migrated to EBS. However, based on our discussions with DLA headquarters Installation Support, we found that a portion of the older projects are still maintained and managed in SRM-E. Although the use of EBS occurred outside of our audit scope, some changes to internal controls may now be in place due to the new system.

### **Roles and Responsibilities**

DLA has the overall responsibility to maintain capitalized fuel facilities. This included funding SRM projects identified by the Services. Execution Agents, outside of DLA, award projects to contractors (when applicable), schedule and execute the project, conduct inspections, and prepare repair design plans. DLA Field Activity SRM Program Managers must identify, plan, program, budget, develop and manage the execution of projects within their area of responsibility. Finally, SRM program managers must close out all projects within 60 days after accepting beneficial occupancy of the project or construction completion, whichever occurs later. The SRM Office is responsible for working with DLA Finance to deobligate unused funds, and to update SRM-E for project close-outs.

# RESULTS, RECOMMENDATIONS, AND CONCLUSIONS

## RESULTS AND RECOMMENDATIONS

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We concluded that DLA Energy did not always used SRM funds in Europe in accordance with applicable laws and regulations. This occurred because DLA Energy had not:

- Designed, implemented, or consistently executed key internal controls in the SRM process. Specifically we found that DLA Energy had not: created management review and approvals, recorded all existing installation-level projects in the SRM-E database, and individual SRM disbursements were not identifiable in the DFAS disbursement system.
- Retained adequate project documentation and provided project oversight, instead they relied on execution agents or Services to monitor projects after obligating funds.

As a result of inadequate internal controls and project documentation, DLA Energy did not close out projects within 60 days of beneficial occupancy causing errors on the DLA Energy real property line in the financial statements. Additionally, we found that SRM funds were potentially:

- Used for non-capitalized fuel facilities.
- Misclassified as repairs instead of minor construction.
- Used on similar projects at the same site, indicating possible project splitting.

### **SRM Program Internal Controls**

We found that DLA Energy had not designed, implemented, or consistently executed key internal controls in the SRM process. Specifically we found that DLA Energy had not:

- Created management review and approvals. We selected four key internal controls and found that DLA Energy had not consistently applied the programmatic and budget level approval controls for the 39 projects reviewed. Additionally, DFAS did not consistently perform the disbursement approval process.
- Recorded all existing installation-level projects in the SRM-E database. We found that 5 of 34 project files selected on site to test completeness of the SRM-E database could not be traced back to the database.
- Coordinated with DFAS to ensure consistent application of funds certification and disbursement review and approval controls resulting in payments that are accurate, and authorized for SRM funding.

These conditions existed because DLA Energy had not adequately implemented DoD Instruction 5010.40, Managers' Internal Control Program Procedures. This instruction requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls.

**Management Review and Approvals.** DLA Energy did not consistently apply programmatic and budget level approval controls outlined in DLA program instruction and standard procedures. DLA Energy SRM program roles and responsibilities describe areas of responsibility for engineers and project managers, which include reviewing work classification, reviewing or writing the technical project scope, validating cost estimates, and obtaining approval from DLA Installation Support for expenditures up to \$750,000 depending on the type of work being performed. Additionally, OMB Circular A-123, Management's Responsibility for Internal Control, requires organizations to clearly define areas of authority and responsibility, and appropriately delegate the authority and responsibility throughout the agency.

We performed walkthroughs and tests of design over the engineering, program management, and DLA Installation Support management review processes to determine that the controls were properly designed and implemented. The following table summarizes the audit exceptions identified during our review of the 39 projects selected for review, some of which had more than one error:

**Project Exceptions Identified by Country**

<b>Locations</b>	<b>Engineer Technical Review</b>	<b>Project Manager Approval</b>	<b>Threshold Approval</b>	<b>MIPR Review and Approval</b>
United Kingdom	5	1	1	6
Spain	4	0	2	3
Germany	9	0	5	4
Italy	5	0	0	3
<b>Total</b>	23	1	8	16

Our tests of internal control for operational effectiveness, showed:

- **Engineer Technical Review.** For 23 of 39 (or 59 percent) of the projects reviewed, there was insufficient evidence of certification by professional engineers. The engineer technical review of deficiency statements by local DLA engineers evaluates the technical correctness of the project and the validity of cost estimates. For example, we found one project at Moron Air Base to install a canopy at facility 123. During the physical verification of this project we found no evidence that the canopy was rebuilt at facility 123. We did observe that facility 1428 had a replaced canopy and other repairs identified with the description of facility 123. An engineering technical review may have correctly identified and reported the work on the correct facility.

- **Project Management Project Approval.** For 1 of 39 (or 3 percent) of the projects reviewed, there was not sufficient evidence of proper approval by a program Manager. The SRM Office (Project Managers) is responsible for creating and modifying projects (including MIPR creation), working with DLA Finance to deobligate unused funds, and closing-out projects in SRM-E. For example, one project at Mildenhall Royal Air Base had no evidence of a program manager approval for a project costs about \$1,578,700. We reviewed the contract files and were unable to locate a copy of the contract along with the supporting statement of work or any evidence of project monitoring. As a result, we were unable to determine whether the SRM program activity was properly approved, supported, and monitored. We selected this key control because the project manager is responsible for the overall completion of the project, beginning with initiation.
- **Threshold Approval.** For 8 of 39 (or 21 percent) of the projects reviewed, there was not sufficient evidence of review of projects that exceeded the DLA Installation Support approval threshold of \$750,000 for repair projects and \$500,000 for minor construction projects. For example, one project in Ansbach, Germany exceeded the DLA Installation Support approval threshold since the total MIPR value was about \$1,419,100. Further review of these project files and the actual work performed indicates that the wrong funding type may have been used (repair instead of minor construction). A technical review by DLA Installation Support may have ensured the correct fund and proper use of SRM appropriated funds. We selected this key control because it ensures that DLA Installation Support provides technical reviews on projects that exceed the established thresholds to mitigate inefficient or un-technically sound projects from being funded with SRM appropriations.
- **MIPR Review and Approval:** For 16 of the 39 (or 41 percent) of the projects reviewed, there was not sufficient evidence of proper approval by the Budget Chief, or DLA OIG noted inconsistencies on the MIPR form indicating that the review process was not effective. Specifically, during our walkthroughs and tests of design we noted that the Budget Chief did not verify the availability of funds prior to obligating projects. Additionally, the budget chief did not trace the MIPR amount to the current funds available to ensure commitments did not exceed the operating budget. Instead, the MIPR amount was approved based on the reviewer's knowledge of funds availability and whether the MIPR cells were completely populated with consistent data across the form. We selected this key control because it was designed to ensure that SRM project MIPR forms are completed, data is consistent across the MIPR form, and that current fund available does not exceed the operating budget.

Inadequate controls over the management review and approval process increases the risk of project splitting, misclassification of projects, or use of SRM funds on non-capitalized facilities. Additionally, without an adequate internal management review and approval process DLA Energy must rely exclusively on service provider controls.

### **Recommendation 1:**

Identify, perform, and document key internal controls related to technical, programmatic, and funding reviews of SRM projects.

### **Management Comments:**

Concur. DLA Energy indicated that systemic changes with the Enterprise Business System have already incorporated key internal controls related to technical, programmatic, and funding reviews of SRM projects. The four areas identified as requiring follow-up (engineer technical review, Project Manager approval, threshold approval and MIPR review and approval) have controls within EBS which ensure appropriate checks are in place.

Verbatim management comments are included in Appendix E.

### **DLA OIG Response:**

Management comments were responsive to satisfy the intent of the recommendation, and no additional comments were required.

**Service Provider Approval Controls.** Because DLA Energy did not consistently apply programmatic and budgetary approval controls, we also reviewed the DFAS approval controls and document retention procedures. During our walkthroughs at DFAS Columbus we found that DFAS did not consistently perform the disbursement approval. DFAS processes SRM disbursements using multiple systems including: DLA's Enterprise Business System, which tracks project approvals and funding; and DFAS' Computerized Accounts Payable System-Windows, which manages and computes payments to commercial vendors. However, DFAS Columbus also processed SRM payments through systems outside of DLA's Enterprise Business System and DFAS's accounts payable system.

Through inquiry and review of DDARS transaction data, we determined that SRM disbursement transactions were not identifiable as certain data elements that are used to identify SRM transactions are not elements that are captured in DDARS. In addition, we determined that DDARS and DFAMS are not reconciled to ensure completeness of the transaction detail that is processed and recorded in DDARS and/or interfaced in DFAMS.

Finally, to determine the reliability of the DFAS process, we requested a copy of the service auditor's report for the DFAS payment processes affecting SRM. DFAS did not have this report. As a result, we concluded that the design and operating effectiveness of management and budget approvals was not adequate. The lack of consistent programmatic and budgetary approval controls and document retention procedures occurred because DLA and DFAS have accepted these risks.

DLA did not implement monitoring policies to identify these control deficiencies, or implemented mitigating controls to address these control weaknesses. The lack of monitoring of service provider processes to ensure consistent application of funds certification and disbursement review and approval controls may result in payments that are inaccurate, unauthorized, or in excess of available and authorized SRM funding.

## **Recommendation 2:**

Implement and periodically review monitoring procedures of service providers to ensure that payments are accurate, authorized, and not in excess of available and authorized SRM funding.

## **Management Comments:**

DLA Energy indicated that periodic review and monitoring procedures of service providers to ensure that payments are accurate, authorized, and not in excess of available and authorized SRM funding highlighted the weaknesses in the internal controls of DFAS. Additionally, DLA Energy has no authority to review and monitor the OSD disbursing activity to ensure that payments are accurate, authorized, and not in excess of available and authorized SRM funding. DLA Energy believes the annual SSAE16 report should discuss the DFAS internal process controls and our response to the other recommendations may resolve the concern.

Verbatim management comments are included in Appendix E.

## **DLA OIG Response:**

Comments from DLA Energy were not responsive, since DLA Energy stated that DLA OIG highlighted a weakness in the internal controls at DFAS. DLA Energy further stated that their response to the other recommendations included in this report may resolve the concern.

We disagree with this conclusion since the GAO Standards for Internal Control in the Federal Government states that management is responsible for developing detailed policies, procedures, and practices to fit their agency's operations. As a result, DLA has accepted the risk associated with not certifying all disbursements, which increases the possibility of inaccurate or improper payments for the SRM program. When significant portions of operations are provided by service providers, DLA Energy should develop and implement mitigating controls to reduce the risk associated with payments that are inaccurate, unauthorized, or in excess of available and authorized SRM funding. Accordingly, we believe our recommendation remains valid.

**SRM-E Database Completeness:** We found that DLA Energy had not recorded or reconciled all existing installation-level projects in the SRM-E database. To test completeness of SRM-E, we selected 34 project files from the 9 field locations where we conducted audit work and compared the information contained in the project file to SRM-E. The following table shows the number of projects not recorded in SRM-E.

### Projects Not Recorded in SRM-E

Location	Sample Total	Number Not Recorded in SRM-E
Royal Air Base Lakenheath	5	0
Royal Air Base Mildenhall	5	3
Naval Station Rota	5	1
Moron Air Base	5	1
Ramstein Air Force Base	4	0
Ansbach / Illesheim Army Base	4	0
Spangdahlem Air Force Base	3	0
Aviano Air Force Base	3	0
Total	34	5

For 5 of the 34 (or 15 percent) of the project files selected, we could not trace the project back to the system. In addition, SRM-E does not provide a complete population of SRM projects and accurate project activity. For example, we searched both SRM-E project list and the SRM-E database and could not locate the two following projects by project number or any other identifying fields:

- One project at Rota Naval Base to create a connection between VP-2 and VP-4 to supply F-44 to pier 4.
- One project at Royal Air Base Mildenhall for replacement of aviation petroleum storage.

Management's inability to properly track active and completed projects occurred when the SRM program transitioned from the MRE database in October 2006 and DLA Energy did not reconcile project details to the new database to ensure all active and completed projects were properly recorded in SRM-E.

### **Recommendation 3:**

Develop and implement a process to perform periodic reconciliations between SRM-E and the actual project activity documented in the project files at the installations and executing agent level. Implement procedures to ensure differences noted in reconciliations are investigated and corrected timely.

### **Management Comments:**

Concur. DLA Energy indicated that EBS replaced SRMe in March 2012 and since that date, all new projects have been created and funded through EBS. The existing legacy projects were converted to EBS and all financial data will be converted from the financial system of record, DFAMS to EBS in



January 2014. Additionally, Installation Support for Energy, DS-FE recently created the Construction Engineering Branch to oversee project execution and Quality Assurance of projects during the execution phase.

Verbatim management comments are included in Appendix E.

**DLA OIG Response:**

Management comments were responsive to satisfy the intent of the recommendation, and no additional comments were required. DLA Energy indicated that in their research 3 of the 34 of the project files could not trace the project back to the system, opposed to DLA OIG's finding 5 of the 34 and requested we modify our finding accordingly. While differences in time of when the projects were reviewed may explain the discrepancy, our fieldwork supported 5 of the 34 projects which we are reporting.

**SRM Disbursement Completeness.** We found that the individual SRM disbursements were not identifiable in DDARS. This occurred because data elements used to identify SRM disbursement transactions were not captured by the DFAS disbursement system.

To determine what effect this had on SRM projects, we reviewed 27 SRM disbursements from project files maintained by the installation personnel and execution agents to verify that whether the project disbursements were recorded in the fuel management system. The following table summarizes the result of our review by location.

**Disbursement Unable to be Traced to DFAMS**

<b>Location</b>	<b>Number of Disbursements Tested</b>	<b>Project disbursement transactions that could not be traced back to DFAMS</b>
Royal Air Base Lakenheath	2	0
Royal Air Base Mildenhall	4	4
Naval Station Rota	0	0
Moron Air Base	2	0
Ramstein Air Force Base	12	0
Ansbach / Illesheim Army Base	7	6
Spangdahlem Air Force Base	0	0
Aviano Air Force Base	0	0
	27	10

For 10 of the 27 (or 37 percent) of the SRM disbursements transaction selected from the project files, we could not trace the disbursements to the DFAMS disbursement file.

Because not all of the necessary SRM data elements are in the DFAS disbursement system, any errors that are not reconciled within thirty days are held until DFAS can perform additional research and finalize the transaction. As a result, both the DFAS disbursement system and the fuel management system contain incomplete transaction data and DLA management does not have a complete and accurate record of current SRM disbursement activity, the total activity over specific time periods, or available fund balances for the purposes of financial reporting and operations management. This may lead to inaccuracies in reported disbursement activity and funds available for future obligation.

**Recommendation 4:**

Coordinate with the service provider to implement system enhancements that allow for the proper identification of transactions by incorporating relevant reporting.

**Management Comments:**

DLA Energy indicated that the recommendation addressed suggested deficiencies in a DFAS disbursing analysis system and it should be addressed to DFAS for clarification and comment. DLA Energy further stated that: (a) DFAS may have a relevant report from a different system, (b) the Energy conversion to EBS, (c) the SSAE 16 report, and (d) responses to other recommendations, may resolve the concern.

Verbatim management comments are included in Appendix E.

**DLA OIG Response:**

Comments from DLA Energy were not responsive. DLA Energy stated that this recommendation should be addressed to DFAS.

We disagree with this conclusion since the DOD Financial Management Regulation allows disbursement only after linking the disbursement with an existing obligation. The intent of this recommendation was to work with DLA's service provider to create a system enhancement to allow better identification of transactions by incorporating relevant data reporting elements. We believe our recommendation remains valid.

**SRM-E Database Existence Testing.** We reviewed 36 SRM projects recorded in the SRM-E database and compared the project description and scope of work in SRM-E to the actual work completed on site. The following table summarizes the result of our review by location.

### Number of Projects with SRME Database Existence Test Exceptions

Location	Sample Total	Project Not Consistent with Description	Insufficient Evidence of Work Performed	Project Created to Close NULO Costs	Project With No Errors
Royal Air Base Lakenheath	4	1	0	3	1
Royal Air Base Mildenhall	4	1	1	0	2
Naval Station Rota	5	3	2	0	2
Moron Air Base	3	1	2	0	1
Ramstein Air Force Base	7	0	3	0	4
Ansbach Army Base	2	1	0	0	1
Illesheim Air Force Base	2	0	0	0	2
Spangdahlem Air Force Base	3	2	1	0	0
Aviano Air Force Base	6	1	2	0	3
Total	36	10	11	3	16

While 16 of the 36 projects (or 44 percent) didn't have any errors, the remaining 20 projects had one or more deficiencies. For example:

- One project at Royal Air Force Mildenhall listed the scope of work as a construction of metal sliding covers to drain tank pits. However, during our physical observations these facilities contained a stable roof and supporting walls, which did not agree with the SRM-E entry describing a sliding cover.
- One project at Spangdahlem Air Force Base listed the scope of work as replacing pump motors. Upon inspection of facility 260, there were no pumps included in this facility since it was an oil and water separator room.
- Three projects at Royal Air Base Lakenheath listed the scope of work as closing out negative unliquidated obligations balances. We discuss this issue in the “other matters to be reported” section of this report.

Formal SRM policies and procedures identified in the DLA SRM Handbook have not been established or implemented that require monitoring of actual work performed by the DLA installation personnel and executing agents to ensure actual work performed is consistent with project descriptions and in accordance with planned scope of work. Once DLA funded SRM projects, there was little or no evidence of DLA involvement in the projects. The inability to confirm that actual work performed and the inaccurate identification of facilities for which deficiencies have been identified may result in the potential for duplicate or excessive use of SRM funding.

### **Recommendation 5:**

Implement formal policies and procedures to perform periodic reconciliations between the system of record and the actual project status documented in the project files at the installation or executing agent level, and investigate and correct discrepancies on a timely basis.

### **Management Comments:**

Concur. DLA Energy indicated that DS-FE recently created "Construction Engineering Branch" to oversee project execution and Quality Assurance of projects during the execution phase. DS-FE informally implemented a process to obtain the required project documentation. In addition, a formal request to the EAs is being processed to ensure all required project documents are received in the future.

Verbatim management comments are included in Appendix E.

### **DLA OIG Response:**

Management comments were responsive to satisfy the intent of the recommendation, and no additional comments were required.

### **SRM Program Project Documentation and Oversight**

We found that DLA Energy had not retained adequate project documentation and provided project oversight for 31 of the 39 (or 79 percent) of the projects we reviewed. Specifically, project files lacked applicable MIPRs, contracts, and documentation to support technical requirements for projects. In addition, there was insufficient documentation to support management monitoring to ensure consistent application of work classification, proper use of "complete and usable" concept to avoid project splitting, inaccurate real property records of DLA capitalized fuel facilities for SRM funding, and incorrect current status of projects (e.g. in contracting, construction started, etc.). In instances where documentation was missing, we requested documentation from SRM Program management, DLA Energy Installation Support, and DLA Energy Finance. This occurred because DLA Energy relied on execution agents or Services to monitor projects after obligating funds.

**Missing Technical Documentation.** At Aviano Air Force Base, the Air Force was unable to provide project files for three selected samples because the records had been destroyed. FAR Subpart 4.805 requires activities to retain construction contracts over \$2,000 for six years and three months after final payment. The projects we selected for review were started between 2006 and 2011, and had no documented final payment. Therefore, the records should have been maintained and available for our review.

At Royal Air Force Lakenheath and Royal Air Force Mildenhall, we found three project files contained only copies of the supply and services order form, which did not provide adequate details about the SRM project executed. The missing technical documents include relevant MIPRs, contracts, and statements of work.

Finally, for four of the six SRM projects tested at Ramstein Air Force Base, the majority of the contracts, statements of work, and other project information was only written in German. According to the Agreement between the U.S. Air Force and the Federal Republic of Germany, the statement of work and purchasing documents were required to be in English. Since the documentation was not available in the correct format, we were unable to determine whether the projects were properly approved and supported.

**Project Misclassification.** At Ansbach, Army Base, the classification of one project was changed from the initial request and the initiation of the project. The scope of work for this project was to replace a fuel pipeline that had recently passed an inspection, but was going to be replaced as an improvement for compliance purposes. However, there was no documentation supporting that the pipeline had failed or was in the incipient stages of failing prior to the initiation of this project, as required by the DoD FMR Volume 4, Chapter 6.

The total funds obligated for this project was about \$1,400,000, which exceeded the minor construction threshold of \$750,000 outlined in unspecified minor construction guidance. Minor construction projects exceeding the \$750,000 threshold should be reclassified as military construction, which is ineligible for SRM funding and requires congressional approval. The lack of monitoring of SRM projects to ensure consistent application of work classification and project thresholds aren't exceeded may cause potential Anti Deficiency Act (ADA) violations.

**Potential Project Splitting.** At Illesheim Army Base, three projects were created for replacing 650m of single-walled underground pipeline during FY 2007 and FY 2008. Because this pipeline is interconnected and is not fully operational without all sections of the pipeline repaired, the projects appear to be one complete and useable facility. The total cumulative MIPR obligation for this replacement pipeline was about \$1,900,000, which exceeds the \$750,000 minor construction threshold. However, we were unable to determine if the SRM project manager applied the "complete and usable" concept to determine if an individual project had been split into multiple projects because project managers didn't retain adequate documentation.

This occurred because DLA Energy Management did not establish or implement the formal SRM policies and procedures to ensure that single projects are not split into multiple smaller scale projects to evade established monetary limits and approval requirements. The identified similarities between projects may represent project splitting to circumvent statutory thresholds.

**Potential Misuse of SRM Funds on Non-capitalized Fuel Facilities.** We reviewed the real property records to determine whether projects were eligible for SRM funds based on its eligibility as DLA capitalized fuel facilities. In 13 of 39 samples, the facility was either not identified as a DLA capitalized fuel facility or management didn't retain supporting documentation. This occurred because the real property records have not been updated properly to reflect the asset allocation user organization code.

Without validating the eligibility as DLA capitalized fuel facilities, ineligible projects may receive SRM funding; thus increasing the risk of misuse of SRM funds and noncompliance with the DLA

Energy SRM Funding Policy for Fixed Petroleum Facilities and Appropriations Law. When we discussed this with DLA Energy, they indicated that they are in the process of performing a detailed review of facilities throughout Europe to verify facilities eligible for SRM program support.

**Incorrect Project Close-out Status.** While none of the 39 projects tested were designated as “completed/costs closed out” in SRM-E, we found project closeout documentation for 7 of the 39 projects. However, DLA Energy did not close out these projects in SRM-E in a timely manner.

For example:

- One project, valued at about \$500,000, at Spangdahlem Air Force Base had a final invoice in the project files, but the project was marked as “construction completed” versus “completed/costs closed out.”
- One project, valued at about \$165,000, at Royal Air Base Mildenhall included a signed Financial Completion Statement indicating that the project is completed and any remaining funds can be de-obligated. However, the SRM-E database still listed the project as “contract awarded and construction started.”

Although DLA Energy had included adequate documentation provisions and clear roles and responsibilities in their memorandum of agreement with the Air Force Center for Engineering and the Environment, the provisions were not enforced. Specifically, the Air Force engineering activity is required to provide DLA with monthly program execution updates, project closeout documentation within 90 days of facility turnover by the contractor, acceptance by the base or Air Force engineering, and an updated annual estimate based on a mid-year review of the actual reimbursable costs billed-to-date. However, we found no evidence of this required documentation. This occurred because DLA Energy relied on execution agents or Services to monitor projects after obligating funds.

Project close-out actions includes withdrawing all excess or unused funds and conducting the final update of SRM system data and the final update of real property asset data in the financial management system. These actions should occur within 60 days after accepting beneficial occupancy of the project, or construction completion, whichever occurs later.

### **Recommendation 6:**

Develop and enforce a memorandum of agreement with each execution agent to clearly define the required roles and responsibilities of each party. Specifically, the memorandum should address:

- Maintaining documentation to support SRM project initiation, execution, and closeout,
- Performing periodic reviews to verify the status of ongoing projects,
- Ensuring single projects are not split into multiple smaller projects,
- Classifying projects in accordance with DoD and FMR directives; and
- Providing timely updates of real property records to identify petroleum facilities eligible to use SRM funds.

## **Management Comments**

Concur. DLA Energy indicated that DLA Headquarters is currently updating an MOU with the U.S. Army Corps of Engineers. DLA Headquarters will be responsible for establishing MOUs with each Execution Agent (EA) since SRM interaction with the EAs is not unique to DLA Energy. Additionally, MOUs exist between DLA Energy and the two of their four execution agents. To address this recommendation, DLA Energy will create, in conjunction with the Service Control Points, DS-FE, either annexes for the existing MOUs or new MOUs with EAs with contents determined by the participating organizations and incorporate audit readiness requirements.

Verbatim management comments are included in Appendix E.

## **DLA OIG Response:**

Management comments were responsive to satisfy the intent of the recommendation, and no additional comments were required.

## **CONCLUSION**

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Our audit concluded that SRM funds in Europe were not always used in accordance with applicable laws and regulations because controls were not always designed, implemented or executed properly to ensure the compliance with SRM program requirements and applicable laws and regulations.

DLA did not institute management review and approval controls related to SRM program for both internal and external stakeholders. Also, there was a lack of project oversight and monitoring by DLA Energy management primarily due to the reliance on execution agents and the Services after committing and obligating SRM funds.

SRM program requirements are not robust enough and lacked standardized guidance, monitoring policies, and training for all parties involved in the SRM program. Without adequate project oversight and monitoring the potential exists for using SRM funds on non-capitalized fuel facilities, misclassification of projects, and potential project splitting. To correct the issues we identified, we made six recommendations to improve the management, accountability and internal controls for the SRM program.

### **Other Matters to be Reported**

During our review of SRM project documentation we found that DLA Energy created SRM projects or MIPR amendments on existing projects to cover overspending or negative unliquidated obligations (NULOs) in 11 of 39 projects tested. Of these exceptions, three samples were related to Lakenheath Air Base projects that were created to address NULO balances resulting from prior year SRM projects. For the remaining eight samples, DLA Energy created MIPR amendments to cover expenditures that exceeded the approved project obligations.

The three Lakenheath samples were projects from prior years that contained outstanding invoices and this issue was raised as a concern by DLA Energy management and was the original reason DLA Energy requested this audit. According to SRM-E project descriptions, these sample projects were created to address NULO balances. For example, the SRM-E project description of P-036125-09 included a statement that the prior year project was completed but to close out the NULO costs, the deficiency was added to have a record of the transaction from SRM funds. DLA management resolved these outstanding invoices based on the certification provided by the execution agent, the United States Air Force in Europe, with a payment of \$632,255.51 on 20 September 2012.

For the remaining eight projects, MIPR amendments were created to cover expenditures that exceeded the approved project obligations. Most of the MIPR descriptions stated that the additional funding requests were due to NULO, caused by foreign currency fluctuations. However, DLA Energy did not clearly document the rationale and support for foreign currency fluctuations which resulted in significant increases in project costs prior to issuing MIPR amendments. According to the DLA One Book, Facility Sustainment, Restoration, and Modernization Program, the provision of additional funds for a new or increased project obligation requires increased obligation authority in addition to project re-approval.



## SUMMARY OF RECOMMENDATIONS

	<b>Recommendation</b>	<b>Addressee</b>	<b>Status of Corrective Action</b>	<b>Estimated Completion Date</b>
1	Identify, perform, and document key internal controls related to technical, programmatic, and funding reviews of SRM projects.	DLA Energy	Concur	Not provided
2	Implement and periodically review monitoring procedures of service providers to ensure that payments are accurate, authorized, and not in excess of available and authorized SRM funding.	DLA Energy	Management stated that DLA OIG highlighted the weakness in the internal controls of DFAS. DLA Energy further stated that their response to the other recommendations may resolve the concern.	Not provided
3	Develop and implement a process to perform periodic reconciliations between SRM-E and the actual project activity documented in the project files at the installations and executing agent level. Implement procedures to ensure differences noted in reconciliations are investigated and corrected timely.	DLA Energy	Concur	Not provided
4	Coordinate with the service provider to implement system enhancements that allow for the proper identification of transactions by incorporating relevant reporting.	DLA Energy	DLA Energy feels this topic is important for highlighting the situation where individual SRM disbursements were not identifiable and this recommendation should be addressed to DFAS for clarification and comment.	Not provided

	<b>Recommendation</b>	<b>Addressee</b>	<b>Status of Corrective Action</b>	<b>Estimated Completion Date</b>
5	Implement formal policies and procedures to perform periodic reconciliations between the system of record and the actual project status documented in the project files at the installation or executing agent level, and investigate and correct discrepancies on a timely basis.	DLA Energy	Concur	Not provided
6	<p>Develop and enforce a memorandum of agreement with each execution agent to clearly define the required roles and responsibilities of each party. Specifically, the memorandum should address:</p> <ul style="list-style-type: none"> <li>• Maintaining documentation to support SRM project initiation, execution, and closeout,</li> <li>• Performing periodic reviews to verify the status of ongoing projects,</li> <li>• Ensuring single projects are not split into multiple smaller projects,</li> <li>• Classifying projects in accordance with DoD and FMR directives,</li> <li>• Providing timely updates of real property records to identify petroleum facilities eligible to use SRM funds.</li> </ul>	DLA Energy	Concur	Not provided

## **ABBREVIATIONS USED IN THIS REPORT**

ADA	Anti Deficiency Act
DDARS	Distributed Data Archive and Retrieval System
DFAMS	Defense Fuel Automated Management System
DFAS	Defense Finance and Accounting Service
EBS	Enterprise Business System
FAR	Federal Acquisition Regulation
FMR	Federal Management Regulation
MIPR	Military Interdepartmental Purchase Requests
NULO	Negative Unliquidated Obligations
OMB	Office of Management and Budget
SRM	Sustainment, Restoration, and Modernization
SRM-E	Sustainment, Restoration, and Modernization - Energy

## **ACKNOWLEDGEMENTS**

The following personnel contributed to this report:

Ms. Jessy Joseph, Audit Manager

Mr. Bob Grant, Auditor in-Charge

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## MANAGEMENT COMMENTS



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MEMORANDUM FOR DLA OFFICE OF INSPECTOR GENERAL

SUBJECT: Audit of the Sustainment, Restoration and Modernization Program (SRM) – Europe

DLA Energy has reviewed the DLA Office of the Inspector General (OIG) August 2013 re-issuance of the Draft Discussion Report on the Audit of Sustainment, Restoration and Modernization report dated 25 June.

DLA Energy requested this audit in fiscal year 2010 to determine if the Service requested SRM funds in Europe (specifically Lakenheath) were used in accordance with applicable laws, regulations and MIPR instructions. The majority of projects reviewed during this audit were initiated in the 1997-1998 timeframe and completed between 2006 and 2008.

The SRM system of record has changed twice since the inception of the Lakenheath projects 16 years ago. Several of the DLA OIG recommendations address issues with external agencies (DFAS) or of procedures changed due to updated processes, software (EBS) and refinement of the roles and responsibilities between Energy and Installation Support for Energy. For example, in March 2012 all project data was converted from the legacy system, SRMe to the Enterprise Business System and all new SRM projects since then have been built in EBS. The financial information for the converted legacy projects will be transferred from DFAMS to EBS in early FY14. Assessing 1997-2006 SRM data using current policies and procedures highlights deficiencies which have largely already been corrected.

DLA Energy concurs on four recommendations, and DFAS input is needed on recommendations two and four.

Responses to specific findings are at the Enclosure.

A handwritten signature in blue ink, appearing to read "M. D. Scott", is positioned above the name and title of the Deputy Commander.

MICHAEL D. SCOTT  
Deputy Commander

Enclosure

### DLA Energy Response to Recommendations

#### A. Management Review and Approvals

Recommendation 1: Identify, perform and document key internal controls related to technical, programmatic, and funding reviews of SRM projects.

CONCUR WITH COMMENTS. Systemic changes with the Enterprise Business System largely already incorporate this recommendation. The four areas identified as requiring follow-up (Engineer Technical Review, Project Manager Approval, Threshold Approval, and MIPR Review & Approval) have controls within EBS which insure appropriate checks are in place. Engineers review all deficiencies entered as a result of a planning study, centrally managed program or identified as emergent. By definition, those requirements identified under the recurring maintenance program are non-technical in nature; and therefore do not require Engineering review. Project Manager approval and threshold checks (if required) are hard-wired within EBS. All EBS MIPRs are created and signed by the DLA Energy Finance office.

The evaluated projects were judgmentally selected and not a representative random sample. From research into project files and existing documentation, the below table more accurately reflects actual occurrences for the identified situations. This documentation has been provided to the DLA OIG team.

**Project Internal Control Exceptions for Management Review and Approvals**

	<b>Engineer Technical Review</b>	<b>Project Manager Approval</b>	<b>Threshold Approval</b>	<b>MIPR Review &amp; Approval</b>
<b>DLA OIG found</b>	23	1	8	16
<b>Energy Verified</b>	3	0	1	0
<b>Error %</b>	7.7%	0%	2.6%	0%

#### B. Service Provider Approval Controls

Recommendation 2: Implement and periodically review monitoring procedures of service providers to ensure that payments are accurate, authorized, and not in excess of available and authorized SRM funding.

COMMENT: This section of the report deals with DFAS internal process controls, DLA Energy feels this topic is important and we wish to thank the DLA OIG for highlighting a weakness in the internal controls of DFAS. However, DLA Energy has no authority to review and monitor the OSD disbursing activity and ensure that payments are accurate, authorized, and not in excess of available and authorized SRM funding. DLA Energy believes the annual SSAE 16 report should report on DFAS internal process controls and our response to the other recommendations may resolve the concern.

#### C. SRM-E Database Completeness

Recommendation 3: Develop and implement a process to perform periodic reconciliations between SRM-E and the actual project activity documented in the project files at the installations

and executing agent level. Implement procedures to ensure differences noted in reconciliations are investigated and corrected timely.

CONCUR WITH COMMENT. DLA OIG recommends reconciliations using SRMc. EBS replaced SRMe in March 2012. Since this date, all new projects have been created and funded through EBS. The existing legacy projects were converted to EBS and all financial data will be converted from the financial system of record, DFAMS to EBS in January 2014.

Installation Support for Energy, DS-FE recently created the Construction Engineering Branch to oversee project execution. This branch is responsible for oversight and Quality Assurance of projects during the execution phase. Additionally, SRM Project Managers, DS-FE Engineers and the EA Project Managers coordinate through recurring telephone conferences, and conduct a quarterly update at the FO/GO/SES level.

