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## INCLUDED DLA AUDIT REPORTS

- Final Report: Enterprise Audit of DLA Distribution Contract Oversight, Report Number DAO 09-20, October 21, 2010
- Final Report- Audit of DLA Distribution Compliance Assessments (Audit Report DA0-10-01), December 9, 2010
- Audit of Fuels Accountability in Afghanistan, Audit Report: DA0-10-10, February 16, 2012
- DLA' s Triannual Review Process, Report: DA0-10-11 June 10, 2011
- Audit of Subsistence and Non-prescription Drug Recalls, Audit Report: DA0-10-13 March 16, 2012
- Audit of Logistics Research and Development Funding, Audit Report: DA0-10-21 November 4, 2011
- Information Technology Asset Management Audit, Audit Report: DA0-10-26 September 15, 2011



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

IN REPLY  
REFER TO

JAN 14 2013

This letter responds to your May 19, 2012, Freedom of Information Act (FOIA) request for copies of the listed audits.

Enclosed are the records which are released to you, in part, pursuant to exemptions 5 U.S.C. §552(b)(6), personal privacy, and 5 U.S.C. §552(b)(7)(F), physical safety. Exemption 6 protects information about individuals when disclosure would constitute a clearly unwarranted invasion of personal privacy. Names, phone numbers and email addresses of the Department of Defense employees that are not in the public domain are withheld. Also, in the interest of identity theft, signatures are withheld. Exemption 7(F) protects information that could reasonably be expected to endanger the life or physical safety of any individual. In this regard, information that discusses the personal and physical security of personnel at Bagram Air Field is withheld.

We have already released DAO-10-09 pursuant to your prior FOIA request (12-HFOI-00096).

You have the right to appeal this partial denial. An appeal must be made in writing to the General Counsel and reach the General Counsel's Office within 60 calendar days from the date of this letter, no later than 5:00 pm, Eastern Standard Time. The appeal should include your reasons for reconsideration and enclose a copy of this letter. An appeal may be mailed, emailed to [hq-foia@dla.mil](mailto:hq-foia@dla.mil), or faxed to 703-767-6091. Appeals are to be addressed to the General Counsel, Defense Logistics Agency, ATTN: DGA, Suite 1644, 8725 John J. Kingman Road, Fort Belvoir, Virginia 22060-6221.

No fees are assessed. Should you have any questions or require further information, please contact Ms. Deborah Teer, DLA Headquarters FOIA Officer, at 703-767-5247 or [Deborah.teer@dla.mil](mailto:Deborah.teer@dla.mil). Please reference our case number DLA-12-HFOI-00111 in any subsequent communication regarding this request.

Sincerely,

JAN K. DEMARTINI  
COL, USA  
Inspector General

Enclosures:  
as stated





DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
8725 JOHN J. KINGMAN ROAD  
FORT BELVOIR, VIRGINIA 20060-6221

October 21, 2010

MEMORANDUM FOR COMMANDER, DLA DISTRIBUTION  
COMMANDER, DLA LAND AND MARITIME  
DIRECTOR, ACQUISITION MANAGEMENT

SUBJECT: Final Report: Enterprise Audit of DLA Distribution Contract Oversight,  
Report Number DAO 09-20

This is our report on the enterprise audit of DLA Distribution Contract Oversight. It includes eleven (11) deficiencies and the associated recommendations addressed to the DLA Land and Maritime and DLA Distribution and its depots to improve contract award and oversight on depot operation contracts.

During our audit, we found that the Continuing Government Activity (CGA) and Quality Assurance Evaluators (QAE) for each of the three (3) sites that we visited understood their roles and diligently performed their surveillances. Additionally, we determined that the CGA and QAE's surveillance reports were generally accurate, timely and well-documented. However, we found deficiencies in areas of pre-award, CGA, Acceptable Performance Level (APLs), and contract administration.

The management comments provided by DLA Distribution were generally responsive. We will conduct a follow-up review to verify that corrective actions have taken place and have been effective in correcting the deficiencies.

We appreciate the courtesies and cooperation extended to us by DLA Land and Maritime and DLA Distribution staff. For additional information about this report, contact Mr. Craig Mayer, DLA Distribution Internal Review Audit Director at 717-770-6560 or email at [Craig.Mayer@dla.mil](mailto:Craig.Mayer@dla.mil).

A handwritten signature in cursive script, reading "Bridget Skjoldal", is positioned above the printed name.

BRIDGET SKJOLDAL  
Audit Director  
DLA Accountability Office





## *DLA Accountability Office*

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# **DLA Distribution Contract Oversight**

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**Audit Report: DAO-09-20**

**October 21, 2010**

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# Executive Summary

Audit Report DAO-09-20

## DLA Distribution Contract Oversight

DLA Distribution

### Results

DLA Distribution maintains overall responsibility and control over the distribution mission regardless of who is selected to provide warehousing and distribution services as part of a public-private competition. The revised Circular No. A-76, *Performance of Commercial Activities*, is clear that monitoring performance of the selected Service Provider (SP) is one of the principle responsibilities of the agency after a performance decision has been reached.

During our audit, we found that the Continuing Government Activity (CGA) and Quality Assurance Evaluators (QAE) for each of the three (3) sites that we visited understood their roles and diligently performed their surveillances. Additionally, we determined that the CGA and QAE's surveillance reports were generally accurate, timely and well documented.

However, we found eleven (11) deficiencies in areas of pre-award, CGA, Acceptable Performance Level (APLs), and contract administration. Three (3) examples of the deficiencies identified are as follows:

- The DLA Distribution Richmond, Virginia CGA did not complete many of the scheduled surveillances in the Quality Management System Integration Tool (QMSIT).
- DLA Distribution is sending "unofficial" contract modifications to the Electronic Document Access Program (EDA) in violation of DoD Electronic Document Access Business Rules.
- DLA Distribution J-7 is not definitizing change orders in a timely manner; failing to definitize in accordance with contractual timeframes.

These deficiencies present risks to the DLA in the areas of effective contract award and contract administration on depot operations contracts.

### Why DA Did this Review

As approved in the FY2009 DLA Annual Audit Plan, we conducted an audit of the DLA Distribution Contract Oversight to evaluate DLA Distribution depot contract oversight and provide practical recommendations, as appropriate, for DLA Distribution and DLA Land and Maritime senior leadership.

### What DA Did

Our audit objectives were to: (1) Review DLA Distribution J-7 contract pre-award, award, and administration procedures of DLA Distribution Barstow, California, DLA Distribution Jacksonville, Florida and DLA Distribution Richmond, Virginia according to the FAR, (2) review DLA Land and Maritime's contract pre-award procedures of DLA Distribution Richmond, Virginia according to OMB Revised Circular No. A-76 and to the FAR, (3) review the CGA monitoring and process at DLA Distribution Barstow, California, DLA Distribution Jacksonville, Florida, and DLA Distribution Richmond, Virginia according to the respective contracts and quality assurance plans, (4) determine if the Contractor meets quality and performance requirements per the respective contracts.

### What DA Recommends

This report contains eleven (11) recommendations, ten (10) addressed to DLA Distribution and one (1) addressed to DLA Land and Maritime-BP/DR. Our recommendations provide opportunities to further develop and improve their processes and procedures for contract award and oversight of depot operations contracts.

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## INTRODUCTION

### OBJECTIVES

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The overall objective of the audit was to evaluate DLA Distribution depot contract oversight. Specifically, our audit objectives were to:

- Review DLA Distribution J-7's contract pre-award, award, and administration procedures of DLA Distribution Barstow, California, DLA Distribution Jacksonville, Florida and DLA Distribution Richmond, Virginia according to the Federal Acquisition Regulations (FAR).
- Review DLA Land and Maritime's contract pre-award procedures of DLA Distribution Richmond, Virginia according to Office of Management and Budget (OMB) Revised Circular No. A-76 and the FAR.
- Review the CGA monitoring and processing at DLA Distribution Barstow, California, DLA Distribution Jacksonville, Florida, and DLA Distribution Richmond, Virginia according to the respective contracts and quality assurance plans.
- Determine if the Contractor meets quality and performance requirements per the respective contracts.

### WHAT WE AUDITED

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To accomplish the four (4) audit objectives set forth above, we performed fieldwork at three (3) distribution depots being operated by SP under contracts issued by DLA Distribution. The three (3) depots selected for fieldwork were:

- DLA Distribution Jacksonville, Florida – DLA Distribution Jacksonville, Florida is co-located with the Naval Aviation Depot (NADEP) at Naval Air Station (NAS) Jacksonville, Florida and is an important element of the logistical efforts of the Navy. DLA Distribution Jacksonville, Florida is a primary source of storage and distribution of assets for the Navy. The SP is responsible for day-to-day depot operations at DLA Distribution Jacksonville, Florida, at the time of our audit, the SP was EG&G Technical Services, Inc. working under Contract Number SP3100-05-D-0004 awarded March 30, 2005.
- DLA Distribution Barstow, California - DLA Distribution Barstow, California is a co-located Distribution Depot under the command of the Marine Corps Logistics Base, Barstow, California, Defense Logistics Support Command (DLSC), and other Department of Defense (DoD) customers worldwide. The SP responsible for day-to-day operations at DLA Distribution Barstow, California, at the time of our audit, was Akima Logistics Services working under Contract Number SP3100-07-C-0033 awarded September 28, 2007.
- DLA Distribution Richmond, Virginia – DLA Distribution Richmond, Virginia is a co-located Distribution Depot under the command of the DLA Distribution. The Depot

provides complete warehousing and distribution services to the co-located Defense Supply Center, Richmond, VA (DSCR), and other DoD customers worldwide. The SP responsible for day-to-day operations at DLA Distribution Richmond, Virginia, at the time of our audit, was GENCO Infrastructure Solutions working under Contract Number SP3100-07-D-0014 awarded August 17, 2007.

Additional audit work was performed at DLA Distribution in New Cumberland, Pennsylvania. DLA Distribution maintains a worldwide distribution network required to ensure responsive, integrated, effective, and efficient support to the Military Departments and the Combatant Commands under conditions of peace and war, as well as to other DoD components and federal agencies, and, when authorized by law, state and local government organizations, foreign governments, and international organizations. This includes, but is not limited to the following actions: receipt, storage, preservation and packaging, issue, kit assembly, inventory accountability, transportation management, distribution control, shelf-life control, and other related distribution management functions, as appropriate.

## **SCOPE AND METHODOLOGY**

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As previously stated, this review had four (4) audit objectives. The following briefly describes the audit procedures/methodology used to accomplish each objective.

➤ To review DLA Distribution J-7's contract pre-award, award, and administration procedures of DLA Distribution Barstow, California, DLA Distribution Jacksonville, Florida and DLA Distribution Richmond, Virginia according to FAR, we:

- Reviewed the solicitations and DLA Distribution J-7 proposal files for DLA Distribution Jacksonville, Florida, Solicitation Number SP3100-04-R-0003, and DLA Distribution Barstow, California, Solicitation Number SP3100-07-R-0005, to determine if the DLA Distribution J-7 Contracting Office followed procedures for pre-award that were in compliance with the FAR.
- Reviewed DLA Distribution J-7 performance of key contract administration functions as set forth in FAR 42.302 on the three contracts.
- Verified that DLA Distribution J-7 is reflecting timely performance information on the three (3) subject contracts in the Contractor Performance Assessment Reporting System (CPARs).
- Reviewed the process for administering award fee on the DLA Distribution Barstow, California contract to determine if the contract and award fee plan provisions were adhered to.

➤ To review DLA Land and Maritime's contract pre-award procedures of DLA Distribution Richmond, Virginia according to OMB Revised Circular No. A-76 and the FAR, we:

- Reviewed the solicitation for DLA Distribution Richmond, Virginia, Solicitation Number SP0700-06-R-7017 to determine if the DLA Land and Maritime Contracting

Office followed policies and procedures that were in compliance with OMB Circular No. A-76 revised guidelines.

- Reviewed the solicitation and proposal files for DLA Distribution Richmond, Virginia to determine if the DLA Land and Maritime Contracting Office followed procedures for pre-award that were in compliance with the FAR.
- Reviewed how A-76 competitions were tracked to determine if they were tracked in compliance with OMB Circular No. A-76 revised guidelines.

➤ To review the CGA monitoring and processing at DLA Distribution Barstow, California, DLA Distribution Jacksonville, Florida, and DLA Distribution Richmond, Virginia according to the respective contracts and quality assurance plans, we:

- Reviewed the Contract Management Plan and the DLA Distribution CGA Oversight Program (COP) to gain an understanding of the surveillance process used by DLA Distribution to monitor contract surveillance.
- Interviewed DLA Distribution J-7 staff members on the COP to determine how DLA Distribution provided oversight of the COP and how they effectively monitored the COP.
- Interviewed the CGA members at the three subject depots to evaluate their understanding of their desk level procedures and determine if they were following the CGA surveillance handbook, as well as DLA Distribution guidance.
- Reviewed the Quality Assurance Surveillance Plan (QASP) to the Performance Work Statement (PWS) to determine the extent that the QASP reflected the PWS.
- Reviewed the Quality Control/Customer Satisfaction Plan (QC/CSP) to the PWS to determine the extent that the QC/CSP reflected the PWS.

➤ Determine if the Contractor meets quality and performance requirements per the respective contracts, we:

- Analyzed the APL Red/Green Performance Spreadsheets showing history for each depot to determine if there were any trends requiring follow-up during our review.
- Verified a sample of APL data reflected on the Red/Green Performance Spreadsheets back to supporting documents.
- Prepared a schedule showing the evaluation of APLs on each of the three contracts from contract inception through recent contract modifications. Analyzed the APL evolution history on each contract and follow-up up with DLA Distribution J-7 on anomalies.
- Prepared a schedule comparing a snapshot of the APLs on each of the three contracts. Analyzed the difference between the APLs on the three contracts and followed-up on inconsistencies with DLA Distribution J-7 to determine if these differences were explainable based on the nature of work being performed at the various locations.

## **BACKGROUND**

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The following provides some brief background information on the three (3) main areas comprising this audit: the A-76 Process, SP oversight by the CGA, and oversight of the CGA.

**A-76.** OMB Circular No. A-76 revised May 29, 2003 establishes federal policy for the completion of commercial activities. OMB Circular No. A-76 sets the policies and procedures that Executive Branch agencies must use in identifying commercial-type activities and determining whether these activities are best provided by the private sector, by government employees, or by another agency through a fee-for-service agreement. The term typically used to describe this process is “competitive sourcing”.

**CGA.** In the post A-76 environment, once a contract has been awarded, responsibility for accomplishment of the depot mission is performed jointly between the service provider (who has primary responsibility for day-to-day Distribution Depot functions) and the CGA. The CGA performs inherently governmental, government-retained, and DLA Distribution-assigned functions outside the scope of the PWS. The CGA is the on-site agent for DLA Distribution assessing SP performance and meeting the government’s contract requirements. The CGA’s responsibilities include:

- Depot mission oversight.
- Primary point-of-contact (POC) between DLA Distribution and the SP.
- Surveillance and monitoring of SP performance in accordance with the contract.
- Analysis of SP performance and recommendations to DLA Distribution if corrective action is required.
- Focal point for the SP for assistance and guidance in support of the distribution operations.

In short, the CGA is responsible for ensuring the government is getting what it paid the SP for by periodically evaluating performance through the appropriate assessment methods.

**CGA Oversight Program (COP).** To ensure that the CGAs have appropriate training, tools, and guidance DLA Distribution J-7 established a Quality Management System (QMS) program. The DLA Distribution QMS Program is composed of three pieces:

- Establish CGAs.
- Implement QMSIT.
- Perform oversight of the CGA.

The COP was developed to address the third piece of the QMS Program; oversight of the CGA. The COP implements the DLA Distribution quality management program by i.) defining DLA Distribution’s quality control of CGA QA surveillance requirements and approaches, ii.) developing a Quality Control (QC) surveillance schedule for the DLA Distribution COP Analyst, iii.) providing guidance for conducting QC of CGAs, iv.) validating CGA QA surveillance activities, and v.) documenting DLA Distribution’s QC surveillance of CGA via QMSIT. DLA Distribution has the responsibility to update the COP whenever there are significant changes in requirements and/or policies and procedures.



## **RESULTS, RECOMMENDATIONS AND CONCLUSIONS**

### **RESULTS AND RECOMMENDATIONS**

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In this section, we discuss the findings related to these four (4) areas:

- A-76 Pre-Award - DLA Distribution Richmond, Virginia
- CGA, QASP, QC/CSP – DLA Distribution Jacksonville, Florida, DLA Distribution Barstow, California, and DLA Distribution Richmond, Virginia
- APLs – DLA Distribution Jacksonville, Florida, DLA Distribution Barstow, California, and DLA Distribution Richmond, Virginia
- Contract Administration – DLA Distribution Barstow, California & DLA Distribution Jacksonville, Florida

### **A-76 PRE-AWARD - DLA DISTRIBUTION RICHMOND, VIRGINIA**

#### **PRE-AWARD – VERIFICATION OF CONTRACTOR NOT DEBARRED**

The DLA Land and Maritime-BP, Contracting Office, and DLA Land and Maritime-DR, the A-76 Office, for Solicitation SP0700-06-R-7017 did not verify that the contractor, GENCO was not debarred on the GSA Excluded Parties List System (EPLS) in accordance with FAR 9.405(d)(1). The Audit Team acknowledged that contractor, GENCO was not debarred/or on the EPLS. However, FAR Subpart 9.405(d)(1) requires contracting officers to review the EPLS after the opening of bids or receipt of proposals. FAR Subpart 9.405(d)(4) requires contracting officers to review the EPLS again, immediately prior to award, to ensure that no award is made to a listed contractor. FAR 9.405-1(b) also requires contracting officers to check the EPLS prior to awarding "new work" as defined in this provision.

While DLA Land and Maritime-BP/DR did not access EPLS, DLA Land and Maritime-DR processed a Contractor Performance History (CPH) for GENCO. The CPH included the following information: "Not in DPACS. No delivery performance data available. No data in AARTS. CAGE established 04-05-2005. Note limited financial capabilities, as demonstrated by the Dun & Bradstreet report. Note other government contract activity. Pre-Award Survey probably a good idea on this vendor, if you are procuring."

DLA Land and Maritime-BP/DR indicated that the past performance evaluation conducted by the Source Selection Evaluation Board, (SSEB) provided additional information regarding GENCO in the areas including experience and compliance. The past performance evaluation reviewed experience to include but not limited to, the similarity of the service, complexity, technology, unique effort, contract scope and

type, and schedule when determining the comparability of the performance history with the solicitation requirements. The past performance evaluation reviewed compliance to include quality of service, timeliness of performance, business relations, problem resolution, transition of operations, and subcontracting programs.

As required by FAR 9.405(d), the CPH and the past performance evaluation does not replace the requirement for the contracting officer to verify that the contractor was not debarred via EPLS. Failure to confirm a contractor's eligibility could result in an award to a party that is excluded from receiving Federal contracts.

### **Recommendation (DLA Land and Maritime – BP/DR)**

We recommend that DLA Land and Maritime-BP/DR comply with the requirement set forth in FAR 9.405(d) and verify that potential contractors are not debarred via EPLS. To help ensure compliance with the EPLS requirement on all future awards, DLA Land and Maritime-BP/DR should review their award process and associated policies and procedures, and make revisions to ensure that contracting staff check EPLS and document the results in their files.

### **Management Comments**

DLA Land and Maritime provided a written response dated September 27, 2010. We have included the full text of the September 27, 2010 response as Appendix D to this report. The management comments related to this finding are as follows:

Original response based solely on A-76 pre-award action and signed by Mr. Lewis on July 6:

DSCC concurs with the finding and provides the following comments:

The language in FAR 9.405(d)(1) specifically states that the EPLS be checked after opening bids or proposals and just prior to the award of any contract and DSCC agrees with this oversight.

The audit indicates that DSCC-DR processed a Contractor Performance History (CPH) on the contractor, GENCO, and had past performance evaluated by the Source Selection Evaluation Board, but that this does not replace the requirement for documenting that the EPLS was checked. It also indicates that failure to confirm a contractor's eligibility could result in an award to a party that is excluded from receiving federal contracts.

DSCC agrees with the lack of documenting that the EPLS was specifically checked and will assure that future awards of any kind are properly documented. However, DSCC did not fail to confirm that the contractor was eligible for awards for Federal contracts. A standard procedure for processing a CPH at DSCC involves checking the Defense Contractor Review List (DCRL). The following excerpt is from the DSCC Acquisition Guide regarding the DCRL:

(b) The Defense Contractor Review List (DCRL) is an electronic program maintained in the DLA Preaward Contracting System (DPACS). The information concerning contractors on the DCRL can also

be obtained using EBS transaction (MK03) – Display vendor (purchasing). (See Procurement Job Aid – Viewing Special Attention (DCRL) Information in SAP.)

(1) Ineligible Contractors.

Information within the DCRL shall mirror information found within the Excluded Parties List System (EPLS), which is the official, mandatory source for identifying contractors that are ineligible for award. (See DLAD 9.104-1(90).) The EPLS can be accessed at <https://www.epls.gov/>

In addition to the DCRL, the past performance evaluation for all of the A-76 competitions performed at DSCC is very extensive and involved numerous contacts with current customers of GENCO, both commercial and Government. GENCO was also performing under DDC contracts for depot operations at two other locations at the time of the DDRV award. DSCC should have documented that the EPLS was checked, but did not fail to verify eligibility of the contractor.

DSCC concurs with the finding by the audit team, but no formal follow-up action is necessary as the DSCC A-76 Contracting Support Office has been disestablished due to Congress placing a moratorium on any future announcement of private-public competition under OMB Circular A-76.

Because this issue would apply to any pre-award actions at DSCC, additional coordination was sought with the Policy Office in BP. The following additional comments were obtained:

The DCRL is verified against EPLS on a weekly basis or as often as needed. The frequency of verification increases as BPI/DCRL Monitor is notified of changes from Legal. All notifications from Legal are immediately placed on the DCRL and are available for viewing by the entire enterprise within 24 hours. Each vendor/contractor that is on DCRL is re-evaluated every six months to ensure the validity of the information. The validation process for the DCRL is important when Legal has not requested a review or modification of specific vendor/contractor status.