Of the five ongoing projects listed as not traceable back to SRMe, we found three within the SRMc database. Recommend the finding be rewritten to state 3 of 34 projects could not be traced back.

#### D. SRM Disbursement Completeness

Recommendation 4: Coordinate with the service provider to implement system enhancements that allow for the proper identification of transactions by incorporating relevant reporting.

COMMENT. This section of the report addresses suggested deficiencies in a DFAS disbursing analysis system with the recommendation for a DFAS system enhancement for relevant reporting. DLA Energy feels this topic is important and we wish to thank the DLA OIG for highlighting the situation where individual SRM disbursements were not identifiable. This recommendation should be addressed to DFAS for clarification and comment. DLA Energy believes: 1) DFAS may have a relevant report from a different system, 2) the Energy conversion to EBS, 3) the SSAE 16 report, and 4) responses to other recommendations may resolve the concern.

#### E. SRM-E Database Existence Testing

Recommendation 5: Implement formal policies and procedures to perform periodic reconciliations between the system of record and the actual project status documented in the project files at the installation or executing agent level, and investigate and correct discrepancies on a timely basis.

CONCUR WITH COMMENT: DS-FE recently created a branch named, "Construction Engineering Branch" to oversee project execution. This Branch is responsible for oversight and Quality Assurance of projects during the execution phase. DS-FE has informally implemented a process to obtain the required project documentation. A formal request to the EAs is being processed to ensure all required project documents are received in the future.

#### F. SRM Program Project Documentation and Oversight

Recommendation 6: Develop and enforce a memorandum of agreement with each execution agent to clearly define the required roles and responsibilities of each party. Specifically, the memorandum should address:

- a. Maintaining documentation to support SRM project initiation, execution and closeout
- b. Performing periodic reviews to verify the status of ongoing projects
- c. Ensuring single projects are not split into multiple smaller projects
- d. Classifying projects in accordance with DoD and FMR directives
- e. Providing timely updates of real property records to identify petroleum facilities eligible to use SRM funds.

CONCUR WITH COMMENT. The SRM program is enterprise wide across all DLA activities. MOUs with Execution Agents should be developed and negotiated at an agency – wide level to ensure a complete organization perspective. As such, DLA Headquarters is currently updating an MOU with the U. S. Army Corps of Engineers and will encompass DLA Energy activities. We believe DLA Headquarters should also be responsible for establishing MOUs with each Execution Agent (EA) Headquarters since SRM interaction with the EAs is not unique to DLA Energy. Additionally, MOUs exist between DLA Energy and the two of our four execution agents and we will create, in conjunction with the Service Control Points, DS-FE, either annexes for the existing MOUs or new MOUs with EAs with contents determined by the participating organizations and incorporate audit readiness requirements.





***DLA Office of the Inspector General***

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**Audit Follow-up of Nuclear Weapons  
Related Materials and Small Arms**



# Executive Summary

Audit Report DAO-12-04

April 17, 2014

## Audit Follow-up of Nuclear Weapons Related Materials and Small Arms

We reviewed three nuclear weapons related material (NWRM) and two small arms reports and followed up on the recommendations related to receiving, shipping, or physical security. Based on our analysis we identified 13 open NWRM and 34 open small arms issues for follow-up.

We concluded that significant corrective actions have been taken related to previous audit findings identified within NWRM and small arms receiving, shipping and physical security, and have adequately addressed some of the identified risks. As a result, we closed 13 NWRM and 34 small arms recommendations related to receiving, shipping, and physical security.

### Why DLA OIG Did this Review

As approved in the FY2012 DLA Annual Audit Plan, we conducted a follow-up of NWRM. We included the small arms corrective actions since audit management concluded the distribution process for these sensitive items were similar. The purpose of this audit was to determine if corrective actions had been implemented and that the actions address the associated risk.

### What DLA OIG Did

Our audit objectives were to determine: (1) Corrective actions related to previous audit findings identified within NWRM and small arms receiving, shipping, and physical security were implemented. (2) Corrective actions taken have adequately addressed the risks associated with receiving, shipping, and physical security of NWRM and small arms.

### What DLA OIG Recommends

This report closes 13 issues related to NWRM and 34 issues related to small arms. DLA Distribution did not provide any comments for inclusion in this report.



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

April 17, 2014

MEMORANDUM FOR COMMANDER, DLA DISTRIBUTION

SUBJECT: Final Report: Audit Follow-up of Nuclear Weapons Related Materials and Small Arms, Report Number DAO-12-04

This is the final report on the Audit Follow-up of Nuclear Weapons Related Materials and Small Arms. This report contains no recommendations; however, the audit team identified performance improvement observations for management's consideration in Appendix E.

We appreciate the courtesies and cooperation extended to us during the audit. For additional information about this report, please contact Ms. Jessy Joseph at 703-767-7484 or DSN 427-7484 or by email at [jessy.joseph@dla.mil](mailto:jessy.joseph@dla.mil).

A handwritten signature in blue ink that reads "Steven D. Pigott".

STEVEN D. PIGOTT  
Deputy Inspector General  
DLA OIG Audit Division

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# INTRODUCTION

## OBJECTIVES, SCOPE, AND METHODOLOGY

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The objectives of this audit were to determine whether:

- Corrective actions related to previous audit findings identified within Nuclear Weapons Related Material (NWRM) and small arms receiving, shipping, and physical security have been implemented.
- Corrective actions taken have adequately addressed the risks associated with receiving, shipping, and physical security of NWRM and small arms.

We reviewed three NWRM and two small arms reports and followed up on the recommendations related to receiving, shipping, or physical security. Based on our analysis we identified 13 NWRM and 34 open small arms issues for follow-up. The remaining 70 recommendations were related to other areas and were outside the scope of this audit.

	Shipping/Receiving/Physical Security Issues	Issues in Other Areas (outside scope)	Total Number of Issues
NWRM	13	51	64
Small Arms	34	19	53
<b>Total</b>	<b>47</b>	<b>70</b>	<b>117</b>

To determine if the corrective actions taken by management addressed the risk associated with the 47 open recommendations, we:

- Evaluated the status of corrective actions and the date the corrective action occurred.
- Identified and analyzed the applicable criteria.
- Reviewed updated policy and procedures.
- Reviewed the updated training programs to determine if additional required material was included, as well as the associated records of training.
- Interviewed operational employees and management.
- Observed current operational practices.
- Assessed the on-going risk within receiving, shipping, and physical security process.

To accomplish the audit, we performed fieldwork at four distribution depots. The four distribution depots included in this audit were:

- DLA Distribution Hill, Utah, which is located at Hill Air Force Base and supports two on-base fighter wings and maintenance functions performed by the Ogden Air Logistics Center as well as numerous military units throughout the world.
- DLA Distribution Warner Robins, Georgia, distributes supplies to all branches of the military at locations all around the world. More than half the work completed at the distribution center is in support of the Warner Robins Air Logistics Center.
- DLA Distribution Oklahoma City, Oklahoma, provides a full range of distribution services in support of the Oklahoma City Air Logistics Center, Tinker Air Force Base tenants, and other global customers.
- DLA Distribution Anniston, Alabama, provides distribution services for combat weapons systems, small arms weapons, and missile systems for all services. It maintains material to support weapons and combat systems, including radioactive, hazardous, consumables, major end items, and secondary repair parts.

We conducted this performance audit in accordance with generally accepted government auditing standards issued by the Government Accountability Office except for the standard related to organizational independence. This organizational impairment resulted from the DLA Office of the Inspector General Audit Division (formally DLA Accountability Office Audit Division) not being accountable to the head or deputy head of DLA, and conducting non-audit services related to Office of Management and Budget Circular A-123, Appendix A, Management's Responsibility for Internal Control. To correct this, we have established policies and procedures to provide reasonable assurance of conforming to applicable professional standards. However, the impairment had no effect on the quality of this report, as standards require that we plan and conduct the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

The DOD Office of the Inspector General concluded that some general and application controls were not adequately designed and effective for Distribution Standard System (DSS) in FY 09. During this audit, we did not perform additional audit work to confirm the reliability of the data from these systems because the earlier NWRM and small arms audit work noted no data reliability issues.

## BACKGROUND

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### NWRM

On March 20, 2008, DLA learned that four MK-12 nose cone assemblies (a nuclear weapons related component item) were inadvertently shipped to the Government of Taiwan. This mis-shipment occurred because the F. E. Warren Air Force Base shipped the nose cone assemblies to Defense Distribution Center, Hill, and identified the material as batteries. These erroneously coded nose cone assemblies were then sent to the Government of Taiwan as batteries. Subsequent to this event, the DLA Accountability Office conducted three audits related to NWRM that we followed-up on in this report.

- Audit Report AD-FY09-01 entitled “Vulnerability Assessment” dated December 24, 2008. This audit reviewed operations at six DLA Distribution sites to assess the effectiveness of application security controls and business process controls related to the validity, completeness, accuracy, and confidentiality of transactions and data during application processing. The report contained 36 recommendations related to the distribution process. One of the 36 recommendations was withdrawn based on additional information from DLA Distribution, leaving 35 open recommendations in the audit report. In this follow-up audit we reviewed the corrective actions taken to resolve 3 recommendations: numbers 1, 3, and 4.
- Discussion draft report DAO 10-02 entitled “Audit of Nuclear Weapons Related Material Demilitarization Process and Controls” dated March 8, 2010. The objective of this audit was to determine whether standard operating procedures were followed and internal controls were implemented to ensure 100-percent accountability of NWRM items. The discussion draft report contained three recommendations. In this follow-up audit, we reviewed the actions taken on recommendation number 3.
- Audit Report DAO-10-07 entitled “Enterprise Audit Related to Nuclear Weapons Related Material” dated September 30, 2010. The audit evaluated the internal controls over the process of receiving, handling, and transferring NWRM. The report contained 12 new recommendations to strengthen controls surrounding NWRM management within DLA and to develop NWRM documentation retention procedures. In this follow-up audit, we looked at seven of the 12 new recommendations.

In addition to evaluating the internal controls over the process of receiving, handling, and transferring NWRM, this audit also attempted to validate corrective actions taken in response to work done in the audit entitled “Final Interim Report – Defense Logistics Agency Transfer of Nuclear Weapons Related Material to the United States Air Force”, DAO-09-10. There were three recommendations initially reported in DAO-09-10 that remained open in DAO-10-07. In this follow-up audit, we looked at two of the three findings, which remained open from the Final Interim Report on the DLA Transfer of NWRM to the USAF to determine if the issue had been adequately addressed; recommendation numbers 5 and 14.

A Memorandum of Agreement between the U.S. Air Force (USAF), DLA, and Defense Threat Reduction Agency (DTRA) for NWRM management defined the responsibilities of each party regarding the long-term management of NWRM. Under this agreement, the USAF assumed responsibility for NWRM storage, handling, and accountability. To ensure DLA appropriately transferred the material, the agreement required bare item inspection and inventory during the transfer of NWRM from DLA to the USAF. To improve the transfer and other NWRM processes, DLA issued the following guidance:

- DLA Instruction 1501 “Nuclear Weapons Related Materiel Management” dated April 7, 2010 implementing the NWRM management process defined in the October 16, 2008 Office of the Under Secretary of Defense, Acquisition, Technology and Logistics letter.
- DLA Distribution O-2010-001 “Handling and Processing Nuclear Weapons Related Materiel” dated April 28, 2010, which describes the process warehouses should follow when they receive suspected NWRM.

## **Small Arms**

The DLA Accountability Office had concerns with the handling and accountability of 94,000 small arms weapons received at DLA Distribution Anniston, Alabama, in 1995 from the USAF that were not sight verified and reconciled when received. Additionally in 2008, the serial numbers had still not been reconciled between the USAF and DLA. To address these concerns we conducted an enterprise audit of small arms and issued two reports: one focused on DLA Disposition Services the other on DLA Distribution Anniston, Alabama. The reports were:

- Audit report DAO-09-11 entitled “DLA Disposition Services – Enterprise Audit of Small Arms Accountability” issued September 9, 2010, which concluded that some processes and internal controls could use improvement. The report contained 10 findings and 19 associated recommendations to improve the management and administration of small arms accountability. In this follow-up audit, we looked at two of the 19 recommendations: numbers 5 and 13.
- Audit report DAO-09-11 entitled “DLA Distribution Anniston, Alabama - Enterprise Audit of Small Arms Accountability” issued September 30, 2010, which concluded that sufficient controls were not in place to ensure inventory accuracy and proper security of small arms in DLA’s possession. The report identified issues in most operational areas, and included 43 findings to improve the management and administration of small arms accountability. In this follow-up audit, we looked at 32 of the 43 findings to determine if the issues were adequately addressed.

DLA Distribution and DLA Disposition Services are responsible for the shipment, receipt, re-issue, demilitarization, and disposal of small arms within DLA. DOD regulations define small arms as: Handguns, Shoulder-fired small arms, Light automatic small arms (up to and including .50 caliber machine guns), Recoilless rifles (up to and including 106mm), Mortars (up to and including 81mm), Rocket launchers (man-portable), Grenade launchers (rifle and shoulder fired), and individually operated



small arms which are portable and/or can be fired without special mounts or firing devices and which have potential use in civil disturbances and are vulnerable to theft. DLA Distribution Anniston, Alabama, is designated as a consolidated storage site for small arms owned by the U. S. Army and USAF.

# RESULTS, RECOMMENDATIONS, AND CONCLUSIONS

## RESULTS AND RECOMMENDATIONS

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We concluded that DLA Distribution took corrective actions related to the 13 NWRM and the 34 small arms recommendations related to receiving, shipping, and physical security have been implemented. Because the corrective actions adequately addressed the risks associated with receiving, shipping, and physical security of NWRM and small arms, we have closed all 13 NWRM recommendations and 34 small arms recommendations.

### Nuclear Weapons Related Material Issues

We followed-up on 13 NWRM open recommendations and closed all 13 because DLA took effective corrective action. In order to close the recommendations, DLA:

- Established roles and responsibilities for procedures identified in the memorandum of agreement between DLA, USAF, and DTRA for the management of NWRM by documenting the process for handling and transferring of NWRM.
- Finalized roles and responsibilities for handling and transferring NWRM.
- Directed NWRM centers to utilize DSS to manage frustrated inventories.
- Established guidance and processes dealing with identifying, handling, processing, and disposing of NWRM.
- Developed and conducted formal training on NWRM procedures and identification of items.
- Developed instructions addressing NWRM record management.

The following table summarizes the status of the issues originally reported in the three prior audit reports related to NWRM.

**NWRM Open Recommendations from Prior Audit Reports**

Report Number	Total Open Recommendations in Report	Number of Recommendations Followed-up On	Number of Recommendations Closed
AD-FY09-01	35	3	3
DAO-10-02	3	1	1
DAO-10-07	26	9	9
<b>Total</b>	<b>64</b>	<b>13</b>	<b>13</b>

## Small Arm Issues

We followed-up on 34 small arms open recommendations that were directly related to receiving, shipping, or physical security, and closed all 34 recommendations because DLA took effective corrective action. The table below summarizes the status of the issues in the two audit reports dealing with small arms accountability.

**Small Arms Open Recommendations from Prior Audit Reports**

<b>Report Number</b>	<b>Total Open Recommendations in Report</b>	<b>Number of Recommendations Followed-up On</b>	<b>Number of Recommendations Closed</b>
DAO-09-11 (Disposition)	10	2	2
DAO-09-11 (Distribution)	43	32	32
<b>Total</b>	<b>53</b>	<b>34</b>	<b>34</b>

We are closing these 34 recommendations because DLA took necessary corrective actions, grouped into the following seven major categories:

### **Improvement to inventory receiving, tracking, and control systems**

- Provided formal training to warehouse employees on how to properly receive materiel, use of Federal Logistics Information System, usage of the correct receipt control number for processing receipts and identifying mis-shipments, and correct disposition weapons.
- Developed procedures to account for off-loaded items (regardless of receipt) and backlogged materiel. Developed and implemented internal controls for the systematic processing and elimination of additional backlog.

### **Improvement to materiel controls**

- Provided training to warehouse personnel on the process for shipping items to DLA Disposition Services.
- Developed procedures to prevent unidentified weapons from being receipted and ensured employees are aware of the correct disposition of a weapon.

### **Improved inventorying procedures**

- Ensured warehouse employees followed proper procedures for acquiring and using numbered seals and reinforced compliance by providing training.

### **Improved security over material**

- Developed internal controls for tracking classified materials stored in the secured cage area, established a logbook in the secured cage area to maintain the chain of custody for the receipt and transferring of the classified material, and trained personnel on how to secure, maintain and track classified materials.

- Performed a walk-through to identify locations that contain open or improperly banded and sealed containers.
- Implemented a plan to upgrade the Central Receiving cage construction to the required security standards for temporary storage of classified materiel.

#### **Improved the adequacy of tracking over shipments**

- Ensured that the small arms receiving office received the report of shipments from the Transportation Office and monitored the reports to properly allocate staff and tracking materiel at the Building 360 receiving area.
- Developed a logbook to track all reports of shipment received and ensure timely receipt of all expected materiel.
- Monitored the in-transit status of outbound shipments of arms, ammunition, and explosives to ensure they arrive at destination safely and on time.

#### **Improved building security**

- Installed lighting at the perimeter of Building 29 and at section 6 dock of Building 360 to comply with DLA Instruction 5710.1.
- Ensured an auxiliary power source was in place and tested monthly to provide uninterrupted operation of the intrusion detection system in the small arms warehouse.

#### **Improved materiel security during shipment**

- Trained DLA Distribution Anniston, Alabama, staff to comply with DoD 5100.76-M packaging requirements when shipping small arms to the central demilitarization center.

## **CONCLUSIONS**

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We concluded that significant corrective actions have been taken related to previous audit findings identified within NWRM and Small Arms receiving, shipping and physical security, and have adequately addressed identified risks.

## INDEX OF NWRM RECOMMENDATIONS

<b>Audit Report Number</b>	<b>Recommendation Number</b>	<b>Subject</b>	<b>Current Status</b>	<b>Page Number</b>
AD-FY09-01	1	NWRM	Closed	13
AD-FY09-01	3	NWRM	Closed	14
AD-FY09-01	4	Frustrated Items	Closed	14
DAO-10-02	3	Transaction Processing Results and Recommendations	Closed	15
DAO-10-07 (new)	1	Memorandum of Agreement	Closed	15
DAO-10-07 (new)	2	DLA NWRM Instruction	Closed	16
DAO-10-07 (new)	3	DLA NWRM Instruction	Closed	16
DAO-10-07 (new)	4	DLA Distribution NWRM Instruction	Closed	16
DAO-10-07 (new)	5	DLA Distribution NWRM Instruction	Closed	17
DAO-10-07 (new)	6	Training	Closed	17
DAO-10-07 (new)	8	Responsive Actions for Newly Identified NWRM	Closed	18
DAO-10-07 (validation)	5	Final Interim Report on the DLA Transfer of NWRM	Closed	19
DAO-10-07 (validation)	14	Final Interim Report on the DLA Transfer of NWRM	Closed	19

## INDEX OF SMALL ARMS FINDINGS

Audit Report Number	Finding Number	Subject	Current Status	Page Number
DAO-09-11 (Disposition)	5	Incoming Shipments into the Centralized Demilitarization Center	Closed	20
DAO-09-11 (Disposition)	13	Pending In-Transit Receipts	Closed	20
DAO-09-11 (Distribution)	1	Missing Weapon	Closed	21
DAO-09-11 (Distribution)	4	Inventory Discrepancy	Closed	21
DAO-09-11 (Distribution)	6	Missing Container Bands and Seals	Closed	22
DAO-09-11 (Distribution)	7	Small Arms Containers Are Not Being Re-banded and Resealed After Opening	Closed	22
DAO-09-11 (Distribution)	8	Condition Code F Combat Loss Materiel	Closed	23
DAO-09-11 (Distribution)	9	Off-Loaded Materiel is Difficult to Locate and Track	Closed	23
DAO-09-11 (Distribution)	10	Backlogged Weapons Awaiting Induction and Sight Verification Have Not Been Recorded in DSS Thereby Compromising Accountability	Closed	24
DAO-09-11 (Distribution)	11	Receipt Control Number Labeling	Closed	25
DAO-09-11 (Distribution)	12	Receiving Personnel Did Not Access Federal Logistics Information System While Processing Receipts	Closed	25
DAO-09-11 (Distribution)	13	Preservation, Packaging, Packing and Marking Personnel Did Not Perform kind, count and condition or Serial Number Sight Verification on Quick Inductions from Maintenance	Closed	26
DAO-09-11 (Distribution)	14	Report of Shipment Information Is Not Provided to Small Arms Receiving Personnel	Closed	26
DAO-09-11 (Distribution)	15	Building 360 Section 1 Classified Cage Area Contained Unrecorded/Commingled Materiel	Closed	27
DAO-09-11 (Distribution)	16	Movement of Materiel to and From the Building 360 Secured Cage Was Not Tracked	Closed	28
DAO-09-11 (Distribution)	17	Accountability and Storage of Classified Materiel in Central Receiving Cage Storage Area is Inadequate	Closed	28
DAO-09-11 (Distribution)	19	Frustrated Items	Closed	29
DAO-09-11 (Distribution)	24	Transportation is Not Maintaining a Log of Report of Shipment	Closed	29
DAO-09-11 (Distribution)	25	Status of Outbound Shipments of arms, ammunition and explosives is not being monitored	Closed	29
DAO-09-11 (Distribution)	26	Controls Over Transportation Seals Need Improvement	Closed	30
DAO-09-11 (Distribution)	27	Banding Seals Reused	Closed	30

<b>Audit Report Number</b>	<b>Finding Number</b>	<b>Subject</b>	<b>Current Status</b>	<b>Page Number</b>
DAO-09-11 (Distribution)	28	Subordinate Seal Custodians are not Maintaining Bound Seal Logs	Closed	31
DAO-09-11 (Distribution)	29	Metal Detector Alarms Go Undetected and Subsequent Personnel Searches are not Conducted	Closed	31
DAO-09-11 (Distribution)	30	Visitor Register Sign-Out Procedures Are Not Being Followed	Closed	32
DAO-09-11 (Distribution)	31	Contractor Personnel Were Observed in Weapons Warehouse Secure Area Without Security Badges or Escorts	Closed	32
DAO-09-11 (Distribution)	32	Cleaning Crew Enters/Exits Building 360 Warehouse Secure Area Without Escorts	Closed	33
DAO-09-11 (Distribution)	33	Trash and Banding Dumpsters Provide the Capability to Remove Weapons from the Building 360 Warehouse	Closed	33
DAO-09-11 (Distribution)	34	Inadequate Lighting Leaves Small Arms Warehouses Vulnerable to Undetected Entry and Theft	Closed	34
DAO-09-11 (Distribution)	35	Absence of Auxiliary Power Source Leaves Small Arms Warehouses Vulnerable to Undetected Entry and Theft as a Result of Inoperable Intrusion Detection System	Closed	34
DAO-09-11 (Distribution)	36	Frequency of Security Patrols of Small Arms Warehouse Area is Not in Compliance with Regulatory Requirements	Closed	34
DAO-09-11 (Distribution)	37	Building 360 Security Seal Register Entry Information was Incomplete	Closed	35
DAO-09-11 (Distribution)	38	Key/Lock Control Procedure Do Not Prohibit Removal of Security Area Keys on a Dailey Basis	Closed	35
DAO-09-11 (Distribution)	39	Weapons Handling Safety Training	Closed	36
DAO-09-11 (Distribution)	42	Potential Theft and/or Misplacement of Small Arms	Closed	37

## FOLLOW-UP OF NWRM RECOMMENDATIONS

<b>AD-FY09-01 RECOMMENDATION 1: NUCLEAR WEAPONS RELATED MATERIAL (NWRM)</b>	
<b>ORIGINAL CONDITION</b>	We found classified inventory discrepancies of item, location, and quantity, including NWRM. These discrepancies included items recently subjected to bare item inspection during the wall-to-wall inventory that were misidentified. We requested assistance from USAF equipment specialists who appeared to have difficulty positively identifying the materiel because items were reclassified to new national stock numbers (NSN) based upon the additional parts that were attached to base item. Due to the complexity of the issue, it is important that DLA continue to work closely with the USAF to develop a common definition of NWRM and to develop a unique identifier that can help DLA easily identify NWRM.
<b>ORIGINAL RECOMMENDATION</b>	J3/4 work with DLA Distribution to establish a detailed transfer process to ensure that all NWRM items transferred to the USAF are bare item inspected, serial number recorded, and signed for during the movement.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. DLA Distribution, in conjunction with DLA and the USAF developed a Memorandum of Agreement that outlined all actions to transfer NWRM material. The MOA identified bare item inspections, serial number recording, and a requirement for both USAF and DLA personnel to sign off on standardized forms when material was inspected and transferred. ECD mid-November 2008.
<b>FOLLOW-UP RESULTS</b>	<p>DLA and the USAF developed a detailed transfer process checklist to ensure that all NWRM items transferred to the USAF are bare item inspected, have serial number recorded in on the checklist, and are signed for during the movement.</p> <p>Since 2010, DLA no longer receives and stores NWRM so we could not observe the actual NWRM transfer process. Therefore, the team sampled 47 NWRM Transfer Checklists, which were completed as part of the transfer process at DLA Distribution Hill, Utah, DLA Distribution Oklahoma City, Oklahoma, and DLA Distribution Warner Robins, Georgia. We noted no issues with NWRM items originating from DLA Distribution Hill and DLA Distribution Oklahoma City; however, we found NWRM items that DLA Distribution Warner Robins transferred to the USAF outside of the official transfer process, and thus no NWRM Transfer Checklist was prepared. As a result, DLA lacks clear documentation of the materials final destination for four items. An audit proposal was developed and submitted proposing an audit to determine how many NWRM items lacked an audit trail. Because DLA should no longer receive NWRM and has procedures in place to prevent erroneous induction into the system, this recommendation is closed.</p>



<b>AD-FY09-01 RECOMMENDATION 3: NUCLEAR WEAPONS RELATED MATERIAL (NWRM)</b>	
<b>ORIGINAL CONDITION</b>	We found classified inventory discrepancies of item, location, and quantity, including NWRM. These discrepancies included items recently subjected to bare item inspection during the wall-to-wall inventory that were misidentified. We requested assistance from USAF equipment specialists who appeared to have difficulty positively identifying the materiel because items were reclassified to new NSNs based upon the additional parts that were attached to base item. Due to the complexity of the issue, it is important that DLA continue to work closely with the USAF to develop a common definition of NWRM and to develop a unique identifier that can help DLA easily identify NWRM.
<b>ORIGINAL RECOMMENDATION</b>	J-3/4 should work with DLA Distribution to develop training and detailed guidance for employees to identify NWRM and immediately notify their supervisor if DLA erroneously receives NWRM. Due to the criticality of handling NWRM properly, DLA must ensure experienced and trained supervisors are available to handle NWRM to minimize the possibility of human error.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. OSD Policy Memo dated October 16, 2008 requires training on the proper handling of NWRM to include re-emphasizing MILSTD-129 for uniform military marking for shipment and storage, and MIL-STD 2073-1E DoD Standard Practice for Military Packaging. DLA Distribution will gear the awareness training toward proper identification and handling of any NWRM material inadvertently shipped to a distribution center. In order to identify NWRM material inadvertently shipped to a DLA Distribution location, NWRM NSNs will be loaded to the DSS receipt alert screen and supervisory approval will be required to continue processing. ECD 31 Dec 08 (or upon confirmation of the NWRM population).
<b>FOLLOW-UP RESULTS</b>	J3 and DLA Distribution developed training and detailed guidance for employees to identify NWRM and immediately notify their supervisor if DLA erroneously receives NWRM.  Additionally, the audit team verified that a NWRM Indicator had been added to DSS so that the system would identify NWRM identified by the USAF. The audit team also confirmed that DLA Distribution Oklahoma City, Oklahoma, DLA Distribution Hill, Utah, and DLA Distribution Warner Robins, Georgia provided NWRM awareness training to employees. During our field visits, the audit team interviewed employees and inserted three simulated NWRM test packages into the receiving lines. Based on audit team interviews with warehouse employees and the handling of the three test packages the training was determined to be effective; therefore, this recommendation is closed.

<b>AD-FY09-01 RECOMMENDATION 4: "FRUSTRATED" ITEMS</b>	
<b>ORIGINAL CONDITION</b>	During our inventory reviews, we identified several items that were classified as "frustrated" and were waiting to be properly identified and/or reclassified. Frustrated items are not available for issue to customers and are not on the accountable record. At one location, we found an unopened box containing an M-16 rifle awaiting further research because the depot received it without identification labels or paperwork. This weapon was unaccounted for a period of eight days before we discovered it. At another location, we identified a crate, which contained salvaged remnants of an aircraft that had been in the warehouse for an extended period but not on an accountable record.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution should ensure all depots have designated secure areas to place frustrated items. In addition, DDC should develop a more specific policy, which includes a time limit to properly identify and reclassify items in the frustrated area to avoid items from being misplaced or incorrectly placed back in location.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. DLA Distribution will issue direction to all depots to designate secure areas for frustrated items. Full implementation of procedures will be accomplished by November 14, 2008. Continued monitoring of this requirement will be accomplished through DLA J3/DLA Distribution Compliance Reviews.
<b>FOLLOW-UP RESULTS</b>	DLA Distribution issued guidance in January 2009 requiring designation of a secure area for frustrated items. During our audit work at DLA Distribution Oklahoma City, Oklahoma and DLA Distribution Warner Robins, Georgia, the audit team confirmed that these depots had a secure area for frustrated items. However, DLA Distribution Hill, Utah had not designated a secure area for frustrated items because management stated that all items were processed the day received. Therefore, this recommendation is closed.

<b>DAO-10-02 RECOMMENDATION 3: TRANSACTION PROCESSING</b>	
<b>ORIGINAL CONDITION</b>	<p>The DLA Distribution Swarm Manual for Storage and Handling of Classified Material instructs employees to follow a general process flow that incorporates internal controls without differentiating between transactions destined for customers and those destined for disposal. NWRM transactions processed at DLA Distribution Oklahoma City did not comply with the identified process flow, since some steps were combined and other steps were performed out of sequence.</p> <p>We observed 13 NWRM transactions processed for disposal, which processed 69 NWRM components through the depot level functions of pick, pack, and transportation. We found that each of the 69 NWRM items was not processed in accordance with the DLA Distribution Swarm Manual. As a result, internal controls were bypassed and NWRM material may not have been 100-percent accountable.</p>
<b>ORIGINAL RECOMMENDATION</b>	Develop and publish specific policy for the handling and disposal of NWRM.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	This was a draft audit report and no management comments were provided.
<b>FOLLOW-UP RESULTS</b>	<p>DLA Distribution does not dispose of NWRM, since it is handled exclusively by the USAF. However in the event NWRM is received, DLA Distribution developed and published specific policy for the handling and disposal of NWRM. During fieldwork at DLA Distribution Oklahoma City, Oklahoma, DLA Distribution Hill Utah, and DLA Distribution Warner Robins, Georgia the audit team confirmed that none of the sites had processed NWRM since the transfer to the USAF.</p> <p>Should the depot erroneously receive NWRM, DDC Instruction entitled "Handling and Processing Nuclear Weapons Related Material" provides a process for handling and disposing of NWRM. Publication of these procedures is a prudent precaution. Therefore, this recommendation is closed.</p>

<b>DAO-10-07 RECOMMENDATION 1: MEMORANDUM OF AGREEMENT</b>	
<b>ORIGINAL CONDITION</b>	The MOA between DLA, USAF, and DTRA documents the understanding of all functional areas related to the long-term management of NWRM, including asset identification, visibility, physical inventory, and transportation. During our audit, we reviewed the eleventh revision of the draft MOA dated 12 January 2010. After the conclusion of our fieldwork, the MOA remained in draft.
<b>ORIGINAL RECOMMENDATION</b>	Finalize and implement the MOA between the DLA, USAF, and DTRA that documents the process for handling and transferring NWRM.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	The DLA Logistics Operations concurred with our recommendation and stated that they would aggressively work the MOA.
<b>FOLLOW-UP RESULTS</b>	DLA finalized and implemented the MOA between DLA, USAF, and DTRA to document the process for handling and transferring NWRM. The audit team reviewed version twelve of the MOA between DLA, USAF, and DTRA dated August 17, 2010. The MOA governs the actions required of the DLA, USAF, and DTRA as they relate to the management of NWRM. The MOA was signed by Vice Admiral Thompson, DLA Director; and Lieutenant General Reno, DCS/Logistics, Installations and Mission Support on November 22, 2010 and Mr. Kenneth Myers, DTRA Director on December 30, 2010. Therefore, this recommendation is closed.

<b>DAO-10-07 RECOMMENDATION 2: DLA NWRM INSTRUCTION</b>	
<b>ORIGINAL CONDITION</b>	The DLA Instruction on NWRM Management, which incorporates the Under Secretary of Defense Memorandum on NWRM management requirements into DLA policy was not finalized at the end of fieldwork and did not reference the required joint USAF/DLA checklist as a requirement.
<b>ORIGINAL RECOMMENDATION</b>	Implement the DLA NWRM Instruction that establishes roles and responsibilities for procedures identified in the MOA between DLA, USAF, and DTRA for the management of NWRM.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. The DLA Logistics Operations noted that the DLA Instruction 1501 was posted as guidance on April 14, 2010.
<b>FOLLOW-UP RESULTS</b>	The audit team verified that DLA Instruction 1501 "Nuclear Weapons Related Materiel Management" was published as official policy by the Director, DLA Enterprise Support on April 7, 2010. The audit team queried DSS and confirmed that DLA Distribution depots were not holding any NWRM. Additionally, the team documented that DLA Distribution runs two reoccurring scans of DSS, one daily and the other after weekends and holidays, to detect NWRM held at depots. Because of these actions, this recommendation is closed.

<b>DAO-10-07 RECOMMENDATION 3: DLA NWRM INSTRUCTION</b>	
<b>ORIGINAL CONDITION</b>	The DLA Instruction on NWRM Management, which incorporates the Under Secretary of Defense Memorandum on NWRM management requirements into DLA policy was not finalized at the end of fieldwork and did not reference the required joint USAF/DLA checklist as a requirement.
<b>ORIGINAL RECOMMENDATION</b>	Reference the joint USAF/DLA NWRM induction checklist in the finalized DLA Instruction on NWRM Management.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. DLA Logistics Operations will ensure a reference to the joint AF/DLA NWRM induction checklist is included in the first annual revision of the Instruction.
<b>FOLLOW-UP RESULTS -</b>	The DLA Distribution Instruction entitled "Handling and Processing Nuclear Weapons Related Material" did contain a requirement to complete the checklist. The checklist was also included in the final MOA between the USAF, DLA, and DTRA that documents the process for handling and transferring NWRM; therefore, this recommendation is closed.

<b>DAO-10-07 RECOMMENDATION 4: DLA DISTRIBUTION NWRM INSTRUCTION</b>	
<b>ORIGINAL CONDITION</b>	The DLA Distribution Instruction on Handling and Processing NWRM was created to provide DLA Distribution personnel with a set of comprehensive instructions on processing and handling of NWRM within the distribution centers functional areas. Based on our review of the draft DLA Distribution Instruction on Handling and Processing NWRM, we found that the instruction contains procedural requirements identified in the Under Secretary of Defense Memorandum on NWRM dated 16 October 2008, and the draft DLA Instruction on NWRM Management dated 15 December 2009. However, DLA Distribution was waiting for the DLA Instruction on NWRM Management to be finalized and issued prior to issuing the DLA Distribution Instruction.
<b>ORIGINAL RECOMMENDATION</b>	Implement the DLA Distribution Instruction on Processing and Handling NWRM that documents the required actions at the functional level for NWRM. Implementation includes distributing the DLA Distribution Instruction to all depots.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. The DLA Distribution issued the Instruction on Processing and Handling NWRM to all DLA Distribution locations on April 28, 2010.
<b>FOLLOW-UP RESULTS</b>	DLA Distribution the instruction entitled "Handling and Processing Nuclear Weapons Related Material" in April 2010. The instruction included procedural instructions for handling and processing NWRM including steps to: complete a Report of Shipment (REPSHIP), identify suspected NWRM, verify NWRM prior to closure, and input the NWRM serial number. DLA Distribution distributed the final instruction to all DLA Distribution Centers. The audit team confirmed that DLA Distribution disseminated the instruction to the personnel at the DLA Distribution Oklahoma City, Oklahoma, DLA Distribution Hill, Utah, and DLA Distribution Warner Robins, Georgia; therefore, this recommendation is closed.

<b>DAO-10-07 RECOMMENDATION 5: DLA DISTRIBUTION NWRM INSTRUCTION</b>	
<b>ORIGINAL CONDITION</b>	The DLA Distribution Instruction on Handling and Processing NWRM was created to provide DLA Distribution personnel with a set of comprehensive instructions on processing and handling of NWRM within the distribution centers functional areas. Based on our review of the draft DLA Distribution Instruction on Handling and Processing NWRM, we found that the instruction contains procedural requirements identified in the Under Secretary of Defense Memorandum on NWRM dated 16 October 2008, and the draft DLA Instruction on NWRM Management dated 15 December 2009. Although the draft DLA Distribution Instruction on Handling and Processing NWRM dated 24 September 2009 was aligned with applicable guidance, the instruction does not reference the "joint AF/DLA checklist" identified as a requirement in the draft MOA between DLA, USAF, and DTRA.
<b>ORIGINAL RECOMMENDATION</b>	Reference the "joint AF/DLA checklist" in the finalized DLA Distribution Instruction on Handling and Processing NWRM.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. The DLA Distribution Instruction on Processing and Handling NWRM includes actions to be taken when the USAF updates the official NWRM list and requires a bare item joint inspection by DLA and USAF of newly identified items and completion of a NWRM Transfer Checklist for each asset.
<b>FOLLOW-UP RESULTS</b>	The audit team confirmed that the final MOA between the USAF, DLA, and DTRA contains a copy of the NWRM Checklist as figure 1 on page 20. The audit team also verified that DDC Instruction entitled "Handling and Processing Nuclear Weapons Related Material" contained a reference to the NWRM Checklist; therefore, this recommendation is closed.

<b>DAO-10-07 RECOMMENDATION 6: TRAINING</b>	
<b>ORIGINAL CONDITION</b>	DLA personnel performing NWRM transfer actions at DLA Distribution at Hill, Utah, and DLA Distribution Oklahoma City, Oklahoma, were not provided formal training for handling and processing NWRM.
<b>ORIGINAL RECOMMENDATION</b>	Develop and conduct annual formal training on the NWRM procedures after they are finalized. The training records should be documented and maintained.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	DLA Distribution no longer routinely handles NWRM. A detailed training manual for the Storage and Handling of Classified Materiel has been developed and provided to employees that may handle classified materiel. Additionally, the next version of the classified materiel training will include an appendix identifying the proper handling procedures for NWRM.
<b>FOLLOW-UP RESULTS</b>	DLA Distribution stated that it has added an annual requirement for NWRM awareness training to the Learning Management System learning plan for receiving personnel most likely to attempt to process NWRM. DLA Distribution developed a formal training on NWRM procedures. The training records were documented and maintained. The audit team determined that DLA Distribution Oklahoma City, Oklahoma, DLA Distribution Hill, Utah, and DLA Distribution Warner Robins, Georgia provided NWRM Awareness Training to employees. Based on interviews with warehouse staff and the successful identification of three test packages, this recommendation is closed.

**DAO-10-07 RECOMMENDATION 8: RESPONSIVE ACTIONS FOR NEWLY IDENTIFIED NWRM**

<b>ORIGINAL CONDITION</b>	<p>Once an updated NWRM list is sent to DLA from USAF, the draft DLA instruction and DLA J-33 email both identify 11 required actions for DLA Logistics Information Service, DLA Disposition Services, and DLA Distribution and 1 action for J-33 to complete. During the audit, we reviewed email correspondence and interviewed personnel responsible for completing the 11 DLA NWRM management actions for DLA Logistics Information Service, DLA Disposition Services, and DLA Distribution. Although DLA personnel stated that actions were taken and completed in accordance with DLA J-33 instruction, system generated data was not consistently maintained to support the stated actions. DLA personnel relied on email correspondence to provide the deliverable actions, which included summaries of system-generated data in the text of email without always retaining source documentation.</p> <p>Of the 11 possible actions taken by DLA Logistics Information Service, DLA Disposition Services, and DLA Distribution in response to the NWRM list published on 15 December 2009, we were only provided with adequate supporting documentation for 2 of the 11 actions. Additionally, adequate supporting documentation was not available from DLA Logistics Information Service, DLA Disposition Services, or DLA Distribution for any of the 11 actions taken in response to the NWRM list published by USAF on 31 December 2009. As a result, we were unable to validate that all required actions for a newly published list were executed and completed.</p>
<b>ORIGINAL RECOMMENDATION</b>	Develop and implement a DLA NWRM record management policy that requires the retention of all supporting documentation for NWRM actions as noted in the Red Team report, recommendation 14.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	The DLA Logistics Operations concurred with our recommendation and stated they would coordinate with J-1 to ensure the records management policy is updated.
<b>FOLLOW-UP RESULTS</b>	The DLA Distribution Instruction entitled "Handling and Processing Nuclear Weapons Related Material" requires distribution centers to retain all documentation related to NWRM for 10 years by scanning the documentation into an electronic document management system. We confirmed that the transfer checklists were scanned into an electronic document management system and that there was an open-ended agreement with DLA Document Services to maintain the NWRM records in the electronic document management system; therefore, this recommendation is closed.

<b>DAO-10-07 RECOMMENDATION 5 (VALIDATION): FINAL INTERIM REPORT ON THE DLA TRANSFER OF NWRM TO USAF</b>	
<b>ORIGINAL CONDITION</b>	Although DLA Distribution Oklahoma City, Oklahoma, and DLA Distribution Hill, Utah, successfully transferred USAF identified NWRM to them, we found instances where process guidance and management oversight for the NWRM inventory transfer could have been improved.
<b>ORIGINAL RECOMMENDATION</b>	Direct the NWRM centers to manage its frustrated inventory utilizing DSS so that at any point in time, management can be apprised of all the frustrated items and where they are.
<b>DAO 10-07 FOLLOW-UP RESULTS</b>	DLA DA recommended that NWRM Transfer Interim Report Recommendation 5 remain open until DLA Distribution has updated and implemented their instruction to include the process for handling frustrated inventory. We found that DLA Distribution Hill re-warehoused frustrated material in a frustrated location within DSS and tracked the details in a spreadsheet. The spreadsheet notes the local NSN, nomenclature, quantity to be transferred, the actual NSNs, and the frustrated status of the item. DLA Distribution was able to provide supporting documentation for individual assets that were frustrated and managed in DSS; however, we were not able to observe the process due to the expedited timeframe of the transfer of newly identified NWRM at DLA Distribution at Hill. Additionally, the DLA Distribution Instruction on Handling and Processing NWRM does not include details on the how to systemically manage frustrated inventory. As a result, we were unable to conclude that frustrated NWRM was managed appropriately in DSS at DLA Distribution Hill.
<b>DAO 10-07 MANAGEMENT RESPONSE</b>	The DLA Distribution Instruction on Processing and Handling NWRM was issued to all DLA Distribution locations on April 28, 2010 and includes procedures for handling frustrated materiel.
<b>FOLLOW-UP RESULTS</b>	DLA Distribution published the DLA Distribution Instruction for Handling and Processing NWRM that addresses handling frustrated items on page 7, paragraph III.B.2. Additionally, DLA Distribution Oklahoma City, Oklahoma, DLA Distribution Hill, Utah, and DLA Distribution Warner Robbins, Georgia successfully identified NWRM test packages introduced into the receiving lines; therefore, this recommendation is closed.

<b>DAO-10-07 RECOMMENDATION 14 (VALIDATION): FINAL INTERIM REPORT ON THE DLA TRANSFER OF NWRM TO USAF</b>	
<b>ORIGINAL CONDITION</b>	Although DLA Distribution Oklahoma City, Oklahoma, and DLA Distribution Hill, Utah, successfully transferred USAF identified NWRM to them, we found instances where process guidance and management oversight for the NWRM inventory transfer could have been improved.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution should re-evaluate the list of approving "supervisors" for each depot and limit the list to a reasonable number of approving "supervisors" as determined by DLA Distribution. Additionally, periodic reviews should be done to identify and remove users that do not require access as part of their job function.
<b>DAO 10-07 FOLLOW-UP RESULTS</b>	DA recommended that NWRM Transfer Interim Report Recommendation 14 remain open until periodic reviews of the approving supervisor lists are appropriately documented. DLA Distribution provided a list of approving supervisors for each depot. However DLA Distribution, was unable to provide evidence that supervisors were periodically reviewed to determine if they still required access to handle NWRM transactions.
<b>DAO 10-07 MANAGEMENT RESPONSE</b>	DLA Distribution conducted the review in coordination with J6, however, documentation was not retained and available to provide to the DA Audit Team. However, they believe this risk is satisfactorily mitigated.
<b>FOLLOW-UP RESULTS</b>	DLA Distribution stated that user accounts are reviewed every three months in accordance with DLA Information Operations Systems Access policy to validate user access requirements, and there are automated controls built into the system to delete accounts not utilized within 120 days after access is granted and disable accounts who have not logged on for 30 days or more. Additionally, DLA Distribution depots have completed the transfer of all NWRM to the USAF and there are controls in place to detect any NWRM mistakenly sent to a depot. With the completion of the transfer, it is unlikely that this weakness would have an impact on future operations; therefore, this recommendation is closed.

## FOLLOW-UP OF SMALL ARMS RECOMMENDATIONS

DAO-09-11 (DISPOSITION) RECOMMENDATION 5: INCOMING SHIPMENTS INTO THE CENTRALIZED DEMILITARIZATION CENTER	
<b>ORIGINAL CONDITION</b>	The process for handling incoming small arms receipts requires improvement in the area of physical security controls. The team observed some incoming shipments from DLA Distribution Anniston that did not meet the DoD 5100.76-M packaging requirements.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution should notify DLA Distribution Anniston to comply with DoD 5100.76-M when shipping small arms to the centralized demilitarization centers.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. DLA Distribution will provide visual inert certification training to DLA Distribution Anniston. In addition, DLA Distribution Anniston will be reminded that shipping containers (to include tri-walls, pallets, etc.) must be visually certified and sealed prior to shipment and all shipping containers (to include trailers, box vans, etc.) containing arms, ammunition and explosives must be sealed prior to movement to the Centralized Demilitarization Center.
<b>FOLLOW-UP RESULTS</b>	DLA Distribution Anniston, Alabama, management provided visual inert certification training on August 16 to 18, 2010 and April 18, 2012. During fieldwork at DLA Distribution Anniston, Alabama, they did not package any containers of small arms for disposal. Even though the audit team was unable to observe the packing of containers of small arms, responsible personnel exhibited a strong knowledge of the requirements of packing containers of small arms for disposal; therefore, this recommendation is closed.

DAO-09-11 (DISPOSITION) RECOMMENDATION 13: PENDING IN-TRANSIT RECEIPTS	
<b>ORIGINAL CONDITION</b>	The visibility of and oversight of small arms pending receipts requires improvement. We identified 750 small arms outstanding in-transit pending receipts to Anniston CDC with generator shipping transaction dates ranging from February 2000 through May 2009.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Commander should work with the issuing activity and the DLA Distribution Anniston to identify mis-shipments to the DLA Distribution Anniston. Mis-shipped inventory should be transported to the CDC timely, received properly, and the receipt confirmed in Small Arms Serialization Program.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	The receiving personnel will identify mis-shipments to DLA Distribution Anniston and the material will be sent to the CDC.
<b>FOLLOW-UP RESULTS</b>	DLA Distribution Anniston, Alabama, received and entered all backlogged inventory and we have determined that the outstanding backlog has been reduced significantly. The audit team reviewed the Receiving Register and the Weekly Operational Results or Situation Report for DLA Distribution Anniston, Alabama, Warehouse 360 and determined that depot management has accountability over the customer returns. Depot management is documenting, tracking, and processing the receipts using the first-in-first-out method; therefore, this recommendation is closed.

<b>DAO-09-11 (DISTRIBUTION) FINDING 1: MISSING WEAPON</b>	
<b>ORIGINAL CONDITION</b>	One weapon (M16A1 Rifle - NSN 1005-00-073-9421) was found to be missing (serial number 104043) during the inventory. A triwall with a recorded inventory of 70 was inspected and found to contain only 69 weapons. Further, we determined it had been missing for over 7 years without being detected despite at least 7 annual inventories and an unknown number of sample inventory inspections.
<b>ORIGINAL RECOMMENDATION</b>	<p>DLA Distribution Anniston, Alabama, should:</p> <ul style="list-style-type: none"> <li>• Provide refresher training to all warehouse personnel on the rules, regulations, and policies in place governing the stocking, storing, inventory, and issuing of small arms within a secure warehouse facility. Adverse actions should be taken against employees and supervisors who consistently fail to comply with established policy/regulations.</li> <li>• Review the process for shipping items to the DLA Disposition Services and determine how to ensure items shipped to the DLA Disposition Services can be improved to prevent a reoccurrence of this issue.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. Refresher training provided March 2 to 4, 2010. The process for shipping items to DLA Disposition Services has been reviewed. Additionally, telephone conversations between DLA Disposition Services, DLA Distribution Anniston (and other sites), DLA Distribution J3, and DLA Distribution J4 are held weekly to discuss any potential issues. Status: completed.
<b>FOLLOW-UP RESULTS</b>	DLA Distribution Anniston, Alabama, has provide training to warehouse personnel on the rules, regulations, and policies in place governing the stocking, storing, inventory, and issuing of small arms within a secure warehouse facility. The audit team reviewed the visual aids that were used to instruct the various classes and concluded that they adequately address the policies, processes, and responsibilities of DLA Distribution. The training covered the proper receipt of small arms and identification of classified and non-classified materiel. Additionally, the audit team verified that the missing weapon has been located and accounted for. The weapon was a foreign military sale to Israel in June 2004; therefore, this recommendation is closed.

<b>DAO-09-11 (DISTRIBUTION) FINDING 4: INVENTORY DISCREPANCY – WEAPON MISSING SERIAL NUMBER</b>	
<b>ORIGINAL CONDITION</b>	While conducting the floor-to-book inventory, a weapon (machine gun) was found that was missing its serial number. The serial number had been obliterated from the receiver. A paper tag was attached with a serial number, which is assumed to be the original serial number of the weapon.
<b>ORIGINAL RECOMMENDATION</b>	<p>DLA Distribution Anniston, Alabama, should:</p> <ul style="list-style-type: none"> <li>• Determine the correct disposition of the weapon since it no longer has a legible machine stamped serial number on the receiver of the weapon.</li> <li>• Develop a procedure and/or process to prevent unidentified weapons from being receipted.</li> <li>• Provide training to ensure employees are aware of the procedure.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. A procedure for preventing unidentified weapons from being receipted is in coordination with the DLA Logistics Standards Office. As of August 5, 2010, the U.S. Army was to submit a proposed Defense Logistics Management System change to propose a policy (DoD 4140.1-R) and procedures (DoD 4000.25-M, for processing battle damaged/destroyed weapons that arrive at DLA location without proper documentation and/or with serial numbers that cannot be sight verified. Since the original finding, the process in place is to report the asset to the U.S. Army Logistics Support Activity, who assigns a temporary serial number that DLA Distribution Anniston stamps onto the weapon. A tag is affixed for burned/unrecognized weapons. Training of the new procedure will be provided once a final process is in place.
<b>FOLLOW-UP RESULTS</b>	DLA Distribution Anniston, Alabama, has issued a 360 Receiving SOP that outlines the procedures receiving clerks should follow if a weapon is missing a serial number. The audit team confirmed that training regarding missing serial numbers was conducted as a part of overall on the job receiving training; therefore, this recommendation is closed.



<b>DAO-09-11 (DISTRIBUTION) FINDING 6: MISSING CONTAINER BANDS AND SEALS</b>	
<b>ORIGINAL CONDITION</b>	During the course of the book-to-floor and inventory sample effort there was an overall preponderance of missing or improperly installed banding on containers. Of the few containers that were properly banded, many had no seals attached to the banding.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Anniston, Alabama, should review and implement the requirements of the DLA Policy for Storing Small Arms at DLA Depots, dated 14 May 1997 and provide training to employees.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. This is part of the current small arms augmentation contract statement of work. Efforts are ongoing to rectify all instances where weapon containers are missing bands or seals. DLA Distribution has also included this level of effort into the 100% wall-to-wall inventory planned to commence in the fall of 2010. All materiel is properly banded upon receipt at this time. Additional training on proper banding and seals was provided March 2, 2010.
<b>FOLLOW-UP RESULTS</b>	<p>We reviewed a sample of small arms containers located in building 360 and building 29 to verify that they were properly banded and sealed. Based on our review we determined that the warehouse staff were banding and sealing containers appropriately. Management reported that, DLA Distribution Anniston, Alabama, maintains a discrepancy report of discrepancies observed and noted by warehouse personnel throughout the workday. Correction of the discrepancies is assigned to employees to correct and 100% are follow-up on by a supervisor or lead to validate the discrepancies were corrected.</p> <p>We also found that the training provided to warehouse employees was informal and was not documented, therefore, the audit team was unable verify that the training took place or evaluate the adequacy of the training. While the training could not be verified, the containers in the warehouse were appropriately banded and sealed; therefore, this recommendation is closed.</p>

<b>DAO-09-11 (DISTRIBUTION) FINDING 7: SMALL ARMS CONTAINERS ARE NOT BEING RE-BANDED AND RESEALED AFTER OPENING</b>	
<b>ORIGINAL CONDITION</b>	Many small arms containers in the warehouse storage areas were not re-banded and sealed after opening the container to inspect or remove part of the containers contents as required by the DLA Policy for storing small arms at DLA depots.
<b>ORIGINAL RECOMMENDATION</b>	<p>DLA Distribution Anniston, Alabama, should:</p> <ul style="list-style-type: none"> <li>• Require that all warehouse personnel complete sufficient training and comply with the Small Arms storage practices outlined in the DLA policy for storing small arms at DLA depots.</li> <li>• Monitor warehousing personnel to ensure these practices are followed.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. This is part of the current small arms augmentation contract statement of work. Efforts are ongoing to rectify all instances where weapons containers are missing bands or seals. DLA Distribution has also included this level of effort into the 100% wall-to-wall inventory planned to commence in the fall of 2010. All materiel is properly banded upon receipt at this time. Additional training on proper banding and seals was provided March 2, 2010.
<b>FOLLOW-UP RESULTS</b>	<p>We observed the banding and sealing of containers on the Wall-to-Wall Inventory at DLA Distribution Anniston, Alabama, and determined that banding and sealing of containers were performed in accordance with the procedures in the Receiving SOP.</p> <p>We reviewed the logbooks and interviewed warehouse personnel to verify container seals were issued to the inventory team. We checked 11 containers in the warehouse and determined that they were properly banded as specified in the Receiving SOP. We observed the Wall-to-Wall Inventory and ensured that containers were properly banded and sealed once the contents had been inventoried; therefore, this recommendation is closed.</p>

<b>DAO-09-11 (DISTRIBUTION) FINDING 8: CC F COMBAT LOSS MATERIEL</b>	
<b>ORIGINAL CONDITION</b>	Several instances of weapons with Condition Code F (repairable), did not meet the requirements for repairable. The original small arms weapon nomenclature was used for these pieces of metal. Upon receipt of this item, a Supply Discrepancy Report should have been issued to the inventory control point, with Condition Code K (returns suspended awaiting condition classification) pending disposition instructions from the item manager. Additionally, for items already in storage, a Storage Quality Control Report (DD Form 1225) should be issued to the inventory control point for disposition instructions.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Anniston, Alabama, should explore potential changes to existing policies and/or procedures to accommodate, evaluate, and dispose of combat loss small arms items with valid serial numbers in obvious un-repairable condition.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. In coordination with DLA J-6251, a procedure is proposed to prevent unidentified receipt of weapons. As of August 5, 2010, the U.S. Army was to submit a proposed policy change for processing battle damaged/destroyed weapons that arrive at a defense depot without proper documentation and/or with serial numbers that cannot be sight verified. Since the original finding, the process undertaken is to report the asset to Logistics Support Agency. The ARM number is assigned by Logistics Support Agency and stamped on the weapon by Anniston. A tag is affixed for burned/unrecognized weapons. Training of the new procedure will be provided once a final process is developed between US Army and DLA.
<b>FOLLOW-UP RESULTS</b>	DLA Distribution J4 Receiving instituted a "Have You Heard" notification guidance to prevent the receipt of unidentified weapons.  We determined that DLA Distribution Anniston, Alabama, addressed "unidentifiable material" in the 360 Receiving SOP effective April 18, 2012. Receiving personnel are instructed to place said item(s) in the frustrated area, and contact the item manger and/or the serialization to and await further disposition instructions. During the field visit to DLA Distribution Anniston, Alabama, we observed a number of small arms and small arms parts that were being held in the frustrated area awaiting instructions from the item manager and/or serialization team; therefore, this recommendation is closed.

<b>DAO-09-11 (DISTRIBUTION) FINDING 9: OFF-LOADED MATERIEL IS DIFFICULT TO LOCATE AND TRACK</b>	
<b>ORIGINAL CONDITION</b>	In our review of Weapons Received Daily Count Report and the Receiving Register for 15 off-loads (customer returns) located in the receiving backlog area, we determined: <ul style="list-style-type: none"> <li>• All of the packages were not consolidated and staged together.</li> <li>• Five off-loads could not be easily identified or located within the backlog.</li> <li>• For two off-loads, the number of items observed was less than the number on the Commercial Bill of Lading.</li> </ul>
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Anniston, Alabama, should: <ul style="list-style-type: none"> <li>• Develop procedures to bundle items, which are off-loaded, but not receipted.</li> <li>• Utilize the Weapons Count Daily Report and the Receiving Register to identify and account for all existing backlogged materiel as it is receipted into DSS and Small Arms Serialization Program.</li> <li>• Systematically organize off-loaded materiel currently received to enable identification and accountability.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. Developed procedures to bundle items that are offloaded, but not receipted. Established receipt control numbers upon receipt of the truck. Preservation, packaging, packing, and marking material has been accounted for, inventoried, and re-warehoused. Provided training to employees on June 1, 2010.
<b>FOLLOW-UP RESULTS</b>	DLA Distribution developed procedures to bundle items that are offloaded, but not receipted.  We determined that the DLA Distribution Anniston, Alabama, developed a 360 Receiving SOP to provide guidance on the assignment/application of Receipt Control Numbers (RCN). During our site visit to Anniston, Alabama, we selected 15 sample items from the Receiving Register to locate in the receiving backlog and verify that receipt control numbers had been applied. Based on our review of the sample items, the backlogged material was systematically organized and was appropriately labeled with a receipt control numbers; therefore, this recommendation is closed.

<b>DAO-09-11 (DISTRIBUTION) FINDING 10: BACKLOGGED WEAPONS AWAITING INDUCTION AND SIGHT VERIFICATION HAVE NOT BEEN RECORDED IN DSS THEREBY COMPROMISING ACCOUNTABILITY</b>	
<b>ORIGINAL CONDITION</b>	<p>As of February 3, 2010, DLA Distribution Anniston, AL had a total weapons backlog of 146,353, of which 134,494 were in Receiving and 11,859 were in Packing, Packaging, Preservation, and Marking (PPP&amp;M). These weapons had not been inducted into DSS nor had they been sight verified. In addition, there were 22,018 USAF weapons that had been receipted into DSS, but had not been sight verified. DLA Distribution Anniston, AL maintains a tally of backlogged weapons utilizing the documentation accompanying the weapons.</p> <p>In review of 15 customer return receipts processed from the backlog, we noted the following:</p> <ul style="list-style-type: none"> <li>• For 10 of the 15 receipts observed, the shipment was not counted within 24 hours.</li> <li>• Several containers with the words "No RCN" written on the containers.</li> <li>• The oldest item observed was in June 2009, but there was a consistent backlog beginning in September 2009.</li> <li>• Backlogs within the new procurement receiving area awaiting induction and sight verification have not been recorded in DSS. The oldest item observed on February 3, 2010 was 44 containers with receipt control number 02510T04 received on January 25, 2010.</li> <li>• First In/ First Out procedures are not being followed to process backlog.</li> </ul>
<b>ORIGINAL RECOMMENDATION</b>	<p>DLA Distribution Anniston, Alabama, should develop and implement internal controls for the systematic processing and elimination of additional backlogs by:</p> <ul style="list-style-type: none"> <li>• Applying the receipt control number to materiel as it is received.</li> <li>• Organizing off loads in order to accommodate FIFO processing of receipts.</li> <li>• Processing the receipt into DSS within APL time requirements.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	<p>Concur. Contract support, which commenced in spring 2010, has allowed the majority of the backlog to be receipted and, based on processing rates achieved to date; we forecast the remainder of the backlog to be properly processed by the end of October 2010.</p>
<b>FOLLOW-UP RESULTS</b>	<p>DLA Distribution has: significantly reduced weapon backlogs, established receiving lanes to ensure FIFO processing, and ensured all material had a receipt control number applied at time of off-load.</p> <p>We reviewed the Receiving Register and the Weekly Operational Results or Situation Report and determined that DLA Distribution Anniston, Alabama, has accountability over the customer returns. Additionally, they had a three-year contract in place that would provide approximately 33 contract employees for warehouse operations that would include working receipts; therefore, this recommendation is closed.</p>

<b>DAO-09-11 FINDING (DISTRIBUTION) 11: RECEIPT CONTROL NUMBER LABELING</b>	
<b>ORIGINAL CONDITION</b>	<p>DLA Distribution Anniston, Alabama, Small Arms warehouse personnel did not assign:</p> <ul style="list-style-type: none"> <li>• Receipt Control Numbers to small parcel United States Postal Service off-loads of customer returns on February 8, 2010.</li> <li>• The receipt control numbers of the day was scanned into DSS instead of attached to the shipment container.</li> <li>• Various receipt control number labels were used to process backlog items instead of the document attached to the receipted item.</li> <li>• Receipt control numbers are not consistently applied to all materials upon off-loading.</li> </ul>
<b>ORIGINAL RECOMMENDATION</b>	<p>DLA Distribution Anniston, Alabama, should:</p> <ul style="list-style-type: none"> <li>• Provide training to employees on how to properly receive materiel. Specifically, the requirements for attaching Receipt Control Numbers to each off-loaded piece (pallet, skid, box, etc.) and using the Receipt Control Numbers attached to the materiel when processing the receipt into DSS and the Small Arms Serialization Program.</li> <li>• Provide adequate supervision and monitoring to ensure employees use the correct Receipt Control Numbers as they process receipts.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	<p>Concur. Personnel were trained on June 1, 2010. Receipt Control Numbers are established upon receipt of the truck. Preservation, Packaging, Packing, and Marking materiel has been accounted for, inventoried, and re-warehoused.</p>
<b>FOLLOW-UP RESULTS</b>	<p>DLA Distribution provided Receiving Training between December 2009 and October 2011. All material has a Receipt Control Numbers applied at the time of off-load. In addition, a 360 Receiving SOP has been developed and is being currently used.</p> <p>We observed customer returns and receipts in Building 360 had both a "free form" Receipt Control Numbers and a DSS generated Receipt Control Numbers label affixed to them. Individual Receipt Control Numbers were properly generated and affixed to each of the receipted items; therefore, this recommendation is closed.</p>

<b>DAO-09-11 (DISTRIBUTION) FINDING 12: RECEIVING PERSONNEL DID NOT ACCESS FEDERAL LOGISTICS INFORMATION SYSTEM (FLIS) WHILE PROCESSING RECEIPTS</b>	
<b>ORIGINAL CONDITION</b>	<p>Receiving personnel did not use the Federal Logistics Information System while processing receipts of field/maintenance returns. Specifically, we observed that receiving personnel did not access Federal Logistics Information System to process five of five receipts in preservation, packaging, packing, and maintenance, and ten of fifteen receipts in customer return receiving areas.</p>
<b>ORIGINAL RECOMMENDATION</b>	<p>DLA Distribution Anniston, Alabama should:</p> <ul style="list-style-type: none"> <li>• Provide formal training to new employees (and refresher training to all employees) on how to properly receive materiel and to ensure the requirements and importance for using Federal Logistics Information System.</li> <li>• Through supervision, ensure employees are using Federal Logistics Information System.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	<p>Concur. All receiving personnel have been instructed to refer to Federal Logistics Information System Inquiry of Federal Logistics data to verify the part number against the NSN.</p>
<b>FOLLOW-UP RESULTS</b>	<p>DLA Distribution instructed receiving personnel to refer Federal Logistics Information System (FLIS) to verify the part number against the national stock number, and provided (FLIS) screen prints for each national stock number and receipt for verification.</p> <p>We reviewed the DLA Distribution Anniston, Alabama, 360 Receiving SOP 11.2 and determined that it addressed the requirement to verify the part number in Federal Logistics Information System against the national stock number. We reviewed the DLA DDC Distribution Operation Training, Receiving Manual 10.2 and noted that it contained detailed instructions on how to access the system. During our field visit to DLA Distribution Anniston, Alabama, the audit team observed receipts and verified the use of Federal Logistics Information System during the receiving process; therefore, this recommendation is closed.</p>

<b>DAO-09-11 (DISTRIBUTION) FINDING 13: PPP&amp;M PERSONNEL DID NOT PERFORM KCC OR SERIAL NUMBER SIGHT VERIFICATION ON QUICK INDUCTIONS FROM MAINTENANCE</b>	
<b>ORIGINAL CONDITION</b>	For returns from maintenance, only partial kind, count, and condition and sight verification was being done prior to induction into DSS. For example, we observed PPP&M receiving personnel performing kind, count, and condition and sight verification for the small arms Ull serial numbers and affixed the bar code Ull codes at time of receipt on only one of the five observed receipts processed. For the remaining four receipts, PPP&M personnel explained kind, count, and condition would be performed later during the serial number sight verification of the materiel.
<b>ORIGINAL RECOMMENDATION</b>	<p>DLA Distribution Anniston, Alabama, should:</p> <ul style="list-style-type: none"> <li>• Notify employees of the changes to the DDC FRAGO requirements which require 100% bare item inspection for all customer returns and service maintenance returns (unless agreements are in place to ensure the accuracy of the documentation at the time of movement from the maintenance facility).</li> <li>• Incorporate these modifications in subsequent training.</li> <li>• Monitor compliance through supervisor observation.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. Personnel have been re-trained on the DDC FRAGO requirement for 100% bare item inspection for all customer returns and service maintenance returns. DLA Distribution Anniston leadership and supervisors are conducting random spot checks to ensure compliance.
<b>FOLLOW-UP RESULTS</b>	<p>DLA Distribution developed a SOP as a corrective measure.</p> <p>We reviewed DLA Distribution Anniston, Alabama, SOP for receiving maintenance returns in PPP&amp;M and determined that a kind, count, and condition inspection was documented in the SOP. Also, DLA Distribution Operation Training, Receiving Manual 10.2 addressed "bare item inspection" as one of the steps in the PPP&amp;M Process section of the manual. We reviewed PPP&amp;M training documentation, and determined that approximately 87 DLA Distribution Anniston, Alabama, personnel members attended the training.</p> <p>During our field visit, we observed 10 live maintenance returns to determine if they were performing kind, count, and condition inspections in accordance with the written policy. We verified that kind, count, and condition inspections are being conducted prior to inducting small arm assets into DSS. Additionally, the audit team was provided with a signed copy of the DLA Distribution Anniston, Alabama, SOP for Small Arms PPP&amp;M, which adequately addresses kind, count, and condition; therefore, this recommendation is closed.</p>