Moreover, during the Exit Conference for the Audit Title: DOD Suspension and Debarment Decisions and Reporting into Excluded Parties List System, Project Number: D2010-D000CG-0177.000, the IG reported “they found no obvious issues associated with the DSCC S/D process. They specifically mentioned they were impressed with the CMUPS (Counterfeit Matl and Product Substitution System) team, and found discussions with the former DCRL Monitor (Marla Duncan) insightful.” Our DCRL system complements and enhances our ability to aid the buyers in making informed decisions.

### **Auditor Evaluation**

The corrective action plan provided by DLA Land and Maritime is fully responsive stating that all future awards will be properly documented. The audit team acknowledges that competitions under OMB Circular A-76 are unlikely for the foreseeable future, but as DLA Land and Maritime notes that the EPLS is the official mandatory source and this requirement would apply to most pre-award actions.

## **CGA, QASP, QC/CSP**

### **CGA – DLA DISTRIBUTION RICHMOND, VIRGINIA DID NOT COMPLETE SCHEDULED SURVEILLANCES**

DLA Distribution Richmond, Virginia CGA did not complete many of the scheduled surveillances in the QMSIT. The DLA Distribution J-7 Ops update includes the status of the COP. The status updates of the COP included metrics to measure CGA performance which includes the quantity of surveillances scheduled/completed by sites. The DLA Distribution J-7 Ops update for the month of August 2009 showed that DLA Distribution Richmond, Virginia CGA was in the red category; completing about 50% of the scheduled surveillances for that month. The DLA Distribution goal for the completion of surveillances was 85% of all scheduled surveillances. The percentage of surveillances completed by DLA Distribution Richmond, Virginia CGA in September 2009, while better, was 75.88%.

Our review determined that DLA Distribution Richmond, Virginia CGA deleted 299 surveillances during the period from July 1, 2009 through October 31, 2009; included in the 299 deleted surveillances were 107 critical and major significant area surveillances; the deleted critical and major surveillances equates to 36% of the 299 deleted surveillances.

During our review, we asked the DLA Distribution Richmond, Virginia Deputy Director to identify the reasons for the surveillances not being completed at DLA Distribution Richmond, Virginia. The DLA Distribution Richmond, Virginia Deputy Director indicated that the reason for the high number of surveillances being deleted was because of the significant volume of surveillances that were scheduled at DLA Distribution Richmond, Virginia; and that the only way to bring the schedule current was to delete the older surveillances and complete the current surveillances. For example, in August 2009, DLA Distribution Richmond, Virginia CGA had 275 surveillances to complete compared to DLA Distribution Jacksonville, Florida CGA which had 200 scheduled surveillances for that same month. The Deputy Director indicated that in addition to the large volume of surveillances, the CGA was experiencing staffing issues during this time period. DLA Distribution Richmond, Virginia had two (2) vacant positions and one (1) CGA member on long term leave which contributed to the number of deleted scheduled surveillances.

We found that the CGAs and QAE for each of the three (3) sites that we visited understood their roles and diligently performed their surveillances using the eight (8) step surveillance method and the prescribed procedures. Our audit also determined that the CGA's and QAE's surveillance reports were accurate, timely and generally well documented. However, based on our fieldwork we believe that the DLA Distribution Richmond, Virginia Surveillance Lead should have been monitoring and reviewing the surveillance workload to reach a manageable surveillance workload that still provided effective SP oversight.

During the week of our site visit to DLA Distribution Richmond, Virginia, the DLA Distribution J-7 COP Analyst and Contract Specialist for DLA Distribution Richmond, Virginia were on-site; and the DLA Distribution J-7 COP Analyst and the DLA Distribution Richmond, Virginia Surveillance Lead

determined that steps need to be taken to significantly reduce the number of schedule surveillances. An appropriate surveillance schedule is critical since surveillances ensure effective SP oversight.

**Recommendation** *(DLA Distribution Richmond, Virginia CGA/DLA Distribution J-7)*

We recommend that DLA 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 DLA Distribution Richmond, Virginia CGA to ensure sufficient SP performance oversight. DLA Distribution Richmond, Virginia should then revise their surveillance workload after receiving the approval of DLA Distribution J-7. Surveillance Leads at all depots should monitor the number of scheduled surveillances and adjust the frequency of surveillances based on risk and staffing.

**Management Comments**

DLA Distribution provided a written response dated September 9, 2010. We have included the full text of the September 9, 2010 response as Appendix C to this report. The management comments related to this finding are as follows:

“Concur in part with the recommendations. Surveillance frequency and workload were addressed at a Surveillance Lead Off-Site held at DLA Distribution in August 2009. DLA Distribution RV received revised surveillance templates, checklists and frequencies that were developed at the Off-Site on 1 April 2010 to coincide with the beginning of a new performance period. Since then DLA Distribution RV has consistently met the green metric in completion.

Do not fully concur with the recommendation of “Surveillance Leads at all depots should monitor the number of scheduled surveillances and adjust the frequency of surveillances based on risk and staffing”. Surveillance frequencies were established in conjunction with DLA Distribution J7, J-3, J4, DLA Installation Support and Surveillance Leads at the Off-Site. The frequency of each surveillance template serves as the minimum number of surveillances at each site based on DLA Distribution SME technical knowledge. Changes to decrease surveillance frequencies are required to come through the Quality Management System Program Office (QMSPO) via the Surveillance Change Request Form as outlined in the Policy Memorandum re: Changing Surveillances Templates dated 27 April 2009 and signed by the J7 Director. The depots may increase the frequency based on past non-conformances documented.”

**Auditor Evaluation**

The corrective action plan provided by DLA Distribution Management is fully responsive with regard to DLA Distribution Richmond, Virginia. We will schedule a follow-up review once management has had sufficient time to fully implement the corrective action and there is a sufficient amount of history for compliance testing. The audit team is aware that decreases in surveillance frequencies require approval from DLA Distribution. Surveillances frequencies must be risked based to ensure proper SP oversight but the overall surveillance levels must be reasonable given the CGA staffing levels.

## **CGA – QUALITY ASSURANCE SURVEILLANCE PLAN (QASP) DOES NOT ACCURATELY REFLECT THE PERFORMANCE WORK STATEMENT (PWS)**

The QASP for DLA Distribution Jacksonville, Florida and DLA Distribution Barstow, California do not reflect the current PWS. We confirmed that each of the three (3) sites had a QASP; however, the QASPs were not updated to reflect the current PWS. The details for each of the locations are as follows:

DLA Distribution Jacksonville, Florida - The QASP for DLA Distribution Jacksonville, Florida was dated January 2009 (no exact date specified). The QASP did not include Modification P00027, dated January 15, 2009, Modification P00031, dated October 29, 2008, and Modification P00039, dated April 3, 2009.

- Modification P00027 revised the timing of de-trash closeout actions and eliminated language addressing PPP&M APLs.
- Modification P00031 added the new requirement for authorized contractor employees to attend Processing Foreign Military Sales Shipments and Storage and Handling of Classified Material training. Modification P00031 deleted APLs for Scheduled Runs.
- Modification P00039 directed the contractor to comply with the revisions issued to remove the requirements for the physical inventories for TPIC N, L and Controlled Inventory, to include all pilferable and radioactive items.

DLA Distribution Barstow, California - The QASP for DLA Distribution Barstow, California was dated December 15, 2008; and did not include Modification P00018 dated September 26, 2008, and Modification P00019, dated November 17, 2008.

- Modification P00018 implemented mandatory Universal Service Contract (USC) training.
- Modification P00019 added two new training requirements to Government-Furnished Training.

FAR 37.602-1(b) states “Performance-based contracts for services shall include— (1) A performance work statement (PWS); (2) Measurable performance standards (*i.e.*, in terms of quality, timeliness, quantity, etc.) and the method of assessing contractor performance against performance standards; ...”

The QASP recognizes the responsibility of the SP to carry out its quality control (QC) obligations and contains measurable inspection and acceptance criteria corresponding to the performance standards contained in the contract. The QASP is designed by the COR and sets forth the responsibilities of the CGA and provides guidance to the QAEs. Since the QASP plays a critical role in the CGA quality assurance process, the COR must update the QASP in order to ensure the CGA is performing effective quality assurance.

### **Recommendation** (*DLA Distribution CGAs*)

We recommend that all CGAs conduct a review on their QASP and compare their QASPs to the most current PWS on their SP’s contract. The CGA should then revise the QASP to reflect all significant

revisions to the PWS and adjust their surveillances in QMSIT. In the future, the CGA must ensure that the QASP is updated whenever there is a significant revision to the PWS.

### **Management Comments**

DLA Distribution provided a written response dated September 9, 2010. We have included the full text of the September 9, 2010 response as Appendix C to this report. The management comments related to this finding are as follows:

“Concur with recommendation. All QASPs were revised and reissued to the CGA locations on 1 August 2010 by the Contracting Officer, (b)(6). The revised QASPs supplement quality control efforts and provide a framework for performing quality assurance for Distribution Depot Operations contracts and is intended for enterprise-wide implementation applicable to all contractor-operated distribution centers. Additionally, this QASP has been revised to address DLA Accountability Office, Office of Internal Review, findings and recommendations (Audit Report DAO-09-20). The revised QASPs addresses the responsibilities for quality; principles of surveillance; quality policies, procedures, and helpful aids; surveillance activities for specific tasks. The section addressing modifications explains that modifications impacting checklist tasks will be made in the Quality Management Tool (currently the Quality Management System Integration Tool – QMSIT) and not to the QASP.”

### **Auditor Evaluation**

The corrective action plan provided by DLA Distribution Management is fully responsive. We will schedule a follow-up review to look at the revised QASPs and verify that they reflect the current PWS.

## **CGA – OUTDATED QUALITY CONTROL/CUSTOMER SATISFACTION PLAN (QC/CSP)**

The Service Provider's QC/CSP for DLA Distribution Barstow, California and DLA Distribution Richmond, Virginia are not current. The details for the two (2) locations are as follows:

DLA Distribution Barstow, California – The QC/CSP for DLA Distribution Barstow, California is not up to date, and does not meet requirements of the contract that the QC/CSP shall be maintained throughout the life of the contract. The contract for DLA Distribution Barstow, California was awarded on September 28, 2007; and the latest approved QC/CSP was dated August 24, 2007, prior to contract award. We found that modifications P00001 dated December 5, 2007 through Modification P00025, dated May 27, 2009 were issued by DLA Distribution J-7AB. The service provider, Akima Logistics Services (AKIMA) submitted an updated QC/CSP to DLA Distribution Barstow, California CGA in July 2008. DLA Distribution Barstow, California CGA submitted the revised AKIMA QC/CSP to DLA Distribution J-7 in July 2008. We were unable to find any evidence that DLA Distribution J-7 reviewed and approved the updated QC/CSP that was submitted by DLA Distribution Barstow, California CGA in July 2008.



DLA Distribution Barstow, California was awarded under Contract Number SP3100-07-C-0033. Specifically, Contract Clause C.5.1.4, QC/CSP, paragraph C, stated that "The QC/CSP of the successful offeror will be incorporated as required by the KO or designee. Changes made after KO or designee approval shall be submitted in writing to the KO or designee for review and approval. The Contractor's QC/CSP shall be maintained throughout the life of the contract and shall include the Contractor's procedures to routinely evaluate the effectiveness of the plan to ensure the Contractor is meeting the performance standards and requirements of the contract."

DLA Distribution Richmond, Virginia - The QC/CSP for DLA Distribution Richmond, Virginia was not up to date, and does not meet requirements of the contract that the SP shall continue to update and maintain the QC/CSP after award. The contract for DLA Distribution Richmond, Virginia was awarded on August 17, 2007; and the latest approved QC/CSP for DLA Distribution Richmond, Virginia was dated September 2, 2008. We found that the current QC/CSP (with the exception of two addendums) was the same document that was submitted as part of GENCO's original proposal. Modifications P00001 dated November 1, 2007 through Modification P00036, dated November 24, 2009 were issued by DLA Distribution J-7AB. We found that the GENCO quality control plan was not revised to incorporate the contract requirements changes instructed after Modification P00016 dated October 21, 2008 was issued.

Addendum B (Customer Support Procedures) was submitted in April 2008 and Addendum C (FRAGO Procedural Process) was submitted in August 2008. Technical Exhibits 5.5 (DLA Distribution SOP for Processing and Handling Classified Material) and 5.6 (DLA Distribution SOP for FMS Shipment) became effective on 1 November 2008 under modification P00021. We found that Addendums B and C of the QC/CSP should be reviewed to ensure that they are consistent with these modifications.

DLA Distribution Richmond, Virginia was awarded under Contract Number SP3100-07-D-0014. Specifically, Contract Clause, C.5.1.4, QC/CSP, paragraph C, stated that "the SP shall implement its QC/CSP to assure quality of performance and customer satisfaction throughout the performance of these requirements. The SP shall continue to update and maintain the QC/CSP after award. The SP shall submit proposed changes to its QC/CSP to the KO or designee for review and approval".

The QC/CSP documents how the SP is planning to monitor their performance on the contract. If the plan is not revised to reflect significant new/changed PWS requirements the SP's monitoring of their performance may not effectively address all areas.

#### **Recommendation (DLA Distribution J-7)**

We recommend that DLA Distribution J-7 review all QC/CSP and contract modifications issued revising the PWS for all contracted depots; and request that SP revise the QC/CSP to incorporate the required changes to address all areas of the PWS.

#### **Management Comments**

DLA Distribution provided a written response dated September 9, 2010. We have included the full text of the September 9, 2010 response as Appendix C to this report. The management comments related to this finding are as follows:

“Concur. A letter was sent to each contractor operating a DLA distribution depot that IAW FAR 52.246-1, the company shall update their QC/CSP plan to identify changed inspection requirements as a result of modifications to contract requirements. Contract Specialists for each distribution depot contract will develop and manage a POAM to monitor QC/CSP update completions. Letter was not sent to DLA Distribution San Diego contractor because the current contract expires November 30, 2010. Letter not sent to Guam contractor because revised QC/CSP was incorporated by Modification P00010 effective July 26, 2010. Letter not sent to Cherry Point contractor because modification in progress to include updated QC/CSP.”

### **Auditor Evaluation**

The corrective action plan provided by DLA Distribution Management is fully responsive. We will schedule a follow-up review to verify that the SPs are maintaining up to date QC/CSP plans reflecting modifications to contract requirements.

## **CGA – CGA OVERSIGHT PROGRAM NON-COMPLIANCE**

DLA Distribution is not in full compliance with the DLA Distribution COP. We determined that the COP is not fully implemented and is not in all respects working as designed. Our review noted five issues as follows:

- **COP Not Updated** - COP Section B “Purpose”, Paragraph 2, “Surveillance Plan Schedule” states “J-7 will use QMSIT daily to implement the COP. Changes to the COP will be updated whenever there are changes in requirements and/or changes in policies and procedures.” During our audit we found instances where DLA Distribution J-7 issued CGA Policy Guidance Letters which made changes to policy prescribed in the COP. Based on discussions held with the DLA Distribution Acquisition Management Office, DLA Distribution J-7 AF, the COP has not been revised since it was implemented during the August/September 2008 timeframe. DLA Distribution J-7 AF stated that they were aware that the COP needed revision, and was planning to make a revision, however no estimated date for revision was provided.
- **Training Not Documented** - COP Section B “Purpose”, Paragraph 7 “COP Training” states “Therefore, J-7 will provide the following training for appropriate J-7 personnel: ... All training is documented on a training roster.” The COP went on to state “When the J-7 employee is fully trained and capable of successfully performing their COP responsibilities, both trainee and supervisor sign-off on the on-the-job training roster. Their signatures affirm that both individuals are competent in the ability of the trainee to perform their job function and responsibilities...”. During our audit DLA Distribution J-7 AF responded they were unaware

of this requirement and that no training roster was being maintained. They further indicated that on contractor provided training, there were no training certificates issued.

- Monthly Surveillances Not Conducted - COP Section C.1.3 entitled “On-Site Surveillances”, states “As the COP is initiated within the DDC, the frequency for on-site surveillances monthly. The on-site surveillance frequency for a specific CGA is subject to change based on the outcome of their performance assessments over time. Based on the CGA’s performance history, on-site surveillance can occur between monthly to semiannually. This frequency determination depends on two factors: the probable occurrence of nonconformance and the significance of previous surveillance results.” Based on discussion held with DLA Distribution J-7AF, this policy was never implemented as written; DLA Distribution J-7 never performed on-site surveillances on a monthly basis, but rather, initiated the on-site surveillance on a quarterly basis starting in fall 2008 and continues to perform them on a quarterly basis for all CGA sites. DLA Distribution J-7 AF explained that the COP was written by contractors and needs to be updated to reflect DLA Distribution practices.
- COP Analyst Not Completing Separate Surveillance Reports (SR) - COP Section C.1.3 entitled “On-Site Surveillances”, states “During the week long surveillance, the analyst will accomplish the following: - Perform a minimum of two surveillances with each CGA member to determine...”. During our review we confirmed that the analyst does participate in at least two surveillances with each CGA member during the quarterly on-site visits. However, the COP also states “Each surveillance activity conducted is documented on a SR and archived in QMSIT. This includes a separate SR for each one-on-one CGA member evaluation.” Our review found that separate SRs were not being completed for each one-on-one evaluation by the COP Analyst.
- COP Analyst not Developing Monthly On-Site Surveillance Report - COP 5.2.2 entitled “Monthly CGA On-Site Surveillance Report” states the COP Analyst is “Within five (5) working days following each on-site surveillance, the CGA On-Site Surveillance Report of the surveillance will be prepared and forwarded to the COP Surveillance Lead.” Our review disclosed that the Monthly On-Site Surveillance Report is not being prepared by COP Analysts. In lieu of the Monthly Report, the COP Analyst are submitting a daily site visit report by e-mail to the COP Lead Analyst documenting their daily events, discussions with CGA Management/SL/CGA during the visit. Included in the daily report are copies of the CGA QSV Surveillance notes and checklist. DLA Distribution J-7 AF confirmed that they instructed the COP Analyst to provide the daily site visit reports in lieu of the Monthly CGA On-Site Surveillance Report.

DLA Distribution established a QMS program to ensure that the CGAs have the training, tools, and policy guidance necessary to effectively implement their quality assurance responsibilities. In effect, the COP serves as a policy and procedure to implement oversight of the CGA surveillance activities. If a policy and procedure does not accurately set forth a process employees may perform the process incorrectly or fail to perform required procedures.

### **Recommendation (DLA Distribution J-7)**

In order to correct the non-compliance with the COP, we recommend that DLA Distribution J-7 take the following actions:

- Revise the COP to incorporate the changes documented in the numerous undated CGA Policy Guidance Letters issued since COP implementation. In addition, we recommend that all future Quality Alert Updates be dated to ensure an adequate audit trail of when the policy was prescribed. The COP needs to be revised periodically to incorporate the changes prescribed in the Quality Alert Updates.
- DLA Distribution J-7 should develop and maintain the J-7 On-The Job Training Roster as required by the current COP. This will provide the required documentation to support that all J-7 employees are indeed trained and able to perform their oversight duties.
- DLA Distribution J-7 should 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. If DLA Distribution J-7 has determined that the requirement set forth in the COP no longer reflects the current requirement, the COP should be updated to specify the current requirement.
- The COP Analyst should comply with the COP and prepare a separate Surveillance Report in QMSIT for each one-on-one CGA member evaluation during on-site surveillance.
- If DLA Distribution J-7 has determined that the monthly reports will not provide timely/relevant information then the COP should be revised to remove the monthly report requirement and specify the current expectation.

### **Management Comments**

DLA Distribution provided a written response dated September 9, 2010. We have included the full text of the September 9, 2010 response as Appendix C to this report. The management comments related to this finding are as follows:

“Concur in part with the recommendations. The CGA Oversight Program was implemented in August 2008 as a new initiative. At the time of this audit, the program was only in effect for approximately 12 months. The CGA Oversight Program has and is evolving over time to meet the requirements of the CGA and direction provided by DLA Distribution. As a result, the initial guidance was not updated during the first year of implementation, however, plans were made to update within the second year of implementation to reflect the changes of the program. The CGA Oversight Plan has been revised as of 1 August 2010 to the Quality Management System Program Office Oversight and Operations Plan to reflect the current operations of the office. During the update, the original SOP requirements were updated or removed. The following annotates how each of the recommendations above are addressed:

1. DLA Distribution J-7 will conduct a review of the SOP every six months to update as required due to policy changes that were issued as Quality Alerts or other changes as necessary.
2. The J-7 COP OJT occurs by pairing new employees with seasoned COP analysts. The SOP was revised to reflect this practice and a training roster will not be used.
3. It was never the intent to conduct monthly on-site surveillances. The SOP was revised to state normally quarterly on-site visits will be conducted, however, based on operational circumstances; a minimum of two on-site visits will be conducted in a twelve month period.
4. Separate Surveillances will not be used to document one-on-one evaluation. The COP analyst will use the standard QSV report format to document what was observed and what issues were address during the site visit. These reports will be stored on the J7 SharePoint site and shared with the site and J-3 depot representatives.
5. A monthly QMS Performance Analysis Report is completed each month by the COP analyst and distributed to the depot and J-7 management and the J-3 depot representative.”

### **Auditor Evaluation**

The corrective action plan provided by DLA Distribution Management states that the SOP will be reviewed/updated every six months. In addition, the SOP was revised to address the remaining non-compliances. We will schedule a follow-up review to review the Quality Management System Program Office Oversight and Operations Plan which has superseded the COP. At this time we will also verify that the SOP is being updated to incorporate Quality Alerts in a timely fashion.

## **ACCEPTABLE PERFORMANCE LEVELS (APLS)**

### **ACCEPTABLE PERFORMANCE LEVELS – ERRORS IN APLS**

DLA Distribution J-7 is making significant errors in issuing modifications to APLs. We noted a number of errors in the modifications to the APLs in all three (3) of the depots we reviewed; the following are examples of the types of errors we noted:

➤ DLA Distribution Barstow, California - Modification P00008 under SP3100-07-C-0033 issued June 17, 2008 contains errors:

- P00008 incorrectly deleted the APL for Causative Research. Per DLA Distribution J-7 the APL for MRO Denial should have been deleted but Causative Research was deleted in error.
- The APL for Inventory Timeliness was changed to remove TPIC C – Special Inventory (all supply condition codes) initiated by the storage activity. However, our understanding is that the Inventory Action Team (IAT) is responsible for TPIC D inventory performance and the SP remains responsible for TPIC C. Therefore, TPIC C should not have been deleted from the Inventory Timeliness APL but TPIC D should have

been. DLA Distribution J-7 indicated that Modification P00012 under SP3100-07-C-0033 dated September 2, 2008 added back the APL for Causative Research and removed the APL for MRO Denial. However, it did not correct the error in the removal of the Inventory Timeliness APL for TPIC C in lieu of TPIC D.

➤ DLA Distribution Richmond, Virginia - We noted the following errors related to the APLs at DLA Distribution Richmond, Virginia (SP3100-07-D-0014):

SIT SDR Research and Resolution - In the base contract, this was one APL; however, Modification P00028 that was sent to GENCO via a cover letter dated April 16, 2009 was split into two APLs stating "SIT SDR Research and Resolution. This APL is being separated into two APLs. The requirement is unchanged." However, Modification P00030 dated May 11, 2009 contained SIT SDR Research and Resolution APLs that were un-split; e.g. back into one APL as per the base contract. Since this APL was just split in two in P00028 we believe that DLA Distribution J-7 made an error in issuing P00030 and that the SIT SDR Research and Resolution APL should be two separate APLs as reflected in P00028.

Modification P00023 - When Modification P00023 dated December 18, 2008 was issued it contained several errors. P00023 effectively reversed Modification P0009 to change the MRO Routine Priority/Wholesale/Retail standard from 85% in three (3) days back to a one (1) day standard and the MIS Codes back to 22375 and 21473. P00023 also reversed P0009 in that it reset MRO High Priority/Wholesale/Retail in that it changed the standard from 85% in one (1) day back to one (1) day with no 85% provision and the MIS Codes back to 22367 and 21465. Modification P00024 dated January 15, 2009 corrected the errors made by DLA Distribution J-7 in issuing P00023.

➤ DLA Distribution Jacksonville, Florida - We noted the following errors related to the APLs at DLA Distribution Jacksonville, Florida (SP3100-05-D-0004):

Modification P00040 - The following issues were noted in Modification P00040 dated April 3, 2009:

- *Location Accuracy* - The correct APL is 99.5% and was correctly changed in Modification P00039 at the request of the requiring activity; however, when processing Modification P00040 dated April 3, 2009, a typographical error was made. DLA Distribution J7 explained that it was processing several modifications simultaneously on all depot operations contracts in order to resolve inconsistencies with APL contractual requirements and SITREP reporting, as well as, findings resulting from the DLA Distribution Hill, Utah audit<sup>1</sup>. This error was corrected by Modification P00048 dated August 26, 2009 which revised the APL back to 99.5%.
- *TPIC N Category A, B, D* - In Modification P00039 "Government Conducted" was added. In Modification P00040 dated April 3, 2009 "Government Conducted" was deleted by J-7 in error. We reviewed Modification P00048 dated August 26, 2009 and noted the modification adds back "Government Conducted" language.

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<sup>1</sup> DLA Accountability Office, *Final Report - Vulnerability Assessment*, Audit Report Number AD-FY09-01 dated December 24, 2008.

- *TPIC G, P, and Radiological* - The Quality APL for TPIC Inventories G, P, and Radiological were deleted in error in Modification P00040 dated April 3, 2009. The TPIC Inventories G, P, and Radiological were added back in Modification P00047 dated July 14, 2009.
- *SDR Research & Resolution* - This APL was a single APL from contract inception until Modification P00040 dated April 3, 2009 split this into two separate APLs. Modification P00042 dated May 6, 2009 deleted both of the SDR Research & Resolution APLs. Discussions with the DLA Distribution Jacksonville, Florida CGA disclosed that they did not request any changes to this APL and had in fact questioned its removal. DLA Distribution J-7 was unable to provide any support for removal of the SDR Research & Resolution APL in Modification P00042.

Modification P00036 - The DRO and MRO RCP Sales Customer APLs were inadvertently deleted in Modification P00036 dated March 24, 2009. Modification P00042 dated May 6, 2009 corrected the APL and added the correct MIS element to capture performance to be consistent with all other contracts.

APLs define the minimum performance level for each requirement before the Government considers performance unsatisfactory. Consequently maintaining accurate and complete contract APLs is important, since when errors are made with regard to APLs the contractor's performance may be ineffectively judged as satisfactory or unsatisfactory. Errors in contract APLs could also make it more difficult to sustain a determination that a contractor is not performing in a satisfactory manner should the government take action against the contractor based on the APL data.

### **Recommendation (DLA Distribution J-7/J-3)**

We recommend that DLA Distribution J-7 work in conjunction DLA Distribution J-3 and any other parties involved in setting APLs; to develop a process to be followed in revising the APLs. This process should ensure that revisions to APLs do not result in depots being held to different standards for the same APL; for example, the APL for Location Accuracy should reflect a 99.5% standard at all depots which it is applicable. 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.

### **Management Comments**

DLA Distribution provided a written response dated September 9, 2010. We have included the full text of the September 9, 2010 response as Appendix C to this report. The management comments related to this finding are as follows:

"Concur in part with the recommendation. DLA Distribution does have a Change Request SOP in place for all change requests for modification for APLs and other requirements and is reviewed every six



months for updates. See discussion in management comments for Finding 7 which addresses consistency in APLs based on where contracts are in the period of performance."

### **Auditor Evaluation**

The corrective action plan provided by DLA Distribution Management indicates that a Change Request SOP is now in place. We will schedule a follow-up review once a sufficient amount of APL history has been accumulated to support compliance testing. During the follow-up we will review the SOP and determine if the process reduces the number of APL errors.

## **ACCEPTABLE PERFORMANCE LEVELS – CONSISTENCY OF APLS**

DLA Distribution has not consistently held the three (3) subject depots to consistent APLs. APLs set the minimum performance of each requirement before the government considers performance unsatisfactory. As long as the performance percentage does not fall below the specified acceptable performance level, the government will not deduct for poor performance. All three (3) depot contracts we reviewed included APLs; however, during our review we noted inconsistencies with the APLs for which DLA Distribution J-7 was unable to provide justification. The inconsistencies are as follows:

- **SIT SDR Research and Resolution** - Stock in Transit relates to the movement of Navy-owned stock from distribution depot storage to repair, repair back to distribution depot storage, from distribution depot storage to Navy activity stock. Based on this definition of "SIT" and the J-7 response it appears that the APLs are inconsistent. DLA Distribution Barstow, California has an all inclusive SDR APL requiring research and resolution of all SDRs regardless of customer. However, DLA Distribution Barstow, California conformed contract through P00024 contains 5.1.5.3 "Stock in Transit Supply Discrepancy Reports (SIT SDR)" states that the contractor will sign on to the Navy SIT SDR every workday to work any SIT SDR listed.

We reviewed the DLA Distribution Richmond, Virginia conformed contract and noted that it had a 5.1.5.3 SIT SDR written into the contract. However, there is no Navy facility located at DLA Distribution Richmond, Virginia and their main customers are all DRMOs. We looked that the Red/Green Performance Report for DLA Distribution Richmond, Virginia and noted that it was "NR" for SIT SDRs for all months except one. Per the DLA Distribution Richmond, Virginia COR "...DLA Distribution Richmond, Virginia received one SIT SDR from the Navy during the month of January 2008 and DLA Distribution Richmond, Virginia has not received another SIT SDR."

In summary, SIT SDRs are applicable at DLA Distribution Barstow, California— however they are not specifically measured; there is an all inclusive SDR APL. The DLA Distribution Jacksonville, Florida and DLA Distribution Richmond, Virginia contracts define the measurement universe to be SIT SDRs from the Navy SIT SDR website; however, based on our fieldwork we do not believe that SIT SDRs are relevant at DLA Distribution Richmond, Virginia.

- TPIC G & TPIC P Inventories - We reviewed the DLA Distribution Richmond, Virginia Technical Exhibit 5.1 from the conformed contract through P00031. Item 5.4 Physical Inventory Quality does not address accuracy of TPIC G and TPIC P but the standard in the contract reads "Shall be completed within 30 days subsequent to the assignment of the ICOD."; this is a timeliness APL. DLA Distribution Richmond, Virginia does not have a TPIC G & P accuracy APL. In addition, DLA Distribution J-7 indicated that the Government IAT Teams are responsible for performance of the TPIC G and TPIC P Inventories so inventory timeliness is beyond the contractor's control.
- Completion of Location Survey - Locations survey requirements are included in the PWS for all three (3) contracts and a completion of Location Survey APL was included in DLA Distribution Jacksonville, Florida and DLA Distribution Barstow, California contract. However, no location survey APL was included in the DLA Distribution Richmond, Virginia contract. Per DLA Distribution J-7 "the newer contracts awarded have removed this APL and included language in the PWS to ensure the contractor is complying with their proposed schedule. Inspections are performed to monitor this requirement through QMSIT. The outcome of Location Survey is Location Accuracy and is also included in all three contracts include and APL." Through our analysis we confirmed that the Location Accuracy is an APL in all three (3) contracts. However, the actual completion of location surveys is in DLA Distribution Jacksonville, Florida and DLA Distribution Barstow, California contracts but not in DLA Distribution Richmond, Virginia.
- Causative Research - The DLA Distribution Jacksonville, Florida and DLA Distribution Barstow, California contracts contained an APL stating that 100% of CAV and Mandatory IAVs must be completed and recorded/corrected in 45 days. DLA Distribution Richmond, Virginia is 100% of Mandatory IAVs completed and recorded/corrected within 30 days. Based on the February 16, 2010 response from DLA Distribution J-7 "The causative research APL at all sites measure timeliness of CAVs and IAVs. The DLA Distribution Richmond, Virginia contract reflects the current requirement/standard of 30 days on the APL. The DLA Distribution Jacksonville, Florida and DLA Distribution Barstow, California contract still reflect the old requirement. DLA Distribution Barstow, California contract should probably be modified for conformity; however, no change request has been received in J7 as yet."
- MRO High Priorities, Wholesale/Retail & MRO Routine Priority/Wholesale/Retail - These APLs were not included in the DLA Distribution Barstow, California contract. However they are in the DLA Distribution Jacksonville, Florida and DLA Distribution Richmond, Virginia contracts. DLA Distribution J-7 indicated that it has issued a Request for Proposal (RFP) to the DLA Distribution Barstow, California service provider over six (6) months ago, and that upon receipt of a proposal, a modification will be negotiated to add the APLs.
- RDO High Priorities, Wholesale/Retail & RDO Routine, Wholesale/Retail - These APLs were not included in the DLA Distribution Barstow, California contract. However, they are in the DLA Distribution Jacksonville, Florida and DLA Distribution Richmond, Virginia contracts. DLA Distribution J-7 indicated that it has issued a RFP to DLA Distribution Barstow, California

over 6 months ago and that upon receipt of a proposal, a modification will be negotiated to add the APLs.

- PPP&M Maintenance Returns - The DLA Distribution Jacksonville, Florida contract PWS included C.5.5.1.2. "NAVAIR DEPOT JACKSONVILLE SUPPORT OF INDUCTIONS, MAINTENANCE REPAIR RETURNS, AND OTHER ITEMS" which states "Contractor shall perform PPP&M on assets received from NAVAIR Depot Jacksonville and detrash items being inducted into NAVAIR Jacksonville ...". The DLA Distribution Barstow, California PWS included 5.2.1.4.4 "ON-BASE MAINTENANCE/TENANT RETURNS" which states "...The contractor Shall:...schedule the material for packaging if required prior to actions to stow in a warehouse locations, or ship to an on or off-base customer...". However, there was no specific APL for DLA Distribution Barstow, California Maintenance Returns; rather it contains a generic PPP&M APL. Based on this we believe that the DLA Distribution Barstow, California and DLA Distribution Jacksonville, Florida contract APLs are inconsistent with regard to PPP&M Maintenance Returns.
- Packaging - The DLA Distribution Richmond, Virginia contract has a "Packaging for All Material" APL which attempts to measure packaging quality - "Packaged per customer specifications and/or applicable regulations". DLA Distribution Richmond, Virginia also has a two stage "Packaging" APL that measures the timeliness of packaging 95% in 30 days and 100% in 60 days. Neither DLA Distribution Jacksonville, Florida nor DLA Distribution Barstow, California attempt to measure the quality of packaging. In addition, neither has an APL specifically focused on the timeliness of just packaging; e.g. DLA Distribution Barstow, California measures PPP&M timeliness requiring it all to be completed 100% in 30 days or less. This 100% in 30 days for PPP&M would appear to be a tougher standard than the "Packaging" only since "Packaging" is only one aspect of PPP&M and the timeframe provided to DLA Distribution Richmond, Virginia is greater at 95% in 30 days and 100% in 60 days. That is to say DLA Distribution Richmond, Virginia has more time to do less than DLA Distribution Barstow, California. DLA Distribution Jacksonville, Florida only has the PPP&M Maintenance Returns timeliness APLs - nothing on the quality of packaging or on other PPP&M areas.

During our review we also noted that care of stock in storage (COSIS) was not addressed by the APLs in the three (3) depot contracts we reviewed. The completeness of APLs was addressed by the Inspector General of the Department of Defense (DoD-IG) in its October 30, 2002 Audit Report Number D-2003-016 entitled "Material Distribution Services Contract at the Defense Distribution Depot Warner Robins, Georgia. The report stated "In addition, the contract needed to be modified to include acceptable contractor performance levels for care of supplies in storage, quality assurance, and customer responsiveness." As previously stated, APLs define the minimum performance level for each requirement before the Government considers performance unsatisfactory; therefore, APLs should exist for all critical distribution functions to ensure a minimum level of performance.

### **Recommendation (DLA Distribution J-7/J-3)**

We recommend that DLA Distribution develop and implement practices that provide consistent APLs across contracted depots. Based on our review we believe that DLA Distribution should include the following when developing its process:

- DLA Distribution should develop a consistent concise "package" of standard APLs that measure the critical distribution function areas; e.g. receiving, stow, COSIS, pick, and pack. In addition, to measuring the critical distribution functions we believe that all contracted depots should measure customer satisfaction. This package of core APLs could then be included in all contracts for contracted depot operations with little modification. An example of minimal modification would be the removal of TPIC G Inventory Accuracy APL if the subject depot does not have classified material.
- DLA Distribution should then supplement the core package of APLs with APLs specifically tailored to reflect the unique circumstances at a depot; e.g. Local Delivery. For example, during our audit we noted that DLA Distribution Jacksonville, Florida and to a lesser extent DLA Distribution Barstow, California has a large amount of Local Delivery work that is not effectively included in an APL. Since this represents a significant amount of work effort for the contractor a Local Delivery APL should be included.

### **Management Comments**

DLA Distribution provided a written response dated September 9, 2010. We have included the full text of the September 9, 2010 response as Appendix C to this report. The management comments related to this finding are as follows:

"Concur in part with the recommendation. DLA Distribution made the decision when implementing revised APLs throughout the period of performance of current contracts. In some cases, the APLs were not modified based on where the contract was in the period of performance, acquisition phase or if the contractor's proposal included a cost for implementing revised APLs that was not acceptable to the command. There is currently a change request in process to modify the APL Technical Exhibit for all contract APLs to be consistent across the board and mirror the SITREP APLs plus the key physical inventory APLs. Not all of the recommended functions from this audit will include APLs in the Technical Exhibit, however, appropriate timeliness and quality requirements are included in the specific requirements in the PWS."

### **Auditor Evaluation**

The corrective action plan provided by DLA Distribution Management indicates that a change request is in process to modify the APL Technical Exhibit for all contract APLs to be consistent across the board – mirroring the SITREP APLs plus key physical inventory APLs. This should clearly address the recommendation for a "concise package" of APLs. During our follow-up review we will review the outcome of the change request process to modify the APLs for all contract APLs to determine if the APL

package effectively balances monitoring SP performance in the key distribution functions with a consistent APL package.

## CONTRACT ADMINISTRATION

### CONTRACT ADMINISTRATION – UNOFFICIAL MODIFICATIONS SENT TO EDA

DLA Distribution is sending “unofficial” contract modifications to the EDA in violation of DoD EDA Business Rules. EDA is a web-based system that provides secure online access, storage, and retrieval of contracts, contract modifications, Government Bills of Lading (GBLs), DFAS Transactions for Others, vouchers, and Contract Deficiency Reports to authorized users throughout the DoD. During our review we accessed EDA to obtain contract information. We noted a number of active modifications on the three (3) contracts under review with duplicate modification numbers in EDA. We inquired as to why there were duplicated modification numbers. DLA Distribution J-7 explained that many of these active modifications were not official modifications. Since these "unofficial" modifications were active in EDA it was difficult for the auditors to discern the "unofficial" modifications from the "official" modifications in EDA. Further discussions with DLA Distribution J-7 staff during our review indicated that these "unofficial" modifications were sent to EDA via the Base Operating Support System (BOSS). This system provides local base supply, inventory control, financial and contracting support for DLA. Per J-7 there is no simple way to prevent BOSS from sending these "unofficial" modifications to EDA.

On November 5, 2001 John P. Stenbit, Department of Defense Chief Information System Officer issued a memorandum entitled DoD EDA Business Rules. The subject memorandum established roles and responsibilities for participation in the DoD EDA program. Section 2.6.3 of the document entitled "Document Authentication" states, "Document authors are responsible for the accuracy and authenticity of documents that are submitted and available for display within the DoD EDA. Document Authors must review their DoD EDA documents for accuracy and timeliness." Section 2.6.4 entitled "Document Integrity" states, "Document authors must ensure that only 'approved', legal documents are converted and placed on the DoD EDA system."

During our audit we noted a number of "unofficial" modifications that remained active in EDA for an extended period of time. The following are examples of "unofficial" modifications that were not "deactivated" in EDA in a timely fashion and hence remained comingled with the "official" modifications for an extended period of time:

- DLA Distribution Barstow, California - Modification P00001 dated May 20, 2008 added CLIN 10 for FRAGO Directives. We determined that the P0001 dated May 20, 2008 posted on EDA was not an "official" modification. Further research disclosed that Modification P00001 dated May 20, 2008 was loaded on EDA on May 28, 2008. However, it was not deactivated in EDA until June 30, 2009; more than a year after the Modification was loaded in EDA.

- DLA Distribution Richmond, Virginia - Delivery Order 3 Modification 1 was published to EDA on May 28, 2008. Modification 1 was then inactivated by DLA Distribution J-7 on September 2, 2009; 15 months after it had posted to EDA.

Discussions with DLA Distribution J-7 disclosed that they were not aware of any way to prevent BOSS from sending "unofficial" modifications to EDA. Until such time as BOSS can be reprogrammed, deactivation of the "unofficial" modifications must take place in a timely fashion for EDA to be a useful tool for obtaining contract information.

### **Recommendation (DLA Distribution J-7/J-6)**

In order to comply fully with the DoD EDA Business Rules that require only 'approved' legal documents are converted and placed on EDA we recommend that BOSS be configured not to send "unofficial" modifications to EDA. If this is not possible, then we recommend that DLA Distribution J-7 develop a process to ensure that these "unofficial" modifications sent to EDA via BOSS are rapidly deactivated. While this option will not allow DLA Distribution to be fully compliant with the November 4, 2001 memorandum it would ensure that only 'approved' documents are readily available, thus increasing the usefulness of EDA for researching DLA Distribution Contracts.

Finally, we suggest that providing all DLA Distribution J-7 staff (contracting officers, contract administrators, etc.) involved with issuing contracts/modifications access to EDA. This would help ensure that all "official" modifications are loaded in a timely fashion and all "unofficial" modifications are deactivated in a timely manner. Since EDA is used by DoD personnel from a number of DoD agencies it is important that EDA provide timely and accurate contract information to people not intimately familiar with DLA Distribution contracts.

### **Management Comments**

DLA Distribution provided a written response dated September 9, 2010. We have included the full text of the September 9, 2010 response as Appendix C to this report. The management comments related to this finding are as follows:

"Partially Concur. Modification of BOSS to exclude "unofficial" modifications from transmission is the ideal solution; however, that is not an option at this time. BOSS Programming efforts are focused on EProcurement. DLA Distribution J7 instituted its manual process for posting "official" contract documents of record in May 2007 with reinforcements occurring during internal staff meetings. Furthermore DLA Distribution J7 is in the process of validating EDA access rights for all J7-AB personnel and is planning to conduct mandatory internal training in the first quarter FY11."

### **Auditor Evaluation**

Since BOSS is not being modified we believe it will continue to send "unofficial" modifications to EDA. Therefore, we will schedule a follow-up review once management has had sufficient time to validate EDA access rights and conducts the internal training. During the follow-up review we will determine if these

steps result in “unofficial” modifications being inactivated in EDA in a timely fashion and “official” modification being posted to EDA in a timely manner.

## CONTRACT ADMINISTRATION – UNDEFINITIZED ACTIONS

DLA Distribution J-7 is not definitizing change orders in timely manner; failing to definitize in accordance with contractual timeframes.