<b>DAO-09-11 (DISTRIBUTION) FINDING 14: REPSHIP INFORMATION IS NOT PROVIDED TO SMALL ARMS RECEIVING PERSONNEL</b>	
<b>ORIGINAL CONDITION</b>	Small Arms Receiving is unable to monitor or anticipate when trucks will be arriving for off-load because REPSHIPS information is not provided to the Small Arms Warehouse Receiving area from the Transportation Office.
<b>ORIGINAL RECOMMENDATION</b>	<p>DLA Distribution Anniston, Alabama should:</p> <ul style="list-style-type: none"> <li>• Ensure that the Small Arms Receiving receives the RESPHIPS from the Transportation Office.</li> <li>• Upon receipt of REPSHIPS, the Small Arms Receiving should monitor the REPSHIPS to properly allocate staff and track materiel, which they are expected to receive at the Building 360 receiving area.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. SDR's are submitted for materiel received without REPSHIP notification. Revised policy and procedures are being established to ensure a closed-loop system.
<b>FOLLOW-UP RESULTS</b>	<p>DLA Distribution developed an SOP to ensure REPSHIP suspense files are maintained in the Transportation Office and provided to Small Arms Receiving.</p> <p>The DLA Distribution Anniston, Alabama, REPSHIP SOP adequately addressed the procedures for inbound REPSHIP deliveries. During our field visit we met with warehouse management to discuss the policies and procedures concerning REPSHIPS; and obtained documentation to support the policies and procedures for REPSHIPS where being followed; therefore, this recommendation is closed.</p>

<b>DAO-09-11 (DISTRIBUTION) FINDING 15: BUILDING 360 SECTION 1 CLASSIFIED CAGE AREA CONTAINED UNRECORDED/COMMINGLED MATERIEL</b>	
<b>ORIGINAL CONDITION</b>	<p>Following observations were noted during our test work of controls over the classified cage:</p> <ul style="list-style-type: none"> <li>Classified materiel was commingled with unclassified materiel within the storage cage area.</li> <li>An excessive number of DLA Distribution Anniston, AL personnel had access to enter the classified storage cage area. Per DLA Distribution Anniston, AL memo dated February 10, 2010, authorized fifty-two individuals access to enter the classified cage area, of which thirty were assigned to Building 360.</li> <li>Training was not provided for individuals with access to the classified storage cage area. Specifically, the classified materiel custodian appointed January 27, 2010, did not receive any training on responsibilities as a custodian and storage and handling of classified materiel.</li> <li>Several items located in the classified cage area were not recorded in DSS including seven Cryptographic items (CIIC 9).</li> </ul> <p>DES-DLA Distribution also observed and identified this condition during the January 25 - 29, 2010 DLA/DLA Distribution Compliance Review of DLA Distribution Anniston, Alabama. The DLA/DLA Distribution Consolidated Compliance Review Final Report indicates DLA Distribution Anniston, Alabama, has already taken action and corrected the condition; however, DLA Internal Audit is required to validate if this is the case. As a result, DLA Distribution Anniston, Alabama, and DLA Distribution management will need to provide a Corrective Action Plan identifying corrective actions and actual or projected dates of completion in their response to the draft report audit findings.</p>
<b>ORIGINAL RECOMMENDATION</b>	<p>DLA Distribution Anniston, Alabama should:</p> <ul style="list-style-type: none"> <li>Perform a 100% physical inventory of the materiel stored in the secured cage area. Any classified materiel not recorded should be updated in DSS and any unclassified materiel should be removed, stored appropriately, and recorded correctly in DSS.</li> <li>Implement internal controls over the classified materiel. The internal controls should include required training for Classified Materiel Custodians, limiting access to secured areas, and conducting physical inventories in accordance with DLA DDC Distribution Operations Training, Storage and Handling of Classified Materiel Training Manual guidance.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	<p>Concur. All non-classified material has been relocated to correct type storage. All items not on record have been added to records and relocated to the correct type storage.</p>
<b>FOLLOW-UP RESULTS</b>	<p>DLA Distribution stated that all non-classified materials were relocated to correct type storage and all items not on record have been processed back to record and relocated to correct type storage as of February 2010. We verified that the inventory in the cage was current and accurate; and that there was no non-classified material stored in the cage. All items in the cage had a Controlled Inventory Item Code (CIIC) of 9, C, Y, or 6.</p> <p>We obtained a listing of employees who have access to the classified cage and determined that access had been appropriately limited. In addition, there is a DLA Distribution Anniston, Alabama, SOP for Processing and Handling Classified Materiel, which provided guidance for handling classified material; therefore, the recommendation is closed.</p>

<b>DAO-09-11 (DISTRIBUTION) FINDING 16: MOVEMENT OF MATERIEL TO AND FROM THE BUILDING 360 SECURED CAGE WAS NOT TRACKED</b>	
<b>ORIGINAL CONDITION</b>	<p>On February 9-10, 2010, we visited the security cage for all classified materiel is located in Building 360, the Small Arms Warehouse; we observed that there was no logbook in the area to record the receipt and transferring of classified materiel from Central or Small Arms Receiving.</p> <p>DES-DLA Distribution also identified this condition during the DLA/DLA Distribution Compliance Review on January 25 - 29, 2010 and indicated that DLA Distribution Anniston, Alabama, has already taken action and corrected the condition; however, DLA Internal Audit is required to validate if this is the case. As a result, DLA Distribution Anniston, AL and DLA Distribution management will need to provide a Corrective Action Plan and actual or projected dates of completion in their response to the draft report audit findings.</p>
<b>ORIGINAL RECOMMENDATION</b>	<p>DLA Distribution Anniston, Alabama, should:</p> <ul style="list-style-type: none"> <li>• Develop internal controls for tracking classified materials stored in the secured cage area.</li> <li>• Establish a logbook in the secured cage area to maintain the chain of custody for the receipt and transferring of classified materiel.</li> <li>• Train personnel on how to secure, maintain, and track classified materials.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	<p>Concur. Controlled materiel is now re-warehoused in the system. The two-person concept is utilized. A logbook has been established and maintained in the classified cage.</p>
<b>FOLLOW-UP RESULTS</b>	<p>DLA Distribution provided an update on February 17, 2012 stating that controlled material is now re-warehoused in the system and access to material in the cage follows the two-person concept. A logbook has been established and maintained in the Temporary Classified cage in central receiving.</p> <p>We verified that employees were familiar with the SOP and that controls were in place and operating effectively to track materials stored in the temporary storage cage. Controls consist of completing: (1) the intra-division Document Transmittal (SDSAN Form 645) for material transferred from Central Receiving to the Classified Warehouse, (2) the Activity Security Checklist (SF 701), and (3) the Security Container Check Sheet (SF 702). Lastly, a logbook of all material entering and leaving the temporary storage cage was available for review; therefore, this recommendation is closed.</p>

<b>DAO-09-11 (DISTRIBUTION) FINDING 17: ACCOUNTABILITY AND STORAGE OF CLASSIFIED MATERIEL IN CENTRAL RECEIVING CAGED STORAGE AREA IS INADEQUATE</b>	
<b>ORIGINAL CONDITION</b>	<p>The caged storage area within Central Receiving does not meet security standards as a temporary storage area for classified materiel, and there is no logbook to maintain the receipt and transferring of classified materiel from Central Receiving in order to maintain the chain of custody.</p> <p>DES-DLA Distribution also identified this condition during the Compliance Review on January 25 - 29, 2010 and the Final Report indicated that DLA Distribution Anniston, Alabama, has already corrected the condition; however, DLA Internal Audit is required to validate this. As a result, DLA Distribution Anniston, AL and DLA Distribution management should provide a Corrective Action Plan identifying corrective actions and actual or projected dates of completion in their response to the draft report audit findings.</p>
<b>ORIGINAL RECOMMENDATION</b>	<p>DLA Distribution Anniston, Alabama, should implement a plan to upgrade the Central Receiving cage construction to the required security standards for temporary storage of classified materiel. Upgrade should include a logbook to maintain the receipt and transferring of classified materiel from central receiving to maintain a chain of custody.</p>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	<p>Concur. Construction deficiencies have been corrected. The cage area in the Central Receiving section of Building 362 has been converted into a Temporary Restricted Storage Area for short term holding of sensitive material. All signage, SF 701 (Activity Security Checklist), SF 702 (Security Container Check Sheet), and visitor logs are in place.</p>
<b>FOLLOW-UP RESULTS</b>	<p>We verified that the logbook was being maintained with the record of receipt and transfer of classified materiel from Central Receiving; thus maintaining the chain of custody. In addition, a Security Container Check Sheet (SF 702) and an Activity Security Checklist (SF 701) were being maintained; therefore, this recommendation is closed.</p>

DAO-09-11 (DISTRIBUTION) FINDING 19: FRUSTRATED ITEMS	
<b>ORIGINAL CONDITION</b>	DLA Distribution Anniston, Alabama, did not designate a specific area for frustrated items, and when frustrated items are received, they are maintained in the unsecured receiving area with the rest of the receiving backlog.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Anniston, Alabama, should: <ul style="list-style-type: none"> <li>• Develop internal controls for tracking frustrated items.</li> <li>• Designate an area specifically for frustrated materiel. If it is suspected to be classified or Controlled Inventory Item Code (CIIC 9) materiel, it should be appropriately secured until it can be properly identified.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. The cage area in the Central Receiving section of Building 362 has been converted to a Temporary Restricted Storage area for short term holding of sensitive material. All signage, SF-701, SF-702, and visitor logs are in place.
<b>FOLLOW-UP RESULTS</b>	During our field visit, we observed two cordoned off areas for frustrated items in the Secure Small Arms Receiving Warehouse, Building 360. We also verified there was a secure area in Building 362 Central Receiving for frustrated material. This meets the intent of the recommendation; therefore, it is closed.

DAO-09-11 (DISTRIBUTION) FINDING 24: TRANSPORTATION IS NOT MAINTAINING A LOG OF REPSHIPS	
<b>ORIGINAL CONDITION</b>	REPSHIPS are received and filed in a central location by the Transportation Division; however, a log is not maintained.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Anniston, Alabama, should: <ul style="list-style-type: none"> <li>• Develop a logbook to track all REPSHIPS received.</li> <li>• Monitor REPSHIPS to ensure timely receipt of all expected materiel.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. A logbook is in place and managed within Transportation. Periodic spot checks of REPSHIP procedures and usage of the logbook will be performed by DLA Distribution Anniston leadership and Supervisors. Status: completed.
<b>FOLLOW-UP RESULTS</b>	We reviewed the DLA Distribution Anniston, Alabama, SOP for AA&E Inbound Shipments Requiring Advance Notice of Shipment (REPSHIP) and determined that it adequately addressed the requirement to maintain a log of REPSHIPS. We verified that a logbook was current for AA&E inbound shipments requiring REPSHIPS, and REPSHIPS were monitored to ensure timely receipt of all expected materiel; therefore, this recommendation is closed.

DAO-09-11 (DISTRIBUTION) FINDING 25: STATUS OF OUTBOUND SHIPMENTS OF AA&E IS NOT BEING MONITORED	
<b>ORIGINAL CONDITION</b>	DLA Distribution Anniston, Alabama, personnel were not monitoring the status of outbound shipments.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Anniston, Alabama, should monitor the in-transit status of outbound shipments of AA&E to ensure they arrive at destination safely and on time.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. DLA Distribution Anniston Transportation has reinforced sending REPSHIPS to Receiving. The consignee is responsible to update DTTS. When not posted by the consignee, DTTS automatically notifies DLA Distribution Anniston who then follows up accordingly.
<b>FOLLOW-UP RESULTS</b>	DLA Distribution stated that they had instituted a requirement for outbound shipments that requires the shipper to ensure the load is recorded in DTTS at least 20 minutes after the truck leaves the installation. DLA Distribution Anniston, Alabama, developed and implemented the SOP Movement of (TPS) Classified and Sensitive Material (SOP). We verified that transportation is ensuring the load is recorded in DTTS/IRRIS (Defense Transportation Tracking System/Intelligent Road/Rail Information Server) within 20 minutes of departure and that a REPSHIP is created and e-mailed. We observed that DTTS/IRRIS tracks the trucks movement at all times. Finally, we confirmed that an Advance Shipment Planning Outbound Logbook is maintained and updated; therefore, this recommendation is closed.



<b>DAO-09-11 (DISTRIBUTION) FINDING 26: CONTROLS OVER TRANSPORTATION SEALS NEED IMPROVEMENT</b>	
<b>ORIGINAL CONDITION</b>	<p>Accountability and security over transportation seals is compromised since regulatory requirements are not being followed. Specifically:</p> <ul style="list-style-type: none"> <li>• Unused transportation seals are stored in an open container in the classified cage; thus, anyone who has access to the classified cage also has access to the seals.</li> <li>• Transportation seal numbers are not logged in the control log when received, only as they are used.</li> <li>• A bound seal log is not used. The log consisted of loose photocopied pages posted on a clipboard.</li> <li>• Log entries are incomplete. The log includes the date, Vehicle Load Order (VLO) number, Truck number, Standard Carrier Alpha Code (SCAC), and seal numbers used; however, the name of the individual to whom the seal is issued is not identified.</li> </ul>
<b>ORIGINAL RECOMMENDATION</b>	<p>DLA Distribution Anniston, Alabama, should:</p> <ul style="list-style-type: none"> <li>• Relocate unused transportation seals to a locked metal container accessible to authorized personnel only.</li> <li>• Ensure transportation seal custodians and alternates use bound ledgers as seal control logs to record seal activity from receipt to issue. Bound ledgers enhance accountability by providing a permanent record of seal activity.</li> <li>• In addition to the information currently maintained, the logs should include the date the seal is received/issued, seal number received/issued, and name and signature of the individual to whom the seal is issued.</li> <li>• As a condition of appointment, transportation seal custodians and alternates should be trained on custodial responsibilities.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	<p>Concur. A logbook has been established and is in place for outbound shipments and the Transportation Supervisor tracks and manages it daily. Trucks not capable of holding a seal are refused and Defense Technical Information Center (DTIC) failure notification procedures are implemented to receive a new truck. Seal logs have also been established and maintained in shipping areas where the seals are stored.</p>
<b>FOLLOW-UP RESULTS</b>	<p>Management actions meet the intent of the recommendation since we observed the transportation staff's process during the loading of two commercial trucks, and saw that DLA Distribution Anniston, Alabama, personnel were recording the vehicle load order number when the seal is applied. Unused transportations seals are kept in a locked metal container by the custodian, and secured when not under his direct control. This is in accordance with the Seal Control SOP. Therefore, this recommendation is closed.</p>

<b>DAO-09-11 (DISTRIBUTION) FINDING 27: BANDING SEAL REUSED</b>	
<b>ORIGINAL CONDITION</b>	<p>We observed a container of National Guard weapons being sealed by two warehouse employees re-using old Seal Number C49799.</p>
<b>ORIGINAL RECOMMENDATION</b>	<p>DLA Distribution Anniston, Alabama, should:</p> <ul style="list-style-type: none"> <li>• Ensure all warehouse employees follow proper procedures for acquiring and using numbered seals.</li> <li>• Reinforce compliance by providing training emphasizing the importance of following established procedures.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	<p>Concur. Training of warehouse employees was held on June 2, 2010, to reinforce proper procedures for acquiring and using numbered seals. Random checks by supervisors are performed during daily walk-throughs.</p>
<b>FOLLOW-UP RESULTS</b>	<p>We were unable to obtain any records from the June 2, 2010 training event and concluded that the training was informal and was not well documented. We observed three containers being banded and sealed during the wall-to-wall Inventory. We also sampled containers that was been banded and sealed at DLA Distribution Anniston, Alabama, Buildings 29 and 360 to determine if procedures were appropriate. Based on our observations of containers being banded and the guidance in the 360 Receiving SOP; this recommendation is closed.</p>

<b>DAO-09-11 (DISTRIBUTION) FINDING 28: SUBORDINATE SEAL CUSTODIANS ARE NOT MAINTAINING BOUND SEAL LOGS</b>	
<b>ORIGINAL CONDITION</b>	Currently, a single logbook is used for all banding seals. Seals are then issued in quantity to subordinate seal custodians; however, they are not maintaining a separate log for the seals they have received.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Anniston, Alabama, should: <ul style="list-style-type: none"> <li>• Require seal custodians and subordinates maintain separate bound seal logs for the seals they have received.</li> <li>• Ensure all seal custodians are aware of and understand the extent of their seal custodian responsibilities by providing training, which reinforces regulatory and policy guidance already in place.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. Every seal custodian including subordinate custodians now maintains bound seal logs. Random spot checks of seal logs are being conducted by DLA Distribution Anniston leadership and supervisors.
<b>FOLLOW-UP RESULTS</b>	We reviewed the DLA Distribution Anniston, Alabama, Seal Control SOP and found that it addresses seal control responsibilities and procedures. In addition, DLA Distribution Anniston, Alabama, provided the audit team with evidence that Seal Custodians are appointed in writing and logbooks are being maintained. This meets the intent of the recommendation; therefore, this recommendation is closed.

<b>DAO-09-11 FINDING 29: METAL DETECTOR ALARMS GO UNDETECTED AND SUBSEQUENT PERSONNEL SEARCHES ARE NOT CONDUCTED</b>	
<b>ORIGINAL CONDITION</b>	<p>Although the metal detector and the hand held metal detector (wand) are inspected on a daily basis, activation of the alarm does not result in any individual being searched. Purses, bags, etc. are only checked at a minimum, if checked at all. The control monitor was observed being distracted from security check duties due to various other duties.</p> <p>A special investigator tested the system in place by putting a railroad spike in their right pocket, and another in their right boot cuff. The metal detector alarm was activated; however, the control monitor was distracted by a telephone call as well as another employee. As a result, the special investigator was allowed to leave the warehouse unchallenged.</p>
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Anniston, Alabama, should: <ul style="list-style-type: none"> <li>• Acknowledge, identify, and segregate the control monitor's duties, of monitoring and inspecting personnel entering/exiting through the metal detectors as primary versus other office duties.</li> <li>• Through supervisory observation and review, ensure the control monitor is properly executing their duties and responsibilities.</li> <li>• Assess other options for the steel toe shoes passing through the metal detector.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. DLA Distribution Anniston reissued and posted the policy directing all personnel comply with access control measures (empty pockets, process through the metal detector, be "wanded" if an alarm sounds, etc.). As an added measure, the ISSA is being revised to have ANAD Security personnel provide armed access control functions and expects to be in place by October 1, 2010.
<b>FOLLOW-UP RESULTS</b>	Although DLA Distribution and the Anniston Army Depot have not finalized an updated ISSA, DLA Distribution Anniston, Alabama, issued specific SOPs for Physical Security, Weapons Trash Removal, and Small Arms Security and trained personnel working in the small arms facility. We found that the Physical Security SOP outlines procedures for personnel controls and requires personnel to be properly identified. In addition, the Small Arms Security SOP requires security guards to monitor the metal detector at all times and search all personnel entering and exiting the restricted area. This meets the intent of the recommendation; therefore, this recommendation is closed.

<b>DAO-09-11 FINDING 30: VISITOR REGISTER SIGN-OUT PROCEDURES ARE NOT BEING FOLLOWED</b>	
<b>ORIGINAL CONDITION</b>	Visitors to the Building 360 warehouse secure area sign in on visitor register were enforced, however sign out is not enforced. In at least one instance, the control monitor signed out visitors in "batch" while the visitors were still in the warehouse.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Anniston, Alabama, to ensure management has visibility at any time of the whereabouts of visitors to the Building 360 warehouse secure area, should: <ul style="list-style-type: none"> <li>• Require each visitor sign in and out, as they enter and exit from the area. Batch sign-outs should not be permitted.</li> <li>• Update DLA Distribution Anniston, Alabama, SOP, Subject: Personnel Entry/Exit Procedures for Distribution Division #2 Building 360 (SOP-2) to include procedures for visitors exiting from Building 360.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. DLA Distribution Anniston, Alabama, SOP (Personnel Entry/Exit Procedures for Distribution Division #2 Building 360 (SOP-2) has been revised to include procedures for visitors exiting from Building 360. Spot checks are to be conducted randomly by the Commander and/or Deputy. A revised ISSA will also help enforce proper procedures and should be in place October 1, 2010.
<b>FOLLOW-UP RESULTS</b>	The DLA Distribution Anniston, Alabama, Physical Security SOP that was finalized in March 2013 contains sections dealing with general personnel access to include emergency access as well as visitor access. This meets the intent of the recommendation; therefore, it is closed.

<b>DAO-09-11 FINDING 31: CONTRACTOR PERSONNEL WERE OBSERVED IN WEAPONS WAREHOUSE SECURE AREA WITHOUT SECURITY BADGES OR ESCORTS</b>	
<b>ORIGINAL CONDITION</b>	Contractor personnel were observed in Building 360 without escorts or security badges visible. The contractor personnel explained that their escort was operating the forklift putting away boxes of weapons they had modified, causing the contractors to be unescorted for substantial amounts of time. DLA Distribution Anniston, AL Security Officer stated that he had never been informed of the contractor's visit.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Anniston, Alabama, should enforce established policy and guidelines regarding escorts and security badges.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. Spot-checks to be conducted randomly by the Commander and/or Deputy. A revised ISSA with Anniston Army Depot Security personnel staffing the access point will also assist in ensuring compliance and is expected to be in place September 2010.
<b>FOLLOW-UP RESULTS</b>	The Security Requirements for Weapons Division, (SW), Buildings 29 and 360 SOP contains sections dealing with general personnel access to include emergency access as well as visitor access. This meets the intent of the recommendation; therefore, it is closed.

DAO-09-11 (DLA DISTRIBUTION) FINDING 32: CLEANING CREW ENTERS/EXITS BUILDING 360 WAREHOUSE SECURE AREA WITHOUT ESCORT	
<b>ORIGINAL CONDITION</b>	The cleaning crew personnel are not on the visitor access list and they enters and exits the warehouse secure area unescorted, without having bags, containers, etc. checked.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Anniston, Alabama, should: <ul style="list-style-type: none"> <li>• Escort cleaning crew personnel while they are in the Building 360 warehouse secure area.</li> <li>• Obtain Security clearances for the cleaning crew personnel.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. Spot-checks to be conducted randomly by the Commander and/or Deputy. As an added measure, DLA Distribution is in the process of revising the ISSA with the Host to provide Security personnel staffing the access point that will also assist in ensuring compliance and is expected to be in place October 1, 2010.
<b>FOLLOW-UP RESULTS</b>	Although cleaning crews are not specifically identified in the Security Requirements for Weapons Division, (SW), Building 29 and 360 SOP, DLA Distribution asserts that the sections dealing with general personnel and visitor access applies to them. With this stipulation, these corrective actions meet the intent of the recommendation; therefore, it is closed.

DAO-09-11 (DISTRIBUTION) FINDING 33: TRASH AND BANDING DUMPSTERS PROVIDE THE CAPABILITY TO REMOVE WEAPONS FROM THE BUILDING 360 WAREHOUSE	
<b>ORIGINAL CONDITION</b>	Dumpsters for trash and discarded banding materiel are located within the building 360 warehouse secure area. Weapons, etc. could be easily hidden within the trash, and later retrieved when the dumpsters are placed outside the building for pick-up.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Anniston, Alabama, should develop procedures, which address security measures to prevent removal of weapons from Building 360 via the trash and banding dumpsters. These procedures could include: <ul style="list-style-type: none"> <li>• Search of the receptacles prior to their removal from the building.</li> <li>• Develop a logbook, which identifies the date, time, name, and signature of the individual who searched the receptacle; and the date, time, name, and signature of the individual removing the receptacle from the building. These individuals should not be the same person, the amount of time between search and removal should be minimal to prevent placing a weapon in the container, and the process should be conducted at random.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. All wood crates, containers, and VC3 products (Cardboard Tri Walls), are broken down flat and inspected. DLA Distribution is working with DES Security to identify best practices to ensure dumpsters are also inspected before removal from controlled area for dumping purposes. As an added measure, DLA Distribution is revising the ISSA with the host (ANAD), which will also facilitate having sufficient armed Security personnel in place that will allow for official security inspection of recycle bins at time of emptying. Finally, DLA Distribution is working with DES Security to identify any potential "best practices" that can be implemented to minimize risk associated with removal of trash and dumpsters. Status: ECD September 15, 2010.
<b>FOLLOW-UP RESULTS</b>	DLA Distribution issued a Security Requirements for Weapons Division, (SW), Building 29 and 360 SOP that prescribed policies and responsibilities for maintaining security during the trash removal process from the small arms area. This corrective action meets the intent of the recommendation; therefore, this recommendation is closed.

<b>DAO-09-11 (DISTRIBUTION) FINDING 34: INADEQUATE LIGHTING LEAVES SMALL ARMS WAREHOUSES VULNERABLE TO UNDETECTED ENTRY AND THEFT</b>	
<b>ORIGINAL CONDITION</b>	The perimeter of Building 29 has no outside lighting, making cameras inoperable at night. In addition, the lights were nonfunctional at the Building 360, section 6 dock.  DLA Distribution Anniston, Alabama, submitted a job order request to include dusk to dawn lighting installed in warehouse 29 to meet lighting requirements to ANAD Facility Engineer on 29 February 11, 2010.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Anniston, Alabama, should install lighting at the perimeter of Building 29 and at section 6 dock of Building 360 to comply with DLA Instruction 5710.1.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. Lighting has been installed at the perimeter of Building 29 and at the section 6 dock of Building 360. Status: completed May 2010.
<b>FOLLOW-UP RESULTS</b>	Lighting has been installed at the perimeter of Building 29 and at the section 6 dock of Building 360. We verified that lighting was installed at the perimeter of Building 29, and the security lights on the Building 360, Section 6 Dock were repaired. However, we noted a few exterior lights were not functioning properly. While not all exterior lights were functional during our site visit, we observed a quick response to lighting issues. The audit team recognizes that lighting will always remain an ongoing maintenance issue and noted that depot management and personnel are continually evaluating and addressing lighting issues; therefore, this recommendation is closed.

<b>DAO-09-11 (DISTRIBUTION) FINDING 35: ABSENCE OF AUXILIARY POWER SOURCE LEAVES SMALL ARMS WAREHOUSES VULNERABLE TO UNDETECTED ENTRY AND THEFT AS A RESULT OF INOPERABLE INTRUSION DETECTION SYSTEM</b>	
<b>ORIGINAL CONDITION</b>	There is no auxiliary power source to operate the Intrusion Detection System (IDS) in the event of a power failure.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Anniston, Alabama, should install an auxiliary power source to provide uninterrupted operation of the IDS and test monthly to ensure reliance.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. Back-up power has been installed in Building 29 in June 2010. Installation of back-up power in Building 360 is currently in coordination with DES.
<b>FOLLOW-UP RESULTS</b>	DLA Distribution provided an update on February 17, 2012 that IDS in building 360 have a battery back-up power system and it is maintained by ANAD maintenance personnel. We reviewed documentation, conducted interviews, and performed observation to verify that the Intrusion Detection System (IDS) serving Building 29 and Building 360 had a working auxiliary power supply; therefore, this recommendation is closed.

<b>DAO-09-11 (DISTRIBUTION) FINDING 36: FREQUENCY OF SECURITY PATROLS OF SMALL ARMS WAREHOUSE AREAS IS NOT IN COMPLIANCE WITH REGULATORY REQUIREMENTS</b>	
<b>ORIGINAL CONDITION</b>	Security patrols of the small arms warehouse buildings are currently conducted once every eight hours. DLA regulatory guidance requires security patrols of controlled areas during non-duty hours at intervals not to exceed four hours.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Anniston, Alabama, should update the current ISSA with ANAD to be in accordance with DLA regulatory guidance to ensure during non-duty hours, security patrols are provided at intervals not to exceed four hours.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. An ISSA upgrade is currently in coordination and it is expected to be completed in September 2010. The current ISSA already covers the frequency of patrols and DLA Distribution Anniston leadership is also working with ANAD to ensure compliance.
<b>FOLLOW-UP RESULTS</b>	Although DLA Distribution and the Anniston Army Depot have not finalized an updated ISSA, DLA Distribution has provided a memorandum from the Anniston Army Depot Chief of Staff stating that Army has provided security patrols at four-hour intervals during non-duty hours. This meets the intent of the recommendation; therefore, it is closed.

<b>DAO-09-11 (DISTRIBUTION) FINDING 37: BUILDING 360 SECURITY SEAL REGISTER ENTRY INFORMATION WAS INCOMPLETE</b>	
<b>ORIGINAL CONDITION</b>	The Security Seal Register date seal removed and person removing the seal information was not completed by the person entering Building 360 on February 10, 2010. Though inconclusive, it also appears the self-locking serial numbered seal applied to the exterior personnel entry door (the one from outside into the hallway of the building) may differ from the one placed on the door at previous day's closing, however we cannot determine with certainty as the seal serial number information entered by the person exiting the building on February 9, 2010 is unclear.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Anniston, Alabama, should apply the two-man rule for entrance and exit from Building 360 by having one person observe the other person recording the information in the Security Seal Register to ensure it is correct and properly completed.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. The two-man rule has been implemented. DLA Distribution Anniston, Alabama, leadership is spot checking compliance during daily walk-throughs. As an added measure, the current ISSA is being revised to have Anniston Army Depot Security personnel perform access control functions and is expected to be in place September 2010.
<b>FOLLOW-UP RESULTS</b>	DLA Distribution Anniston, Alabama, issued Security Requirements for Weapons Division (SW), Buildings 29 and 360 SOP that implemented the two-man rule for opening and closing the building. The SOP also defines the entry and exit procedures. This meets the intent of the recommendation; therefore, this recommendation is closed.

<b>DAO-09-11 (DISTRIBUTION) FINDING 38: KEY/LOCK CONTROL PROCEDURES DO NOT PROHIBIT REMOVAL OF SECURITY AREA KEYS ON A DAILY BASIS</b>	
<b>ORIGINAL CONDITION</b>	Key/lock control procedures do not expressly prohibit the removal of security keys from the activity.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Anniston, Alabama, should modify the current key and lock control procedure SOP to include prohibiting the removal of security keys from the activity.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. DLA Distribution utilizes the "Key Minder" electronic key management/control system that ensures only authorized personnel have access, each key removal is identified to a specific individual, and Security can run reports by name/key/date/time.
<b>FOLLOW-UP RESULTS</b>	DLA Distribution Anniston, Alabama, issued Security Requirements for Weapons Division (SW), Buildings 29 and 360 SOP that prohibits the removal of security keys and requires storing them in a secure location during non-duty hours. This meets the intent of the recommendation; therefore, this recommendation is closed.

<b>DAO-09-11 (DISTRIBUTION) FINDING 39: WEAPONS HANDLING SAFETY TRAINING</b>	
<b>ORIGINAL CONDITION</b>	The auditor observed an incident in receiving in which a weapon had been received either jammed or was jammed in the process of inspecting for ammunition. It appeared the employee was unsure of the appropriate procedure to follow in this circumstance.
<b>ORIGINAL RECOMMENDATION</b>	DLA Distribution Anniston, Alabama, should provide training on the proper handling, inspection, and disarming of small arms. The training should address the appropriate procedures to follow in the event a field/customer return weapon may contain ammunition, is received jammed, or becomes jammed during the inspection process. The training should be weapon specific, documented, and required of all warehouse personnel handling the weapons.
<b>ORIGINAL MANAGEMENT RESPONSE</b>	Concur. Proper weapon handling training has been completed by the Supervisor April 27, 2010. Inert weapon training was accomplished the week of August 16, 2010. Status: completed
<b>FOLLOW-UP RESULTS</b>	<p>DLA Distribution stated that the Receiving SOP addresses procedures to follow for jammed weapons discovered during the inspection process. We reviewed the DLA Distribution Anniston, Alabama, 360 Receiving (11.2) and Inert Check SOPs and found them adequate.</p> <p>DLA Distribution Anniston, Alabama, provided Inert Certification Training to 36 of 65 warehouse workers. Since not all warehouse personnel that handle weapons were provided with the training during the initial fieldwork phase, subsequently, DLA Distribution conducted two additional training sessions. This meets the intent of the recommendation; therefore, this recommendation is closed.</p>

<b>DAO-09-11 (DISTRIBUTION) FINDING 42: POTENTIAL THEFT AND/OR MISPLACEMENT OF SMALL ARMS</b>	
<b>ORIGINAL CONDITION</b>	<p>The auditors observed numerous instances in which weapons were exposed, unsecured, and easily accessible:</p> <ul style="list-style-type: none"> <li>• One new .45 automatic was found in Building 360, unwrapped, lying on top of an open container of still packaged .45 automatics among several un-banded boxes of the same NSN.</li> <li>• Two new out-of-the-box and unwrapped M16A3E3's were found in the receiving section of Building 360, lying unsecured on top of an unopened box in the main aisle way after normal working hours with no one present.</li> <li>• Many physical storage locations contained cardboard containers that were dry rotted, falling apart and containing gaping holes and openings; wooden containers that were extensively damaged or splitting apart from the weight of containers stacked on top of each other. These conditions are leaving the weapons unsecured and easily accessible for theft or misplacement.</li> </ul>
<b>ORIGINAL RECOMMENDATION</b>	<p>DLA Distribution Anniston, Alabama, should:</p> <ul style="list-style-type: none"> <li>• Perform a walk-through to identify locations which contain open or improperly banded and sealed containers</li> <li>• Conduct a bare item count to verify the weapon is in agreement with information reflected in DSS and SASP.</li> <li>• If there are any shortages, conduct required research, repackage the items in new containers, band and seal the containers in accordance with DLA Policy for Storing Small Arms at DLA depots.</li> <li>• Require warehouse supervisors conduct daily walk-through to identify open or improperly banded and sealed containers and initiate timely corrective action.</li> <li>• Encourage employees to inform their supervisor of open or improperly banded containers.</li> <li>• Provide refresher training to all warehouse personnel on the regulatory requirements and policies governing stocking, storing, and issuing of small arms within a secure warehouse facility.</li> </ul>
<b>ORIGINAL MANAGEMENT RESPONSE</b>	<p>Concur. This vulnerability will be addressed in the wall-to-wall inventory to commence in the Fall of 2010. Walkthroughs have been completed and deficiencies corrected. Bare item will be completed during the WTW. Inbound materiel corrected upon receipt. Refresher training completed April 27, 2010. Status ECD March 2012.</p>
<b>FOLLOW-UP RESULTS</b>	<p>DLA Distribution stated that the wall-to-wall inventory has addressed the missing band seals and open containers. In addition, DLA Distribution Anniston, Alabama, maintains a Discrepancy Report that represents discrepancies observed and noted by warehouse personnel throughout the workday. Correction of the discrepancies is assigned to employees and 100% follow-up is conducted by supervisor or lead to validate the discrepancies are corrected.</p> <p>Based on the audit team's observations of Buildings 29 and 360, the audit team determined that small arms were no longer exposed, unsecured, or easily accessible due to improper container banding, dry rot, or damage. Small arms were secured in properly banded and sealed containers. In addition, clipboards containing discrepancy reports were posted in various locations in the buildings to enable warehouse workers to easily communicate issues uncovered while performing their duties to management so the issue can be addressed in a timely manner. Once corrective action is taken the discrepancy report is updated by management to indicate the issue was addressed; therefore, this recommendation is closed.</p>



## OTHER OBSERVATIONS

We identified two areas of concern related to small arms physical security during the course of our follow-up audit. Specifically, we found that DLA Distribution did not record all seal control numbers used on Small Arms containers in DSS/SASP and did not require warehouse personnel to verify seal control numbers on Small Arms containers in DSS/SASP during warehouse actions. In addition, DLA Distribution was not able to provide a query from the system identifying what Small Arms containers did not have a seal number in DSS/SASP. As a result, DLA Distribution may not be able to identify Small Arms containers that have been tampered with. These areas of concern were not specifically addressed in previous audit recommendations and we identified these concerns so management can consider taking additional actions to strengthen small arms security.