- DLA Distribution Barstow, California: Modification P00004 dated December 27, 2007 under SP3100-07-C-0033 indicated that a schedule was set for definitization due to the addition of DoD 4140-01-M-1 Phytosanitary Requirements for Wood Packaging Material. The schedule set forth in P00004 indicated that the contractor proposal was due 30 days from date of change order, government evaluation would take place within 10 days from receipt of proposal, with a definitized modification to finalize the change order 30 days from receipt of proposal. Modification P00005 dated January 25, 2008 established that the proposal was due not later than April 1, 2008 with a modification to be issued not later than April 30, 2008. However, further research failed to locate a modification that definitized the contract action. In response to our inquiry DLA Distribution J-7 provided a written response dated December 8, 2009. This response indicated that the modification was currently in the final stage of negotiation with an estimated completion date of January 15, 2010. The response explained that definitization was delayed for a number of reasons: changes/revisions to requirements, fact finding with customer, revision to government estimate (5/16/2008), three proposals from the contractor (6/27/2008, 8/20/2008, and 6/15/2009), technical evaluation delayed until 9/10/2009, and the specialist aggressively questioning the contractor's proposed cost. The net effect was the contract action was undefinitized for an excessive period of time; approximately two years.
- DLA Distribution Richmond, Virginia: Modification P00007 dated March 18, 2008 under SP3100-07-D-0014 indicated that a schedule was being set for definitization due to the addition of DoD 4140-01-M-1 Phytosanitary Requirements for Wood Packaging Material effective April 1, 2008. The schedule set forth in P00007 indicated that the contractor proposal was due 30 days from issuance of this change order, government evaluation of the proposal was to take place within 10 days from proposal receipt, with a definitized modification to finalize the change order 30 days from receipt of proposal. The contract was definitized in Modification P00019 on September 30, 2008. The definitization did not occur in the timeframe established in P00007; taking approximately 196 days.
- DLA Distribution Jacksonville, Florida: Modification P00019 dated December 27, 2007 under SP3100-05-D-0004 indicated that a schedule was being set for definitization due to the addition of DoD 4140-01-M-1 Phytosanitary Requirements for Wood Packaging Material. The schedule set forth in P00019 indicated that the contractor proposal was due 30 calendar days from issuance of this change order, government evaluation of the proposal was to take place within 10 days from proposal receipt, with a definitized modification to finalize the change order 30



days from receipt of proposal. Modification P00021 dated January 25, 2008 changed the definitization schedule outlined in P00019 to obtain proposal by April 1, 2008 and issue modification by April 30, 2008. Modification P00046 dated July 6, 2009 definitizes the Wood Packaging changes. We received a written response from DLA Distribution J-7 on December 8, 2009. The response stated that the definitization was delayed for the following reasons: customer issued directives, requirement changes/additional guidance resulting to revisions to the contractor proposals, and delays in receipt of audit support. The definitization did not occur in the timeframe established in P00019 and P00021; taking in excess of 14 months.

Delayed definitization of change orders could result in additional cost and performance risk to the government, since contractors are normally reimbursed for all allowable costs incurred prior to definitization.

#### **Recommendation (DLA Distribution J-7)**

We recommend that DLA Distribution J-7 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.

#### **Management Comments**

DLA Distribution provided a written response dated September 9, 2010. We have included the full text of the September 9, 2010 response as Appendix C to this report. The management comments related to this finding are as follows:

“Concur. DLA Distribution J-7 will ensure undefinitized change orders are definitized in accordance with the definitization schedule outlined in the modification. If definitization cannot be accomplished for reasons beyond DLA Distribution J-7 control, a subsequent modification will be issued to provide a new definitization schedule.”

#### **Auditor Evaluation**

The corrective action plan provided by DLA Distribution Management is fully responsive. We will schedule a follow-up review once management has had sufficient time to fully implement the corrective action and there is a sufficient amount of history for compliance testing.

### **CONTRACT ADMINISTRATION – DLA DISTRIBUTION BARSTOW, CALIFORNIA AWARD FEE**

DLA Distribution J-7 administration of DLA Distribution Barstow, California contract award fee must be improved. Only one (1) of the three (3) contracts we reviewed involved Award Fee; Contract Number SP3100-07-C-0033 awarded September 28, 2007. This is the DLA Distribution Barstow, California

contract with AKIMA. Our review disclosed a number of issues with the treatment of Award Fee on this contract as follows:

- Incomplete Award Fee Plan - The Award Fee Plan included in the base contract was not completed. The plan contained three areas in the Award Fee Organizational Structure marked "To be inserted at the time of contract award"; fee determining official, AFRB Chairperson, and the AFRB Members. Modification P00006 dated June 19, 2008 contained a revised Award Fee Plan which appeared to be complete. P00006 was issued during the first award fee period (4/1/2008-9/30/2008) assigning positions to the areas previously marked "To be inserted at the time of contract award". While P00006 was issued before the first award fee period ended, Table 3 which defines the sequence of events in the Award Fee process states that Award Fee Plan Changes or Updates must be completed "NLT 14 calendar days before the start of evaluation period".
- Failure to Provide Interim Evaluation Reports - DLA Distribution J-7 stopped providing AKIMA with Interim Evaluation Reports after the first Award Fee Period; however, the requirement to do the Interim Evaluation Reports was still in the Award Fee Plan when the Plan was revised with Modification P00017 dated September 11, 2008. P00017 was issued just prior to the Second Award Fee Period as a unilateral modification; e.g. not signed by AKIMA. The requirement to prepare Interim Evaluation Reports was removed in Award Fee Plan in Modification P00029. P00029 was issued after the Third Award Fee Period. Consequently, DLA Distribution J-7 failed to comply with the Award Fee Plan for the Second and Third Award Fee periods by not issuing Interim Evaluation Reports still required by the Award Fee Plan.
- Failure to Meet Schedule - DLA Distribution J-7 failed to meet the schedule set forth in the Award Fee Plan outlining the award fee award process. As of the date of our fieldwork there were three Award Fee periods completed and DLA Distribution J-7 failed to issue the Award Fee Determination Letter and Award Fee Contract Modification to AKIMA in a timely manner for all award fee periods to date:

*Period 1:* The Award Fee Plan with Modification P00006 provides 20 business days for completion of the Award Fee Determination Letter and Award Fee Modification. With the First Award Fee Period ending September 30, 2008 the Determination Letter and Award Fee Contract Modification would be due on or about November 1, 2008. However, they were not completed until November 11, 2008 about two (2) weeks behind the schedule set forth in the Award Fee Plan.

*Period 2:* The Award Fee Plan with Modification P00017 states in Section 4.8 "...the KO prepares and issues the Award Fee Determination Letter and Award Fee Contract Modification no later than 20 business days after the conclusion of the evaluation period to the Contractor". With the Second Award Fee Period ended March 31, 2009 the Determination Letter and Award Fee Contract Modification would be due on or about May 1, 2009. However, the Determination Letter and Award Fee Contract Modification were not issued until August 5, 2009. Approximately 96 days behind the schedule forth in the Award Fee Plan attached to P00017.

*Period 3:* The Award Fee Plan with P00017 states in Section 4.8 that "...the KO prepares and issues the Award Fee Determination Letter and Award Fee Contract Modification no later than 20 business days after the conclusion of the evaluation period to the Contractor. " With the Third Award Fee Period ending September 30, 2009 the Determination Letter and Award Fee Contract Modification would be due on or about November 1, 2009. Based on the DLA Distribution J-7 response the Award Fee for Period Three (3) is still in process and they anticipate issuing the paperwork not later than March 1, 2010. If DLA Distribution J-7 is able to make the March 1, 2010 date they would be approximately 120 days behind the schedule set forth in the Award Fee Plan attached to P00017.

The Award Fee Plan is legally incorporated into the contract. When the government fails to meet the timeframes set forth in the Plan it is technically in violation of the terms of the contract. In addition, if the Award Fee is to be motivational for the contractor it must be significant enough to be meaningful and be paid in a timely manner.

#### **Recommendation (DLA Distribution J-7)**

DLA Distribution J-7 should 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.

We further, recommend that DLA Distribution J-7 review the award fee evaluation process and understand the various parties (CGA, J-3, J-7, etc.) and time requirements/constraints involved. Once the process is understood DLA Distribution should attempt to revise the internal process to enable DLA Distribution to meet the contractual obligations with respect to award fee. Once a process is developed that is agreeable to the parties involved and permits the contractual obligations to be met this process should be made into a formal procedure. If changes/updates to the award fee plan are required these should be implemented in accordance with the changes/updates to the award fee plan as specified in the Award Fee Plan document; e.g. 14 calendar days prior to the option period unless bilaterally approved.

#### **Management Comments**

DLA Distribution provided a written response dated September 9, 2010. We have included the full text of the September 9, 2010 response as Appendix C to this report. The management comments related to this finding are as follows:

"Concur. DLA Distribution J-7 will ensure award fee plans are updated at time of award for future contracts awarded with award fee provisions. In addition, modifications have been issued to update the award fee plan on the DDBC contract. A meeting was held with the technical representatives responsible for providing award fee input to establish procedures, guidelines and responsibilities to ensure award fee modifications are processed in a timely manner. The Contracting Officer will ensure award fee reports are provided to ensure timelines will be met for future award fee reports."

### **Auditor Evaluation**

The corrective action plan provided by DLA Distribution Management is fully responsive. We will schedule a follow-up review once management has had sufficient time to fully implement the corrective action and there is a sufficient amount of history for compliance testing.

## **CONTRACT ADMINISTRATION – INCURRED COST SUBMISSION**

The DLA Distribution Contract Number SP3100-07-C-0033 for operations at DLA Distribution Barstow, California was not included in AKIMA 2008 Incurred Cost Submission. During our review we briefed the DLA Distribution contract with AKIMA and determined that the contract was composed on several contract types - Time and Materials (T&M), Cost, Fixed Price Incentive-Firm Target (FPI), and Fixed Price. To verify that the DLA Distribution Contract was included in the contractor's submission we requested AKIMA's 2008 Incurred Cost Submission from DLA Distribution J-7. DLA Distribution J-7 obtained the submission and provided it to our office. We reviewed AKIMA's 2008 Incurred Cost Submission dated June 24, 2009 and noted that the DLA Distribution Contract was not included on the Schedule H. DLA Distribution J-7 arranged a teleconference on January 20, 2010 with AKIMA. After the teleconference AKIMA agreed to provide a revised submission. On February 1, 2010 AKIMA provided a revised submission. We reviewed the revised submission and determined that it correctly showed the Cost and T&M portions on the Schedule H. However, the Fixed Price Incentive portion of the DLA Distribution Contract was still not reflected on the Schedule H.

Failure to ensure an auditable contract is included appropriately in a contractor's annual incurred cost submission could result in the contract not being audited during the DCAA Incurred Cost Audit thus complicating contract closeout. The Defense Contract Audit Agency Incurred Cost Electronically (ICE) Model available at <http://www.dcaa.mil> provides guidance as to what comprises and adequate submission and can be used as a reference by government and/or contractor personnel.

### **Recommendation (DLA Distribution J-7)**

We recommend that DLA Distribution J-7 obtain copies of the annual incurred cost submissions for contractor's having auditable contracts that DLA Distribution J-7 retained contract administration responsibilities. Once received, DLA Distribution 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.

### **Management Comments**

DLA Distribution provided a written response dated September 9, 2010. We have included the full text of the September 9, 2010 response as Appendix C to this report. The management comments related to this finding are as follows:

“Concur. The KO issued a letter to each contractor on August 18, 2010 reminding them of the requirement to submit annual incurred cost submissions within six months following the end of their fiscal year for any contract with cost reimbursements CLINs and to provide a copy of the incurred cost submissions to DLA Distribution J-7.”

### **Auditor Evaluation**

The corrective action plan provided by DLA Distribution Management is fully responsive. We will schedule a follow-up review once there is sufficient history for compliance testing, to ensure that annual incurred cost submissions are being submitted in a timely manner and include all auditable contract types.

## **CONCLUSION**

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Our review of the A-76 Contract Oversight process disclosed eleven (11) deficiencies that are indicative of weaknesses in the award and administration of SP contracts for depot operations. These issues include:

- The DLA Land and Maritime-BP, Contracting Office, and DLA Land and Maritime-DR, the A-76 Office for Solicitation SP0700-06-R-7017 did not verify that the contractor, GENCO was not debarred on the GSA EPLS in accordance with FAR 9.405(d)(1).
- The DLA Distribution Richmond, Virginia CGA did not complete many of the scheduled surveillances in the QMSIT.
- The QASP for DLA Distribution Jacksonville, Florida and DLA Distribution Barstow, California do not reflect the current PWS.
- The Service Provider's QC/CSP for DLA Distribution Barstow, California and DLA Distribution Richmond, Virginia are not current.
- DLA Distribution is not in full compliance with the DLA Distribution COP.
- DLA Distribution J-7 is making significant errors in issuing modifications to APLs.
- DLA Distribution has not consistently held the three (3) subject depots to consistent APLs.
- DLA Distribution is sending “unofficial” contract modifications to the EDA in violation of DoD EDA Business Rules.
- DLA Distribution J-7 is not definitizing change orders in timely manner; failing to definitize in accordance with contractual timeframes.
- DLA Distribution J-7 administration of DLA Distribution Barstow, California contract award fee must be improved.
- The DLA Distribution Contract Number SP3100-07-C-0033 for operations at DLA Distribution Barstow, California was not included in AKIMA’s 2008 Incurred Cost Submission.

These eleven (11) deficiencies present risks to the Defense Logistics Agency (DLA) in the areas of effective contract award and contract administration on depot operations contracts.

APPENDIX A

SUMMARY OF RECOMMENDATIONS

	Recommendation	Addressee	Status of Corrective Action	Estimated Completion Date
1	We recommend that DLA Land and Maritime-BP/DR comply with the requirement set forth in FAR 9.405(d) and verify that potential contractors are not debarred via EPLS. To help ensure compliance with the EPLS requirement on all future awards, DLA Land and Maritime-BP/DR should review their award process and associated policies and procedures, and make revisions to ensure that contracting staff check EPLS and document the results in their files.	DLA Land and Maritime-BP/DR	DLA Land and Maritime concurs with the finding and will assure that future awards are properly documented.	Complete.
2	We recommend that DLA 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 DLA Distribution Richmond, Virginia CGA to ensure sufficient SP performance oversight. DLA Distribution Richmond, Virginia should then revise their surveillance workload after receiving the approval of DLA Distribution J-7. Surveillance Leads at all depots should monitor the number of scheduled surveillances and adjust the frequency of surveillances based on risk and staffing.	DLA Distribution Richmond, Virginia CGA/ DLA Distribution J-7	Implemented new checklists and schedules for DDRV April 1, 2010	Complete. Baseline schedules set and process to change frequencies addressed in the revised SOP and a Quality Alert
3	We recommend that all CGAs conduct a review on their QASP and compare their QASPs to the most current PWS on their SP's contract. The CGA should then revise the QASP to reflect all significant revisions to the PWS and adjust their surveillances in QMSIT. In the future, the CGA must ensure that the QASP is updated whenever there is a significant revision to the PWS.	DLA Distribution CGAs	New QASPs issued to all contract operated depots CGA August 1, 2010	Complete. All revisions to surveillance checklists completed in QMSIT upon execution of modification, not the QASP.
4	We recommend that DLA Distribution J-7 review all QC/CSP and contract modifications issued revising the PWS for all contracted depots; and request that SP revise the QC/CSP	DLA Distribution J-7	Letter send to each contractor to update their QC/CSP	POAM has been developed requiring all

	to incorporate the required changes to address all areas of the PWS.		POAM being developed to track status and completion	contract specialist to determine if requirement exists for submission of QC/CSP at six month intervals.
5	<p>In order to correct the non-compliance with the COP, we recommend that DLA Distribution J-7 take the following actions:</p> <ul style="list-style-type: none"><li>➤ Revise the COP to incorporate the changes documented in the numerous undated CGA Policy Guidance Letters issued since COP implementation. In addition, we recommend that all future Quality Alert Updates be dated to ensure an adequate audit trail of when the policy was prescribed. The COP needs to be revised periodically to incorporate the changes prescribed in the Quality Alert Updates.</li><li>➤ DLA Distribution J-7 should develop and maintain the J-7 On-The Job Training Roster as required by the current COP. This will provide the required documentation to support that all J-7 employees are indeed trained and able to perform their oversight duties.</li><li>➤ DLA Distribution J-7 should 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. If DLA Distribution J-7 has determined that the requirement set forth in the COP no longer reflects the current requirement, the COP should be</li></ul>	DLA Distribution J-7	SOP revised and issued August 1, 2010 as the DLA Distribution QMS Oversight and Operations Plan. Not all recommendations included due to evolution of the program	Complete. Conducting 6 month reviews for update. Next review scheduled for second quarter FY11.

	<p>updated to specify the current requirement.</p> <p>➤The COP Analyst should comply with the COP and prepare a separate Surveillance Report in QMSIT for each one-on-one CGA member evaluation during on-site surveillance.</p> <p>➤If DLA Distribution J-7 has determined that the monthly reports will not provide timely/relevant information then the COP should be revised to remove the monthly report requirement and specify the current expectation.</p>			
6	<p>We recommend that DLA Distribution J-7 work in conjunction DLA Distribution J-3 and any other parties involved in setting APLs; to develop a process to be followed in revising the APLs. This process should ensure that revisions to APLs do not result in depots being held to different standards for the same APL; for example, the APL for Location Accuracy should reflect a 99.5% standard at all depots which it is applicable. 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.</p>	DLA Distribution J-7/J-3	<p>Complete. J-7 does have a change request process. Currently, reviewing for updates and will ensure disseminated to appropriate personnel for use.</p>	<p>9/30/2010 Conducting 6 month reviews for update. Next review scheduled for Third Quarter FY11.</p>
7	<p>We recommend that DLA Distribution develop and implement practices that provide consistent APLs across contracted depots. Based on our review we believe that DLA Distribution should</p>	DLA Distribution J-7/J-3	<p>Change request process above applies to this recommendatio</p>	<p>Complete for DDCN new contract.</p>



	<p>include the following when developing its process:</p> <ul style="list-style-type: none"> <li>➤ DLA Distribution should develop a consistent concise "package" of standard APLs that measure the critical distribution function areas; e.g. receiving, stow, COSIS, pick, and pack. In addition, to measuring the critical distribution functions we believe that all contracted depots should measure customer satisfaction. This package of core APLs could then be included in all contracts for contracted depot operations with little modification. An example of minimal modification would be the removal of TPIC G Inventory Accuracy APL if the subject depot does not have classified material.</li> <li>➤ DLA Distribution should then supplement the core package of APLs with APLs specifically tailored to reflect the unique circumstances at a depot; e.g. Local Delivery. For example, during our audit we noted that DLA Distribution Jacksonville, Florida and to a lesser extent DLA Distribution Barstow, California has a large amount of Local Delivery work that is not effectively included in an APL. Since this represents a significant amount of work effort for the contractor a Local Delivery APL should be included.</li> </ul>		<p>n as well. Change request package AF10-03-05 is currently in process to update all contract APLs IAW J-3 performance standards.</p>	<p>10/30/10 for DDBC, DDGM, DDHU, DDRV.</p> <p>Will be included in post-award modification for DDDC (full performance 12/1/2010); and DDKS (full performance 3/1/2011)</p> <p>Included in new contract requirement for DDKA.</p>
8	<p>In order to comply fully with the DoD EDA Business Rules that require only 'approved' legal documents are converted and placed on EDA we recommend that BOSS be configured not to send "unofficial" modifications to EDA. If this is not possible, then we recommend that DLA Distribution J-7 develop a process to ensure that these "unofficial" modifications sent</p>	<p>DLA Distribution J-7/J-6</p>	<p>Modification of BOSS to exclude "unofficial" modifications from transmission is the ideal</p>	<p>DLA Distribution J7 is in the process of validating EDA access rights for all</p>

	<p>to EDA via BOSS are rapidly deactivated. While this option will not allow DLA Distribution to be fully compliant with the November 4, 2001 memorandum it would ensure that only 'approved' documents are readily available, thus increasing the usefulness of EDA for researching DLA Distribution Contracts.</p> <p>Finally, we suggest that providing all DLA Distribution J-7 staff (contracting officers, contract administrators, etc.) involved with issuing contracts/modifications access to EDA. This would help ensure that all "official" modifications are loaded in a timely fashion and all "unofficial" modifications are deactivated in a timely manner. Since EDA is used by DoD personnel from a number of DoD agencies it is important that EDA provide timely and accurate contract information to people not intimately familiar with DLA Distribution contracts.</p>		<p>solution; however, that is not an option at this time. BOSS Programming efforts are focused of EProcurement. DLA Distribution J7 instituted its manual process for posting "official" contract documents of record in May 2007 with reinforcements occurring during internal staff meetings.</p>	<p>J7-AB personnel and is planning to conducting mandatory internal training in the first quarter FY11.</p>
9	<p>We recommend that DLA Distribution J-7 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.</p>	<p>DLA Distribution J-7</p>	<p>Undefinitized Log developed for use to track status of a definitization schedule.</p>	<p>Complete.</p>
10	<p>DLA Distribution J-7 should 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.</p> <p>We further, recommend that DLA Distribution J-7 review the award fee evaluation process and understand the various parties (CGA, J-3, J-7, etc.) and time requirements/constraints involved. Once the process is understood DLA Distribution should attempt to revise the internal process to enable DLA Distribution</p>	<p>DLA Distribution J-7</p>	<p>POAM implemented to track award fee timeliness</p> <p>Process developed to ensure award fee plans updated at time of award.</p>	<p>Complete.</p>

	to meet the contractual obligations with respect to award fee. Once a process is developed that is agreeable to the parties involved and permits the contractual obligations to be met this process should be made into a formal procedure. If changes/updates to the award fee plan are required these should be implemented in accordance with the changes/updates to the award fee plan as specified in the Award Fee Plan document; e.g. 14 calendar days prior to the option period unless bilaterally approved.			
11	We recommend that DLA Distribution J-7 obtain copies of the annual incurred cost submissions for contractor's having auditable contracts that DLA Distribution J-7 retained contract administration responsibilities. Once received, DLA Distribution 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 J-7	The KO issued a letter to each contractor on August 18, 2010 reminding them of the requirement to submit annual incurred cost submissions within six months following the end of their fiscal year for any contract with cost reimbursement CLINs and to provide a copy of the incurred cost submissions to DLA Distribution J-7	Complete.

## ABBREVIATIONS USED IN THIS REPORT

APL	Acceptable Performance Level
BOSS	Base Operating Support System
CGA	Continuing Government Activity
COP	CGA Oversight Program
CPARS	Contractor Performance Assessment Reporting System
CPH	Contractor Performance History
DoD	Department of Defense
DSCR	Defense Supply Center Richmond, Virginia
DRO	Disposal Release Order
EDA	Electronic Document Access Program
EPLS	GSA Excluded Parties List System
FAR	Federal Acquisition Regulation
FMS	Foreign Military Sales
GBL	Government Bill of Lading
GSA	General Services Administration
J7-AF	DLA Distribution J-7 Acquisition Management Division
J7-AB	DLA Distribution J-7 Contracting Division
MRO	Material Receipt Order
NAS	Naval Air Station
NADEP	Naval Aviation Depot
OMB	Office of Management and Budget
PWS	Performance Work Statement
QAE	Quality Assurance Evaluator
QASP	Quality Assurance Surveillance Plan
QMS	Quality Management System
QC/CSP	Quality Control/Customer Satisfaction Plan
QMSIT	Quality Management System Integration Tool
QSV	Quarterly Site Visit
RCN	Receipt Control Number
SDR	Supply Discrepancy Report
SIT SDR	Stock in Transit Supply Discrepancy Report (Navy)
SIT Rep	Situation Report
SSEB	Source Selection Evaluation Board
SP	Service Provider
T&M	Time & Materials
TPIC	Type Physical Inventory Code



DEFENSE LOGISTICS AGENCY  
DISTRIBUTION  
2001 MISSION DRIVE  
NEW CUMBERLAND, PENNSYLVANIA 17070-5000

SEP 09 2010

IN REPLY  
REFER TO J-7

MEMORANDUM FOR DLA ACCOUNTABILITY OFFICE, AUDIT DIVISION

SUBJECT: DLA Distribution Management Comments to Draft Report on Enterprise Audit of  
DLA Distribution Contract Oversight

DLA Distribution has reviewed subject report and submits the management comments for findings two (2) through eleven (11) found at Attachment 1. Attachment 2 is the summary of recommendations and the current status of corrective actions.

For any questions regarding the management comments or corrective action status, please contact Ms. Rose Snavelly-Howe, Chief, Acquisition Management, Acquisition Operations at 717-770-6201 or email at [Rose.Snavelly@dla.mil](mailto:Rose.Snavelly@dla.mil).

(b)(6)

WILLIAM H. BUDDEN, SES  
Deputy Commander

Attachments

## **DLA Distribution Management Comments to the Draft Report: Enterprise Audit of DLA Distribution Contract Oversight**

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### **Finding 2 - CGA DLA Distribution Richmond Virginia did not complete scheduled surveillances**

#### **Audit Recommendation**

We recommend that DLA 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 DLA Distribution Richmond, Virginia CGA to ensure sufficient SP performance oversight. DLA Distribution Richmond, Virginia should then revise their surveillance workload after receiving the approval of DLA Distribution J-7. Surveillance Leads at all depots should monitor the number of scheduled surveillances and adjust the frequency of surveillances based on risk and staffing.

#### **Management Comment**

Concur in part with the recommendations. Surveillance frequency and workload were addressed at a Surveillance Lead Off-Site held at DLA Distribution in August 2009. DLA Distribution RV received revised surveillance templates, checklists and frequencies that were developed at the Off-Site on 1 April 2010 to coincide with the beginning of a new performance period. Since then DLA Distribution RV has consistently met the green metric in completion.

Do not fully concur with the recommendation of "Surveillance Leads at all depots should monitor the number of scheduled surveillances and adjust the frequency of surveillances based on risk and staffing". Surveillance frequencies were established in conjunction with DLA Distribution J7, J-3, J4, DLA Installation Support and Surveillance Leads at the Off-Site. The frequency of each surveillance template serves as the minimum number of surveillances at each site based on DLA Distribution SME technical knowledge. Changes to decrease surveillance frequencies are required to come through the Quality Management System Program Office (QMSPO) via the Surveillance Change Request Form as outlined in the Policy Memorandum re: Changing Surveillances Templates dated 27 April 2009 and signed by the J7 Director. The depots may increase the frequency based on past non-conformances documented.

### **Finding 3 - Quality Assurance Surveillance Plan (QASP) does not accurately reflect the Performance Work Statement (PWS)**

#### **Audit Recommendation**

We recommend that all CGAs conduct a review on their QASP and compare their QASPs to the most current PWS on their SP's contract. The CGA should then revise the QASP to reflect all significant revisions to the PWS and adjust their surveillances in QMSIT. In the future, the CGA must ensure that the QASP is updated whenever there is a significant revision to the PWS.

#### **Management Comment**

Concur with recommendation. All QASPs were revised and reissued to the CGA locations on 1 August 2010 by the Contracting Officer, Medard Kowalski. The revised QASPs supplement quality control efforts and provide a framework for performing quality assurance for Distribution Depot Operations contracts and is intended for enterprise-wide implementation applicable to all contractor-operated distribution centers. Additionally, this QASP has been revised to address DLA Accountability Office, Office of Internal Review, findings and recommendations (Audit Report DAO-09-20). The revised QASPs addresses the responsibilities for quality; principles of surveillance; quality policies, procedures, and helpful aids; surveillance activities for specific tasks. The section addressing modifications explains that modifications impacting checklist

## **DLA Distribution Management Comments to the Draft Report: Enterprise Audit of DLA Distribution Contract Oversight**

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tasks will be made in the Quality Management Tool (currently the Quality Management System Integration Tool – QMSIT) and not to the QASP.

### **Finding 4 - CGA – Outdated Quality Control/Customer Satisfaction Plan (QC/CSP)**

#### **Audit Recommendation**

We recommend that DLA Distribution J-7 review all QC/CSP and contract modifications issued revising the PWS for all contracted depots; and request that SP revise the QC/CSP to incorporate the required changes to address all areas of the PWS.

#### **Management Comment**

Concur. A letter was sent to each contractor operating a DLA distribution depot that IAW FAR 52.246-1, the company shall update their QC/CSP plan to identify changed inspection requirements as a result of modifications to contract requirements. Contract Specialists for each distribution depot contract will develop and manage a POAM to monitor QC/CSP update completions. Letter was not sent to DLA Distribution San Diego contractor because the current contract expires November 30, 2010. Letter not sent to Guam contractor because revised QC/CSP was incorporated by Modification P00010 effective July 26, 2010. Letter not sent to Cherry Point contractor because modification in progress to include updated QC/CSP.

### **Finding 5 - CGA Oversight Program Non-Compliance**

#### **Audit Recommendation**

In order to correct the non-compliance with the COP, we recommend that DLA Distribution J-7 take the following actions:

1. Revise the COP to incorporate the changes documented in the numerous undated CGA Policy Guidance Letters issued since COP implementation. In addition, we recommend that all future Quality Alert Updates be dated to ensure an adequate audit trail of when the policy was prescribed. The COP needs to be revised periodically to incorporate the changes prescribed in the Quality Alert Updates.
2. DLA Distribution J-7 should develop and maintain the J-7 On-The Job Training (OJT) Roster as required by the current COP. This will provide the required documentation to support that all J-7 employees are indeed trained and able to perform their oversight duties.
3. DLA Distribution J-7 should 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. If DLA Distribution J-7 has determined that the requirement set forth in the COP no longer reflects the current requirement, the COP should be updated to specify the current requirement.
4. The COP Analyst should comply with the COP and prepare a separate Surveillance Report in QMSIT for each one-on-one CGA member evaluation during on-site surveillance.
5. If DLA Distribution J-7 has determined that the monthly reports will not provide timely/relevant information then the COP should be revised to remove the monthly report requirement and specify the current expectation.

#### **Management Comment**

Concur in part with the recommendations. The CGA Oversight Program was implemented in August 2008 as a new initiative. At the time of this audit, the program was only in effect for

## **DLA Distribution Management Comments to the Draft Report: Enterprise Audit of DLA Distribution Contract Oversight**

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approximately 12 months. The CGA Oversight Program has and is evolving over time to meet the requirements of the CGA and direction provided by DLA Distribution. As a result, the initial guidance was not updated during the first year of implementation, however, plans were made to update within the second year of implementation to reflect the changes of the program. The CGA Oversight Plan has been revised as of 1 August 2010 to the Quality Management System Program Office Oversight and Operations Plan to reflect the current operations of the office. During the update, the original SOP requirements were updated or removed. The following annotates how each of the recommendations above are addressed:

1. DLA Distribution J-7 will conduct a review of the SOP every six months to update as required due to policy changes that were issued as Quality Alerts or other changes as necessary.
2. The J-7 COP OJT occurs by pairing new employees with seasoned COP analysts. The SOP was revised to reflect this practice and a training roster will not be used.
3. It was never the intent to conduct monthly on-site surveillances. The SOP was revised to state normally quarterly on-site visits will be conducted, however, based on operational circumstances; a minimum of two on-site visits will be conducted in a twelve month period.
4. Separate Surveillances will not be used to document one-on-one evaluation. The COP analyst will use the standard QSV report format to document what was observed and what issues were address during the site visit. These reports will be stored on the J7 SharePoint site and shared with the site and J-3 depot representatives.
5. A monthly QMS Performance Analysis Report is completed each month by the COP analyst and distributed to the depot and J-7 management and the J-3 depot representative.

### **Finding 6 - Acceptable Performance Levels – Errors in APLS**

#### **Audit Recommendation**

We recommend that DLA Distribution J-7 work in conjunction DLA Distribution J-3 and any other parties involved in setting APLs; to develop a process to be followed in revising the APLs. This process should ensure that revisions to APLs do not result in depots being held to different standards for the same APL; for example, the APL for Location Accuracy should reflect a 99.5% standard at all depots which it is applicable. 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.

#### **Management Comment**

Concur in part with the recommendation. DLA Distribution does have a Change Request SOP in place for all change requests for modification for APLs and other requirements and is reviewed every six months for updates. See discussion in management comments for Finding 7 which addresses consistency in APLs based on where contracts are in the period of performance.



## **DLA Distribution Management Comments to the Draft Report: Enterprise Audit of DLA Distribution Contract Oversight**

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### **Finding 7 - Acceptable Performance Levels – Consistency of APLS**

#### **Audit Recommendation**

We recommend that DLA Distribution develop and implement practices that provide consistent APLs across contracted depots. Based on our review we believe that DLA Distribution should include the following when developing its process:

- DLA Distribution should develop a consistent concise "package" of standard APLs that measure the critical distribution function areas; e.g. receiving, stow, COSIS, pick, and pack. In addition, to measuring the critical distribution functions we believe that all contracted depots should measure customer satisfaction. This package of core APLs could then be included in all contracts for contracted depot operations with little modification. An example of minimal modification would be the removal of TPIC G Inventory Accuracy APL if the subject depot does not have classified material.
- DLA Distribution should then supplement the core package of APLs with APLs specifically tailored to reflect the unique circumstances at a depot; e.g. Local Delivery. For example, during our audit we noted that DLA Distribution Jacksonville, Florida and to a lesser extent DLA Distribution Barstow, California has a large amount of Local Delivery work that is not effectively included in an APL. Since this represents a significant amount of work effort for the contractor a Local Delivery APL should be included.

#### **Management Comment**

Concur in part with the recommendation. DLA Distribution made the decision when implementing revised APLs throughout the period of performance of current contracts. In some cases, the APLs were not modified based on where the contract was in the period of performance, acquisition phase or if the contractor's proposal included a cost for implementing revised APLs that was not acceptable to the command. There is currently a change request in process to modify the APL Technical Exhibit for all contract APLs to be consistent across the board and mirror the SITREP APLs plus the key physical inventory APLs. Not all of the recommended functions from this audit will include APLs in the Technical Exhibit, however, appropriate timeliness and quality requirements are included in the specific requirements in the PWS.

### **Finding 8 - Contract Administration – Unofficial Modifications sent to EDA**

#### **Audit Recommendation**

In order to comply fully with the DoD EDA Business Rules that require only 'approved' legal documents are converted and placed on EDA we recommend that BOSS be configured not to send "unofficial" modifications to EDA. If this is not possible, then we recommend that DLA Distribution J-7 develop a process to ensure that these "unofficial" modifications sent to EDA via BOSS are rapidly deactivated. While this option will not allow DLA Distribution to be fully compliant with the November 4, 2001 memorandum it would ensure that only 'approved' documents are readily available, thus increasing the usefulness of EDA for researching DLA Distribution Contracts.

Finally, we suggest that providing all DLA Distribution J-7 staff (contracting officers, contract administrators, etc.) involved with issuing contracts/modifications access to EDA. This would help ensure that all "official" modifications are loaded in a timely fashion and all "unofficial" modifications are deactivated in a timely manner. Since EDA is used by DoD personnel from a

## **DLA Distribution Management Comments to the Draft Report: Enterprise Audit of DLA Distribution Contract Oversight**

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number of DoD agencies it is important that EDA provide timely and accurate contract information to people not intimately familiar with DLA Distribution contracts.

### **Management Comment**

Partially Concur. Modification of BOSS to exclude "unofficial" modifications from transmission is the ideal solution; however, that is not an option at this time. BOSS Programming efforts are focused on EProcurement. DLA Distribution J7 instituted its manual process for posting "official" contract documents of record in May 2007 with reinforcements occurring during internal staff meetings. Furthermore DLA Distribution J7 is in the process of validating EDA access rights for all J7-AB personnel and is planning to conduct mandatory internal training in the first quarter FY11.

### **Finding 9 - Contract Administration – Undefined Actions**

#### **Audit Recommendation**

We recommend that DLA Distribution J-7 ensure that undefined change orders are defined 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 definition schedule.

#### **Management Comment**

Concur. DLA Distribution J-7 will ensure undefined change orders are defined in accordance with the definition schedule outlined in the modification. If definition cannot be accomplished for reasons beyond DLA Distribution J-7 control, a subsequent modification will be issued to provide a new definition schedule.

### **Finding 10 - Contract Administration – DLA Distribution Barstow California Award Fee**

#### **Audit Recommendation**

DLA Distribution J-7 should 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.

We further, recommend that DLA Distribution J-7 review the award fee evaluation process and understand the various parties (CGA, J-3, J-7, etc.) and time requirements/constraints involved. Once the process is understood DLA Distribution should attempt to revise the internal process to enable DLA Distribution to meet the contractual obligations with respect to award fee. Once a process is developed that is agreeable to the parties involved and permits the contractual obligations to be met this process should be made into a formal procedure. If changes/updates to the award fee plan are required these should be implemented in accordance with the changes/updates to the award fee plan as specified in the Award Fee Plan document; e.g. 14 calendar days prior to the option period unless bilaterally approved.

#### **Management Comment**

Concur. DLA Distribution J-7 will ensure award fee plans are updated at time of award for future contracts awarded with award fee provisions. In addition, modifications have been issued to update the award fee plan on the DDBC contract. A meeting was held with the technical representatives responsible for providing award fee input to establish procedures, guidelines and responsibilities to ensure award fee modifications are processed in a timely manner. The

**DLA Distribution Management Comments to the Draft Report:  
Enterprise Audit of DLA Distribution Contract Oversight**

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Contracting Officer will ensure award fee reports are provided to ensure timelines will be met for future award fee reports.

**Finding 11 - Contract Administration – Incurred Cost Submissions**

**Audit Recommendation**

We recommend that DLA Distribution J-7 obtain copies of the annual incurred cost submissions for contractor's having auditable contracts that DLA Distribution J-7 retained contract administration responsibilities. Once received, DLA Distribution 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.

**Management Comment**

Concur. The KO issued a letter to each contractor on August 18, 2010 reminding them of the requirement to submit annual incurred cost submissions within six months following the end of their fiscal year for any contract with cost reimbursements CLINs and to provide a copy of the incurred cost submissions to DLA Distribution J-7.

**SUMMARY OF RECOMMENDATIONS/CORRECTION ACTION STATUS**

	<b>Recommendation</b>	<b>Addressee</b>	<b>Status of Corrective Action</b>	<b>Estimated Completion Date</b>
1	We recommend that DLA Land and Maritime-BP/DR comply with the requirement set forth in FAR 9.405(d) and verify that potential contractors are not debarred via EPLS. To help ensure compliance with the EPLS requirement on all future awards, DLA Land and Maritime-BP/DR should review their award process and associated policies and procedures, and make revisions to ensure that contracting staff check EPLS and document the results in their files.	DLA Land and Maritime-BP/DR		
2	We recommend that DLA 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 DLA Distribution Richmond, Virginia CGA to ensure sufficient SP performance oversight. DLA Distribution Richmond, Virginia should then revise their surveillance workload after receiving the approval of DLA Distribution J-7. Surveillance Leads at all depots should monitor the number of scheduled surveillances and adjust the frequency of surveillances based on risk and staffing.	DLA Distribution Richmond, Virginia CGA/ DLA Distribution J-7	Implemented new checklists and schedules for DDRV April 1, 2010	Complete. Baseline schedules set and process to change frequencies addressed in the revised SOP and a Quality Alert
3	We recommend that all CGAs conduct a review on their QASP and compare their QASPs to the most current PWS on their SP's contract. The CGA should then revise the QASP to reflect all significant revisions to the PWS and adjust their surveillances in QMSIT. In the future, the CGA must ensure that the QASP is updated whenever there is a significant revision to the PWS.	DLA Distribution CGAs	New QASPs issued to all contract operated depots CGA August 1, 2010.	Complete. All revisions to surveillance checklists completed in QMSIT upon execution of modifications, not the QASP.
4	We recommend that DLA Distribution J-7 review all QC/CSP and contract modifications issued revising the PWS for all contracted depots; and request that SP revise the QC/CSP to incorporate the required changes to address all areas of the PWS.	DLA Distribution J-7	Letter sent to each contractor to update their QC/CSP. POAM being developed to track status and completion	POAM has been developed requiring all contract specialists to determine if requirement exists for submission of revised QC/CSP at six month intervals.
5	In order to correct the non-compliance with the COP, we recommend that DLA Distribution J-7 take the following actions:  ➤ Revise the COP to incorporate the changes documented in the numerous undated CGA Policy Guidance Letters issued since COP implementation. In addition, we recommend that all future Quality Alert Updates be dated to ensure an adequate audit trail of when the policy	DLA Distribution J-7	SOP revised and issued August 1, 2010 as the DLA Distribution QMS Oversight and Operations Plan. Not all recommendations included due	Complete. Conducting 6 month reviews for update. Next review scheduled for second quarter FY11.

**SUMMARY OF RECOMMENDATIONS/CORRECTION ACTION STATUS**

	<p>was prescribed. The COP needs to be revised periodically to incorporate the changes prescribed in the Quality Alert Updates.</p> <ul style="list-style-type: none"> <li>➤ DLA Distribution J-7 should develop and maintain the J-7 On-The Job Training Roster as required by the current COP. This will provide the required documentation to support that all J-7 employees are indeed trained and able to perform their oversight duties.</li> <li>➤ DLA Distribution J-7 should 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. If DLA Distribution J-7 has determined that the requirement set forth in the COP no longer reflects the current requirement, the COP should be updated to specify the current requirement.</li> <li>➤ The COP Analyst should comply with the COP and prepare a separate Surveillance Report in QMSIT for each one-on-one CGA member evaluation during on-site surveillance.</li> <li>➤ If DLA Distribution J-7 has determined that the monthly reports will not provide timely/relevant information then the COP should be revised to remove the monthly report requirement and specify the current expectation.</li> </ul>		to evolution of the program.	
6	<p>We recommend that DLA Distribution J-7 work in conjunction DLA Distribution J-3 and any other parties involved in setting APLs; to develop a process to be followed in revising the APLs. This process should ensure that revisions to APLs do not result in depots being held to different standards for the same APL; for example, the APL for Location Accuracy should reflect a 99.5% standard at all depots which it is applicable. 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</p>	DLA Distribution J-7/J-3	<p>Complete. J-7 does have a change request process. Currently reviewing for updates and will ensure disseminated to appropriate personnel for use.</p>	<p>9/30/2010 Conducting 6 month reviews for update. Next review scheduled for Third quarter FY11.</p>

**SUMMARY OF RECOMMENDATIONS/CORRECTION ACTION STATUS**

	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.			
7	<p>We recommend that DLA Distribution develop and implement practices that provide consistent APLs across contracted depots. Based on our review we believe that DLA Distribution should include the following when developing its process:</p> <ul style="list-style-type: none"> <li>➤ DLA Distribution should develop a consistent concise "package" of standard APLs that measure the critical distribution function areas; e.g. receiving, stow, COSIS, pick, and pack. In addition, to measuring the critical distribution functions we believe that all contracted depots should measure customer satisfaction. This package of core APLs could then be included in all contracts for contracted depot operations with little modification. An example of minimal modification would be the removal of TPIC G inventory Accuracy APL if the subject depot does not have classified material.</li> <li>➤ DLA Distribution should then supplement the core package of APLs with APLs specifically tailored to reflect the unique circumstances at a depot; e.g. Local Delivery. For example, during our audit we noted that DLA Distribution Jacksonville, Florida and to a lesser extent DLA Distribution Barstow, California has a large amount of Local Delivery work that is not effectively included in an APL. Since this represents a significant amount of work effort for the contractor a Local Delivery APL should be included.</li> </ul>	DLA Distribution J-7/J-3	Change request process above applies to this recommendation as well. Change request package AF10-03-05 is currently in process to update all contract APLs (AW J-3 performance standards.	<p>Complete for DDCN new contract.</p> <p>10/30/10 for DDBC, DDGM, DDHU, DDRV.</p> <p>Will be included in post-award modification for DDDC (full performance 12/1/2010); and DDKS (full performance 3/1/2011)</p> <p>Included in new contract requirements for DDKA.</p>
8	In order to comply fully with the DoD EDA Business Rules that require only 'approved' legal documents are converted and placed on EDA we recommend that BOSS be configured not to send "unofficial" modifications to EDA. If this is not possible, then we recommend that DLA Distribution J-7 develop a process to ensure that these "unofficial" modifications sent to EDA via BOSS are rapidly deactivated. While this option will not allow DLA Distribution to be fully compliant with the November 4, 2001 memorandum it would ensure that only 'approved' documents are readily available, thus increasing the usefulness of EDA for researching DLA Distribution Contracts.	DLA Distribution J-7/J-6	Modification of BOSS to exclude "unofficial" modifications from transmission is the ideal solution; however, that is not an option at this time. BOSS Programming efforts are	DLA Distribution J7 is in the process of validating EDA access rights for all J7-AB personnel and is planning to conduct mandatory internal training in the first quarter FY11.