Although we issued no formal recommendations to address these concerns, DLA Distribution can address these concerns and further strengthen security seal controls by ensuring that seals are accounted for properly in DSS and verified during routine Small Arms warehouse actions.

## **ABBREVIATIONS USED**

DSS	Distribution Standard System
DTRA	Defense Threat Reduction Agency
DTTS	Defense Transportation Tracking System
MOA	Memorandum of Agreement
NSN	National Stock Numbers
NWRM	Nuclear Weapons Related Material
REPSHIP	Report of Shipment

## **ACKNOWLEDGMENTS**

Ms. Jessy Joseph, Audit Manager  
Mr. Jonathan Gallinger, Auditor-In-Charge  
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DEFENSE LOGISTICS AGENCY  
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March 24, 2014

MEMORANDUM FOR DIRECTOR, FINANCE  
DIRECTOR, DLA INSTALLATION SUPPORT

SUBJECT: Rescission of DLA OIG audit report on Real Property Additions, Disposals, and Construction in Progress (DAF-12-15)

In December 2012, DLA OIG issued our final report on Real Property Additions, Disposals, and Construction-in-Progress. The original audit identified control deficiencies over the process of recording and accounting for additions and disposals of real property and assets under construction. We initially concluded that these deficiencies, taken as a whole, may represent a material weakness over the real property and construction in progress financial reporting process. Specifically, the deficiencies resulted in the lack of accountability over real property acquired and disposed of, unreliable financial information for managing day-to-day operations, and the possibility of misstatement of real property balances. DLA Finance and DLA Installation Support agreed with the findings and recommendations and began implementing the nine recommendations in the report.

In November 2013, DLA OIG initiated a quality assurance review to internally assess our compliance with generally accepted government auditing standards and internal policies and procedures at the project level – and this report was selected for detailed review. The ongoing quality assurance review has concluded that the initial audit work was deficient because the original audit team did not evaluate the effectiveness of information systems controls, and wrote recommendations that did not flow logically from the findings or were not directed at resolving the root causes identified in the report.

Therefore, effective immediately, I am rescinding audit report DAF-12-15, Audit of Real Property Additions, Disposals, and Construction in Progress. Recipients of the report should determine if the reportable conditions may assist management on identifying and driving improvement opportunities of real property assets under construction. Although seven of the nine recommendations have been implemented and are either closed or closed not verified, all nine recommendations will be removed from follow-up tracking.

A handwritten signature in blue ink that reads "Steven Pigott".

STEVEN D. PIGOTT  
Deputy Inspector General  
DLA OIG Audit Division



**DEFENSE LOGISTICS AGENCY**  
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March 4, 2013

MEMORANDUM FOR DIRECTOR, DLA LOGISTICS OPERATIONS (J3)  
DIRECTOR, DLA FINANCIAL OPERATIONS (J8)  
DIRECTOR, DLA ACQUISITION MANAGEMENT (J7)

SUBJECT: Termination of the Audit on the DLA's Support to Hurricane Sandy, Project Number DAO-13-01

On January 31, 2013, the DLA Office of the Inspector General (OIG) announced our audit of the DLA's Support to Hurricane Sandy. Our audit objective was to determine whether DLA complied with DOD policies and other regulatory controls that govern relief efforts during the support of Hurricane Sandy. Specifically, we were to examine supporting documentation for all supplies and equipment provided to determine whether DLA:

- a. Received authorized purchase orders.
- b. Retained appropriate documents for all delivery and payments.
- c. Received payments for all supplies and equipment delivered.

Since the audit was staffed with audit readiness resources and the Standards for Attestation Engagements No. 16 work required an earlier than anticipated start, I have cancelled the audit of DLA Support of Hurricane Sandy.

We appreciate the courtesies and cooperation extended to us during the planning phase of this audit. If you have additional questions or concerns, please contact Mr. Sunlon Oeung at 703-767-6274 or email at [Sunlon.Oeung@dla.mil](mailto:Sunlon.Oeung@dla.mil).

A handwritten signature in blue ink that reads "Steven D. Pigott".

STEVEN D. PIGOTT  
Deputy Inspector General  
DLA OIG Audit Division



## ***DLA Office of the Inspector General***

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# **Audit of Logistics Research and Development Funding**



# Executive Summary

Audit Report DAO-10-21  
November 4, 2011

## Audit of Logistics Research and Development Funding

### Results

The DLA Research and Development (R&D) Program was funded by two sources; the President's Budget and Congressional Adds (also called Congressionally Directed Funding or Earmarks). Our audit focused on the appropriated R&D funding that was provided to DLA through Congressional Adds. Usually the Congressional sponsor provided additional information concerning the intent of the funding. The Office of the Secretary of Defense provided funding to DLA Finance (J8) by Funding Authorization Documents (FADs). Funds were then provided to the R&D Office (J335) for the DLA Congressionally Directed R&D Program. Funds were generally withheld by J335 for the administration and oversight of the program.

The Congressional Add R&D portfolio was managed by the Congressional Adds Portfolio Manager and the Chief of R&D. The Portfolio Manager established three goals for the overall program: to meet the intent of the Congressional sponsor; to obligate the funding in a timely manner (two-year funding); and to obtain benefit for DLA or the federal government.

Overall DLA was effectively utilizing Congressional funding for R&D projects. In particular, we found that oversight and monitoring procedures were in place to ensure that contracts and agreements were being awarded in the best interests of the government. However, documentation was not maintained to support the percentage of funds withheld from Congressional Adds and the withholds were not always used for expenses directly related to the execution of these Adds. This occurred because there was no definitive DLA policy in place outlining how withholds from Congressional Adds should be handled.

Although internal controls were generally in place and operating so that the funding would achieve the program's goals, the separation of duties was found to be inadequate. Specifically, the Congressional Adds Portfolio Manager also served as Program Manager for Congressional Add projects within his portfolio. Although the Chief of R&D did not allow the Portfolio Manager to have access to his project's funding, best business practices dictate that key positions within a program should be separated if resources allow such a separation. We have provided 2 recommendations to improve the use of withholds from Congressionally Directed R&D projects and the internal controls for the R&D program.

### Why DLA OIG Did this Review

As approved in the DLA FY 2010 Annual Audit Plan, we conducted an audit of the DLA R&D Program to determine if adequate controls were in place and operating to track the use of Congressional R&D dollars.

### What DLA OIG Did

Our objective was to determine if Congressional funding was being effectively utilized. Our sub-objectives were to determine if: oversight and monitoring procedures were in place to ensure that contracts and agreements were being awarded in the best interests of the government; and internal controls were in place and operating, so that the funding would achieve the program's goals.

### What DLA OIG Recommends

This report contains 2 recommendations addressed to the R&D Office. J335 should develop policy outlining how withholds from Congressional Adds are to be handled. The policy should specifically address: retention of documentation for calculations related to withholds; proper use of money withheld from Congressional Adds; and retention of documentation for actual expenses. Secondly, J335 should ensure that there is adequate separation of duties between key personnel involved in the process.





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November 4, 2011

MEMORANDUM FOR  
Director, J-3

This is our report on the audit of the Congressionally Funded Research and Development Program. It includes the results of our audit and conclusions concerning the use of Congressionally Directed R&D funding.

Our main objective was to determine if Congressional funding was being effectively utilized. We also had two sub-objectives that were to determine if:

- a. Oversight and monitoring procedures were in place to ensure that contracts and agreements were being awarded in the best interests of the government.
- b. Internal controls were in place and operating, so that the funding would achieve the program's goals.

We determined that overall DLA was effectively utilizing Congressional funding for R&D projects. In particular, we found that oversight and monitoring procedures were in place to ensure that contracts and agreements were being awarded in the best interests of the government. However, documentation was not maintained to support the percentage of funds withheld from Congressional Adds and the withholds were not always used for expenses directly related to the execution of these Adds. Additionally, the separation of duties within the R&D Program was inadequate. This report contains two recommendations addressed to the Director, J3 to improve the management of funding regarding the Congressional Adds in the R&D Program Office.

Management comments have been incorporated into this final report. These comments are verbatim in Appendix D.

We appreciate the courtesies and cooperation extended to us during the audit. For additional information about this report, contact Ms. Lynne Brown at 703-767-7475 or email at [Lynne.Brown@dla.mil](mailto:Lynne.Brown@dla.mil).

*Steven D. Pigott*

STEVEN D. PIGOTT  
Assistant Deputy Inspector General  
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# INTRODUCTION

## OBJECTIVES, SCOPE, AND METHODOLOGY

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Our main objective was to determine if Congressional funding was being effectively utilized. We also had two sub-objectives that were to determine if:

- a. Oversight and monitoring procedures were in place to ensure that contracts and agreements were being awarded in the best interests of the government.
- b. Internal controls were in place and operating, so that the funding would achieve the program's goals.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS) issued by the Government Accountability Office (GAO) except for the standard related to organizational independence. This organizational impairment resulted from the DLA Office of the Inspector General (OIG) Audit Division (formally DLA Accountability Office Audit Division) not being accountable to the head or deputy head of DLA, and conducting non-audit services related to OMB Circular A-123, Appendix A, Management's Responsibility for Internal Control. To correct this, we are establishing policies and procedures to provide reasonable assurance of conforming to applicable professional standards. However, the impairment had no effect on the quality of this report as GAGAS requires that we plan and conduct the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

To determine if Congressional funding was being effectively utilized by the R&D program, we first obtained and analyzed a list of these projects for FYs 08, 09, and 10 from the J335's Congressional Adds Portfolio Manager. Next, we judgmentally selected a sample of four Congressionally funded R&D projects from a consolidation of Congressional Adds for FY08 through FY10. Two of the selected projects were consistently funded across the three fiscal years, one project was only funded in FY09, and one was only funded in FY10. We then analyzed charters, solicitation documentation, fund citation letters, military interdepartmental purchase requests, contracts, and memorandums of understanding for the selected projects.

In addition we:

- Obtained and analyzed criteria for the DLA R&D Program.
- Reviewed prior Government Accountability Office, DoD Inspector General, Department of Homeland Security, and Department of Health and Human Services audits pertaining to R&D funding.
- Interviewed the Chief of the R&D Division and the Congressional Adds Portfolio Manager to determine if their oversight of the projects was adequate.
- Interviewed the previous Chief of R&D, and support contractors to better understand the process.
- Obtained J335's mission and organization chart to better understand their role.

- Interviewed personnel from the Legislative Affairs Office and conducted research of internet information pertaining to R&D projects to determine if some projects had more risk than others.
- Obtained and analyzed charts that were used to brief the White House Office of Science and Technology Policy, and the Armed Services Committee.
- Interviewed J8 personnel to determine the funding flow from the Office of the Under Secretary of Defense (OUSD) through J8.
- Analyzed FADs, Enterprise Business System screen shots and information used to brief J8 leaders concerning Congressional Add funding to trace the funds through J8.
- Verified amounts for Congressional Adds by comparing the enacted language, to the FADs, to the tracking spreadsheet used by the Portfolio Manager to ensure appropriated funds reached J335.
- Interviewed the program managers of the four sample projects to determine if they were complying with key oversight and reporting responsibilities.
- Obtained documentation to ensure that the project's contract was awarded, monitored, and paid in accordance with the Federal Acquisition Regulation.
- Traced funding, from the receipt by DLA, until its application to contracts for the projects in the sample.
- Attended an R&D Board Meeting to understand the role the Board played in the process.
- Obtained and analyzed documentation for the uses of J335 withholds from Congressional Adds.
- Compared and analyzed information concerning Congressionally funded R&D projects in FY09 and FY10 that we received from different sources.
- Assessed the reliability of computer processed data and the risk of fraud, waste, and abuse for this audit effort.
- Obtained and analyzed annual assessments of Manager's Internal Controls for DLA and J335, as they pertain to Congressionally funded R&D.

## BACKGROUND

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The DLA R&D Program is funded by two sources; the President's Budget and Congressional Adds (also called Congressionally Directed Funding or Earmarks). Our audit focused on the DLA R&D projects funded by Congressional Adds.

### Earmarks.

The OMB website, "Guidance to Agencies on the Definition of Earmarks," defines an earmark as "funds provided by the Congress for projects, programs, or grants where the purported congressional direction (whether in statutory text, report language, or other communication) circumvents otherwise applicable merit-based or competitive allocation processes, or specifies the location or recipient, or otherwise curtails the ability of the executive branch to manage its statutory and constitutional responsibilities pertaining to the funds allocation process."

The funding for the R&D earmarks was contained in the Public Law that authorizes the DoD Appropriations for each fiscal year. In addition, we found language regarding earmarks in committee reports, explanatory statements from committee personnel, and the DoD President's Budget Justification Book, Volume 5A, (Research, Development, Test & Evaluation (RDT&E), Defense-Wide). We also

located information regarding Congressionally Directed Spending on the websites of members of the Senate and House. The DLA R&D Office briefed the Armed Services Committee to share information about R&D projects at DLA.

Congressional earmarks placed at DLA by Congressional sponsors typically support the DoD mission in some way. In 2008 and 2009 some members of Congress became aware that a portion of their earmarks were retained for administrative purposes. As a result of this revelation, OMB was tasked by the Senate to report on reductions (withholds) from Congressionally Directed Funding. The report, which focused on FY08 Congressionally directed funding, was completed on April 1, 2009. The report showed the level of appropriated funding used for Congressional earmarks and how the reductions varied by agency. OMB also established a public online database that showed the appropriated amounts of earmarks at a high level. In his weekly address on November 13, 2010, President Obama called for earmark reform. He called for new limitations on earmarks and stated that they have “reduced the cost of earmarks by over \$3 billion.” Funding for earmarks is uncertain and varies from year to year.

### **Project Goals and Rating.**

The Congressional Add R&D portfolio was managed by the Congressional Adds Portfolio Manager and the Chief of R&D. The Portfolio Manager established three goals for the overall program: to meet the intent of the Congressional sponsor; to obligate the funding in a timely manner (two-year funding); and to obtain some benefit for DLA or the federal government.

Typically, each project had an assigned Program Manager responsible for managing the entire process which included developing a contracting strategy, ensuring that the contract was awarded, and monitoring the progress. Assigned Program Managers were either from DLA, one of the military services, or another federal agency. The Portfolio Manager gave the Program Managers an agreement that outlined the roles of each party. R&D projects usually have charters that specify the scope, expected outcome, technical approach, project milestones, and budget. Annually the Portfolio Manager and the Program Managers meet for an R&D Portfolio Review of the Congressional Add projects.

The Portfolio Manager and the Program Managers provided each Congressional Add project with an assessment score based on the project’s ability to support the DLA mission and strategic goals and its ability to improve DoD’s readiness and warfighting capability. The assessment scores were: 8 to 10 - significantly improve, 4 to 7 - improve, and 1 to 3 - marginally improve. Projects considered “new starts” were not assessed.

### **DLA Guidance.**

According to the “DLA R&D Smart Book,” dated December 2010, J335 is responsible for “scheduling all R&D Board meetings, developing the agenda and briefing content, presenting pre-briefs, documenting all decisions and following-up on decisions to ensure completion.” The R&D Office also reviews “charters to ensure compliance with R&D program tenets, DoD Regulations and R&D funding guidelines.” J335 coordinates “charters with HQ Staff before they are submitted to the Board.” J335 manages the R&D program using the “standard and repeatable process (SRP) including issuing an annual call for R&D requirements, submitting approved requirements to J-8 as part of the PPBE [Planning, Programming and Budget Execution] process, monitoring obligation and expenditure rates and reprogramming funds in accordance with J-8 guidelines.” They are also charged with “documenting R&D strategy and ensuring

R&D initiatives are aligned with the DLA mission.” J335 also represents “DLA in Department of Defense (DoD) R&D panels such as the Joint Defense Manufacturing Technology Panel (JDMTP) and the Small Business Innovation Research (SBIR) Program Integrated Review Team (IRT).”

### **DoD Financial Management Regulation.**

The DoD Financial Management Regulation provides definitions and criteria for RDT&E in Volume 2A, Chapter 1, Section 010213, Part B, dated October 2008. This guidance states, “When, after consideration of the following criteria, there is doubt as to the proper assignment of costs between appropriations, the issue should be resolved in favor of using RDT&E funding.” RDT&E appropriations will generally be used to finance the following types of costs, “research development, test and evaluation efforts performed by contractors and government installations, including procurement of items, weapons, equipment, components, materials and services required for development of equipment, material, or computer application software.” The DoD Financial Management Regulation states, “expenses of Headquarters R&D management, organizational management analyses, tests and evaluation for system sustainment personnel and command support... will be funded in the Operation and Maintenance (O&M) appropriations.” Within DLA, the Defense Working Capital Fund (DWCF) is utilized like O&M at other organizations.

### **Federal Acquisition Regulation.**

The Federal Acquisition Regulation, Part 35, provides policies and procedures for R&D contracting such as Broad Agency Announcements, Statements of Work, and the evaluation for awarding contracts.

### **Projects in Our Sample.**

We judgmentally selected four Congressional Add projects as our sample. We interviewed the program manager and obtained supporting documentation for each project. The four projects selected were:

1. Energy Strategy for the Department of Defense. This FY09 Congressional Add was provided to allow DoD to capitalize on Carbon Capture and Sequestration technology research initiatives currently led by the Department of Energy and academia. This Add was intended to reduce greenhouse gas emissions and associated climate change impacts while enabling DoD to make use of coal and other domestic fuel sources for military applications. This project received an assessment of 4 (Improve).
2. Fuel Cell Hybrid Battery for Defense Manufacturing Operations. This project’s charter states that four hybrid battery fuel cells will be built and integrated into forklifts to support a six-month field demonstration. The project did not have an associated assessment rating because it was an FY10 Congressional Add and therefore considered a “new start” during our audit.
3. Industrial Base Innovation Fund. Funding for this Congressional Add was received by DLA for FY08, FY09, and FY10. Annually, Industrial Base Innovation Fund funding has been used for more than twenty contracts supporting the industrial base. The project was a joint venture between DLA and the Deputy Undersecretary of Defense for Industrial Policy with the objective of making investments in manufacturing R&D and addressing defense industrial base shortfalls especially related to surge production requirements and diminishing sources of defense material.

Since this project was considered successful and valuable to DLA, it received an assessment of 8 (Significantly Improve).

4. Vehicle Fuel Cell and Hydrogen Logistics Program. This project demonstrated the use of hydrogen fuel cells to power vehicles at four locations in DLA. The objectives of this project were to be an early adopter and principle demonstrator, provide market demand and to support improved technology and manufacturing readiness levels. According to the program manager, this project was very successful and had shown that the use of alternative fuel is possible. This project received an assessment of 8 (Significantly Improve).

The funding for FYs 08 to 10 for our sample items were:

<b>Project</b>	<b>FAD to J335</b>		
	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>
Energy Strategy for DoD		\$19,496,000	
Fuel Cell Hybrid Battery			\$795,900
Industrial Base Innovation Fund	\$23,311,000	\$18,711,000	\$19,895,400
Vehicle Fuel Cell and Hydrogen LOG Program	\$7,770,000	\$7,798,000	\$6,366,500

# RESULTS, RECOMMENDATIONS, AND CONCLUSIONS

## RESULTS AND RECOMMENDATIONS

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Overall DLA was effectively utilizing Congressional funding for R&D projects. In particular, we found that oversight and monitoring procedures were in place to ensure that contracts and agreements were being awarded in the best interests of the government. However, documentation was not maintained to support the percentage of funds withheld from Congressional Adds and the withholds were not always used for expenses directly related to the execution of these Adds. This occurred because there is no definitive DLA policy in place outlining how withholds from Congressional Adds should be handled. As a result, DLA does not have an audit trail to document the rationale for withholds and faces an increased risk that Congressional Add projects could fail to meet goals and established outcomes if money is diverted.

Additionally, one area of concern was with the program's internal controls. Although internal controls were generally in place and operating so that the funding would achieve the program's goals, the separation of duties was found to be inadequate. Specifically, the Congressional Adds Portfolio Manager also served as program manager for Congressional Add projects within his portfolio. This occurred because the Chief of R&D had established alternative controls to mitigate the issue of the separation of duties – the Portfolio Manager did not have access to his project's funding. However, best business practices dictate that key positions within a program should be separated if resources allow such a separation. Without adequate separation of duties, project assessments and withhold amounts could be manipulated to favor certain projects. Additionally, the risk of error or fraud is increased.

### **Office of the Under Secretary of Defense Guidance.**

The OUSD memorandum, "Guidance Defining Permissible FY2010 Reductions to Statutory Adds," dated February 13, 2010, provides guidance to federal agencies regarding the proper use of withholds. According to the memorandum, components may reduce statutory Adds only under limited circumstances, not for general administrative costs. However, a portion of the Add may be used for directly allocable program oversight or administrative costs. Each DoD entity must review their accounting records to ensure that the guidance in this memorandum is followed.

### **Issues Identified.**

We found that J335 did not have a documented rationale for the percentages they withheld from the Congressional Adds. Additionally, Congressional Add withholds were not always allocated based on the oversight and administrative costs directly attributable to the execution of the Adds. We also determined that although the internal controls for this program were generally effective, there was an issue with the separation of duties. Finally, we found that the Congressional Adds Portfolio Manager did not have consistent authority over all of the program managers. These issues are discussed in greater detail in the following paragraphs.

**Withholding Percentages.** J335 did not document their rationale for the percentages withheld from the Congressional Adds. Information obtained from J335 through documents and interviews indicated that

this occurred because there is no definitive DLA policy in place outlining how withholds from Congressional Adds should be handled, and therefore the projects were rated based on management experience. As a result, no audit trail was maintained to show how the withhold percentages were determined. For example, J335 withheld either 7 or 14 percent from each Add during FY10 and either 6.5 or 13.5 percent from each Add in FY09. Although J335 stated that there was a correlation between the percentages withheld from the Congressional Adds and the assessment score or benefit to DLA, we were unable to identify any such correlation.

Additionally, between FY09 and FY10 the number and value of Congressional Adds decreased while the percentages withheld increased. J335 did not retain documentation to support how they determined the amounts they withheld from the Congressional Add projects, therefore they were unable to provide documentation to support the amounts withheld. Draft documents provided by J335 showed that the amounts withheld were changed to ensure that a certain amount of funding was retained. Although we were told that a higher percentage was withheld from some Adds to discourage their placement at DLA, we were not provided proof that the amounts withheld were ever communicated to the Adds' Congressional sponsors.

**Use of Withhold Funds.** Withholds were not always used for expenses directly related to the execution of the Adds as required by the OUSD memorandum. For example, the salaries of R&D personnel located at headquarters, contractors performing work on both President's Budget and Congressional Add R&D projects, and projects benefiting the entire R&D program were paid with money withheld from Congressional Adds. This occurred because there is no definitive DLA policy for the management of withholds. Although none of the projects reviewed have failed due to a lack of funding, there is an increased risk that Congressional Add projects could fail to meet goals or established outcomes if money is diverted.

Salaries for some DoD civilians reporting to the DLA headquarters R&D Office were paid by money withheld from Congressional Adds. For example, the Congressional Adds' Portfolio Manager as well as some R&D program managers who were aligned under the DLA Office of Operations Research and Resource Analysis were being paid by withholds while other R&D program managers were paid from the DWCF. As stated in the OUSD memorandum, "a portion of the Add may be used by the Components for program oversight or administrative costs directly allocable to the execution of these statutory Adds." J335 management stated that this happened because additional funding was needed as the Congressionally Directed R&D program grew. Therefore, they decided to fund key DoD civilian positions located at DLA headquarters using withholds from Congressional Adds. J335 also lacks a defensible basis for their use of the withholds from the Adds. Since Congressional Adds are not guaranteed, the reliance on withholds from these Adds to pay the salaries of DoD civilians is not prudent.

During the course of our audit, J335 notified the audit team that 7 headquarters R&D civilian personnel positions were realigned from the DLA Office of Operations Research and Resource Analysis to DLA Headquarters. This change of personnel action was initiated in October 2010 and was expected to be complete in FY12. Based in part on the questions we raised during the course of this audit, J335 determined that personnel performing R&D headquarters functions will only be funded from the DWCF. Personnel performing program management functions will be funded proportionately to their roles in



Congressional Add projects and the President's Budget program, respectively, from those 2 types of appropriated funds. J8 agreed with the actions taken by J335.

Some contractors and associated contractor support personnel were also paid using withholds from Congressional Adds even though they worked on both President's Budget and Congressional Add R&D projects. Costs for contractor support personnel were not allocated based on the time spent working on Congressional Add projects as required by the OUSD memorandum. J335 did not maintain documentation to support how the amounts withheld were allocated to pay these contractors and support personnel.

J335 should review payments made to contractors and associated contractor support personnel using withholds from Congressional Adds to ensure that funds are being properly allocated in accordance with the OUSD memorandum. J335 should retain documentation to support their use of withholds from Congressional Adds. The method of determining the amount allocated to Congressional Adds should also be retained. The R&D Program receives more funding from Congressional Adds than the President's Budget. However, since R&D projects funded by the President's Budget may require substantially more time and effort than a Congressionally funded project, a simple percentage calculation would not be useful in determining the allocation.

We also determined that J335 used withholds from Congressional Adds to fund projects benefiting the entire R&D program. These projects included test labs and a contract with Deloitte to map the entire R&D process. Since no documentation was maintained by J335 to support the rationale used to allocate the funding, we were unable to determine whether a disproportionate amount of Congressional Add funding was used for these projects. To be in compliance with the OUSD memorandum, documentation outlining the method used to allocate costs should be maintained.

**Review of Internal Controls.** Although the internal controls for this program were generally effective, we did identify one area of concern regarding the separation of duties. DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," dated July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of controls. We reviewed policies and procedures pertaining to the Congressionally funded R&D program. We found that the Congressional Adds Portfolio Manager also served as program manager for Congressional Add projects within his portfolio. This occurred because the Chief of R&D had established alternative controls to mitigate the issue of the separation of duties – the Portfolio Manager did not have access to his project's funding. However, best business practices dictate that key positions within a program should be separated if resources allow such a separation. Without adequate separation of duties, project assessments and withhold amounts could be manipulated to favor certain projects. Additionally, the risk of error or fraud is increased.

The Portfolio Manager and Program Manager positions are key to the successful demonstration of a Congressionally funded Add. This overlap in duties was not adequate separation of duties, especially since the Portfolio Manager was deeply involved in the process of assessing the projects' benefit to DLA and the percentage withheld. The Portfolio Manager should be able to make unbiased decisions. The Government Accountability Office report (GAO/AIMD-00.21.3.1) "Standards for Internal Control in the

Federal Government,” dated November 1999, states that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.

**Other Matters of Interest.** We determined that the Portfolio Manager did not have consistent authority over all of the R&D program managers. Specifically, the Portfolio Manager did not provide oversight for all program managers (some program managers reported directly to the R&D Chief). Additionally we found that: some program managers had not signed the required agreements; some program managers did not attend the annual meeting; and some program managers did not have project charters. For more effective management of the program, the Portfolio Manager should have total management authority over program managers without regard to grade or status. In addition, all program managers should have similar reporting and administrative requirements regarding their Congressional Add projects.

### **Recommendation 1**

Develop policy outlining how withholds from Congressional Adds are to be managed. The policy should specifically address:

- Retention of documentation for calculations related to withholds;
- Proper use of money withheld from Congressional Adds; and
- Retention of documentation for actual expenses.

### **Management Comments**

J3 concurs that existing policy outlining how withholds from Congressional Adds are managed should be formalized and the policy should specifically address the preparation and retention of documentation for calculations related to “withholds”, the proper use of money withheld from Congressional Adds, and retention of documentation for actual expenses.

### **Recommendation 2**

Establish roles and responsibilities for DLA R&D Program personnel ensuring that there is adequate separation of duties between key personnel involved in the process.

### **Management Comments**

J3 concurs that adequate separation of duties between key personnel involved in the management of Congressional Adds is necessary and appropriate. J3 will better define the role of the Congressional Add Portfolio Manager and the relationship of the position to the R&D program managers and the R&D Chief. This will include clarifying the roles of the R&D Chief and the Portfolio Manager to ensure compliance with direction outlined in the Program Management Agreement.

## **CONCLUSIONS**

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Overall DLA was effectively utilizing Congressional funding for R&D projects. However, J335 did not have a documented rationale for the percentage of funds that were withheld from the Congressional Adds.

We also determined that withholds were not always used for expenses directly related to the execution of the Adds. This occurred because there is no definitive DLA policy in place outlining how withholds from Congressional Adds should be handled. Although internal controls were generally in place and operating so that the funding would achieve the program's goals, the separation of duties was found to be inadequate. The recommendations made in this report will improve the management of withholds from Congressional funding for R&D projects and the internal controls associated with DLA's R&D program.

## SUMMARY OF RECOMMENDATIONS

	<b>Recommendation</b>	<b>Addressee</b>	<b>Status of Corrective Action</b>	<b>Estimated Completion Date</b>
1	<p>Develop policy outlining how withholds from Congressional Adds are to be managed. The policy should specifically address:</p> <ul style="list-style-type: none"> <li>• Retention of documentation for calculations related to withholds;</li> <li>• Proper use of money withheld from Congressional Adds; and</li> <li>• Retention of documentation for actual expenses.</li> </ul>	J335	Incomplete	November 2011
2	<p>Establish roles and responsibilities for DLA R&amp;D Program personnel ensuring that there is adequate separation of duties between key personnel involved in the process.</p>	J335	Incomplete	November 2011

## **ABBREVIATIONS USED**

DWCF	Defense Working Capital Fund
FAD	Funding Authorization Document
J335	Research and Development Office
J8	DLA Finance
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OUSD	Office of the Under Secretary of Defense
R&D	Research and Development
RDT&E	Research, Development, Test and Evaluation

## **ACKNOWLEDGMENTS**

Ms. Linda M. Czuhai, Audit Manager, Operational Audits, DLA OIG Audit Division

Ms. Lynne Holland Brown, Auditor, Operational Audits, DLA OIG Audit Division

Ms. April G. McGraw, Auditor, Operational Audits, DLA OIG Audit Division

Mr. Yasin El-Amin, Auditor, DLA Aviation

Ms. Lynette Anderson, Auditor, DLA Troop Support

Ms. Pamela T. Smith, Auditor, DLA Troop Support

## MANAGEMENT COMMENTS



DEFENSE LOGISTICS AGENCY  
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OCT 13 2011

MEMORANDUM FOR DLA OFFICE OF THE INSPECTOR GENERAL (OIG)  
(ATTN: OPERATIONAL AUDITS)

SUBJECT: OIG Draft Report DAO-10-21

This responds to DLA OIG September 14, 2011 draft report DAO-10-21, "Audit of Logistics Research and Development Funding." We appreciate your efforts in assessing the use of Congressional Add funds for Research and Development (R&D) and the report's findings that DLA is effectively using Congressional funding for R&D projects and that procedures are in place to ensure contracts are awarded in the best interest of the government.

With respect to the report's recommendations:

a. Recommendation 1: J3 concurs that existing policy outlining how withholders from Congressional Adds are managed should be formalized and the policy should specifically address the preparation and retention of documentation for calculations related to "withholds", the proper use of money withheld from Congressional Adds, and retention of documentation for actual expenses. Updated policy will be complete NLT November 2011 and will be incorporated into the next revision of the DLA R&D Instruction.

b. Recommendation 2: J3 concurs that adequate separation of duties between key personnel involved in the management of Congressional Adds is necessary and appropriate. We will better define the role of the Congressional Add Portfolio Manager and the relationship of the position to the R&D program managers and the R&D Chief. This will include clarifying the roles of the R&D Chief and the Portfolio Manager to ensure compliance with direction outlined in the Program Management Agreement. These roles will be incorporated into our R&D office structure NLT November 2011, and will be codified into the next revision of the DLA R&D Instruction.

My points of contact for these issues are Mr. Leo Flonsky, 215-737-4210, and Ms. Kathleen Gleason, 703-767-2671. We appreciate the opportunity to review the draft report.

  
LYNN A. COLLYAR  
BC, USA



## *DLA Office of Inspector General*

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# **Audit of Suspended Inventory**





# Executive Summary

Audit Report DAO-10-16

July 30, 2012

## Audit of Suspended Inventory

### Results

We found eleven deficiencies in the areas of depot and supply center processing of Supply Discrepancy Reports (SDR) and Storage Quality Control Reports (DD Form 1225) related to suspended inventory. The deficiencies identified are as follows:

- Depots failed to reclassify material in a timely manner once they had received disposition instructions.
- Depots suspended inventory without creating a SDR or DD Form 1225 or closed the SDR or DD Form 1225 without reclassifying the material.
- Depots prepared SDRs incorrectly.
- Depots inducted material into the incorrect owner account.
- Depots failed to follow-up on open SDRs and DD Form 1225s.
- Depots did not receive disposition instructions on some Air Force material.
- Depots inducting some condition code K material using pseudo NSNs which resulted in the SDR being automatically rejected by the Electronic Business System (EBS) gateway.
- Depots received incomplete disposition instructions due to the Distribution Standard System (DSS) cutting-off or truncating some supply center disposition instructions.
- Supply Centers provided disposition instructions for Air Force owned assets.
- Supply centers sent depots inadequate disposition instructions.
- Supply centers failed to consistently utilize the resolution specialists in final disposition.