**SUMMARY OF RECOMMENDATIONS/CORRECTION ACTION STATUS**

	Finally, we suggest that providing all DLA Distribution J-7 staff (contracting officers, contract administrators, etc.) involved with issuing contracts/modifications access to EDA. This would help ensure that all "official" modifications are loaded in a timely fashion and all "unofficial" modifications are deactivated in a timely manner. Since EDA is used by DoD personnel from a number of DoD agencies it is important that EDA provide timely and accurate contract information to people not intimately familiar with DLA Distribution contracts.		focused on EProcurement. DLA Distribution J7 instituted its manual process for posting "official" contract documents of record in May 2007 with reinforcements occurring during internal staff meetings.	
9	We recommend that DLA Distribution J-7 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 J-7	Undefinitized Log developed for use to track status of a definitization schedule	Complete
10	DLA Distribution J-7 should 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.  We further, recommend that DLA Distribution J-7 review the award fee evaluation process and understand the various parties (CGA, J-3, J-7, etc.) and time requirements/constraints involved. Once the process is understood DLA Distribution should attempt to revise the internal process to enable DLA Distribution to meet the contractual obligations with respect to award fee. Once a process is developed that is agreeable to the parties involved and permits the contractual obligations to be met this process should be made into a formal procedure. If changes/updates to the award fee plan are required these should be implemented in accordance with the changes/updates to the award fee plan as specified in the Award Fee Plan document; e.g. 14 calendar days prior to the option period unless bilaterally approved.	DLA Distribution J-7	POAM implemented to track award fee timelines.  Process developed to ensure award fee plans updated at time of award.	Complete
11	We recommend that DLA Distribution J-7 obtain copies of the annual incurred cost submissions for contractor's having auditable contracts that DLA Distribution J-7 retained contract administration responsibilities. Once received, DLA Distribution J-7 can perform a cursory review of Incurred Cost Submission to ensure that the contractor has submitted a submission as required	DLA Distribution J-7	The KO issued a letter to each contractor on August 18, 2010 reminding them of the requirement to submit annual	Complete

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SUMMARY OF RECOMMENDATIONS/CORRECTION ACTION STATUS

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	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.		incurred cost submissions within six months following the end of their fiscal year for any contract with cost reimbursements CLINs and to provide a copy of the incurred cost submissions to DLA Distribution J-7	
--	---	--	---	--





DEFENSE LOGISTICS AGENCY  
DLA LAND AND MARITIME  
POST OFFICE BOX 3990  
COLUMBUS, OH 43218-3990

IN REPLY  
REFER TO

DLA Land and Maritime Internal Audit Office

SEP 27 2010

MEMORANDUM FOR DLA-DA, Director, Audit Division, Ms. Bridget Skjoldal

SUBJECT: DSCC Management Comments to Recommendations made in  
DLA Distribution Contract Oversight, Audit Report DAO-09-20

DLA Land and Maritime Internal Audit Office has provided specific comments and actions in response to recommendations made in DLA Distribution Contract Oversight Audit Report. If you have any questions please contact Ms. Dee Debenport 614-692-9187.

(b)(6)

JAMES M. McCLAUGHERTY, SES  
Deputy Commander

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## DLA LAND AND MARITIME - MANAGEMENT COMMENTS

**Directions:**

1. Annotate Comments in Block 3a. which are applicable to the Recommendation cited in Block 2a.
2. Enter an actual or proposed implementation date for the corrective action in Block 3b.
3. Provide copies of established or proposed internal control documents, i.e.: checklists, job aids, etc. and annotate in Block 3c. the number of attachments provided which augment the Comments.

**Section A**

<b>1. Audit Agency:</b> DLA	<b>2. Audit Name:</b> DLA Distribution Contract Oversight	<b>3. Audit Number:</b> DAO-09-20
<b>4. Audit Office and Name of Primary Responsibility:</b> <div style="border: 1px solid black; padding: 2px;">(b)(6)</div>	<b>5. Name/Tele. of Responders:</b> <div style="border: 1px solid black; padding: 2px;">(b)(6)</div>	<b>6. Return to Internal Audit by:</b>

**Section B**

<b>1. Reference</b>	<b>1a. Pages 7 and 8, A-76 Pre-Award - DLA Distribution Richmond, Virginia</b>
<b>2. Recommendation/s</b>	<p><b>2a.</b> We recommend that DLA land and Maritime -BP/DR comply with the requirement set forth in FAR 9.405(d) and verify that potential contractors are not debarred via EPLS. To help ensure compliance with the EPLS requirement on all future awards, DLA Land and Maritime-BP/DR should review their award process and associated policies and procedures, and make revisions to ensure that contracting staff check EPLS and document results in their files.</p>
<b>3. Management Comment</b>  <div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> <b>3b. Enter Date of Implementation</b>  <div style="border: 1px solid black; height: 20px; width: 100%;"></div> </div> <div style="border: 1px solid black; padding: 5px;"> <b>3c. Insert No. of Attachments</b>  <div style="border: 1px solid black; height: 20px; width: 100%;"></div> </div>	<p>Original response based solely on A-76 pre-award action and signed by Mr. Lewis on July 6:</p> <p>DSCC concurs with the finding and provides the following comments:</p> <p>The language in FAR 9.405(d)(1) specifically states that the EPLS be checked after opening bids or proposals and just prior to the award of any contract and DSCC agrees with this oversight.</p> <p><b>3a.</b> The audit indicates that DSCC-DR processed a Contractor Performance History (CPH) on the contractor, GENCO, and had past performance evaluated by the Source Selection Evaluation Board, but that this does not replace the requirement for documenting that the EPLS was checked. It also indicates that failure to confirm a contractor's eligibility could result in an award to a party that is excluded from receiving Federal contracts.</p>

Show Continuation Page

3a. Continuation Page

DSCC agrees with the lack of documenting that the EPLS was specifically checked and will assure that future awards of any kind are properly documented. However, DSCC did not fail to confirm that the contractor was eligible for awards for Federal contracts. A standard procedure for processing a CPH at DSCC involves checking the Defense Contractor Review List (DCRL). The following excerpt is from the DSCC Acquisition Guide regarding the DCRL:

(b) The Defense Contractor Review List (DCRL) is an electronic program maintained in the DLA Preaward Contracting System (DPACS). The information concerning contractors on the DCRL can also be obtained using EBS transaction MK03 - Display vendor (purchasing). (See Procurement Job Aid - Viewing Special Attention (DCRL) Information in SAP.)

(1) Ineligible Contractors.

Information within the DCRL shall mirror information found within the Excluded Parties List System (EPLS), which is the official, mandatory source for identifying contractors that are ineligible for award. (See DLAD 9 104-1(90).) The EPLS can be accessed at <https://www.epls.gov/>

In addition to the DCRL, the past performance evaluation for all of the A-76 competitions performed at DSCC is very extensive and involved numerous contacts with current customers of GENCO, both commercial and Government. GENCO was also performing under DDC contracts for depot operations at two other locations at the time of the DDRV award. DSCC should have documented that the EPLS was checked, but did not fail to verify eligibility of the contractor.

DSCC concurs with the finding by the audit team, but no formal follow-up action is necessary as the DSCC A-76 Contracting Support Office has been disestablished due to Congress placing a moratorium on any future announcement of private-public competition under OMB Circular A-76.

Because this issue would apply to any pre-award actions at DSCC, additional coordination was sought with the Policy Office in BP. The following additional comments were obtained:

The DCRL is verified against the EPLS on a weekly basis or as often as needed. The frequency of verification increases as BPI/DCRL Monitor is notified of changes from Legal. All notifications from Legal are immediately placed on the DCRL and are available for viewing by the entire enterprise within 24 hours. Each vendor/contractor that is on DCRL is re-evaluated every six months to ensure the validity of the information. The validation process for the DCRL is important when Legal has not requested a review or modification of specific vendor/contractor status.

Moreover, during the Exit Conference for Audit Title: DOD Suspension and Debarment Decisions and Reporting into Excluded Parties List System, Project Number: D2010-D000CG-0177.000, the IG reported "they found no obvious issues associated with the DSCC S/D process. They specifically mentioned they were impressed with the CMUPS (Counterfeit Mail and Product Substitution System) team, and found discussion with the former DCRL Monitor (Marla Duncan) insightful." Our DCRL system complements and enhances our ability to aid the buyers in making informed decisions.

## ACKNOWLEDGEMENTS

The audit, specifically the site visits, was completed team of DA auditors from across DLA. The following people contributed to this audit:

**Auditors:**

Shannon Beasley, Auditor, DLA Distribution Internal Review Office

Ken Frohnert, Auditor, DLA Distribution Internal Review Office

Pat Sweeney, Auditor, DLA Distribution Internal Review Office

Evon Boyer, Auditor, DLA Logistics Information Services

Craig Mayer, Audit Director, DLA Distribution Internal Review Office



DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
8725 JOHN J. KINGMAN ROAD  
FORT BELVOIR, VIRGINIA 20060-6221

December 9, 2010

MEMORANDUM FOR: DIRECTOR, LOGISTICS OPERATIONS (J-3)  
DEPUTY DIRECTOR, DLA DISTRIBUTION  
DIRECTOR, DLA INSTALLATION SUPPORT

SUBJECT: Final Report - Audit of DLA Distribution Compliance Assessments  
(Audit Report DAO-10-01)

This is our report on the audit of DLA Distribution Compliance Assessments. It includes three findings and three associated recommendations addressed jointly to DLA Logistics Operations and DLA Distribution to improve DLA/DLA Distribution Compliance Review team's on-site evaluation procedures, supporting documentation, and conclusions.

We conducted this audit from October 01, 2009 to April 30, 2010 in accordance with generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States, with the exception of meeting the peer review requirement. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The DLA Audit offices have not been subject to an external peer review in over three years due to a lack of a Quality Assurance Review Team. However, this has no effect on the quality of this report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Management's comments were responsive to the recommendations and should correct the issues identified. DLA Distribution and the Executive Director, Materiel Policy, Process and Assessment Directorate (J-33) concurred with recommendations A & B and provided a qualified concurrence with recommendation C. Although management agreed all Compliance Review findings and recommendations should be supported by facts and evidence, management does not believe the documents leading to a Finding need to be replicated.

We greatly appreciate the courtesies and cooperation extended to us during the audit. For additional information about this report, contact (b)(6) DLA Distribution-Internal Review, Audit Director at (b)(6)

(b)(6)

BRIDGET SKJOLDAL  
Staff Director, Audit Division  
DLA Accountability Office



## *DLA Accountability Office*

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# **Final Audit Report**

## **Audit of DLA Distribution Compliance Assessments**

### **DLA Logistics Operations and DLA Distribution**



# Executive Summary

Audit Report DAO-10-01  
December 9, 2010

## Audit of DLA Distribution Compliance Assessments DLA Logistics Operations and DLA Distribution

### Results

Our audit found the assessments teams gathered, analyzed, and generally retained supporting documentation. The Compliance Reviews provide an end-to-end in-depth review, oversight, validation of performance within distribution processes, supporting sub-processes, and systems interfaces. All 18 reports we reviewed resulted in an internal report containing recommendations that were useful for the site visited for correcting immediate problems. However, we were generally unable to document the strategy being developed for the focus on repeat findings or the actions that were planned to address the root causes of findings enterprise-wide. Additionally, the assessment teams did not adequately document and maintain documentation to support their conclusions.

We did find that Defense Logistics Agency (DLA) has continually reviewed, updated and improved the checklists used by the Compliance Review teams. However, some improvements could be made to expand the checklists. Specifically, the review teams had not analyzed logbooks documenting the transfers of classified materiel from receiving to designated storage area to find problems found in the DLA Accountability Office (DA) audit. This analysis could help find ways to strengthen the process and/or reduce the number of instances that classified materiel is received in central receiving.

During the assessments, the teams observed, documented and shared "best practices" and innovative approaches to distribution operations throughout the DLA/DLA Distribution network. This is a positive step in sharing across DLA Distribution to adopt innovative solutions within the depots.

We requested management comments from DLA Distribution and DLA Logistics Operations (J3/4) on the draft of this report issued from the DLA Accountability Office on August 24, 2010. DLA Distribution and J3/4 concurred with recommendations A & B and provided a qualified concurrence with recommendation C. (see Appendices L and M).

Management's comments were responsive to the recommendations and should correct the issues identified.

### Why DA Did this Review

The FY 10 DA Annual Audit Plan included an audit of DLA Distribution Compliance Assessments. This audit provides a comprehensive assessment of the program and practical recommendations, as appropriate, for DLA and DLA Distribution senior leadership.

### What DA Did

We determined whether 1) the assessment teams gathered, analyzed and retained appropriate documentation, 2) enterprise corrective actions were addressed to the appropriate management level and 3) enterprise actions were implemented and corrected the problem.

### What DA Recommends

This report contains 3 recommendations within 3 findings addressed jointly to J-33 and DLA Distribution.

A risk analysis needs to be done on the significance of the deficiencies found, the likelihood of their occurrence in future Compliance Reviews and deciding how to manage the risk and what actions should be taken.

Compliance Review Teams need to obtain and maintain documentation in support of their findings and conclusions. At a minimum, the Compliance Review teams need to determine what steps they consider the most significant controls requiring testing, and what minimum documentation requirements they need to maintain on file to support their assessments.

Assessment Teams need to analyze the information in the Log Book Documenting the Transfers of Classified Materiel from Central Receiving to Designated Storage Area.



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# INTRODUCTION

## OBJECTIVES

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The overall objective of this audit was to summarize the results of the assessment team reviews to identify appropriate enterprise and local corrective actions. Specifically, the audit determined if:

- Assessment teams gathered, analyzed, and retained appropriate documentation,
- Enterprise corrective actions were addressed to the appropriate management level, and
- Enterprise actions were implemented and corrected the problem.

## WHAT WE AUDITED

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To accomplish the audit objectives set forth above, the audit team performed fieldwork at the DLA Distribution. Our audit covered:

- Eleven FY09 DLA/DLA Distribution Compliance Review Reports and all corrective action plans submitted from respective depots in response to the Compliance Reviews.
- Seven FY10 DLA/DLA Distribution Compliance Review Reports and all corrective action plans submitted from respective depots in response to the Compliance Reviews.
- The twelve detailed checklists used in the FY09 and FY10 Compliance Reviews:
  - Checklist A Receiving Assessment
  - Checklist B HAZMAT Training Assessment
  - Checklist C Transportation Assessment
  - Checklist D Warehousing Pick Assessment
  - Checklist E Warehousing Stow Assessment
  - Checklist F Warehousing Pack Assessment
  - Checklist G Inventory Assessment
  - Checklist H Top 100 WT CU Assessment
  - Checklist I Stock Readiness Assessment
  - Checklist J Cold Chain Assessment
  - Checklist K Preservation Packaging Packing and Marking Assessment
  - Checklist L Controlled Area Assessment
- The self reported Compliance Review program trends.
- The process improvements instituted in performing these assessments.
- The repositories of information for lessons learned and the J3 policies/procedures issued.
- The source documents and evidence maintained to support the Compliance Review results at the following Defense Distribution Depots' (DDs):

- DDPW (Puget Sound, WA) (5-7 Jan 09)
- DDDC (San Diego, CA) (9-13 Feb 09)
- DDSI (Sigonella, IT) (9-13 Mar 09)
- DDDE (Germersheim, GE) (16-20 Mar 09)
- DDDK (Camp Carroll, Korea) (26-29 May 09)
- DDTP (Tobyhanna, PA) (7-21 Aug 09)
- DDRV (Richmond, VA) (21-25 Sep 09).
- The results of the DDs checklist used to support the FY09 DLA Distribution's Annual Statement of Assurance (ASA).
- Other assessments crossing the DLA Distribution enterprise that were separate and distinct from the DLA/DLA Distribution Compliance Reviews relating to processes that impact the accountable inventory balance including receiving, warehousing, inventory control, and stock readiness.

## BACKGROUND

---

In 2008, DLA discovered that a DLA Distribution depot inadvertently shipped a classified SECRET Nuclear Weapon Related item to a Foreign Military Sales (FMS) activity. To re-establish confidence in-depth, the DLA Director immediately implemented corrective actions to ensure positive control of any Nuclear Weapons-Related Materiel (NWRM) in DLA custody. Results of the physical inventory affirmed high levels of accuracy in item identification, location, and on-hand quantity for items in DLA custody. However, the inventory results for classified items were not at required levels of 100 percent accuracy and zero discrepancies. Specifically, the reconciliation process of the physical items to the items per container markings/documentation needed to be strengthened. In addition, the DLA Director directed a VA be conducted to identify additional vulnerabilities.

To accomplish the DLA Distribution VA tasking, DA established a joint team of auditors and functional experts from across DLA to conduct an end-to-end process and systems review of operations at six selected DLA Distribution DDs from June 2008 through September 2008. The DDs covered in the report were:

- DDHU (Hill, UT)
- DDNV (Norfolk, VA)
- DDOO (Oklahoma, OK)
- DDRT (Red River, TX)
- DDMA (Mapping Activity, Richmond VA)
- DDWG (Warner Robbins, GA)

On 24 December 2008, DA issued a DLA Distribution VA, Report AD-FY09-01 that identified numerous weaknesses in the distribution processes. This report contained 36 recommendations for DLA Distribution, DLA Logistics Operations (J-3), DLA Installation Support, DLA Acquisition (J-7), and Information Operations (J-6) for improvements to the DLA Distribution Processes. The report identified vulnerabilities in 10 areas:

- Inventory
- Training
- Information Systems
- Supply Discrepancy Reports
- Care of Stock in Storage/Stock Readiness
- Transportation - Incoming and Outgoing
- Receiving
- Fragmented Order (FRAGO) Requirements not Always Being met
- Security
- Contract Oversight

The overall conclusion of the report was distribution depots had a number of vulnerabilities in their processes. Although more stringent interim DLA Distribution procedures were immediately established and a "wall-to-wall" classified inventory was completed, DA identified on-going accountability and control problems. According to Report AD-FY09-01, J3/4 and DLA Distribution policies and guidance provided to distribution centers was not detailed enough to promote standardization and strong processes. The impact of this varied based on the size of the distribution depot and local guidance. The report noted many good processes adopted by individual depots could have benefited others if adopted globally as a best practice. As a major step in the right direction, DLA Distribution held a summit to bring all depot Commanders together and discuss the overall process.

DLA Distribution concurred with all recommendation except two, #2 and #20, on establishing a joint quality team to oversee NWRM transfer and excluding Major End-Item (MEI) vehicles from monthly Care of Supplies in Storage (COSIS) workload. J 3/4 concurred with all but one recommendation, #26, on establishing a truck policy to schedule incoming deliveries for all locations. J-6, J-7, and DLA Installation Support generally concurred with recommendations. Included were actions taken by management to address the results of the VA (see Appendix C). DLA addressed the risk immediately by increasing oversight of critical shipments through visual verification and positive identification of all items. In addition, DLA established a team consisting of key DLA senior leaders, process owners, and stakeholders to review end-to-end processes for gaps and vulnerabilities related to storage, handling, and distribution of NWRM components.

DLA Distribution and DLA Logistics Operations and Readiness established a compliance assessment team to perform continuous assessments of depot processes. In addition to the 36 formal recommendations, the report stated that J 3/4 should continue working with DLA Distribution to establish a cyclical operational assessment process with DA intending to perform audits of a sample of the operational assessments to review the process and the results of the joint DLA/DA Distribution effort. The DLA Team Chief from DLA's Inventory Management Division (J3312) and DLA Distribution Team Leads were responsible for working with DLA Distribution's-Distribution Operations Directorate (J-3O) to plan, coordinate, and facilitate these Compliance Review visits. DLA worked with the DLA Distribution to select the site locations and establish a schedule in advance.

To prepare for the DLA Audits, DLA Distribution -Internal Review was asked to accompany the Compliance Review teams to assess, as a consulting engagement, the DLA/DA Distribution Compliance Review process at DLA Distribution Cherry Point, NC (DDCN) (17-21 November 2008) and DLA

Distribution Jacksonville, FL (DDJF) (1-5 December 2008) with the purpose of providing advice to DLA Distribution Services to be considered for improving future process reviews at distribution centers. One aspect covered in the consulting engagement was whether there was adequate supporting documentation maintained for the conclusions reached in the written report in conjunction with the respective checklist and core discipline summary write-ups.

The DDCN Compliance Review Report had 42 findings. Although the Compliance Review team was effective in getting their recommendations accepted/implemented, the 26 November 2008 consulting engagement report indicated the team results for the DDCN review would not withstand an audit. DLA Distribution-Internal Review concluded the Compliance Review team needed to obtain and maintain documentation in support of their observations, and include names and titles of personnel with whom they obtained information supporting their findings recommendations, and conclusions. The Team also needed to explain how they were satisfied that DDCN was in compliance for checklist areas they found to be in compliance with the criteria.

The DDJF had 23 findings. The 19 January 2009 consulting engagement report stated that the team results for the DDJF review would withstand an audit. DLA Distribution-Internal Review concluded the DDJF compliance team members did obtain support for their conclusions to the checklist items. Team members were identifying names of individuals at the depot from whom they obtained the information and were addressing each checklist item by number.

The DA decided to conduct two formal distribution process reviews in FY 2009 where DA would independently review depot operations controls while simultaneously evaluating the reliability and completeness of the DLA Distribution Compliance Review of the same depot operations. The DA conducted a distribution process review at DDJC (8-16 January 2009) and a review at the DDSP (13-24 April 2009).