These deficiencies contribute to suspended inventory remaining unavailable for issue longer than necessary; often in excess of the timeframes set forth in DoD 4000-25-2-M (MILSTRAP). More importantly, suspended inventory is unavailable to be issued to the warfighter.

### Why DLA OIG Did this Review

As approved in the FY2010 DLA Annual Audit Plan, we conducted an audit of the Audit of Suspended Inventory to determine if suspended inventory in Condition Codes J, K, L, M, Q, and R is managed and resolved in a timely manner. Based on risk assessment our audit focused on inventory in Condition Codes J, K, and L.

### What DLA OIG Did

Our audit objectives were to determine: (1) If DLA, Distribution, and Supply Center policies, procedures, and instructions existed to control the processing of suspended inventory; and verify that distribution depots and supply centers complied with the guidance. (2) If suspended inventory was being processed within the timeframes set forth in DoD 4000-25-2-M for condition codes J, K, and R or that action was taken to ensure that suspensions are not lasting indefinitely for condition codes L, M, and Q. (3) What actions DLA Distribution and the depots have taken to clear suspended inventory. (4) What actions the DLA Supply Centers have taken to resolve DLA owned suspended inventory.

### What DLA OIG Recommends

This report contains thirteen recommendations addressed to DLA Distribution and to the DLA Supply Centers. Our recommendations provide DLA the opportunity to further develop and improve its processes and procedures for resolving suspended inventory.



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July 30, 2012

MEMORANDUM FOR COMMANDER, DLA DISTRIBUTION  
COMMANDER, DLA LAND AND MARITIME  
COMMANDER, DLA AVIATION  
COMMANDER, TROOP SUPPORT

SUBJECT: Final Report on the Audit of Suspended Inventory, Report Number DAO-10-16

This is our report on the audit of the suspended inventory. It includes the results of our audit and conclusions concerning the disposition of condition code J, K, and L material.

The DLA Office of the Inspector General (OIG) conducted an audit to determine if suspended inventory in condition codes J, K, and L was managed and resolved in a timely manner. While depots and supply centers had taken some actions to resolve DLA owned suspended inventory, DLA was not managing and resolving suspended inventory in a timely manner. Specifically, we found that:

- Supply centers and depots did not process suspended inventory within established timeframes for conditions J, and K
- Supply centers and depots did not take adequate action to ensure that suspended inventory in condition code L was promptly addressed.

These conditions occurred because of a lack of adequate guidance and training. In addition, we found several system issues that impacted suspended material and noted that resolving suspended inventory was not always the highest priority work for supply center and depot personnel. As a result, suspended inventory takes up valuable warehouse storage space and is unavailable to support the warfighter. Additionally, delays in processing suspended inventory may lead supply centers to order additional material. This report contains 13 recommendations addressed to DLA Distribution and to the DLA Supply Centers to improve their processes and procedures for resolving suspended inventory.

Management comments have been incorporated into this final report. These comments are verbatim in Appendix D.

We appreciate the courtesies and cooperation extended to us during the audit. For additional information about this report, contact Ms. Tamonie Denegall at 703-767-6263 or email at [Tamonie.Denegall@dla.mil](mailto:Tamonie.Denegall@dla.mil).

A handwritten signature in blue ink that reads "Steven D. Pigott".

STEVEN D. PIGOTT  
Assistant Deputy Inspector General  
DLA OIG Audit Division

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# INTRODUCTION

## OBJECTIVES, SCOPE, METHODOLOGY

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The overall objective of the audit was to determine if suspended inventory in condition codes J, K, L, M, Q, and R was managed and resolved in a timely manner. Specifically, our audit objectives were to determine:

- If DLA, DLA Distribution, and Supply Center policies, procedures, and instructions existed to control the processing of suspended inventory; and verify that distribution depots and supply centers complied with guidance.
- If suspended inventory was being processed within the timeframes set forth in DOD 4000-25-2-M for condition codes J, K, and R or that action was being taken to ensure that suspensions were not lasting indefinitely for condition codes L, M, and Q.
- What actions DLA Distribution and the depots have taken to clear suspended inventory.
- What actions the DLA Supply Centers have taken to resolve DLA owned suspended inventory.

The Deputy Director at DLA Distribution requested an audit of material suspended at the depots to determine why the material was not being managed and resolved in a timely manner. Our analysis of the all suspended inventory showed that condition codes J, K, and L accounted for approximately 87% of all suspended inventory held in the depots; with four of the twenty six depots holding the majority of the suspended assets. Based on this risk assessment, we focused our audit on condition codes J, K, and L. The condition codes are defined as:

- Condition Code J - stock in storage that is suspended from issue pending condition classification or analysis.
- Condition Code K - returns from customers waiting condition classification.
- Condition Code L - material held pending litigation with contractors or carriers.

To determine if policies, procedures, instructions existed to control the processing of suspended inventory and verify if depots and supply centers complied with the written guidance, we:

- Requested DLA Distribution identify the written policies, procedures, and instructions that governed depot processing of suspended inventory.
- Requested that the DLA Supply Centers identify the written policies, procedures, and instructions that governed supply center processing of SDRs and DD Form 1225s related to suspended inventory.
- Reviewed the policies, procedures, and instructions to determine if they were consistent with regulations and provided adequate guidance to control the processing of suspended inventory at the depots and supply centers.
- Designed compliance checklists to determine if the depots and supply centers complied with policies and procedures.

- Performed compliance testing in utilizing the samples developed in the remaining control objectives.

To determine if suspended inventory was processed within the timeframes set forth in DOD 4000-25-2-M (for condition codes J and K) or that actions are being taken to ensure that suspensions are not lasting indefinitely (condition code L), we:

- Developed three dispositioned samples (one each for condition code J, K, and L) for each of the four depots selected for review, based on material being held in suspense in May 2010. The eleven samples (8 statistical and 3 non-statistical) totaled 431 items; there were no items in the remaining sample universe.
- Collected data for each sample item from DSS.
- Computed the number of days the material was suspended.

To determine what DLA Disposition and the depots have done to clear suspended inventory, we:

- Developed nine samples for each of the selected depots – (dispositioned, not dispositioned, and cancelled) for each condition code J, K, and L, based on material being held in suspense in May 2010. The thirty four samples (17 statistical and 17 non-statistical) totaled approximately 950 sample items; there were no items in the remaining two sample universes.
- Collected preliminary data for the sample items using DSS.
- Conducted field visits and reviewed the sample items for compliance with representatives from each depot.
- Provided the results of our samples to the depots to obtain comments on the results of our samples.

To determine what the DLA supply centers had done to resolve DLA-owned suspended inventory, we:

- Developed nine statistical samples for each of the three DLA Supply Centers. The nine samples totaled approximately 337 sample items.
- Collected preliminary data for the sample items using EBS.
- Conducted field visits and reviewed the sample items for compliance with representatives from each supply center.
- Met with business process analysts to obtain an understanding of the process for resolving suspended inventory.
- Provided the results of our samples to the supply centers to obtain comments on the results of our samples.

To accomplish the audit, we performed fieldwork at four distribution depots and the three supply centers. The distribution depots are responsible for receiving, storing, packing and shipping of spare parts to customers. The supply centers are responsible for managing

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# INTRODUCTION

## OBJECTIVES, SCOPE, METHODOLOGY

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The overall objective of the audit was to determine if suspended inventory in condition codes J, K, L, M, Q, and R was managed and resolved in a timely manner. Specifically, our audit objectives were to determine:

- If DLA, DLA Distribution, and Supply Center policies, procedures, and instructions existed to control the processing of suspended inventory; and verify that distribution depots and supply centers complied with guidance.
- If suspended inventory was being processed within the timeframes set forth in DOD 4000-25-2-M for condition codes J, K, and R or that action was being taken to ensure that suspensions were not lasting indefinitely for condition codes L, M, and Q.
- What actions DLA Distribution and the depots have taken to clear suspended inventory.
- What actions the DLA Supply Centers have taken to resolve DLA owned suspended inventory.

The Deputy Director at DLA Distribution requested an audit of material suspended at the depots to determine why the material was not being managed and resolved in a timely manner. Our analysis of the all suspended inventory showed that condition codes J, K, and L accounted for approximately 87% of all suspended inventory held in the depots; with four of the twenty six depots holding the majority of the suspended assets. Based on this risk assessment, we focused our audit on condition codes J, K, and L. The condition codes are defined as:

- Condition Code J - stock in storage that is suspended from issue pending condition classification or analysis.
- Condition Code K - returns from customers waiting condition classification.
- Condition Code L - material held pending litigation with contractors or carriers.

To determine if policies, procedures, instructions existed to control the processing of suspended inventory and verify if depots and supply centers complied with the written guidance, we:

- Requested DLA Distribution identify the written policies, procedures, and instructions that governed depot processing of suspended inventory.
- Requested that the DLA Supply Centers identify the written policies, procedures, and instructions that governed supply center processing of SDRs and DD Form 1225s related to suspended inventory.
- Reviewed the policies, procedures, and instructions to determine if they were consistent with regulations and provided adequate guidance to control the processing of suspended inventory at the depots and supply centers.
- Designed compliance checklists to determine if the depots and supply centers complied with policies and procedures.



- Performed compliance testing in utilizing the samples developed in the remaining control objectives.

To determine if suspended inventory was processed within the timeframes set forth in DOD 4000-25-2-M (for condition codes J and K) or that actions are being taken to ensure that suspensions are not lasting indefinitely (condition code L), we:

- Developed three dispositioned samples (one each for condition code J, K, and L) for each of the four depots selected for review, based on material being held in suspense in May 2010. The eleven samples (8 statistical and 3 non-statistical) totaled 431 items; there were no items in the remaining sample universe.
- Collected data for each sample item from DSS.
- Computed the number of days the material was suspended.

To determine what DLA Disposition and the depots have done to clear suspended inventory, we:

- Developed nine samples for each of the selected depots – (disposed, not disposed, and cancelled) for each condition code J, K, and L, based on material being held in suspense in May 2010. The thirty four samples (17 statistical and 17 non-statistical) totaled approximately 950 sample items; there were no items in the remaining two sample universes.
- Collected preliminary data for the sample items using DSS.
- Conducted field visits and reviewed the sample items for compliance with representatives from each depot.
- Provided the results of our samples to the depots to obtain comments on the results of our samples.

To determine what the DLA supply centers had done to resolve DLA-owned suspended inventory, we:

- Developed nine statistical samples for each of the three DLA Supply Centers. The nine samples totaled approximately 337 sample items.
- Collected preliminary data for the sample items using EBS.
- Conducted field visits and reviewed the sample items for compliance with representatives from each supply center.
- Met with business process analysts to obtain an understanding of the process for resolving suspended inventory.
- Provided the results of our samples to the supply centers to obtain comments on the results of our samples.

To accomplish the audit, we performed fieldwork at four distribution depots and the three supply centers. The distribution depots are responsible for receiving, storing, packing and shipping of spare parts to customers. The supply centers are responsible for managing



individual national stock number (NSN) items related to their product lines (e.g. aviation, land vehicles, or medical products). The seven field activities included in this audit were:

- DLA Distribution Hill, Utah which is located at Hill Air Force Base, Utah, supports two on-base fighter wings and maintenance functions.
- DLA Distribution Warner Robins, Georgia which is located in Warner Robins, Georgia, principally supports the Warner Robins Air Logistics Center.
- DLA Distribution San Joaquin, California has two locations, in Tracy and Lathrop, and is DLA's second largest depot. As a strategic distribution platform it supports worldwide military operations.
- DLA Distribution Susquehanna, Pennsylvania has two locations, in New Cumberland and Mechanicsburg, and is DLA's largest depot. As a strategic distribution platform it supports worldwide military operations.
- DLA Troop Support, which is located on the Naval Supply Activity - Philadelphia, provides Armed Service members with food, clothing, textiles, medicines, medical equipment, and construction supplies and equipment.
- DLA Aviation, which is located in Richmond, Virginia, provides repair parts and supply items to airplanes and helicopters and aviation weapon systems.
- DLA Land and Maritime, which is located on the Defense Supply Center Columbus installation, is the largest supply center and manages national stock numbers associated with land and water based vehicles.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Government Accountability Office (GAO) except for the standard related to organizational independence. The organizational impairment resulted from the DLA Office of the Inspector General (OIG) Audit Division (formally DLA Accountability Office Audit Division) not being accountable to the head or deputy head of DLA, and conducting non-audit services related to OMB Circular A-123, Appendix A, Management's Responsibility for Internal Control. To correct this, we have established policies and procedures to provide reasonable assurance of conforming to applicable professional standards. However, the impairment had no effect on the quality of this report as GAGAS requires that we plan and conduct the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

The general and application controls for EBS have not been reviewed. The general and application controls for DSS were reviewed in FY 09 by the DOD Office of the Inspector General, who concluded that some general and application controls were not adequately designed and effective. During this audit, we did not specifically perform additional audit work to confirm the reliability of the data from these systems. However, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **Corrective Actions**

During the course of this audit, DLA Distribution has taken an active approach to improving management of suspended stock in condition codes J, K, and L condition. Initiatives including hiring a temporary workforce to act on disposition instructions, DLA CPI Projects on L condition materiel, issuance of a Stock Readiness Coordinators handbook to all field level Stock Readiness Coordinators, continued Distribution Training to personnel creating Supply Discrepancy Reports (SDRs) and acting on disposition received on SDRs. DLA Distribution is actively working with DLA Supply Centers and the Military Services to reduce Suspended Stock in DLA Distribution Depots.

## **BACKGROUND**

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When material is suspended in condition code J, K or L by the depot, either at time of receipt or during an inspection, an SDR or DD Form 1225 is submitted to the owner or manager. The SDR or DD Form 1225 describes the condition of the material, the reason for the submission, and if needed by the depot requests disposition instructions. If the suspended inventory is a DLA owned asset a DLA supply center researches the issue to determine the appropriate course of action and provides disposition instructions to the depot (e.g. upgrade the material, dispose of material, or return material to vendor). Once the depot has received disposition instructions they reclassify the material out of the suspended condition code and close the SDR or DD Form 1225. Instructions for processing SDRs are provided in DOD 4000.2-2-M Chapter 17 "Supply Discrepancy Reporting" and DLAI 4140.55 "Reporting of Supply Discrepancies". Guidance on completing a SF 1225 can be found in DLAI 4145.4 "Stock Readiness".

# RESULTS, RECOMMENDATIONS AND CONCLUSIONS

## RESULTS AND RECOMMENDATIONS

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DLA did not process condition codes J and K suspended inventory within timeframes established in DOD 4000.25-2-M. Additionally, condition code L material was not always processed expeditiously. Except for ammunition, DOD 4000.25-2-M requires that depots and supply centers reclassify:

- Condition code J material within 90 calendar days after reporting the original transfer to the owner.
- Condition code K material within 10 days of reporting the receipt of the property.
- Condition code L material as expeditiously as possible.

We computed the average number of days the material in our samples was held in suspense at each of the depots in our sample. The averages were computed by subtracting the date the SDR or DD Form 1225 was issued from the date the suspended inventory was reclassified out of suspense and the report closed.

Table 1: Average Number of Days Material Held in Suspense

Condition Code	DLA Distribution Hill Air Force Base, UT	DLA Distribution Warner Robins, GA	DLA Distribution San Joaquin, CA	DLA Distribution Susquehanna, PA
J	178	441	637	818
K	None in sample	509	282	715
L	136	408	321	597

Excessive holding timeframes for suspended inventory occurred because depots did not always induct material correctly, provide sufficient information on the discrepancy report, follow-up on open reports, and complete supply center directed actions in a timely manner. Additionally supply centers did not always provide adequate disposition instructions and ensure disposition actions were taken. As a result, suspended inventory is unavailable to be issued to the warfighter.

### Depots Processing of Suspended Inventory

Depots did not always induct material and submit the SDRs correctly. In addition, depots didn't complete supply center directed actions in a timely manner and in some instances closed the report without reclassifying the material. Depots are both the starting and ending points of the suspended stock process. Depots start the process by suspending material and preparing the SDR or DD Form 1225. Depots end the process by reclassification of material and closing of the reports. Depots did not adequately resolve suspended inventory because they:

- Failed to reclassify material in a timely manner once they had received disposition instructions.
- Suspended inventory without creating a SDR or DD Form 1225 or closed the SDR or DD Form 1225 without reclassifying the material.
- Prepared SDRs incorrectly.
- Inducted material to the incorrect owner account.
- Failed to follow-up on open SDRs or DD Form 1225s.
- Did not receive disposition instructions on some Air Force material.
- Inducted some condition code K material using pseudo NSNs which resulted in the SDR being automatically rejected by the EBS gateway.
- Received incomplete disposition instructions due to DSS cutting-off or truncating some supply center disposition instructions.

As a result condition code J property, at the four depots we audited, remained in suspended status from two to nine times longer than allowed by DOD 4000.25-2-M and condition code K property remained in suspended up to 71 times longer than allowed by guidance.

#### Disposition Actions Not Timely

After receiving disposition instructions, the depots did not reclassify material in condition codes J, K, and L in a timely manner. We computed the average number of days the material in our depot dispositioned samples remained suspended after disposition instructions were provided to the depot. The average number of days between receiving disposition instructions and reclassification ranged as high as 635 days.

Table 2: Average Days Between Instructions and Reclassification

Condition Code	DLA Distribution Hill Air Force Base, UT	DLA Distribution Warner Robins, GA	DLA Distribution San Joaquin, CA	DLA Distribution Susquehanna, PA
J	63	401	352	635
K	None in sample	415	262	628
L	110	360	206	482

For inventory suspended in condition codes J and K DOD 4000.25-2-M prescribes the maximum period that material can remain suspended; 90 and 10 days respectively. Similarly, DOD 4000.25-2-M sets a 3 day standard for the depots to reclassify material out of condition code L once disposition instructions have been provided. The delay in reclassifying material was caused by insufficient depot manpower assigned to work SDRs and DD Form 1225s.

To ensure that depots have sufficient core staff of dedicated employees focused on working on suspended inventory, we made two recommendations.

## **Recommendation for the Director, DLA Human Resources (J-1)**

**Recommendation 1:** Request J-1 to determine the required staffing levels at depots processing suspended inventory.

### **Management Comments:**

Non-Concur. DLA Human Resources officials agreed that the appropriate staffing levels should be established for depot sites. However those staffing levels should be established by DLA Distribution in accordance with their established resource-staffing model. DLA Human Resources does not establish or recommend staffing levels for DLA activities. However, DLA Human Resources endorses the current effort under way in DLA Distribution to standardize processes across all distribution operations, to include establishment of task based standards that will improve upon and refine the DLA Distribution Staffing Model.

### **DLA OIG Analyses of Management Comments:**

Although DLA Human Resources non-concurred with the recommendation as stated, we believe the use of the resourcing-staffing model by DLA Distribution and the coordination with DLA Human Resources on the use of the model meets the intent of the recommendation.

## **Recommendation for the Commander, DLA Distribution**

**Recommendation 2:** Monitor the processing of suspended inventory and assign additional resources, as needed, to address any temporary increases in workload.

### **Management Comments**

Concur. DLA Distribution official's address the temporary increases in workload with the use of overtime and when needed realign resources temporarily to augment the workforce. DLA Distribution monitors the status of suspended stock at each distribution center by reviewing monthly reports. Moreover, DLA Distribution official's target suspended stock as an area of review on a quarterly basis for its Strategic Distribution Platforms, and reviews selected Forward Distribution Points on an as-needed basis, that looks at Supply Discrepancy Reports both with and without disposition instructions along with suspended stock without a Supply Discrepancy Report in the file. Monitoring is on-going.

### **Suspended Inventory without SDR or DD Form 1225**

We requested from DLA Distribution a listing of all material at the depots in condition code J, K or L that did not have an open SDR or DD Form 1225. During our audit, we found instances where the SDR or DD Form 1225 was closed by the depot but the disposition instructions were not followed and the material remained suspended in its location. This may also have occurred because prior to DSS Release 9.1 depot receiving staff could use the F1 key and opt out of the SDR process. The ability to opt out of the SDR process permitted material to be suspended

without a corresponding SDR being issued. DSS Release 9.1 placed an additional control in DSS, which ensures that if the stock is received in a condition code other than A, B or C that the receiver must initiate a SDR. DLA Distribution J-4 stated that there is currently no such control in place in DSS for material downgraded as a result of an inspection; e.g. DD Form 1225. DLA Distribution J-4 developed a query to pull data which allows depots to identify material suspended with no outstanding report. Once identified and researched, the depot could either remove the material from suspense or issue a SDR or DD Form 1225.

### **Recommendations for the Commander, DLA Distribution**

**Recommendation 3:** Require depots to run the query transaction on a monthly basis and research and correct resulting suspended inventory.

#### **Management Comments**

Concur. DLA Distribution Depots were provided standard transaction queries to identify stock suspended in J/K/ and L condition codes that did not have an open Supply Discrepancy Report. DLA Distribution officials advised Depots to research and create Discrepancy reports when this condition exists. Action completed June 2011.

**Recommendation 4:** Determine if an upgrade to DSS is necessary requiring depot personnel to issue a DD Form 1225 when downgrading stock as a result of inspection.

#### **Management Comments**

Concur. DLA Distribution submitted a DSS system change request. The change request is prioritized as mission essential and will be released in DSS version 13.2. Once implemented, when the stock is downgraded due to an inspection of J/K/ or L stock, DSS will require the employee to complete a Storage Quality Control Report. The program will not allow the employee to back out of the report without completing it and still allow the stock to be downgraded. Action will be completed with the DSS 13.2 implementation.

#### **Supply Discrepancy Reports**

Depots improperly prepared SDRs by not including adequate discrepancy comments, using incorrect action codes, and routing SDRs incorrectly.

Adequate discrepancy comments provide information to the action activities to enable them to make an informed decision regarding disposition of the discrepant material. In most cases, the supply centers never see the material and must rely on the information provided by the inducting depots; therefore, depots must describe in detail what the discrepancy is using descriptive terms. We found that approximately 19% of the SDRs reviewed for condition codes J and K did not have enough information to allow disposition of the material. Supply centers

cited incomplete discrepancy comments as one of their largest problems in working SDRs. For example, on Customer Return Improvement Initiative (CRII) items, frequently depots do not include the contract number and cage code (or a statement that the information is not available) in the SDR. As a result of omitting this information, supply centers are not able to make informed decisions on the disposition of the material.

We found that depots prepared SDRs with incorrect action codes. Action codes identify the action requested by the depot from the owner. For example, action code 1A indicates "disposition instructions requested", whereas action code 1B indicates "material being retained". We confirmed with DLA Distribution J-3 that action code 1A should always be used when the depot requires disposition instructions from the owner.

Improper SDR routing was also noted at DLA Distribution Hill, Utah, DLA Distribution Warner Robins, Georgia, and DLA Distribution Susquehanna, Pennsylvania. We found instances of SDRs being routed to:

- DLA Supply Centers for material owned by a Military Service.
- A Military Service for DLA owned material.

Improperly prepared SDRs are the result of inadequate guidance and training. During our audit several comments were made by depot receiving staff about the need for additional training.

### **Recommendation for the Commander, DLA Distribution**

**Recommendation 5:** Update the Receiving Participant Guide to include additional guidance on the selection of an appropriate action code and proper SDR routing. Once revisions are made DLA Distribution should develop training addressing what constitutes adequate discrepancy comments, the importance of using the correct action code, and proper SDR routing.

### **Management Comments**

Concur. DLA Distribution officials have created a matrix that cross-references SDR Action Codes, Discrepancy Codes and Stock Condition that will be added to the training manual as a laminated desk reference guide. The crossed reference desk guide will be automated and added to DSS as a systemic edits and validations as soon as the Systems Change Request document can be developed, reviewed, and put on the Functional Priority Lists to be considered as a workload by the design team. Action is on-going. Implementation will be completed with the release of DSS 13.2 or 14.1.

### Incorrect Owner Account

At the two depots that were co-located with another service, the depots inducted material into the incorrect owner account (routing identifier to, or RIT); for example placing Air Force Material in the DLA account. Specifically, DLA Distribution Hill, Utah and DLA Distribution Warner Robins, Georgia both inducted about 42% of our condition code J sample items into the incorrect owner account in DSS. Additionally, DLA Distribution Warner Robins, Georgia incorrectly inducted about 19% of our condition code K sample items to an incorrect owner account in DSS.

Identification of the proper RIT is not straight forward and the DLA Distribution Receiving Participant Guide does not clearly address how the receiver determines the correct RIT during the induction process. We requested assistance from DLA Distribution J-3, who explained the receiver needed to first determine whether there was a pre-positioned material receipt for this material. If so, then the RIT is clearly identified by the pre-positioned material receipt. If not, then the receiver should determine the source of supply, manager of record (shown on the DSS AI1C screen) and induct the material into that RIT of the manager of record.

### Recommendation for the Commander, DLA Distribution

**Recommendation 6:** Update the Receiving Participant Guide to include additional guidance on the material induction process to determine the proper RIT. Once revisions are made, DLA Distribution should develop training ensuring that incoming material is inducted to the proper RIT.

### Management Comments

Concur. DLA Distribution officials installed a change in the Distribution receiving process map and curriculum to reduce the number of receipt inductions made to the Source of Supply for non-creditable returns or those without a Preliminary Materiel Receipt Data record in DSS. DLA Distribution Officials will emphasize this during scheduled Receiving classes to ensure all understand the change. Action completed.

### Follow-up on Open SDRs and DD Form 1225s

Depots are not initiating follow-up action on open SDRs or DD Form 1225s within the required 55 calendar days from the date of report receipt by the action activity. This occurred because, while three of the four depots were aware of the follow-up requirement, they lacked clear follow-up procedures. The fourth depot, DLA Distribution Hill, Utah was aware of the follow-up requirement and was trying to use WebSDR for follow-up on a limited basis. Due to the lack of procedures the depots did not have a clear understanding of how to follow-up and had not conducted follow-up actions on any of our 457 condition code J, K or L sample items.



To correct this issue DSS and EBS could be modified to allow follow-up to be done through DSS and EBS. If this is done DSS could automatically send a SDR or DD Form 1225 for reports that do not contain a "D" (disposition instructions available) in the ROD (Report of Discrepancy) status field 55-days after the report. The supply center could then respond to the follow-up through EBS. The advantages of this include:

- Ensuring that depot follow-ups are done in a timely manner.
- Assigning the follow-up automatically, through EBS, to the appropriate individual's workflow, thus ensuring the inquiry will be addressed.
- Allowing for interim correspondence between supply centers and depots, this is currently done outside of the systems through phone calls or e-mails.
- Improving discrepancy resolution documentation.

### **Recommendations for the Commander, DLA Distribution**

**Recommendation 7:** Provide the depots with instructions on how to follow-up on and document open SDR and DD Form 1225 reports.

#### **Management Comments**

Concur. DLA Distribution officials provided DLA Distribution Depots with Standard Operation Procedures for Follow-up on Supply Discrepancy Reports and Storage Quality Control Reports that still require Disposition. The SOP is coded as DLA Distribution J4-BA, number BA-2012-01, dated February 3, 2012. Action completed February 2012.

**Recommendation 8:** Evaluate the feasibility of modifying the EBS and DSS systems to permit SDR and DD Form 1225 follow-ups through the systems.

#### **Management Comments**

Concur. DLA Distribution officials submitted a DSS system change request titled "Interim Disposition Instructions for 364/1225". Once implemented, it will automate follow-ups from DSS to EBS for SDRs/SQCRs that still require disposition after DOD timeframes for response have expired. The system change request also allows for interim responses between DLA Distribution Depots and the Supply Centers, reducing the amount of communication that is done outside the system via e-mail and phone calls. The interim responses will be from DSS to EBS and vice versa providing an auditable history of communications. Action expected to be completed with the release of DSS 13.2.

#### **Air Force Material**

DLA Distribution Warner Robins, Georgia did not receive disposition instructions on some Air Force material inducted using "P" (or part) numbers in lieu of a NSN. This material composed 18 of 59 condition code K sample items. The use of "P" numbers to place the material on record

and file the SDR is caused by a lack of paperwork and the inability of the depot to identify an appropriate NSN during the induction process. We confirmed that the SDRs were routed to the Air Force but no disposition instructions had been provided; consequently the material remained in condition code K for an extended period of time and the established timeframe was exceeded.

### **Recommendation for the Commander, DLA Distribution**

**Recommendation 9:** Coordinate with the Air Force to establish a process to identify the appropriate NSN for material currently identified as "P" material. Once correct NSNs are identified, reclassify the material or submit new SDRs.

#### **Management Comments**

Concur. DLA Distribution officials will identify any open "P" material SDRs and coordinate with the Air Force through the DLA Distribution - Air Force Suspended Stock Integrated Process Team. DLA Distribution will ask Air Force to provide equipment specialists to positively identify the materiel to a NSN and also ask if disposition or reclassification can be provided on the spot. If disposition cannot be provided on the spot, the original "P" SDR will be closed and a new SDR submitted with the correct NSN. Action is on-going. DLA Distribution officials in discussion with Air Force Suspended Stock IPT to resolve issue.

#### **Material Inducted Using Pseudo NSNs**

DLA Distribution Warner Robins, Georgia and DLA Distribution Susquehanna, Pennsylvania inducted about 19 percent of condition code K material using pseudo NSNs. Examples of pseudo NSNs found during our review included:

- 5310-00BOLTSNT
- 5998-CIRCUITCARD
- 1560-WINGFLAP1
- 1560-FILMGATE/WG

In accordance with the DLA Distribution Receiving Guide, depots used pseudo NSNs to place the material on record and file the SDR when the material was received without paperwork and the receiver was unable to identify a valid NSN. However, the supply centers indicated that pseudo NSNs are rejected automatically at the EBS gateway with a 901 code (item shipped/billed by another supply activity). Because the depot instructions on the use of pseudo NSNs are in conflict with the current configuration of the EBS gateway, material was suspended at the depot without a valid SDR being received by the supply center.

## Recommendation for the Commander, DLA Distribution

**Recommendation 10:** Coordinate with the supply centers to develop a process that allows for timely resolution of material when the depots are unable to determine appropriate NSNs.

### Management Comments

Concur. DLA Distribution officials have prepared and released for review a draft change called Preliminary DLMS Change 403A, Titled: Procedures for Processing Depot Returns (Including receipt, Supply Discrepancy Report), and Proposed Revision to Time Standard for Reclassification of Supply Condition Code K Assets). The PDC provides options for handling unauthorized return materiel that cannot be identified to an NSN by DLA Distribution and update time standards for providing disposition instructions on active SDRs. In regards to the unauthorized return of materiel, whether or not it can be identified to an NSN, the PDC option one is to instruct the returning activity to pick-up the materiel. Option two recommends each service establish a unique owner routing identifier code for DLA Distribution to use to report unauthorized returns. Action is on-going. The DLMS PDC is in process.

### Incomplete Disposition Instructions

DSS was both cutting-off and truncating the disposition instructions provided by the supply centers when the EBS long text field was compared to the corresponding disposition instructions in DSS. We determined that approximately 17% of the disposition instructions in our supply center samples had been cut-off or truncated by DSS.

- Disposition Instruction Cut-offs - Our review disclosed that 53 of the 337 disposition instructions in our supply center samples showed that the last portion of the disposition instructions were cut-off in DSS. DLA-Distribution J-6 took corrective action and issued a patch to DSS in April 2011 to correct the problem.

In order to determine if the DLA Distribution J-6 correction was effective, we requested a listing of condition code J, K and L material that had disposition instructions issued by the supply centers after the April 2011 patch. When we compared the disposition instructions in the EBS long text field to the disposition instructions in the DSS, we did not find any disposition instructions that had been cut-off. Therefore, we concluded that the patch corrected this issue.

End-of-Line Truncation - Our review also found 5 of the 337 disposition instructions in our supply center samples had the end of each line of the instructions truncated by DSS. DLA Distribution J-6 indicated that they had identified and corrected this issue in 2008. We saw no instances of end-of-line truncation after 2008 and concluded that the actions taken by J-6 in 2008 effectively addressed the problem.

## **Supply Center Processing of Suspended Inventory**

Once supply centers receive a SDR or DD Form 1225, they must research the suspension and provide timely and concise disposition instructions to the depots. Supply centers did not always provide adequate disposition instructions for suspended inventory, we found that supply centers:

- Provided disposition instructions for Air Force owned assets.
- Sent depots inadequate disposition instructions.
- Failed to involve the resolution specialist in final disposition.

As a result the supply centers contributed to the delay in depots clearing suspended inventory.

### **Disposition of Air Force Owned Assets**

DLA supply centers incorrectly provided disposition instructions on Air Force owned material. We found 21 of the 114 DD Form 1225 transactions reviewed were for Air Force owned material for which DLA Aviation and DLA Land and Maritime issued disposition instructions. This occurred because the product specialists were not familiar with the policy on non-DLA owned inventory.

The TQ Deskbook requires that when ownership of the material is in question, product or resolution specialists should query the DSS record to determine the ownership.

- For material not held in a DLA account, but that meets product requirements, the disposition instructions will state that the material is acceptable for use and instruct the depot to contact the material owner for authorization to release the material.
- For material not held in a DLA account, and does not meet requirements, the disposition instructions will state that the material is not acceptable for use and instruct the depot to submit a SDR to the material owner requesting final disposition instructions.

## **Recommendation for the Supply Center Commanders**

**Recommendation 11:** Conduct refresher training on identifying and preparing disposition instructions for non-DLA owned material.