Both DA Report Number: DAO 09-07, DDJC Distribution Process Review and DA Report Number: DAO 09-13 DDSP Distribution Process Review concluded:

- Generally, each respective depot's distribution materiel receiving, storing, inventory, issuing, and shipping processes and controls reasonably assured that DLA inventory was accurately recorded and properly safeguarded in accordance with applicable policies and regulations. For the most part, the depot's current business processes met the DLA mission and were in compliance with applicable Department of Defense (DoD), DLA, and DLA Distribution policies and procedures.
- The DLA/DLA Distribution Compliance Review team's on-site evaluation procedures, supporting documentation and conclusions on the state of the respective depot's distribution materiel receipt, warehousing, and shipping operations were reasonably reliable and complete. The team's documented work efforts in collecting, reviewing, analyzing and evaluating depot operational information and data was generally sufficient and comprehensive enough to lead an independent reviewer to the same conclusions.

The DLA/DLA Distribution Compliance Review team's report on DDJC had 23 findings. The Compliance Review team considered the overall assessment of DDJC's Compliance Review satisfactory

with no systemic deficiencies or vulnerabilities discovered during the review at the DDJC. DAO 09-07, DDJC distribution process review report had one finding related to materiel release orders for foreign military sales. Taking into consideration the one recommendation made by the DA team's evaluation of DDJC and the recommendations made by the DLA/DLA Distribution Compliance Review team's evaluation of DDJC, there were five recommendations that related to similar issues found in the December 2008 VA (see Appendix C at page 37).

- SWARM Training for personnel performing COSIS Functions (Recommendation 18)
- Performance of Required COSIS Inspections (Recommendation 19)
- Incorrect Receipt Control Number (RCN) Dates (Recommendation 30)
- Screening Shipments Unloaded in Small Parcels Receiving Area (Recommendation 24)
- Implementation of FRAGO requirements (Recommendation 33)

The DLA/DLA Distribution Compliance Review team's report on DDSP had 18 formal recommendations and 8 supplemental recommendations. The Compliance Review team considered all findings minor and only required attention to detail or minor processing changes to become compliant. DAO 09-13 DDSP distribution process review report offered 18 recommendations and 2 suggestions to further improve operations. Taking into consideration all the recommendations made by the DA team's evaluation of DDSP and the recommendations made by the DLA/DLA Distribution Compliance Review team's evaluation of DDSP, there were 11 recommendations that related to similar issues found in the December 2008 VA.

- Security of Frustrated Items (Recommendation 4),
- Refresher Training (Recommendation 6),
- Trend Analysis of Supply Discrepancy Reports (SDR) Data (Recommendations 14 and 15),
- Streamlining SDR Process (Recommendation 16),
- Guidance on SDR Preparation (Recommendation 17),
- SWARM Training for personnel performing COSIS Functions (Recommendation 18),
- Performance of Required COSIS Inspections (Recommendation 19),
- Misdirected Shipments (Recommendation 23),
- Logbook of Classified Materiel Transfers (Recommendation 25),
- Non-receipt of Report of Shipments (REPSHIPS) and Classified Materiel Receipt Documents (Recommendation 27),
- Incorrect RCN Dates (Recommendation 30)

In the first VA Report AD-FY09-01, DA did not just address correcting the problems found at the six selected DDs but to the entire DLA enterprise. According to Government Accountability Office (GAO) internal control standards, management needs to comprehensively identify risks and should consider all significant interactions between the entity and other parties as well as internal factors at both the entity-wide and activity level. Once risks have been identified, they should be analyzed for their possible effect. Risk analysis generally includes estimating the risk's significance, assessing the likelihood of its occurrence, and deciding how to manage the risk and what actions should be taken.

The DA decided to review all available Compliance Reviews to identify recurring and commonly occurring findings to see what entity-wide control strategies DLA/DLA Distribution may have employed to address “common risks” within distribution operations, and how DLA/DLA Distribution isolated systemic problems and noted key issues/observations related to findings that could be shared for sustained process improvements throughout the DLA Distribution enterprise. DA was concerned the DDJC and DDSP Compliance Reviews had similar findings documented in the December 2008 DLA Distribution VA. DA decided to review how DLA/DLA Distribution management was mitigating the following entity-wide risks:

- Risk same Compliance Review findings found in previous DLA Distribution inspections could be encountered at subsequent DD inspections.
- Risk we could be missing opportunities to derive lessons learned for sustained process improvements that are transferable to other sites.
- Risk we are not compiling and reporting audit results centrally that could reveal or confirm the existence of internal control problems.
- Risk that the DLA/DLA Distribution Compliance Reviews team’s findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as evidence that is not sufficient and/or appropriate, an inadequate inspection process, or intentional omissions or misleading information due to misrepresentation.

## **RESULTS, RECOMMENDATIONS AND CONCLUSIONS**

### **RESULTS AND RECOMMENDATIONS**

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In this section, we discuss these five areas:

- Summarized Results of Eighteen Assessment Team Reviews in FY09 and FY10
- Compliance Review Findings
- Corrective Actions
- Incorporating "Lessons Learned" for Sustained Process Improvements
- Evaluating the Supporting Documentation

## **SUMMARIZED RESULTS OF EIGHTEEN ASSESSMENT TEAM REVIEWS IN FY09 AND FY10**

DLA J3/4 and DLA Distribution defined the six core processes they intended to evaluate in each Compliance Review. These processes or functional areas were receiving, transportation, warehousing, inventory, Stock Readiness (SR), and security. The DLA/DLA Distribution Compliance Review team members developed and used detailed checklists by functional area as an evaluation tool in their reviews. For these assessments, DLA J3/4 and DLA Distribution covered twenty of the thirty-six audit issues (56%) in the DA December 24, 2008 report entitled DLA Distribution VA in the Compliance Review checklists used in FY 2010 (Findings 4, 5, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 32, 33, and 35). (See Appendix C at page 37)

During the compliance assessments, the teams used standardized checklists, which reflected actual processes and applicable regulations and policies, to guide them through the key components of each of the six functional areas. They were the policies, procedures, techniques, and mechanisms that enforced management's directives, such as the processes of adhering to requirements for receiving, transportation, warehousing, inventory, SR, and security. The team included the criteria referencing a specific policy, procedure, or government regulation for each checklist item. The format of this assessment tool was designed for "Yes" or "No" responses. "No" responses indicated areas or issues requiring additional review and action by the individuals responsible for the activity.

DLA and DLA Distribution members of the compliance teams were Subject Matter Experts (SMEs) with many years of practical experience. A team Chief from DLA's Inventory Management Division (J3312) established and provided overall leadership to the Compliance Review teams. Additional staff from other DLA Headquarters organizations as well as a team lead and SMEs from DLA Distribution comprised the remainder of the teams. A Compliance Review team consisted of a team chief, a team lead, and SMEs from the six core distribution disciplines selected for the team based on their knowledge of DLA/DLA Distribution's - Distribution Operations practices, policies, procedures, and data sources. The DLA Distribution's - Distribution Operations Directorate (J-3O) organized two core teams to conduct the Compliance Reviews.

The Compliance Review Reports consisted of a summary of the review, the purpose of the review, a summary paragraph for each core discipline, and the respective findings and recommended corrective actions. Each respective DLA/DLA Distribution Compliance Review team report included a Corrective Action Plan (CAP). The plan identified the core functional areas that were determined to be non-compliant, specific findings that led to that assessment; actions recommended that be taken to bring performance of the non-compliant components into compliance, and the organizations or individuals responsible for ensuring the identified corrective actions are taken. Implementing the actions cited in the CAP completed the Compliance Review process. It was the responsibility of the DD Commander or Director to implement the CAP. The DD Commander or Director had the opportunity to review and comment on the draft of the final report before it was forwarded to J3-O for signature and promulgation. DLA Distribution (J3-O) sent the final Compliance Review Report accompanied by a CAP to the applicable site.



DLA Distribution created a single learning/knowledge repository using Microsoft SharePoint to catalog and save finalized reports, the standard checklists used to perform the Compliance Review, and the CAP. The SharePoint Site also includes a schedule of the Compliance Reviews and the Compliance Review Manual defining the DLA/DLA Distribution Compliance Review process and the guidance for conducting Compliance Reviews at DLA/DLA Distribution. The final Compliance Review Reports did not include a copy of the actual checklists used. However, the standard checklist was accessible on the SharePoint Site.

DLA J3/4 and DLA Distribution scheduled and completed eleven reviews for Fiscal Year (FY) 2009. The Compliance Reviews provided an end-to-end in-depth review, oversight, validation of performance within distribution processes, supporting sub-processes, systems interfaces, and dependencies. All reports culminated in an internal report containing recommendations that were useful for the site visited for correcting immediate problems. The eleven FY09 DLA/DLA Distribution Compliance Review Reports had a total of 223 findings.

<b>Eleven FY09 DLA/DLA Distribution Compliance Review Report Findings by Core Discipline</b>								
<b>Distribution Depot FY 09</b>	<b>Visit Date</b>	<b>Receiving</b>	<b>Transportation</b>	<b>Warehousing</b>	<b>Inventory</b>	<b>Stock Readiness</b>	<b>Security</b>	<b>Total Findings</b>
<b>DDCN</b> Cherry Point ,NC	17-21 Nov 08	5	5	4	6	3	19	<b>42</b>
<b>DDJF</b> Jacksonville, FL	1-5 Dec 08	7	3	7	3	2	1	<b>23</b>
<b>DDPW</b> Puget Sound, WA	5-7 Jan 09	0	6	2	1	0	0	<b>9</b>
<b>DDJC</b> San Joaquin, CA	8-16 Jan 09	5	6	3	3	3	3	<b>23</b>
<b>DDDC</b> San Diego, CA	9-13 Feb 09	6	2	5	3	3	4	<b>23</b>
<b>DDSI</b> Sigonella, IT	9-13 Mar 09	6	2	0	1	6	0	<b>15</b>
<b>DDDE</b> Germersheim, GE	16-20 Mar 09	3	0	1	0	4	0	<b>8</b>
<b>DDSP</b> Susquehanna, PA	13-24 Apr 09	5	3	1	5	4	0	<b>18</b>
<b>DDDK</b> Camp Carroll, Korea	26-29 May 09	1	2	3	1	6	1	<b>14</b>
<b>DDTP</b> Tobyhanna, PA	7-21 Aug 09	5	9	3	8	6	3	<b>34</b>
<b>DDRV</b> Richmond, VA	21-25 Sep 09	1	2	7	1	2	1	<b>14</b>
<b>TOTAL FINDINGS</b>		<b>44</b>	<b>40</b>	<b>36</b>	<b>32</b>	<b>39</b>	<b>32</b>	<b>223</b>

**FY 2010 Compliance Reviews.** DLA J3/4 and DLA Distribution scheduled 13 reviews for FY 2010. The FY10 DLA/DLA Distribution Compliance Review Reports at the first seven depots had a total of 192 findings.

### Seven FY10 DLA/DLA Distribution Compliance Review Report Findings by Core Discipline

Distribution Depot FY 10	Visit Date	Receiving	Transportation	Warehousing	Inventory	Stock Readiness	Security	Total Findings
<b>DDNV</b> Norfolk, VA	19-23 Oct 09	6	2	1	1	2	1	<b>13</b>
<b>DDAG</b> Albany, GA	26-30 Oct 09	4	1	3	3	5	4	<b>20</b>
<b>DDPH</b> Pearl Harbor, HI	4-8 Jan 10	5	4	7	2	3	9	<b>30</b>
<b>DDGM</b> Guam, Marianas	11-15 Jan 10	2	2	1	1	2	9	<b>17</b>
<b>DDAA</b> Anniston, AL	25-29 Jan 10	12	8	13	3	3	21	<b>60</b>
<b>DDWG</b> Warner Robins, GA	8-12 Feb 10	10	4	9	3	2	6	<b>34</b>
<b>DDCT</b> Corpus Christi, TX	22-26 Feb 10	3	2	4	0	6	3	<b>18</b>
<b>TOTAL FINDINGS</b>		<b>42</b>	<b>23</b>	<b>38</b>	<b>13</b>	<b>23</b>	<b>53</b>	<b>192</b>

Between the FY09 and FY10 DLA/DLA Distribution Compliance Review Reports, the Compliance Review teams found instances of the following seventeen issues/findings reported in the DA December 24, 2008 DLA Distribution VA, Report AD-FY09-01(see Appendix C at page 37):

- Finding 4 - Secure Areas for Frustrated Items
- Finding 13 - Monitor RCN labels
- Finding 14 - Trend Analysis SDR Data
- Finding 17 - Submissions of SDRs
- Finding 18 - COSIS/Stock Readiness Training
- Finding 19 - Monitoring Monthly COSIS workload
- Finding 21 - Shelf Life and Preservation, Packaging, Packing and Marking (PPP&M) Training
- Finding 22 - Updated Transportation Facility Guide
- Finding 24 - Screening United States Postal Service (USPS) Shipments
- Finding 25 - Logbook of Classified Materiel Transfers
- Finding 27 - Monitoring Incoming Classified Receipts via Report of Shipments
- Finding 28 - REPSHIP Requirements
- Finding 29 - Use of DLA Form 27 (Classified Document Receipt)
- Finding 30 - Unique Defense Distribution System (DSS) RCN for Each Conveyance
- Finding 32 - Standard Certification Label
- Finding 33 - FRAGO Requirements
- Finding 34 - Unattended Common Access Card (CAC) Cards

To improve the assessments and the use of checklists, the reference (criteria) regulation, policy or procedure was added for each checklist step. After the first compliance visit at DDCN, the Compliance Review team included the criteria referencing a specific policy, procedure, or government regulation for each checklist item. Another process improvement was constantly revising the checklists as necessary.

There have been 107 steps added for receiving checklist and 74 steps for controlled area security checklist from Nov 2008 to Jan 2010 with respect to the checklists used to conduct the Compliance Reviews.

There were additional steps added to the checklist as a result of meeting between the lead auditor for DA Enterprise Audit and the DLA Distribution-J3 team lead in March 2009 to coordinate the Enterprise Audit with the DLA/DLA Distribution VA of DDSP on how both teams would work together with DDSP personnel to achieve common goals, share information and reduce some of the overlap. The lead auditor explained his major concern in the review was to ensure the controls were in place to mitigate a similar incident from happening that occurred at DDHU when the Air Force sent classified material via FedEx to the central receiving facility rather than to the designated classified material storage area. Potential classified General Services Administration (GSA) small parcel carrier deliveries needed to be manually monitored in central receiving because DSS did not accept incoming REPSHIPS - i.e., - there was no DSS file/table built for incoming REPSHIPS to automatically detect classified shipments arriving at a Department of Defense Activity Address Code (DODAAC) not designated to accept classified materiel. The lead auditor explained the alternative audit steps the audit would have needed to employ if there were no logbook or any audit trail of prior instances of classified items inadvertently sent via GSA approved carrier to DDSP's central receiving facility rather than to the designated classified material storage area.

DLA Distribution had concurred to a recommendation in a December 24, 2008 DA issued DLA Distribution Vulnerability Assessment Report AD-FY09-01 to ensure depot personnel maintained a logbook of all hand receipts transferring classified materiel from central receiving to classified storage warehouse in order to maintain an adequate audit trail. DLA Distribution stated it would reissue the requirement to maintain a logbook of materiel transferred from central receiving to the classified storage warehouses. DLA Distribution stated it would further monitor the use of logbooks through DLA/DLA Distribution Compliance Reviews and contractor surveillance.

Since the DDSP Compliance Review, Defense Logistics Agency (DLA)/DLA Distribution has continually reviewed, updated and improved the checklists used by the Compliance Review teams. However, some improvements could be made to expand the checklists. Specifically, the review teams had not analyzed logbooks documenting the transfers of classified materiel from receiving to designated storage area to find problems found in the DLA Accountability Office (DA) audit. This analysis could help find ways to strengthen the process and/or reduce the number of instances that classified materiel is received in central receiving.

## **Finding A**

### **Analyzing Log Book Documenting Classified Materiel Transfers.**

**Condition:** In November 2008, DLA Distribution issued the requirement to maintain a logbook of materiel transferred from Central Receiving to the Classified Storage warehouses as a result of a DA audit finding. The DA and the DLA/DLA Distribution Compliance Review team conducted simultaneous distribution process review at a DD in April 2009. In that review, DA found the DD had only started instituting a logbook that month. Subsequently, DLA/DLA Distribution Compliance Review team evaluations in October 2009 and January 2010 at different depots, found there were no logbooks in the

temporary classified materiel storage cage in which to maintain a record of the chain of custody for classified materiel coming in and going out of the temporary holding cage.

In the 2009 Audit, DA intended to use the information in the logbook to perform analysis of classified materiel controls. The DA Team recognized that GSA domestic express small package delivery service deliveries were inherently more risky than classified receipts shipped under protective security service especially if DDs did not strictly enforce the requirement for shippers to provide advance notice of classified shipments (REPSHIPS) or for DDs to sign and return the classified materiel receipt documentation to the sender to maintain a chain of custody accountability system.

The DA analysis of the DD logbook in the April 2009 review was delayed because important information was not recorded in the logbook such as document numbers, carrier tracking numbers, CIIC codes, names of individuals, and dates the classified items were placed and taken out of the cage. After researching the needed information, DA discovered problems with monitoring incoming classified materiel shipments until received, physical security protection of materiel, the timeliness of transfer of classified materiel to the secure storage facility, the correct recording of actual tailgate/RCN dates in DSS for classified receipts, and the timeliness of the processing of classified receipts.

**Criteria:** According to GAO internal control standards, monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. Managers are to (1) promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations, (2) determine proper actions in response to findings and recommendations from audits and reviews, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention. The resolution process begins when audit or other review results are reported to management, and is completed only after action has been taken that (a) corrects identified deficiencies, (b) produces improvements, or (c) demonstrates the findings and recommendations do not warrant management action.

DLA Distribution concurred to a recommendation in a December 24, 2008 DA issued DLA Distribution VA Report AD-FY09-01 to ensure depot personnel maintain a logbook of all hand receipts transferring classified materiel from central receiving to classified storage warehouse in order to maintain an adequate audit trail. DLA Distribution stated it would reissue the requirement to maintain a logbook of materiel transferred from central receiving to the classified storage warehouses. In addition, the DLA Distribution stated it would further monitor the use of logbooks through DLA/DLA Distribution Compliance Reviews and contractor surveillance.

According to the SWARM Training Manual on Storage and Handling of Classified Material, classified materiel found at time of induction should not be processed at Central Receiving. Classified shipments delivered to Central Receiving in error are to immediately be placed in a secure, classified storage temporary holding area pending delivery to the classified storage facility for receipt. If moved to a temporary holding area, the materiel is supposed to be logged into a logbook pending delivery to the secured classified area. The receiving activity should ensure that the security requirements of classified materiel are not jeopardized nor violated by ensuring that only employees having a security clearance to

handle security items are allowed to process this type of materiel, including the 100 percent inspection and verification of assets received.

DLA Distribution concurred to a recommendation in a 2009 DA issued audit DAO-09-13 recommending the Distribution Support Directorate (DLA Distribution-M) provide clarifying guidance for the policy in the training manual on Storage and Handling of Classified Materiel regarding logging in classified materiel found in Central Receiving. Specifically, guidance needed to be clarified on what constituted an adequate audit trail for the movement of misdirected classified freight to a temporary holding area in the event the materiel could not be immediately transferred to the secured storage facility.

DLA Distribution responded in December 2009 the classified SOP developed by J3-M had been incorporated in the SWARM manual and the change was currently being edited. This would enhance the classified receipt-processing unit in the SWARM Storage and Handling of Classified Materiel manual by providing more detailed instructions on how to handle and move classified materiel out of central receiving. From the classified SOP, using a temporary holding area and logbook in central receiving and using the classified control document for custody hand-off were included in the revision. This change would also be incorporated in the classified SWARM manual so that the SOP and both the receiving and classified SWARM manuals would be identical. Until the next technical review was completed, these changes would not be part of the manuals DLA Distribution used for training. Until the manual was updated, DLA Distribution J3-M would provide this updated unit as an addendum for students to keep in their manuals.

**Cause:** The reason the DLA/DLA Distribution Compliance Review team's evaluation of DDSP classified operations did not find the same classified materiel findings was DDSP had just instituted a log book in April 2009 and the DLA/DLA Distribution assessment team did not have had the opportunity to analyze the contents of the classified material log by the end of their field work to find the same classified materiel problems as the DA audit. The reason for the DA audit and the Compliance Review Team finding of no logbooks at some DDs was that not all recommendations accepted in the December 24, 2008 DA issued DLA Distribution VA Report AD-FY09-01 were actually implemented enterprise-wide.

**Effect:** The result of not maintaining or analyzing the content of the logbook documenting the transfers of classified materiel from receiving to designated storage area is a loss of chain of custody and positive accountability of classified materiel. In addition, there is a risk DLA/DLA Distribution Compliance Review team is not fully assessing and mitigating the risk of not having positive accountability over classified materiel.

#### **Recommendation A (*J-33 and DLA Distribution*)**

Recommend DLA/DLA Distribution:

DLA Compliance assessment teams should update their compliance assessment checklist to ensure the evaluators review the sufficiency of information recorded in the logbook maintained to document the transfers of classified materiel from receiving to designated storage area in order to:

- a. Review the frequency specific shippers are sending classified materiel to Central Receiving,
- b. Determine how long classified items might have been sitting in Central Receiving until discovery,
- c. Determine what DODAAC addresses were actually on the classified deliveries,

- d. Determine whether Distribution Depots were sending Transportation Discrepancy Reports to those shippers who were not using the correct classified DODAAC address, and
- e. Confirm the secured warehouse eventually picked up the materiel to the accountable record using the correct receipt control number (RCN) date.

#### **Management Comments (DLA Distribution)**

**DLA Distribution RESPONSE:** Concur. The applicable functional area checklist has been expanded to include questions specifically addressing the points of information cited in the recommendation. The revision was made on August 26, 2010, preparatory to using the new checklist for the review at Cherry Point, NC, scheduled to begin October 4, 2010.

#### **Management Comments (MATERIEL POLICY, PROCESS AND ASSESSMENT (J-33))**

**J-33 RESPONSE:** Concur. Inventory Management (J-3312) verified that applicable functional area checklists were revised to address DA recommendations. Checklist revisions were completed on August 26, 2010.