### **Management Comments**

DLA Aviation and DLA Troop Support concurred with the recommendation and DLA Land and Maritime partially non-concurred. DLA Aviation and DLA Troop officials recommended developing a standard training package for all touch points that can be used across the Supply

Centers and updating job aids. Establishing initiatives to enhance cross process training which will include coordination and assistance from DLA Land and Maritime, DLA Troop Support, and DLA Headquarters. DLA Land and Maritime officials stated that SDRs for non-DLA owned material should be routed to the appropriate owner. DLA associates should be better trained to identify when they are asked to provide disposition instructions on non-DLA managed or owned material. The exception to this is on Critical Safety Items (CSI). Estimated completion date is 30 September 2012.

### Disposition Instructions

The DLA Supply Centers are not always providing the depots with clear, concise, definitive disposition instructions, which prevented the depots from reclassifying the material out of a suspense status in a timely manner. This was caused by the product specialist not following guidance on the content and length of disposition instructions.

We reviewed a sample of 337 disposition instructions, and found that about 15% of the items did not meet the EBS guidance for task long text fields. Specifically, we found that the disposition instructions:

- Were unclear since the disposition instructions did not give definitive actions to take regarding resolution of the inventory.
- Exceeded the general guidelines of less than 61 characters per line and less than 9 lines.

We noted that in some cases the product specialist would include details in the long text field that were not relevant to the depots in reclassifying the material; for example, documenting why the product specialist arrived at that particular disposition decision. While it is important to document the rationale for a disposition decision, as a best practice we suggest that this be done elsewhere in EBS to provide the depots with clear, concise and definitive disposition instructions.

## Recommendation for the Supply Center Commanders

### Recommendation 12:

Conduct refresher training for product and resolution specialists to emphasize the importance of providing definitive disposition instructions to depots.

### Management Comments

DLA Troop Support and DLA land and Maritime concurred with the recommendation. DLA Aviation non-concurred with the recommendation as written. DLA Troop Support officials stated that the best approach would be to develop enterprise templates to be used agency wide for various disposition instructions. Responses sent to DSS would be more consistent, concise,

and accurate which would help minimize time required to take action on disposition. The Business Process Support Office is coordinating with the Enterprise SPO to adjust as deemed necessary and updated training will commence within 90 days of completion of a unified approach and development of the new job aids. DLA Aviation officials stated refresher training to resolution specialists is on-going for the scope of their responsibilities in processing SDRs. DLA Aviation officials proposed new training be developed by cross process areas specifically product, packaging and acquisition specialist for their specific roles in providing definitive disposition instructions. Estimated completion date is September 30, 2012.

#### No Resolution Specialist Involvement in Final Disposition

Resolution specialists at the supply centers were not consistently utilized as part of the process of issuing disposition instructions to the depots in 49 of the sampled items. This occurred because the TQ Deskbook only indirectly addresses the resolution specialist's involvement in closing the SDR or DD Form 1225 and provides little guidance to the resolution specialist on what specifically they are to review. As a result, there were discrepancies between the supply centers (and sometimes within a particular supply center) on the scope and authority of the resolution specialist duties related to SDRs and DD Form 1225s. Some resolution specialists were under the impression they could not question the disposition instructions provided by the product specialists. However, other resolution specialists believed that they could change the instructions, without contacting the product specialist prior to issuing the disposition instructions.

#### Recommendation for the Supply Center Commanders

**Recommendation 13:** Clarify the resolution specialist's role in closing out SDRs and DD Form 1225s by specifying what the resolution specialists are to review and the actions to take on identified problems. Once this is complete, provide training to the product, acquisition, and resolution specialists.

#### Management Comments

DLA Aviation, DLA Land and Maritime and DLA Troop Support concurred with the recommendation. DLA Aviation officials stated proposed cross process areas define roles and functions in closing out SDRs and DD Form 1225s, specifically delineating that Product and Acquisition Specialists are responsible for providing disposition instructions and Resolution Specialist complete tasks assigned by product and/ or acquisition specialist. The estimated completion date is September 30, 2012. DLA Troop Support officials add that implementing system changes to require certain data would minimize the occurrence of insufficient disposition instructions being sent out. The Business Process Support Office is coordinating with the Enterprise SPO to adjust as necessary.

## CONCLUSION

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Because condition codes J, K, and L contain 87 percent of suspended inventory stored in the depots, we focused our audit effort on those codes. We concluded that, while supply centers and depots had taken some actions to resolve suspended inventory, DLA was not managing and resolving suspended inventory in a timely manner. Specifically, we found that:

- DLA was not processing suspended inventory within DOD 4000.25-2-M timeframes. The average processing timeframe for condition code J material in our depot samples ranged from 178 to 818 days, well in excess of the 90 day processing requirement. Condition code K material has a 10 day processing requirement; however, our samples had average processing times extended up to 715 days. The standard provides depots 3 days to reclassify condition code L material once disposition instructions are received; the depots in our samples took between 110 and 482 days on average.
- Depots need to have a sufficient staff of employees working suspended inventory.
- DLA Distribution needs to provide additional guidance on induction, adequate SDR submission, and follow-up on outstanding SDRs and DD Form 1225s.
- DLA Supply centers need to better identify non-DLA owned material, emphasize the importance of definitive disposition instructions, and clarify the role of the resolution specialists.
- DLA Distribution and the supply centers should refine the process for induction of material with pseudo NSNs to ensure the material is resolved in a timely manner.

## SUMMARY OF RECOMMENDATIONS

	Recommendation	Addressee	Estimated Completion Date
1	Request J1 to determine the required staffing levels at depots processing suspended inventory.	DLA Human Resources	On-going
2	Monitor the processing of suspended inventory and assign additional resources, as needed, to address any temporary increases in workload.	DLA Distribution	On-going
3	Require depots to run the query transaction on a monthly basis and research and correct resulting suspended inventory.	DLA Distribution	June 2011
4	Determine if an upgrade to DSS is necessary requiring depot personnel to issue a DD Form 1225 when downgrading stock as a result of an inspection.	DLA Distribution	Completed
5	Update the Receiving Participant Guide to include additional guidance on the selection of an appropriate action code and proper SDR routing. Once revisions are made DLA Distribution should develop training addressing what constitutes adequate discrepancy comments, the importance of using the correct action code, and proper SDR routing.	DLA Distribution	On-going
6	Update the Receiving Participant Guide to include additional guidance on the material induction process to determine the proper RIT. Once revisions are made, DLA Distribution should develop training ensuring that incoming material is inducted to the	DLA Distribution	Completed



	proper RIT.		
	<b>Recommendation</b>	<b>Addressee</b>	<b>Estimated Completion Date</b>
7	Provide the depots with instructions on how to follow-up on and document open SDR and DD Form 1225 reports.	DLA Distribution	February 2012
8	Evaluate the feasibility of modifying the EBS and DSS systems to permit SDR and DD Form 1225 follow-ups through the systems.	DLA Distribution	On-going
9	Coordinate with the Air Force to establish a process to identify the appropriate NSN for material currently identified as "P" material. Once correct NSNs are identified, reclassify the material or submit new SDRs.	DLA Distribution	On-going
10	Coordinate with the supply centers to develop a process that allows for timely resolution of material when the depots are unable to determine appropriate NSNs.	DLA Distribution	On-going
11	Conduct refresher training on identifying and preparing disposition instructions for non-DLA owned material.	DLA Supply Centers	September 30, 2012
12	Conduct refresher training for product and resolution specialists to emphasize the importance of providing definitive disposition instructions to depots.	DLA Supply Centers	September 30, 2012
13	Clarify the resolution specialist's role in closing out SDRs and DD Form 1225s by specifying what the resolution specialists are to review and the actions to take on identified problems. Once this is complete, provide training to the product, acquisition, and resolution specialists.	DLA Supply Centers	September 30, 2012

## ABBREVIATIONS USED IN THIS REPORT

DSS	Distribution Standard System
EBS	Electronic Business System
MILSTRAP	Military Standard Reporting and Accounting Procedures (DOD 4000.25-2-M)
SDR	Supply Discrepancy Report
FLIS	Federal Logistics Information System
PMR	Pre-positioned Material Receipt
GAO	Government Accounting Office
OIG	Office of the Inspector General
GAGAS	Generally Accepted Government Auditing Standards
CRII	Customer Return Improvement Initiative
ROD	Report of Discrepancy
NSN	National Stock Number
RIT	Routing Identifier To
SOS	Source of Supply

## ACKNOWLEDGMENTS

Ms. Tamonie Denegall, Audit Manager  
Mr. Ken Frohnert, Auditor  
Ms. Pat Sweeney, Auditor  
Mr. Danny Fox, Auditor

## MANAGEMENT COMMENTS



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

J-33

MEMORANDUM FOR DLA OFFICE OF THE INSPECTOR GENERAL AUDIT DIVISION

SUBJECT: Response to the DLA Office of the Inspector General (OIG) Draft Report: Audit of Suspended Inventory (DAO-10-16)

The attached response is provided to the DLA OIG's request for DLA comments to the Draft Report: Audit of Suspended Inventory (DAO-10-16). Management's comments, recommendations and estimated completion dates to be included in the final audit report are provided in the attached documentation.

The point of contact for this matter is Ms. Esther Wade, J-332, (703) 767-2527, or e-mail: [esther.wade@dlm.mil](mailto:esther.wade@dlm.mil).

A handwritten signature in black ink, reading "Jeffrey R. Curtis".

JEFFREY R. CURTIS  
Executive Director  
Materiel Policy, Process and Assessment

Attachments



DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
8725 JOHN J. KINGMAN ROAD  
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JUL -9 2012

MEMORANDUM FOR DLA OFFICE OF INSPECTOR GENERAL AUDIT DIVISION

SUBJECT: Management Comments for the Audit of Suspended Inventory Draft Report  
(DAO-10-16)

DLA Human Resources reviewed the subject draft report, non-concurs with Recommendation 1: Request J-1 to determine the required staffing levels at depots processing suspended inventory, and submits the following comments for inclusion in the final report:

While we agree that the appropriate staffing levels should be established for depot sites, DLA Distribution should determine those levels in accordance with their established resource/staffing model. The DLA Distribution J3 determines staffing levels for all sites based on the DLA Distribution Staffing Model; DLA Human Resources does not establish or recommend staffing levels for DLA activities. The mid-year staffing targets, with specific numbers in all areas, were provided for all sites. DLA Human Resources and DLA Distribution J3 have worked closely on the staffing model, and it has been reviewed several times with regard to all sites and will continue to be a topic of discussion regarding position management. DLA Human Resources endorses the current effort under way in DLA Distribution to standardize processes across all distribution operations, to include establishment of task based standards that will improve upon and refine the DLA Distribution Staffing Model.

Point of contact for this action is Ms. Cheryl Steptoe-Simon, Staff Director, DLA Human Resources, Human Capital Business Integration, (703) 767-4302, DSN 427-4302 or email: [cheryl.steptoe-simon@dla.mil](mailto:cheryl.steptoe-simon@dla.mil).

  
BRAD BUNN  
Director  
DLA Human Resources



DEFENSE LOGISTICS AGENCY  
DISTRIBUTION  
2001 MISSION DRIVE  
NEW CUMBERLAND, PENNSYLVANIA 17070-5000


APR 23 2012

MEMORANDUM FOR DLA OIG AUDIT DIVISION

SUBJECT: Management Comments for the Audit of Suspended Inventory Draft Report  
(DAO-10-16)

DLA Distribution reviewed the subject draft report. Management comments are attached to be included in the final report.

My POC for further discussion or questions will be Ms. Denise Kurtz, Division Chief, DLA Distribution J4B at DSN 771-4484 or [denise.kurtz@dla.mil](mailto:denise.kurtz@dla.mil).

  
WILLIAM H. BUDDEN, SES  
Deputy Commander, DLA Distribution

Attachment

**DLA Distribution Management Comments to Audit Recommendations for the Commander, DLA Distribution**

**Recommendation 1:**

Request J-1 to determine the required staffing levels at depots processing suspended inventory.

**Management Comments**

**Recommendation 2:**

Monitor the processing of suspended inventory and assign additional resources, as needed, to address any temporary increases in workload.

**Management Comments**

Concur. DLA Distribution addresses temporary increases in workload via use of overtime and, if required, the use of temporarily assigned resources to augment the distribution center's workforce using personnel from within the Distribution network or other means of resourcing external to the Distribution Center experiencing the temporary workload increase. DLA Distribution currently monitors the status of suspended stock at each Distribution Center via monthly report that breaks out suspended material by condition codes J, K, and L, number of NSNs, and total dollar value. Additionally, DLA Distribution targets suspended stock as an area of review on a quarterly basis for its Strategic Distribution Platforms (SDPs), and reviews selected Forward Distribution Points on an as-needed basis, that looks at Supply Discrepancy Reports (SDR) both with and without disposition instructions along with suspended stock without an SDR in file. Overall, DLA Distribution continues to make progress in reducing its suspended stock. For example, regarding DLA Distribution Susquehanna, the total number of suspended stock for condition codes J, K, and L has been reduced over the past 15 months from a line item count of 35,682 valued at \$458M to a line item count of 7,809 valued at \$178M. (Monitoring is on-going)

**Recommendation 3:**

Require depots to run the query transaction on a monthly basis and research and correct resulting suspended inventory.

**Management Comments**

Concur. DLA Distribution Depots were provided a standardized QMF to identify stock suspended in J/K/L condition that does not have an open SDR/SQCR. Depots have been advised to research and create the SDR/SQCR when this condition exists. DLA Distribution Depots provide the number of suspended stock line items without an SDR/SQCR on their weekly SITREP to DLA Distribution Commander. (Complete June 2011)

**Recommendation 4:**

Determine if an upgrade to DSS is necessary requiring depot personnel to issue a DD Form 1225 when downgrading stock as a result of inspection.

**Management Comments**

Concur. DLA Distribution has submitted a DSS System Change Request (SCR). The SCR number is DSS-RE2-012, titled "DAC PROC ACTION WITHIN COSIS for CC J,K,L". It is prioritized as mission essential and will be released in DSS version 13.2. Once implemented, when stock is downgraded due

1

to an inspection to J,K, or L, DSS will require the employee to complete a Storage Quality Control Report (1225). The program will not allow the employee to back out of the 1225 without completing it and still allow the stock to be downgraded. (Complete – SCR submitted, implementation is expected with DSS 13.2 implementation)

**Recommendation 5:**

Update the Receiving Participant Guide to include additional guidance on the selection of an appropriate action code and proper SDR routing. Once revisions are made DLA Distribution should develop training addressing what constitutes adequate discrepancy comments, the importance of using the correct action code, and proper SDR routing.

**Management Comments**

Concur. Even though our DLA Distribution receiving training curriculum includes standardized instructions in unit seven on the assignment of SDR Action and Discrepancy codes, during our process validation project we found those codes being assigned in a fashion not in keeping with the curriculum. DLA Distribution J4 has created a matrix that cross-references SDR Action Codes, Discrepancy Codes and Stock Condition Codes which will be added to our training manual as a laminated desk reference guide. Furthermore, to eliminate the possibility of the receipt induction operator assigning codes manually, the cross-reference desk guide will be automated and added to DSS as systemic edits and validations as soon as the Systems Change Request (SCR) document can be developed, reviewed, and put on the Functional Priority List (FPL) to be considered as workload by the design team. (Ongoing – additional guidance complete. SCR to be developed and included in DSS 13.2 or 14.1)

**Recommendation 6:**

Update the Receiving Participant Guide to include additional guidance on the material induction process to determine the proper routing identifier to (RIT). Once revisions are made, DLA Distribution should develop training ensuring that incoming material is inducted to the proper RIT.

**Management Comments**

Concur. A change has been installed in the DLA Distribution receiving process map and curriculum to reduce the number of receipt inductions made to the Source of Supply (SoS) for non-creditable returns or those without a Preliminary Materiel Receipt Data (PMRD) record in DSS. The change that was inserted includes determining if the unauthorized or non-creditable return is accompanied by a DD Form 1348-1, receipt inductors are to glean the owner RIC from record position 67-69 of the DD Form 1348-1. This will be emphasized during upcoming Receiving classes to ensure all understand the change. (Complete)

**Recommendation 7:**

Provide the depots with instructions on how to follow-up on and document open SDR and DD Form 1225 reports.

**Management Comments**

Concur. DLA Distribution provided the DLA Distribution Depots with Standard Operating Procedures for Follow-up on Supply Discrepancy Reports and Storage Quality Control Reports that still require disposition. The SOP was promulgated to the DLA Distribution Depot Commanders, Directors, and

2



Deputies by Memo Dated February 7, 2012 and signed by L. Scott Rosbaugh, Director, Distribution Process and Planning. The SOP is coded as DLA Distribution J4-BA, number BA-2012-01, dated February 3, 2012. (Complete February 2012)

**Recommendation 8:**

Evaluate the feasibility of modifying the EBS and DSS systems to permit SDR and DD Form 1225 follow-ups through the systems.

**Management Comments**

Concur. DLA Distribution has submitted a DSS System Change Request (SCR). The SCR number is DSS-HQ2-011, titled "Interim Disposition Instructions for 364/1225". It is prioritized as mission essential and will be released in DSS version 13.2. Once implemented, it will automate follow-ups from DSS to EBS for SDRs/SQCRs that still require disposition after DOD timeframes for response have expired. The SCR also allows for interim responses between DLA Distribution Depots and the Supply Centers, reducing the amount of communication that is done outside the systems via email and phone calls. The interim responses will be from DSS to EBS and vice versa providing an auditable history of communications. Since this SCR impacts DSS and EBS, implementation requires planning and synchronization between the systems. (Complete, SCR submitted, implementation is expected with DSS increment 13.2)

DLA Distribution is also pursuing a change to the DOD WEBSDR system to automate the follow-up process. Upon initial talks with DLA HQ and DLMSO, DOD WEBSDR could potentially be programmed to follow-up automatically on SDRs. Currently, DOD WEBSDR does not facilitate sending SQCRs so automatic follow-up would be programmed at a later time. A DLMS change proposal is being written to identify the requirements, and then it will be staffed to the Services. (DLMS PDC in-process)

**Recommendation 9:**

Coordinate with the Air Force to establish a process to identify the appropriate NSN for material currently identified as "P" material. Once correct NSNs are identified, reclassify the material or submit new SDRs.

**Management Comments**

Concur. DLA Distribution will identify any open "P" material SDRs and coordinate with Air Force through the DLA Distribution/Air Force Suspended Stock Integrated Process Team (IPT). DLA Distribution will ask Air Force to provide Equipment Specialists to positively identify the materiel to an NSN and also ask if disposition or reclassification can be provided on the spot. If disposition cannot be provided on the spot, then the original "P" SDR will be closed and a new SDR submitted with the correct NSN. (Under discussion with AF Suspended Stock IPT)

**Recommendation 10:**

Coordinate with the supply centers to develop a process that allows for timely resolution of material when the depots are unable to determine appropriate NSNs.

**Management Comments**

Concur. A draft change called Preliminary DLMS Change (PDC) 403A, Titled: Procedures for Processing Depot Returns (Including Receipt, Supply Discrepancy Report (SDR), and Proposed Revision to Time Standard for Reclassification of Supply Condition Code K Assets) has been released for review. The PDC provides options for handling unauthorized return materiel that cannot be identified to an NSN by DLA Distribution and updated time standards for providing disposition instructions on active Supply Discrepancy Reports (SDR). In regards to the unauthorized return of materiel, whether or not it can be identified to an NSN, the PDC option one is to instruct the returning activity to pick-up the materiel. Option two recommends each service establish a unique owner routing identifier code (RIC) for DLA Distribution to use to report unauthorized returns to. (DLMS PDC in process)



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20 MAY 12

MEMORANDUM FOR DLA OFFICE OF INSPECTOR GENERAL AUDIT DIVISION

SUBJECT: DLA Aviation's Responses to the Official Draft Report: Audit of Suspended Inventory

The DLA Aviation reviewed the DLA Office of Inspector General Official Draft Report on the Audit of Suspended Inventory, DAO-10-16. As Commander of DLA Aviation, I concur with the comments/responses to the recommendations in the attachment.

My point of contact for this action is Ms. Corliss Baugh, DSN: 695-6374, Fax: 695-5470 or email: corliss.baugh@dla.mil.

Sincerely and very respectfully,

SCOTT W. JANSSON  
Brigadier General USAF  
Commander

Attachment

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DEFENSE LOGISTICS AGENCY  
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RICHMOND, VIRGINIA 23297-5002

IN REPLY  
REFER TO DSCR-BA

11 May 2012

MEMORANDUM FOR COMMANDER, DEFENSE LOGISTICS AGENCY AVIATION  
SUBJECT: DAO-10-16 AUDIT OF SUSPENDED INVENTORY

The Business Process Support Directorate submits the attached response to the recommendations provided by the DLA OIG Office. Milestones and anticipated completion dates have been provided.

Should you have additional questions, please contact Eve Alfonso, x5526, Eve.Alfonso@dfa.mil.

Jan Price  
DLA Aviation  
Director  
Business Process Support Directorate

Attachment

## DLA Aviation Response

### DRAFT REPORT

#### Audit of Suspended Inventory

Project No. DOA-10-16

Dated: April 20, 2012

#### DLA OIG Recommendations

The DLA OIG recommends that the Commanders of the Supply Centers:

Recommendation 11: Conduct refresher training on identifying and preparing disposition instructions for non-DLA owned material.

DLA Aviation Response: Concur with recommendation - Recommend developing a standard training package for all touchpoints that can be used across the Supply Centers. Establish initiatives to enhance cross process training which will include coordination and assistance from DLA Land and Maritime, DLA Troop Support, and DLA Headquarters. Recommend updating current job aids to include details on preparing disposition instructions for non-DLA material. Request assistance from IIQ Training POC to ensure cross functional processes are addressed and training is implemented across the enterprise. Recommend estimated completion date 30 September 2012.

Recommendation 12: Conduct refresher training for product and resolution specialist to emphasize the importance of providing definitive disposition instructions to depots.

DLA Aviation Response: Non-Concur with recommendation as written - Refresher training to resolution specialists is on-going for scope of their responsibilities in processing SDRs. Recommend new training be developed by cross process areas specifically product, packaging and acquisition specialist for their specific roles in providing definitive disposition instructions. Recommend estimated completion date 30 September 2012.

Recommendation 13: Clarify the resolution specialist's role in closing out SDRs and DD Form 1225s by specifying what the resolution specialists are to review and the actions to take on identified problems. Once this is complete, provide training to the product, acquisition, and resolution specialists.

DLA Aviation Response: Concur with recommendation. Request cross process areas define roles and functions in closing out SDRs and DD Form 1225s, specifically delineating that Product and Acquisition Specialists are responsible for providing disposition instructions and Resolution Specialist complete tasks assigned by product and/or acquisition specialist. Recommend estimated completion date 30 September 2012.



DEFENSE LOGISTICS AGENCY  
LAND AND MARITIME  
P.O. BOX 3990  
COLUMBUS, OHIO 43218-3990

MEMORANDUM FOR DLA LOGISTICS OPERATIONS, DLA-J33

SUBJECT: DLA Land and Maritime Management Comments to Recommendations made  
in DLA Office of the Inspector General (OIG) Draft Report: Suspended Inventory

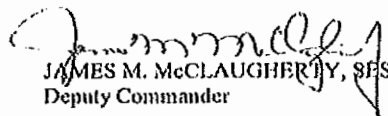
Contained herein, are the DLA Land and Maritime management comments to the three recommendations addressed specifically to the DLA Supply Centers in the DLA Office of the Inspector General (OIG) Draft Report: Suspended Inventory.

The DLA Land and Maritime position for cited recommendations are as follows:

- Recommendation 11- Partially Non-Concur - SDRs for non-DLA owned should be routed to the appropriate owner. DLA associates should be better trained to identify when they are asked to provide disposition instructions on non-DLA managed or owned material. The exception to this is on Critical Safety Items (CSI). When the service submits a CSI addition, DLA Distribution automatically screens all material and suspended material procured from unapproved sources and submits the DD 1225 to DLA regardless of the material owner. DLA should ensure all are trained on the CSI exception. DLA has the responsibility to research the material and coordinate with the ESA for a usability determination. To minimize the risk of incorrect routing both SAP and DSS system enhancements should be made to reduce the occurrence of SDRs being routed to the incorrect action activity.
- Recommendation 12- Concur
- Recommendation 13- Concur

If you have any questions please contact Ms. Dee Debenport at 614-692-9187.

*Made a copy of  
herein with the Enterprise's  
Condition Code L C.P.I.  
Project!*

  
JAMES M. McLAUGHERTY, SES  
Deputy Commander



DEFENSE LOGISTICS AGENCY  
TROOP SUPPORT  
700 ROBBINS AVENUE  
PHILADELPHIA, PENNSYLVANIA 19111-5092

APR 24 2012

MEMORANDUM FOR DIRECTOR, DLA LOGISTICS OPERATIONS

SUBJECT: Response to DLA OIG Draft Audit of Suspended Inventory

Reference is made to DLA Office of Inspector General Audit Report DAO-10-16, Audit of Suspended Inventory, dated April 2012. DLA Troop Support's response to recommendations in referenced report is attached.

Point of contact for this action is Mr. Louis Pilla, BA, (215) 737-0400, DSN 444-0400, or email: Louis.Pilla@dia.mil.

DAVID F. BAUCOM  
Rear Admiral, SC, USN  
Commander

Attachment  
As stated

DLA Office of the Inspector General  
Audit of Suspended Inventory  
Audit Report: DAO-10-16, April 2012

Recommendation 11

Conduct refresher training on identifying and preparing disposition instructions for non-DLA owned material.

DLA Troop Support Response:

Concur: Job Aids should be updated and cross process, enterprise training provided (90 day timeframe), but to minimize the risk of this happening both SAP and Distribution Standard System (DSS) system enhancements should be made to reduce the occurrence of Supply Discrepancy Reports (SDR) being routed to the incorrect action activity.

ECD: The Business Process Support Office is coordinating with the Enterprise System Program Office (SPO) to adjust as deemed necessary and updated training will commence within 90 days of completion of a unified approach and development of the new job aids.

Recommendation 12

Conduct refresher training for product and resolution specialists to emphasize the importance of providing definitive disposition instructions to depots.

DLA Troop Support Response:

Concur: Recommend developing enterprise templates to be used agency wide for various disposition instructions. Responses sent to DSS would be more consistent, concise, and accurate which would help minimize time required to take action on disposition. Job aids can be updated and cross process, enterprise refresher training given (90 day timeframe).

ECD: The Business Process Support Office is coordinating with the Enterprise SPO to adjust as deemed necessary and updated training will commence within 90 days of completion of a unified approach and development of the new job aids.

Recommendation 13

Clarify the resolution specialist's role in closing out SDR and DD Forms 1225s by specifying what the resolution specialists are to review and the actions to take on identified problems. Once this is complete, provide training to the product, acquisition, and resolution specialists.



**DLA Troop Support Response:**

**Concur:** Job aids can be updated and cross process, enterprise refresher training given (90 days). Implementing system changes to require certain data would minimize the occurrence of insufficient disposition instructions being sent out. Need internal business rules for SDRs that need to be returned for correction or clarification.

**ECD:** The Business Process Support Office is coordinating with the Enterprise SPO to adjust as deemed necessary and updated training will commence within 90 days of completion of a unified approach and development of the new job aids.





*DLA Office of Inspector General*

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## **Audit of Travel Card Usage**



# Executive Summary

Audit Report DAO-10-25

August 27, 2012

## Audit of Travel Card Usage

### Results

Public Law 105-264 (Travel and Transportation Reform Act of 1998) mandated the use of the Federal Travel Charge Card to provide a more efficient means of paying for official travel-related expenses for government travelers. Travel regulations stated that the government travel cards are used for official use only; and the cardholder, not the government, has responsibility for the payment of the charges made with the travel card.

Initially, we announced this Audit of the Travel Card Program as part of a larger engagement on Credit Card Usage in July 2010. However, due to the magnitude of the subject matter, we decided to separate the Travel Card Program and conduct an audit of the Purchase Card Program at a future date. Also during the audit, management responsibility for the Agency's Government Travel Card Program transitioned from DLA Installation Support to DLA Finance (J8) on April 22, 2012. The DLA Office of Inspector General and the DLA Executive Board Plan ranked credit card usage as a significant risk and included the audit in the DLA OIG FY 2010 Annual Audit plan.

Our objective was to determine whether DLA complied with policies and other regulatory controls that governed the use of the government travel card. We found that the DLA Finance (J8) generally complied with DOD policies and other regulatory controls governing the use of the travel card; and that DLA travel vouchers were associated with official government travel.

However, Agency Program Coordinators for the travel card program did not always maintain notification documentation that informed travelers and supervisors of delinquent accounts in accordance with DOD FMR Volume 9, Chapter 3. In addition Approving Officials, responsible for authorizing DLA employees to take official travel and authorizing the subsequent vouchers related to that travel, did not properly review and approve travel vouchers in accordance with the Joint Federal Travel Regulations. As a result, delinquent accounts could go unresolved; and a lack of supporting documentation may have led to unsupported payments to travelers.

### Why DLA OIG Did this Review

As approved by the DLA FY 2010 Annual Audit Plan, we conducted an audit of DLA Travel Charge Card Program. Credit Card Usage was rated as significant risk area for DLA.

### What DLA OIG Did

Our objective was to determine if DLA was complying with policies and other regulatory controls governing the use of the travel card. Specifically, we examined travel vouchers to determine whether the vouchers were:

- Associated with official government travel.

- Properly reviewed and approved by the approving official.

### What DLA OIG Recommends

This report contains six recommendations addressed to DLA Finance (J8), to help strengthen controls for the oversight of the government travel card program.



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

August 27, 2012

MEMORANDUM FOR DLA FINANCE (J8)

SUBJECT: Final Report on Travel Card Usage, Report Number, DAO 10-25

This is our report on the Audit of Travel Card Usage. It includes the results of our audit and conclusions regarding DLA's compliance with policy and procedures related to usage of the government travel card program.

This final report discusses the results of the enterprise audit related to the audit objective. Based on the audit, we concluded that DLA Finance (J8) generally complied with DOD policies and other regulatory controls governing the appointment of personnel, ensuring travelers received initial training on the use of the travel card. However, agency program coordinators did not always maintain an audit trail of notifications sent to travelers and supervisors of delinquent accounts in accordance with Volume 9 of the DOD Financial Management Regulation (FMR). Additionally, DLA approving officials did not properly review and approve vouchers in accordance with the Joint Federal Travel Regulation (JFTR) Volume 1 and the Joint Travel Regulation, Volume 2.

This report contains six recommendations addressed to the Director of DLA Finance (J8) to improve the operations of the DLA Travel Card Usage.

Management comments have been incorporated into this final report. These comments are verbatim in Appendix D.

We appreciate the courtesies and cooperation extended to us during the audit. For additional information about this report, contact Ms. Tamonie Denegall at 703-767-6263 or email at [Tamonie.denegall@dla.mil](mailto:Tamonie.denegall@dla.mil)

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# INTRODUCTION

## OBJECTIVES, SCOPE, METHODOLOGY

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The objective of this audit was to determine whether DLA complied with DOD policies and other regulatory controls governing the use of the travel card. Specifically, we examined travel vouchers to determine whether the vouchers were:

- Associated with official government travel.
- Properly reviewed and approved by the approving officials.

## SCOPE

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On July 1, 2010, the Defense Logistics Agency (DLA) Office of the Inspector General (OIG) announced the audit of credit card usage. The overall objective was to determine if DLA was complying with DOD policies and other regulatory controls governing the use of travel and purchase cards. However, due to the magnitude of the subject matter and staffing constraints, we suspended the audit. When sufficient staffing was available, we re-announced the audit on October 7, 2010, but with the same overall objectives. The Government Purchase Card program section of the audit was suspended until a future date.

At the end of FY 2010, DLA had one Component Program Manager (CPM) and approximately 90 Agency Program Coordinators (APCs) responsible for the day-to-day management of the Government Travel Charge Card program. The span of control varied for each Agency Program Coordinator. The ratio ranged from one APC responsible for 32 cardholders to another APC responsible for 1,325 cardholders.

During FY 2010, DLA had 14,164 open individually billed account government travel cardholders. These travel cardholders charged an estimated \$37 million worth of travel related expenses. The government GTCC contractor, Citibank, made various reports available to the APCs through the Electronic Access System (EAS) to help the coordinators manage the travel charge card program.

At the time of the audit, DLA Installation Support had management responsibility for the Agency's Government Travel Card Program. On April 22, 2012, management responsibilities for the program transitioned to DLA Finance (J8). DLA maintained a decentralized Government Travel Charge Card Program (GTCCP). The Component Program Manager resided at the DLA HQ, and the APCs were dispersed throughout the entire agency. However, APCs did not report directly to the travel card CPM, instead they reported to their respective local supervisors. Therefore, the CPM had no

administrative authority over the individual APCs, but maintained responsibility for the management of the GTCC program.

## METHODOLOGY

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To accomplish the above audit objective, we reviewed the following regulatory guidance:

- OMB Circular, A-123, Appendix B, January 15, 2009, Improving the Management of Government Charge Card Programs.
- Joint Federal Travel Regulations Volume-1, Uniformed Service Members.
- Joint Federal Travel Regulations Volume-2, Civilian Personnel.
- DOD Financial Management Regulation Volume 9, Chapter 3.
- Defense Travel Management Office (DTMO) website.
- Defense Logistics Agency Instruction Temporary Duty (TDY) Travel and Government Travel Card, July 2009.
- Defense Logistics Agency Defense Travel System (DTS) Business Rules.

Additionally, we also:

- Statistically sampled from the Non-Travel Activity reports for FY 2010.
- Statistically sampled from Air Fare Credit Report for FY 2010.
- Judgmentally sampled from the "90 days +" Delinquency Report for FY 2010.
- Traced and tested travel card transactions to corresponding travel vouchers.
- Reconciled substantiating records to vouchers to determine if vouchers were properly reviewed and approved.
- Interviewed and obtained supporting documentation from the Component Program Manager and five DLA Agency Program Coordinators.

We conducted this performance audit from October 2010 to July 2012 in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Government Accountability Office (GAO) except for the standard related to organizational independence. This organizational impairment resulted from the DLA Office of the Inspector General (OIG) Audit Division (formally DLA Accountability Office Audit Division) not being accountable to the head or deputy head of DLA, and conducting non audit services related to OMB Circular A-123, Appendix A, Management's Responsibility for Internal Control. To correct this, we have established policies and procedures to provide reasonable assurance of conforming to applicable professional standards. However, the impairment had no effect on the quality of this report as GAGAS requires that we plan and conduct the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.



The general application controls for DTS have not been reviewed. During this audit, we did not specifically perform additional audit work to confirm the reliability of the data we retrieved from DTS and Citibank's EAS.

However, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **BACKGROUND**

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The Travel and Transformation Reform Act (TTRA) of 1998 (Public Law 105-264) mandated the use of the travel charge card for all payments of expenses of official Government travel. The Administrator of General Services required that Federal employees use the travel charge card established pursuant to the United States Travel and Transportation Payment and Expenses Control System, or any Federal contractor-issued travel charge card, for all payments of expenses of official Government travel.

The DOD Financial Management Regulation Vol. 9, Chapter 3, mandated, unless otherwise exempt, that all DOD personnel use the Government Travel Charge Card (GTCC) for all authorized expenses related to official government travel. DOD Financial Management Regulation (FMR) Volume 9 defined official Government travel as travel under competent orders while performing duties pertaining to official Government assignments such as TDY and permanent change of station (PCS). The FMR also stated that travel cardholders are:

- Responsible for the payment of any undisputed charges made to the travel-card-issuing bank, not the government.
- Required to read the cardholder application agreement and sign a DOD Statement of Understanding acknowledging that personal expenses should not be charged to their travel card. The traveler's signature acknowledges acceptance of the conditions set forth in the cardholder agreement and charge card applications, and affirms their understanding of the conditions for proper use of the charge card. The Statement of Understanding also notifies the cardholder of potential disciplinary and administrative actions that are possible if the travel card is misused for improper charges or the account becomes delinquent.
- Required to submit travel vouchers within five business days of completion of travel, use split disbursement to pay the outstanding balance, and are responsible for payment in full of the undisputed amounts due in the monthly billing statements from the GTCC contractor by the due date, regardless of the status of their travel reimbursement.

According to the DTMO, some of the benefits of the GTCC program to the government are:

- Facilitates access to airline City Pair Program fares.
- Saves travel processing costs for DOD.
- Improves DOD cash management.
- Reduces DOD and traveler administrative workloads.

## **Roles and Responsibilities**

### **Defense Travel Management Office**

The DTMO is the Travel Card Program Manager for DOD Components. The DTMO provides guidance, policy, and overall management of the DOD Government Travel Charge Card program. The DTMO acts as a liaison for the General Services Administration (GSA), the travel card provider/contractor and DOD Component Heads/CPMs on Government Travel Card related issues. The Defense Travel Management Office will meet regularly with the CPMs to discuss and make critical decisions concerning travel card administration throughout the DOD. The DTMO will also ensure that GTCC program training materials are made available throughout the Department.

### **DOD Component Heads**

DOD FMR Volume 9, Chapter 3, stated that the heads of DOD components have responsibility for developing Travel and Transformation Reform Act implementation strategy for use in that component. Additionally, the Component Heads have responsibility to make sure all personnel, to include APCs, Centrally Billed Account (CBA) Managers, and Individually Billed Accounts (IBA) cardholders, are properly trained on travel card use and policy.

### **Component Program Managers**

DOD Component Heads appoints the CPMs in writing. CPMs have responsibility for establishing, managing, and providing oversight to their GTCC program. Specifically, CPMs:

- Serve as a liaison to DTMO.
- Provide direction to APCs located at Major Commands and other subordinate organizations.
- Ensure IBAs, CBAs, and Unit Cards are, properly approved, have reasonable credit limits established and maintained, and annual reviews performed to monitor credit limits and card utilization.
- Establish and maintain component's organizational structure.

### **Agency Program Coordinators**

An APC is an individual (uniformed member, employee, contractor, or foreign national) designated in writing by a commander or director as responsible for the management of the travel card program. APCs are responsible to their respective DOD CPM's for program execution and management for the day-to-day operations of the DOD GTCC program. Specifically, APCs:

- Ensure program compliance.
- Monitor cardholder activity through EAS generated reports.
- Terminate GTCC upon cardholder's dismissal, retirement, or separation.
- Monitor delinquencies, misuse and take appropriate action.
- Educate cardholders on proper use of GTCC.
- Ensure mandatory training is completed.
- Maintain hierarchy structure.

### **Travel Cardholders**

A cardholder is a government employee (civilian or military) who has been issued a GTCC for use while performing official government travel. Cardholders must:

- Use card for official travel expenses only.
- Track expenses while on travel in order to have accurate information for filing travel vouchers.
- File travel claim within five days of return from TDY.
- Submit payment in full for each monthly bill.
- Know how to contact their APC for questions about card use.
- Immediately report a lost or stolen card to their APC.

### **DLA Implementation**

DLA officials established the "Defense Logistics Agency Instruction" dated July 2009 to provide a business process for employees travelling to and from their permanent duty station for mission-related activities. In addition, the instruction provided guidance to ensure Government travelers are reimbursed in a timely manner.

The employee and Authorizing Official (AO) must determine why TDY is necessary and what goals are to be accomplished on TDY. Next, the employee gathers the necessary information (location of TDY, cost of trip, etc.) concerning their trip to complete a travel authorization. The travel authorization is then submitted for approval to the AO. Upon return from TDY, the traveler will then submit a voucher for all eligible travel related expenses and the AO will review the voucher along with supporting documentation for approval and ultimately reimbursement to the traveler.

# RESULTS, RECOMMENDATIONS AND CONCLUSIONS

## RESULTS AND RECOMMENDATIONS

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DLA Finance (J8) generally complied with DOD policies and other regulatory controls governing the appointment of personnel, ensuring travelers received annual training, and use of the travel card. However, Agency Program Coordinators did not always maintain an audit trail of notifications sent to travelers and supervisors of delinquent accounts in accordance with Volume 9 of the DOD Financial Management Regulation (FMR). Additionally, DLA approving officials did not properly review and approve vouchers in accordance with the Joint Travel Regulations, Volume 2. We extracted a sample of 48 travel card transactions and were able to trace them to 46 correlating travel vouchers. Next, we reviewed 46 travel vouchers and found that about 26 lacked sufficient substantiating documentation for expenses claimed in the vouchers. This occurred because travelers did not submit valid and proper receipts, and approving officials did not reconcile submitted documents to expenses claimed on the vouchers. We could not trace two of the 48 travel card transactions to corresponding travel vouchers because those two transactions were not related to official travel charges. As a result, DLA may have improperly reimbursed the traveler or Citibank for unsupported expenses.

### Compliance with Policy

DLA generally complied with DOD policies and other regulatory controls governing the appointment of Component Program Manager (CPM) and Agency Program Coordinators (APC) to manage the Government Travel Charge Card (GTCC) program. Specifically we found that:

- DLA appointed CPM and APCs in writing.
- CPM provided guidance to APCs on a monthly basis.
- CPM and APCs used Citibank reports to manage the program.
- APCs ensured that travel cardholders took required training.

Appointments. In accordance with Volume 9 of the DOD FMR, DLA DES-B appointed the CPM in writing. The DLA CPM was appointed to this position on January 20, 2006, which fulfills the requirement for Defense Agency Comptrollers, or equivalent, to designate a CPM in writing. Additionally, the primary field activity officials appointed their APCs in writing. For example, we found that approximately twenty primary APCs were appointed in writing: J1 on February 26, 2007; J6 on June 8, 2010; and DLA Aviation on December 9, 2010. This occurred because DLA had a strong policy to ensure that GTCC appointments were completed in a timely manner and documented in writing.

Guidance. The CPM provided guidance, primarily through emails to APCs on a monthly basis. Examples of guidance provided to APCs included:

- On a monthly basis, the CPM developed delinquency statistical charts based off of Agency reports in the EAS. These charts were sent to the APCs with a timeline for delinquency, the table of penalties, a template for potential misuse of the card, general information on when payments were due, mandatory split-disbursement, methods of payment, etc.
- A June 2010 email focusing on delinquency rates. In addition to the section of the FMR discussing the GTCC program, the CPM attached to the email Citibank's policy on delinquency and the American Federation of Government Employees policy on counseling employees on delinquency.
- A November 2010 email reminded APCs to remain vigilant during the holiday season with regards to managing their travel card programs for inappropriate card usage. To preclude an increase in delinquencies and unauthorized use during the holiday season, the CPM reminded the APCs to have their Alternate APCs run the following weekly reports Weekend/Holiday Activity, Non-Travel Activity, ATM Activity, Declines, and Exceptions Reports in their absence.
- Responses to ad hoc calls and emails from APCs and travelers regarding spending limits, travel card limit increases, and other travel card concerns. The CPM distributed guidance to APCs in an attempt to increase oversight of the GTCCP.

Management. Citibank, the issuer of the government travel card, provided APCs with approximately 26 management reports, via the Electronic Access System (EAS). We found that the APCs used about six of these reports to manage the GTCC program. However, use of the various reports lacked consistency among the APCs. Examples of the reports used by the APCs included:

- Airline credit report which lists all airline credits and refunds that have occurred during the month for both centrally billed and individually billed accounts.
- Non-Travel activity report which provided information to identify accountholders with transaction activity (such as cash, fuel, or food) occurring without other associated travel (such as airline, car rental or lodging).

- Delinquency report which identifies and ages delinquent accounts by established timeframe (i.e., 30, 60, 90, 120, or more days).
- Weekend/Holiday Activity exceptions report which identified cardholders with transaction activity, such as lodging or car rental, when check out was on a Sunday, Monday, or a federal holiday.

DLA APCs used these reports to reduce travel card misuse and abuse and cardholder delinquency. As of first quarter FY 2011, DLA's travel card delinquency rate was at 0.55 percent, which was the 64th consecutive month below the DOD goal of one percent.

Training. Upon appointment, the DLA CPM and all primary APCs took the required initial training within the required one month timeframe. After the initial year, the CPM and APCs took the required refresher training every three years. Additionally, each of the APCs ensured that most travel cardholders took the required training on proper uses of the government travel card. We found that 92 percent (or 22 of 24) of the IBA holders completed the mandatory GTCC training and signed the "DOD Statement of Understanding for Travel Cardholders.

### **Delinquent Account Notification**

APCs did not always maintain an audit trail of notifications sent to travelers and supervisors of delinquent accounts in accordance with the DOD FMR. We reviewed the 90 day delinquency reports for five APCs (DLA Headquarters, DLA Troop Support, DLA Land and Maritime, DLA Aviation, and DLA Distribution) and conducted interviews to understand how each APC managed their delinquent travel card accounts. According to DOD FMR Volume 9, Chapter 3, the APC will notify the cardholder, the cardholder's supervisor, and the second level supervisor that the account remains delinquent. The APC is required to keep a record of each notification. Further, the individual cardholder would receive a notice from the GTCC contractor that the account would be cancelled and referred for salary offset within 30 days if the balance was not paid in full. Salary offset is the collection from the cardholder's pay for the amount owed to the contractor. Although at 90 day interval, the accounts are already in a suspended status, (this occurred at 61 days past billing) we looked at the 90 day delinquency reports to validate whether or not the APCs kept a record of the notifications.

Each APC explained that they reviewed the delinquency reports as required and notified delinquent travel cardholders via e-mail about the delinquent account. The APCs monitored subsequent delinquency reports to determine whether the cardholder remained in delinquent status, if so, the APC would follow-up with another notification letter to the cardholder and the cardholder's supervisor.

To validate this process, we requested the APCs provide us with notification documentation. We found that 4 of the 5 APCs did not keep a record of the notifications they sent to the travel cardholder or the supervisor notifying the cardholder of the delinquencies.

The APCs explained that they did not maintain a record of the notifications because of the volume of the workload, the number of cardholders each was responsible for, and managing the travel card program was not their main job. As a result, there was a lack of appropriate documentation concerning the cause for the delinquencies and whether any counseling or disciplinary actions were taken by the cardholders' supervisor. Additionally, APCs were unable to identify travel cardholders that were habitually delinquent.

**Recommendation 1: (J8)**

Instruct APCs' on what constitutes appropriate documentation supporting notification of travel card payment delinquency to the employee and their supervisor.

**Management Comments**

Concur. DLA Finance officials stated they issued a memorandum to the DLA Executive Board dated May 23, 2012 that addressed individually billed account travel card delinquency rates. Additionally, DLA Finance established a monthly notification process; formalized to a standard document style. The notifications are sent out at the end of each GTTC cycle and include a suspense date and a requirement that the APC provide details of corrective action by account. The expected implementation date is June 2012.

**Supervisory Reviews**

DLA Approving Officials (AO) did not properly review and approve vouchers because travelers did not submit valid and proper receipts for government travel vouchers. We extracted a sample of 48 travel card transactions and were able to trace them to 46 correlating travel vouchers. We reviewed 46 travel vouchers and found that about 26 lacked sufficient substantiating documentation for expenses travelers claimed in their vouchers. We were unable to trace two of the 48 travel card transactions to corresponding travel vouchers. It was determined these two travel card transactions were not related to official travel charges. Additionally, AOs did not require travelers to complete travel vouchers within the five day required timeframe contained in the DOD FMR. We found that 18 of 46 travel vouchers were submitted after five business days. These problems occurred because AOs lacked sufficient training on what constituted valid and proper receipts and because the travel office only reviewed vouchers over \$2,500 when time permitted.

Volume two of the JTR defined the AO as the operating level official responsible for accomplishing the mission. The AO should only authorize travel necessary to accomplish the mission of the Government. Individuals must be appointed in writing as an AO and, as such, may be held financially liable for erroneous payments resulting from the negligent performance of their duties.

The Defense Travel Management Office (DTMO) issued guidance concerning what constituted a valid receipt. If a receipt does not meet all of the requirements listed below, it will not qualify for travel reimbursement. A valid receipt for substantiating a travel claim of \$75 or more must show:

- Name of the company providing the goods or services.
- Date the specific services were rendered or articles purchased.
- Unit price of the item or service.
- Total amount due.
- Total amount due was paid.

Moreover, DTMO stated that the following five documents are not considered valid receipts: (1) charge card statements, (2) hotel bills given to the traveler before checking out, (3) rental car contracts that are signed when a car is picked up, (4) travel itineraries and invoices emailed to the traveler before an airline reservation is ticketed and charged, and (5) electronic records for airline tickets in DTS.

To determine if travelers submitted valid and proper receipts for government travel, and responsible AOs conducted proper reviews and approvals; we reviewed two samples. One sample was based on airfare credits and the second sample was based on travel cards that had charges but no associated travel authorizations. On both samples we reviewed for five common errors:

- The traveler submitted the voucher later than five days after completion of travel. In total this occurred on 18 vouchers.
- The voucher was missing receipts i.e., receipts were not uploaded into DTS or the voucher lacked documentation for the claimed expenses. In total this occurred on 5 vouchers.
- The voucher had invalid receipts i.e., charge card statements as the sole support for an expense; hotel bills given to the traveler before checking out; rental car contracts that are signed when a car is picked up; or flight itineraries and invoices emailed to the traveler before an airline reservation is ticketed and charged. In total this occurred on 22 vouchers.
- The voucher had illegible receipts i.e., copies of receipts where the text was blurred or faded which rendered the date, expense type, and total impossible to read. In total this occurred on 3 vouchers.



- Voucher for military members was missing non-availability statement: The Joint travel regulation requires documentation showing the availability or non-availability of Government Quarters. In total this occurred on 4 vouchers.

Additionally we reviewed for specific items that were unique to each sample. For the airfare credits sample, we reviewed vouchers for:

- Updated flight information that was not in DTS. The failure of the traveler to amend flights in DTS destroys the audit trail of the traveler's trip and creates the risk of improper payments.
- Inadequate traveler justification statements. Flagged expenses on the pre-audit justification screen frequently had justification statements with inadequate explanations or details. In some instances, travelers entered the words "AO Authorized" as a justification.
- Inappropriate approval or certification. In these instances a person other than the traveler prepared or signed traveler's authorization, amendment or voucher.
- Documentation to support using the GTCC to pay conference or training fee. We found that vouchers lacked "early bird" documentation to support paying for conference and training fees with the GTCC.
- Lodging cost adjustments on the entitlements screen. We found that although a traveler uploaded a receipt for lodging that was less than the maximum allowed per diem rate, the amounts were not changed on the per diem entitlements screen to reflect the actual cost.
- Transactions not associated with official government travel. During the audit, we were unable to link 2 of the 48 travel card transactions to approved government travel vouchers. This occurred because the APC did not thoroughly review the Non-Travel Activity Report, and as a result, did not detect potential misuses of the card in a timely manner. Moreover, cardholders were able to charge transactions to the travel charge card that were not associated with official government travel.

The first transaction involved \$966 in potential non-official transactions for the purchase of gas, food, and a rental car. After the APC was notified of potential misuse, the APC discovered additional personal charges that occurred outside of the scope of our audit - resulting in an outstanding balance of \$1,715 on their travel card. The APC took immediate action, and informed the cardholder's immediate supervisor of the situation. Although disciplinary action was required, because the cardholder was scheduled to retire within two weeks, arrangements were made for the cardholder to pay the outstanding balance in full prior to his retirement. We confirmed that the account was paid and then closed.

The second transaction involved a travel cardholder who had one non-official transaction for \$37 for a medical related expense. We concluded that this was a simple mistake and confirmed that the amount had been paid, and took no further action.

The following tables show the number of occurrences of non-compliances found during our travel voucher analysis:

**Table 1: Government Travel Charge Card Airfare Credit Voucher Analysis**

Sample Item No.	Voucher submitted in excess of 5 business days	Missing receipts	Invalid receipts	Illegible receipts	Military member missing non availability statement	Updated flight information not in DTS	Inadequate Traveler Justification Statements	Inappropriate Approval or Certification
1	X		X	X		X		
2	X		X					
3			X			X		
4	X		X			X	X	
5	X		X			X		X
6	X	X	X	X	X	X		X
7			X			X		
8	X		X			X		
9			X					
10								
11	X		X			X		
12			X			X		
13	X		X			X	X	X
14			X					
15	X		X					
16			X					
17	X							X
18								
19		X			X	X	X	X
20			X			X		X
21	X		X			X	X	X
22	X						X	X
23	X						X	X
24			X		X	X	X	X
Total	13	2	18	2	3	14	7	10

**Table 2: Non-Travel Activity Voucher Analysis**

Sample Item Number	Voucher submitted in excess of 5 business days	Voucher missing receipts	Voucher included invalid receipts	Voucher included illegible receipts	Military member missing non availability statement	GTCC to pay conference or training fee	Lodging cost were not adjusted on the Per Diem Entitlements screen in DTS	Transactions not associated with official government travel.
1	X							
2					X		X	
3								
4			X					
5	X	X						
6								
7								
8								
9	X							
10		X						
11			X					
12								X
13						X		
14								
15								
16								
17								
18								
19	X	X	X	X				
20								
21								X
22	X							
23								
24			X					
Total	5	3	4	1	1	1	1	2

Because AOs did not properly review and approve vouchers we found that almost 75 percent of the vouchers we reviewed lacked sufficient supporting documentation for expenses travelers claimed in their vouchers, or where submitted for approval in excess of five business days. Examples of what we found included:

- Airfare. One traveler provided an invalid electronic ticket record as a receipt for \$737.79 flight. The traveler also returned earlier than originally scheduled on the travel authorization but failed to update the return flight information in DTS and submit a receipt for the new return leg flight. Another traveler submitted a flight itinerary instead of a valid airfare receipt for \$1,228.60. A third traveler failed to provide a receipt for airfare in the amount \$427.00. Additionally, there were numerous vouchers where

travelers failed to update air travel information in DTS after flight arrangements changed. In each case the AO approved the voucher. In summary we found that 24 of the 46 vouchers included air travel, and about 67 percent provided invalid air fare receipts totaling approximately \$13,503.37. The failure of the traveler to amend flights in DTS destroys the audit trail of the traveler's trip and creates a risk of improper payments.

- **Lodging.** Traveler failed to update the voucher with the actual cost of lodging and filed a travel voucher for the maximum lodging amount of \$104 per night for sixteen nights, rather than the actual lodging amount of \$84 per night shown on the receipt. This resulted in the traveler being overpaid by \$320.00. When we brought this to the attention of the travel office personnel, they took immediate corrective action and placed the traveler into a "Due U.S." status which required the traveler repay the overpayment.
- **Foreign Currency.** On three vouchers, travelers submitted foreign currency receipts without exchange rate for conversion.
- **Valid Receipts.** One traveler submitted a travel voucher with \$2642.60 worth of invalid receipts as well as \$1,176 worth of expenses without receipts. The invalid receipts consisted of rental car contracts that are signed when the car is retrieved from the rental car company and a flight itinerary instead of the required e-Ticket Receipt. The AO approved the voucher and the traveler received payment.

### **Corrective Actions**

During the course of the audit, responsible personnel in the DLA Travel Office took corrective action on the issues we identified. To address the problem of travelers submitting invalid documentation to support travel expenses, the Travel Office sent out an e-mail to all DLA employees that explained what constituted a valid receipt.

### **Recommendation 2: (J8)**

Require all AOs to take the instructor led DTS for Approving Officials (AO) training upon appointment or whenever there are significant changes to the legislation or system.

### **Management Comments**

Concur. DLA Finance officials stated that instructor led DTS AO training is not mandatory. However the DoD Financial Management Regulation was updated in August 2010 making Certifying Officers' Legislative (COL) Training required for AOs. DLA Finance officials took further action by revoking AO's permission to certify when the AOs did not provide proof of compliance with the DoD Financial Management Regulation. This review is an ongoing process. Revocation for non-compliance is scheduled for September 5, 2012 for training expirations occurring during June, July and August 2012.

**Recommendation 3: (J8)**

Require all AOs to take annual online authorizing official refresher training in years they do not attend instructor led training.

**Management Comments**

Concur. DLA Finance officials stated that the DoD Financial Management Regulation was updated in August 2012 making the Certifying Officers' Legislative (COL) Training required for DTS AOs. DLA Finance has instituted a revocation process for AO's that do not comply with the training requirement. This is a reoccurring process taking place on a monthly basis which started in May 2012.

**Recommendation 4: (J8)**

Statistically sample and conduct monthly post-payment reviews on travel vouchers to determine whether claimed travel expenses are properly supported and authorized. Track the results of the post-payment reviews and report any trends to the appropriate level of management.

**Management Comments**

Concur. DLA Finance officials stated actions are underway to develop a DLA Travel Compliance program. The DLA program is expected to work in conjunction with the current DFAS process. The expected implementation date is September 2012.

**Recommendation 5: (J8)**

When post-payment reviews indicate negligence, coordinate with DLA General Counsel, and hold AOs financially liable for erroneous payments resulting from the negligent performance of their duties.

**Management Comments**

Non-concur. DLA Finance officials stated that before any action can be taken against an employee, a specified process must be followed. According to the DLA Finance officials, the role of the DTS compliance officer is to ensure that questionable travel charges and payments are identified and transmitted to the DTS AO for an in-depth review and resolution. Hence, it is not the responsibility of the DTS compliance officer to engage in the due process of a potential debt to an employee. DLA Debt Management Monitors are the responsible party. Should negligence on part of the AO be determined, proper coordination with the PFLA Commander or Director shall be made. Disciplinary actions are not within the scope of the DLA Travel Services Team or the compliance program.

### **OIG Analyses of Management Comments**

Although DLA Finance non-concurred with our recommendation as stated, DLA Finance's statement in regards to properly coordinating with the PFLA Commander or Director if it is determine that negligence on part of the AO has occurred -- meets the intent of the recommendation. It was not the intent of the recommendation to suggest that DLA Finance usurp the established process for investigating questionable travel charges and payments. The intent of the recommendation was to make sure when DLA Finance conducted the post-payments and those reviews indicated that negligence had occurred; that DLA Finance made the responsible personnel aware so that appropriate actions would be taken and the AO was held responsible. In recommendation 4, DLA Finance officials reported the establishment of a compliance program that includes post payments reviews and initiatives for corrective action with an expected implementation date of September 2012.

### **Recommendation 6: (J8)**

Develop and implement procedures to periodically review all travel card charges for transactions not associated with official government travel. When potential misuse is discovered, conduct appropriate investigations.

### **Management Comments**

Concur. DLA Finance officials stated that they published a memorandum to the DLA Executive Board on the subject of Government Travel Card Non-Travel Activity Report. The memo outlined the areas of weakness and high vulnerability with the monthly review requirements by the appointed GTCC Agency Program Coordinators. Additionally, DLA Finance officials stated they established a monthly notification process; formalized to a standard document style. The notifications are sent out at the end of each GTTC cycle and include a suspense date and a requirement that the APC provide details of corrective action by account. Formal investigation is at the GTCC APC level. The expected implementation date was July 2012.

## **CONCLUSION**

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Overall DLA generally complied with DOD policies and other regulatory controls governing the use of the government travel card. However, APCs did not always maintain documentation of informing travelers and supervisors of delinquent accounts in accordance with DOD FMR Volume 9, Chapter 3. We found that the DLA travel vouchers we reviewed, except for two, were associated with official government travel. However, we found Approving Officials (AOs)

for government travel vouchers did not properly review and approve vouchers in accordance with the Joint Federal Travel Regulation (Volume 1 Joint Travel Regulation (Volume 2). This occurred because AOs did not properly review and ensure the required valid receipts were included as substantiating records prior to approving travel vouchers in accordance with the JFTR and JTR.

## SUMMARY OF RECOMMENDATIONS

	Recommendation	Addressee	Estimated Completion Date
1	Instruct APCs' on what constitutes appropriate documentation supporting notification of travel card payment delinquency to the employee and their supervisor.	J8	June 2012
2	Require all AOs to take the instructor led DTS for Approving Officials (AO) training upon appointment or whenever there are significant changes to the legislation or system.	J8	September 2012
3	Require all AOs to take annual online authorizing official refresher training in years they do not attend instructor led training.	J8	May 2012
4	Statistically sample and conduct monthly post-payment reviews on travel vouchers to determine whether claimed travel expenses are properly supported and authorized. Track the results of the post-payment reviews and report any trends to the appropriate level of management.	J8	September 2012
5	When post-payment reviews indicate negligence, coordinate with DLA General Counsel, and hold AOs financially liable for erroneous payments resulting from the negligent performance of their duties.	J8	September 2012
6	Develop and implement procedures to periodically review all travel card charges for transactions not associated with official government travel. When potential misuse is discovered, conduct appropriate investigations	J8	July 2012



## ABBREVIATIONS USED IN THIS REPORT

AO	Authorizing Official
APC	Agency Program Coordinator
CBA	Centrally Billed Account
CPM	Component Program Manager
COL	Certifying Officers Legislation
DTMO	Defense Travel Management
Office DTS	Defense Travel System
EAS	Electronic Access System
FMR	Financial Management Regulation
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GSA	General Services Administration
GTCC	Government Travel Charge Card
IBA	Individually Billed Account
JTR	Joint Travel Regulation
OIG	Office of the Inspector General
PCS	Permanent Change of Station
TDY	Temporary Duty
TTRA	Travel and Transformation Reform Act

## ACKNOWLEDGMENTS

Ms. Tamonie Denegall, Audit Manager  
Ms. Crystal Coleman, Lead Auditor  
Mr. Edward Bailey, IT Auditor  
Ms. Belinda Harris, Auditor  
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Ms. Debra Amon, Auditor

## MANAGEMENT COMMENTS



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AUG 08 2012

MEMORANDUM FOR DLA OFFICE OF INSPECTOR GENERAL  
ATTN: MS. CRYSTAL COLEMAN, LEAD AUDITOR

SUBJECT: Audit of Travel Card Usage, DAO-10-25

As it has been requested, we have reviewed the pre-decisional draft for the DLA Travel Card Usage as it was presented on July 18, 2012. Attached you will find the J8 Concur/Non-Concur management statements to the six recommendations outlined in the subject audit.

Point of contact for this action is Ms. Lisa St. Peter, Staff Director, DLA Finance J84, (703) 767-7483, DSN 427-7483, or email: [lisa.stpeter@dla.mil](mailto:lisa.stpeter@dla.mil).

  
J. ANTHONY POLEO  
Director, DLA Finance  
Chief Financial Officer

**'AUDIT OF TRAVEL CARD USAGE'**  
**(AUDIT REPORT: DAO-10-2)**

**- DLA FINANCE RESPONSE -**

**GENERAL COMMENTS:** With the exception of Recommendation 5, DLA Finance accepts the recommendations of the OIG, with comment. While weaknesses in the Travel Card Program were identified, DLA Finance has taken great strides to institute corrective actions to the identified finding in addition to the introduction of new policies throughout the DLA Travel Program. Actions taken below are after the realignment of function from DS to J8.

**MANAGEMENT COMMENTS:**

- **Page 03: Performance audit conducted from October 2010 – July 2012:** The samples identified in the report do not reference any dates later than 2010. Scope of review needs to accurately reflect the dates of actual performance.
- **Page 07: Appointments:** Narrative updates required. DLA Finance reaffirmed appointment of the DLA CPM under proper J8 appointment authority. Additionally, alternate CPMs have been identified and properly appointed. All appointment at the CPM level are members of DLA Finance, DLA Financial Services Operations, DLA Travel Team (J84).
- **Page 20: Footnote:** Update from Audit of Suspended Inventory (DAO-10-16) to Audit of Travel Card Usage (DAO-10-25).

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**RECOMMENDATION 1:** Instruct APCs on what constitutes appropriate documentation supporting notification of travel card payment delinquency to the employee and their supervisor.

**J8 RESPONSE:** CONCUR/With Comment

**Management Action Taken:** Published memorandum to the DLA Executive Board, dated May 23, 2012, SUBJECT: Individually Billed Account (IBA) Travel Card Delinquency Rates. Monthly notification process; formalized to a standard document style; released at the end of each GTCC cycle with required suspense date; provide details of corrective action by account.

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**RECOMMENDATION 2:** Require all AOs to take the instructor led DTS for Approving Officials (AO) training upon appointment or whenever there are significant changes to the legislation or system.

**J8 RESPONSE:** CONCUR/With Comment

**MANAGEMENT NOTE:** Instructor led DTS AO training is not mandatory. Unless DLA negotiates as a requirement, DLA will continue to use the COL on-line training to meet this recommendation. On-line COL is mandatory as identified below. At the time of this review, there were no mandatory requirement for training as it is identified above; it was identified as "recommended". As of August 2010; the DoD Financial Management Regulation, Volume 5, Chapter 33, Part 330302 was updated making Certifying Officers' Legislative (COL) Training required for an identified population which includes DTS AO/RO population.

**Management Action Taken:** Published memorandum to the DLA Executive Board, dated June 12, 2012, SUBJECT: Defense Travel System (DTS) Accountable Official (AO) Compliance. Followed by the first compliance suspense with data as of May 31, 2012; resulting in the revocation of 264 DTS AO permissions due to non-response. Currently reviewing training expirations as of June/July and August 2012. Suspense for proof of refresher training due August 31, 2012 with revocations scheduled for September 5, 2012. Beginning September 2012, the DLA Travel Services Team notification process will be on target. We have engaged with the DTC in efforts to communicate the notification process through LMS. We will continue to work this avenue.

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**RECOMMENDATION 3:** Require all AOs to take annual online authorizing official refresher training in years they don't attend instructor led training.

**J8 RESPONSE:** CONCUR/With Comment

**MANAGEMENT NOTE:** August 2010; the DoD Financial Management Regulation, Volume 5, Chapter 33, Part 330302 was updated making Certifying Officers' Legislative (COL) Training required for an identified population which includes DTS AO/RO population.

**Management Action Taken:** Published memorandum to the DLA Executive Board, dated June 12, 2012, SUBJECT: Defense Travel System (DTS) Accountable Official (AO) Compliance. Followed by the first compliance suspense with data as of May 31, 2012; resulting in the revocation of 264 DTS AO permissions due to non-response. As identified in the correspondence, this is now a monthly / reoccurring drill based on COL 1-year refresher requirements.

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**RECOMMENDATION 4:** Statistically sample and conduct monthly post-payment reviews on travel vouchers to determine whether claimed travel expenses are properly supported and authorized. Track the results of post-payment reviews and report any trends to the appropriate level of management.

**J8 RESPONSE:** CONCUR/With Comment

**MANAGEMENT NOTE:** J8 is currently reviewing all compliance relevant data to develop a DLA Travel Compliance Program. As we are aware that post-payment reviews are reported at the DoD level, DLA is compiling a focused area to work in conjunction with the current DFAS process. Draft memorandum announcing the post-payment review, the sampling process and initiatives for corrective action is underway and will be provided once it has been released.

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**RECOMMENDATION 5:** When post-payment reviews indicate negligence, coordinate with DLA General Counsel and hold AOs financially liable for erroneous payments resulting from the negligent performance of their duties.

**J8 RESPONSE:** NON-CONCUR/With Comment

**MANAGEMENT NOTE:** There is due-process that must be addressed before any action to the employee and/or manager can be determined. The post-payment review is based on a sample size;

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relevant information as to the basic travel entitlements is reviewed. Should there be a questionable charge and/or payment; it is then transmitted to the DTS AO for an in-depth review and associated transactions should they be necessary. The role of the compliance officer is to ensure that those items are identified and a response to those items with resolution is received within a specified time-frame. It is not the role of the compliance officer to engage in the due-process of a potential debt to an employee. DLA Debt Management Monitors are the responsible party. Should negligence on part of the AO be determined, proper coordination with the PLFA Commander/Director shall be made. Disciplinary actions are not within the scope of the DLA Travel Services Team or the compliance program.

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**RECOMMENDATION 6: Develop and implement procedures to periodically review all travel card charges for transactions not associated with official government travel. When potential misuse is discovered, conduct appropriate investigations.**

**J8 RESPONSE:** CONCUR/With Comment

**Management Action Taken:** Published memorandum to the DLA Executive Board, dated June 01, 2012, SUBJECT: Government Travel Charge Card (GTCC) Non-Travel Activity Report. Outlines the areas of weakness and high vulnerability with the monthly review requirements by the appointed GTCC Agency Program Coordinators. Monthly notification process; formalized to a standard document style; released at the end of each GTCC cycle with required suspense date; provide details of corrective action by account. Formal investigation is at the GTCC APC level. Appropriate corrective actions taken at the PLFA level in coordination with their respective DHRS Customer Account Manager.