#### **Auditor Response**

The management comments provided were responsive and address the recommendation.

### **COMPLIANCE REVIEW FINDINGS**

With few exceptions, the Compliance Review teams found the overall assessment of most operations as satisfactory with few systemic deficiencies or vulnerabilities. Initially, the number of items per checklist compared to the number of items checked as “No” indicated most of the actual processes and applicable regulations and policies per core discipline were being followed. The specific checklist reference numbers changed during inspections so a particular checklist item did not always consistently maintain the same specific checklist reference number. In addition, the report may have referenced a checklist item number but the report (finding) write-up did not specifically address the checklist topic. This usually occurred when a finding referenced several checklist item numbers for just one finding. The final Compliance Review Report did not include a copy of the checklists used.

The Compliance Review Reports were balanced. The reports appropriately recognized good work. Recognizing there were usually more positive than negative comments in the Compliance Review Reports, we summarized the more critical comments from the reports to look for recurring findings to see what entity-wide control strategies DLA/DLA Distribution may have employed to address “common risks” within distribution operations, and how DLA/DLA Distribution isolated systemic problems and noted key issues/observations related to findings that could be shared for sustained process improvements

throughout the DLA Distribution enterprise. We organized the commonly occurring findings in those summaries for the last eighteen Compliance Reviews found within the six core functional disciplines of:

- Receiving Summaries (Appendix D at page 44)
- Transportation Summaries (Appendix E at page 48)
- Warehousing Summaries (Appendix F at page 52)
- Inventory Summaries (Appendix G at page 56)
- Stock Readiness Summaries (Appendix H at page 59)
- Security Summaries (Appendix I at page 65)

**Recurring Receiving Findings.** Analysis of the data found in Appendix D indicated these were the common findings in Receiving.

1. Inadequate Electrostatic Discharge (ESD) workstations
2. Not using Electronic Data Access (EDA) or Wide Area Work Flow (WAWF) to verify information
3. Not researching packaging requirements
4. Not completing visual Kind Count Condition (KCC) on one bare item
5. Not applying RCN
6. Lack of familiarity with SDR process
7. Needed training
8. Not designating frustrated freight area
9. No log books for the transfer of classified materiel from receiving.

**Recurring Transportation Findings.** Analysis of the data found in Appendix E indicated these were the common findings in Transportation.

1. Non-use of Global Freight Management System (GFMS)
2. Inconsistent use of DD Form 626 (Motor Vehicle Inspection)
3. REPSHIP not sent within 2 days
4. Non-participation in Government Cargo Recovery Effort (GOCARE) Program
5. HAZMAT
6. Late lines
7. Access to Financial and Air Clearance Transportation System (FACTS)
8. FMS shipments and documents
9. Outdated transportation facility guide

**Recurring Warehousing Findings.** Analysis of the data found in Appendix F indicated these were the common findings in Warehousing.

1. DSS location placards and barcode labels

2. FMS materiel
3. Not following the First In/First Out (FIFO) principle
4. Employee housecleaning and safety
5. Improper storage practices
6. Use of Locator Activity Code (LAC)

**Recurring Inventory Findings.** Analysis of the data found in Appendix G indicated these were the common findings in Inventory.

1. Location surveys
2. Classified materiel inventories accuracy goals not met
3. Pilferable materiel inventories accuracy goals not met
4. Unclassified materiel inventories accuracy goals not met
5. Financial liability investigations of property loss

**Recurring Stock Readiness Findings.** Analysis of the data found in Appendix H indicated these were the common findings in Stock Readiness.

1. Shelf-life program
2. Lack of visual COSIS inspections
3. PPP&M
4. Storage quality control report - cost estimates for repairs

**Recurring Security Findings.** Analysis of the data found in Appendix I indicated these were the common findings in Security.

1. Improper classified materiel practices
2. Improper pilferable material practices
3. Improper Arms, Ammunition and Explosives (AA&E) practices
4. Random monthly inspections of secure storage areas
5. Nonuse of SF 702 (Security Container Check Sheet) and SF 701 (Activity Security Checklist)
6. Inadequate Intrusion Detection Systems (IDS)
7. Emergency destruction/relocation plan



## CORRECTIVE ACTIONS

Each respective DLA/DLA Distribution Compliance Review team report included a CAP. The plan identified the core functional areas that were determined to be non-compliant, specific findings that lead to that assessment; actions recommended that be taken to bring performance of the non-compliant components into compliance, and the organizations or individuals responsible for ensuring the identified corrective actions were taken. Implementing the actions cited in the CAP completed the Compliance Review process. It was the responsibility of the DD Commander or Director to implement the CAP.

DLA/DLA Distribution developed an enterprise risk reporting system involving the recording, maintaining, and reporting of individual assessments. DLA/DLA Distribution also developed a plan for monitoring controls for the six functional core disciplines; provided an assessment of how well the controls were working at each depot; and maintained documentation of the results. We were able to document the status of the local (depot) corrective actions taken by reviewing the respective depot's corrective action plans on J3-O's SharePoint site. However, we were generally unable to document the strategy that was being developed for focusing on repeat findings or the actions that were planned to be taken to address the root causes of findings enterprise-wide. We requested reply/documentation from Directorate of Distribution Operations' (DLA Distribution J3-O's) Program Integration Division, to ten questions intended to provide answers whether (1) enterprise corrective actions were addressed to the appropriate management level, and whether (2) enterprise actions were implemented and corrected the problem. We received J3-O's Initial response. In summary, the reply stated the most valuable tool for gaining information was by making on-site visits. Such visits allowed unique situations, if any, to be identified. There were no differences stemming from who provided the distribution services, be it contractor, government, or MEO. Management was the most significant factor determining the distribution center's proficiency. DLA Distribution maintained a repository of lessons learned and repetitive findings for its own use which were the final reports and the CAPs posted on the J-30 SharePoint site allowing for derivation of lessons learned and process improvements. They were made available to other distribution centers as well as the DLA Distribution staff who used them to ensure training materials were updated as necessary. Training was often the cause of repeat findings. However, that tended to be a catchall and did not get to such matters as management and follow-up to ensure deficiencies were corrected and sustained. There had not been any discussion regarding the use of the compliance review results to support the ASA as it utilized other methods to include checklists to document the results of the ASA.

The answers were responsive but needed to be followed up on in order to clarify J3-O's Response. We sent a follow-up email with five additional questions which included a request for an updated list of recurring problems and concerns other than a March 2009 PowerPoint Presentation we obtained of common findings in Compliance Reviews. We received a response to the five follow-up questions as well as Compliance Review program trends. The following were the self-reported Compliance Review program trends as of October 19, 2009 obtained from the PowerPoint presentation.

The Receiving trends were:

- KCC verification not being performed
- ESD packing and inadequate ESD stations
- Not researching pack requirements during induction

- No access to or non-use of EDA and WAWF system
- Lack of familiarity with SDR process
- Non-verification of signature on source inspected receipts
- Not performing 100 % bare item inspection on classified materiel

The Transportation trends were:

- Non-use of GFMS
- Inconsistent use of DD Form 626 (Motor Vehicle Inspection).
- REPSHIP not sent within 2 days
- Non-participation in GOCARE program
- Employees not authorized to sign Hazardous Material (HAZMAT) documents

The Warehousing trends were:

- FMS Standard Operating Procedure (SOP) not followed
- Containment area not defined
- Dedicated printers not used
- FIFO not practiced
- Inconsistent identification of controlled storage area
- Exception data on pick tickets not read/followed
- Improper storage practices. Examples include: Inadequate location marking; untimely processing of frustrated freight; failure to place Military Shipment Label (MSL) and power ship label on inside of carton for classified shipment; FMS picks conducted on RF screen at fixed terminal vice at the bin face.

The Inventory trends were:

- Accuracy goals not met
- No quality checks on inventories and location surveys
- Inventory Adjustment Vouchers (IAVs) not resolved within 45 days
- Location surveys not completed in 24 hours
- Location survey documents not maintained

SR Trends were:

- Lack of visual COSIS inspections
- Inadequate minor repairs made during COSIS
- Inconsistent research on unit pack requirements
- Shelf-life training not completed
- Cost estimates for repairs needed are not submitted to supply chains

The Security trends were:

- Pilferable items not secured
- Controlled stock in general storage
- Temporary storage cages do not meet physical security requirements
- Unescorted/unchallenged visitors in restricted areas
- Inconsistent use of DLA Form 27 (Classified Document Receipt)

As reported in the notes to the PowerPoint presentation showing the deficiencies and representing the most frequent findings among the distribution centers reviewed thus far, the trends did not represent every finding. What was depicted in these charts was as aggregate of the most common findings in each functional area and was not prioritized or categorized by severity of the non-compliant action.

DLA Distribution provided information on previous findings found in DLA Distribution inspections to the other DDs via SharePoint. DDs were encouraged to access SharePoint to analyze previous Compliance Review findings to correct like deficiencies. DDs were encouraged, but not required, to conduct self-assessments prior to the actual review. There was some evidence the DDs had used the information, checklists, and findings in SharePoint to conduct a self-assessment of operations prior to the review team's arrival.

## **Finding B**

### **Summarizing and Communicating Results of Inspection Findings.**

**Condition:** There were recurring Compliance Review findings in the first 18 DLA/DLA Distribution Compliance Reviews. Although corrective actions were reportedly taken to eliminate the cause of a detected nonconformity at each of the depots reviewed, there was no evidence the findings were assessed for risk across all depot locations to determine the time and resources to be allocated (or not) based on the seriousness of recurring problems. More preventive actions may be needed to avoid finding the same significant, systemic or recurring noncompliance/nonconformance issues in future depot reviews.

**Criteria:** Traditionally management and auditors predominantly looked at functions and activities independently, making it difficult to see the interrelationship of risks across an entire entity. GAO has reported for several years that some agencies do not accurately characterize or fully disclose the weaknesses in their controls.

DoDI 5010.40 - Managers' Internal Control (MIC) Program Procedures establishes instructions for implementing and executing the MIC program. MIC program provides for regular monitoring and remediation of process controls, and it basically includes developing a plan for monitoring key controls; an assessment of how well the controls are working; documentation of the results, and follow-up to ensure improvements are made. Evaluation of these assessments is the primary basis for the Statement of Assurance, which DoD components must submit annually to the Secretary of Defense. This is a standing requirement of OMB Circular A-123, "Management's Responsibility for Controls," which complies with the Federal Managers Financial Integrity Act of 1982 (FMFIA).

Risk Assessments help identify:

- Potential vulnerabilities in work processes directly related to the control of physical material
- Best methods to help mitigate vulnerabilities or identified problems for each physical material warehousing practice
- Needs for training - technical assistance - monitoring

- Most appropriate monitoring and oversight strategies for each physical material warehousing practice
- Priorities for monitoring activities
- Most effective and efficient use of resources

According to "Standards for Internal Control in the Federal Government" (GAO/AIMD-00-21.3.1), Communication of information enables managers to effectively maintain an internal control environment, assess risk, establish controls, and monitor performance. Information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities. Monitoring includes managers' assessment tools such as management control evaluations, inspections results, audit findings, IG trends, management reviews.

**Cause:** Depot Commanders annually filled out and submitted a DD Checklist containing seventeen Managers' internal control objective focus areas that included receiving, storage, COSIS/SR, issue, transportation, inventory accuracy, physical security, preservation/packing, and safety. This data and other sources provided background documentation to support the depot Commander's ASA. However, the depot commanders' checklists used to support the DLA Distribution Commander's ASA for the six core distribution disciplines before the site visits were not generally uncovering the opportunities for improvement the Compliance Review teams were documenting with their checklist results.

Although the trends and findings of deficiency in each of the six core functional disciplines were being captured for the 18 DLA/DLA Distribution Compliance Reviews conducted in FY09 and FY10, they were not being prioritized and categorized by severity of the non-compliant action. Although the actual Compliance Review Reports were shared on SharePoint with all DLA DDs to facilitate information sharing, the detailed analysis and patterns of the overall Compliance Review effort were not communicated directly to the DD Commanders for them to fully understand the significance of the deficiencies found and the likelihood of their occurrence in future Compliance Reviews for them to prioritize the risks they should be controlling and mitigating. In addition, DLA Distribution functional checklists have been enhanced and additional process activities/steps have been introduced as there have been 107 steps added for receiving checklist and 74 steps for controlled area - security checklist) from Nov 2008 to Jan 2010.

**Effect:** Potential effects are:

- a. Risk same findings found in previous DLA Distribution inspections could be encountered at subsequent DD inspections if the root causes are not identified and corrected.
- b. Risk we could be missing opportunities to derive lessons learned for sustained process improvements that are transferable to other sites.
- c. Risk we are not compiling and reporting audit results centrally that could reveal or confirm the existence of internal control problems.

### **Recommendation B (J-33 and DLA Distribution)**

Recommend analyzing, categorizing, assessing, and ranking risks associated with the Compliance Review Team's findings of deficiency. Decide which risks should be the focus of resources for enterprise corrective action. Communicate key patterns and significance of enterprise wide deficiencies found to DD Commanders in addition to sharing individual Compliance Review Reports within SharePoint.

### **Management Comments (DLA Distribution)**

**DLA Distribution RESPONSE:** Concur. Although the Findings and Recommended Corrective Actions are posted to the J3-0 SharePoint site, the results of trend analyses, risk assessment, etc., should be made available to all distribution sites as well. In concert with DLA J-33, DLA Distribution J3 will determine what is the most meaningful and beneficial information to distribute and the best means of delivering that information to all distribution sites.

### **Management Comments (MATERIEL POLICY, PROCESS AND ASSESSMENT (J-33))**

**J-33 RESPONSE:** Concur. Inventory Management (J-3312) will coordinate with DLA Distribution J3 on efforts to develop and share trend analysis and risk assessment information with all distribution sites upon completion and follow-up of Compliance Assessments. If analysis identifies repetitive trends across distribution sites, immediate attention/training will be provided to the applicable functional areas.

### **Auditor Response**

The management comments provided were responsive and address the recommendation.

## **INCORPORATING "LESSONS LEARNED" FOR SUSTAINED PROCESS IMPROVEMENTS**

As far as the DLA/DLA Distribution compliance assessments, we did not routinely find an individual applied solution to address repetitive findings to all the 25 DDs within the enterprise. DLA/DLA Distribution did isolate some systemic problems and noted some key issues/observations related to findings that could be shared for sustained process improvements throughout the DLA Distribution enterprise. For example, under the SR paragraph, the assessment of DDDC, 9-13 Feb 09 took an enterprise approach suggesting "DLA Distribution may want to consider the reestablishment of a Packaging Specialist position at the DDs" with respect to findings that were being documented. In addition, page A-13 of the DLA FY 2009 ASA mentioned that in 2009, DLA Distribution conducted an operational summit that focused on developing enterprise SOP for processing classified material and FMS shipments. The goal of the summit was to ensure zero defects of all classified and FMS shipments.

There was evidence DLA and DLA Distribution were working toward achieving one of the intended purposes of these assessments and that was to provide a means of observing, documenting and sharing "best practices" and innovative approaches to distribution operations throughout the DLA/DLA Distribution network. The checklists, final reports, and corrective action plans were located on DLA Distribution (JC-3O) SharePoint, a central web-based "information exchange", that provided a collaboration and document management resource via web site/shared workspace allowing users to connect and coordinate with each other from all over the organization. DDs were expected to review the DLA Distribution Compliance Review Manual and all appendices prior to visits. All findings were provided to the appropriate DLA Distribution staff for inclusion in future training materials as well as for use in preparing policy implementing guidance/instructions. In addition, the Compliance Reviews cited information as possibly useful to other DDs such as best practices and operations that could be a model for all DDs. For example, the DDJC Compliance Report cited the color-coding method used in Receiving as a visual guide to employees and supervisors as a best practice showing the amount of workload for each category of receipts. (New procurement-RED, Returns-BLUE, Stock Transfer Orders (STOs)-GREEN). The DDPH Compliance Review Report recommended DDs utilize the DDPH Training Manager's approach to tracking and documenting employee-training activities. The DDCT Compliance Review Report described several tools that DDCT personnel created that would be useful to other distribution centers.

DLA Distribution-J3M provided to DD Commanders information on processes/procedures the last two years that would help show an enterprise view across the depot locations even if we collectively could not tie it in directly to the DLA/DLA Distribution Compliance Reviews. The Chief of Mission Stock Accountability (DLA Distribution J3-MA) replied in an email dated March 29, 2010 that the DD SWARM training manuals (SWARM is now known as Distribution Operations Training) contained regulations, policies and procedures by which the depots were to operate that were accessible on the logistics operations section of the DLA Distribution intranet giving employees instant access to the SWARM training manuals, contact information for training instructors, and other helpful points of contact.

The SWARM program was a large-scale training program implemented in 2003 by the DLA Distribution Logistics Operations Division. The training program was called 'SWARM' because it was an effort to collectively SWARM around inventory accuracy issues and create solutions. The SWARM program provided additional training to DLA Distribution employees on each of the areas that impacted the accountable inventory balance including receiving, stock readiness, warehousing and inventory control. More than four thousand DLA Distribution employees have received the SWARM training since its implementation.

As of the end of April 2010, the J-30 SharePoint included copies of the following DLA Distribution Policies:

- a) Decentralized Weight & Cube program
- b) DLA Active Radio Frequency Identification (RFID) Concept of Operations (CONOPS) and Implementing Procedures 1 July 2004
- c) Clarification on KCC bare item visual inspection 1 Feb 2002
- d) Increased oversight of critical shipments

- e) DLA Distribution FRAGO 1 and 3
- f) DLA Distribution FRAGO update
- g) Classified SOP (Revision) Oct 2008
- h) FMS SOP (Revision) 6 Oct 2008
- i) Procedures for processing frustrated materiel

There were also other assessments crossing the DLA Distribution enterprise that were separate and distinct from the DLA/DLA Distribution Compliance Reviews. DLA Distribution Logistical Operations had five Internal Control Objectives in the DLA Distribution Managers' Internal Control (IC) Program. They were:

- a) DLA Distribution contingency plan
- b) DLA Distribution stock positioning plan
- c) Inventory Accuracy
- d) Transportation management/training
- e) Transportation management procedures

Three of the IC objective assessments had relevance to the DLA/DLA Distribution Compliance Reviews. They were inventory accuracy, transportation management/training, and transportation management procedures. According to the inventory accuracy - DLA Distribution 031 control objective, the focus of the DLA Distribution inventory accuracy program was on the sustainment of the improvements realized through the SWARM initiative. In relation to the transportation management/training - DLA Distribution 032 control objective, the objective was to ensure transportation managers were properly trained to execute the DoD/DLA program in compliance with Federal and Local Regulations. In accordance with transportation management procedures - DLA Distribution 033 - control objective, the objective was to ensure transportation management procedures were adequate and effective throughout DLA Distribution.

In addition to the DLA Distribution Logistical Operations IC objective assessments, the ongoing P2S risk analysis, an effort working towards eventually becoming compliant with the Chief Financial Officer (CFO) Act of 1990, was being conducted encompassing all business functions necessary to plan, procure, produce, inventory, and stock inventory held for sale or used in Operations and Maintenance (O&M) including receipt, acceptance and warehousing, distribution and pre-position inventory, performing inventory management, and COSIS/SR.

One of the process improvements instituted in performing these assessments in relation to direct testing and the use of checklists to facilitate assessment of internal controls and risk exposure was including the reference (criteria) regulation, policy or procedure being reviewed for each checklist step. After the first compliance visit at DDCN, the Compliance Review team included the criteria referencing a specific policy, procedure, or government regulation for each checklist item.

Another of the process improvements instituted in performing these assessments was periodically including an effect statement describing the particular risk that existed because of the condition or problem cited. The effect statement describes the particular risk that exists because of the condition or problem. Basically, it answers the question, "so what?" Effect statements often discuss the potential for loss, noncompliance, or customer dissatisfaction created by the problem. Management is likely to zero in

on the information provided in this aspect of the audit finding, as it allows them to see how the condition will negatively impact the bottom line. As a result, the effect statement often serves as the catalyst for positive change.

There have been three revisions of the Compliance Review Manual that helped show how DLA/DLA Distribution Compliance Review team's processes were constantly evaluated and improved in the light of their efficiency, effectiveness, and flexibility. The original issue date was November 2008. The first revision was November 2009, the second revision was January 2010, and the third revision of the Compliance Review Manual March 2010. As examples, the 2009 revision included the following:

- a) One of the objectives of the reviews was to "provide a means of observing, documenting and sharing "best practices" and innovative approaches to distribution operations throughout the DLA/DLA Distribution network".
- b) The DD is to review the Compliance Review Manual and all appendices prior to the visit.
- c) Subsequent to completing the Compliance Review, the DLA Audit office will follow-up with audits on a sample of the reviews to assess the Compliance Review process and results.
- d) Are recommendations supported by facts that are verifiable? - The meaning assigned to the facts can be corroborated and the information can be replicated.
- e) In the course of conducting the Compliance Review, the members of the team may collectively or individually observe a process or processes, which are compliant, but may be improved upon. Conversely, a process that is innovative and successful and merits consideration for export to other DDs may also be observed. These "operational observations" will be shared with the DD Commander or Director and documented in the Final Report as Operational Observations. They are not findings of non-compliance. They are applications of the SME's experience and expertise to an observable process.

There have been new policy statements issued such as security clearance requirements in DLA/DLA Distribution Compliance Reviews. The document references DLA Installation Support Distribution email of 2 September 2009 instructing when conducting Compliance Reviews: "Visitors may be escorted into a restricted area storing classified material without a clearance. However, if there is a need to view or handle the classified material then a clearance is required." This flexibility provided more team members without a clearance to assist in the effort. There also has been an addition of a new checklist, Appendix M, on short-term temporary storage instituted for the FY 2010 Compliance Reviews.

## **EVALUATING THE SUPPORTING DOCUMENTATION**

### **Finding C**

#### **Insufficient Supporting Documentation**

**Condition:** Although the compliance teams generated many findings and recommendations in each Compliance Review, the respective back-up documentation collected and maintained would not enable an



independent third party to reach the same conclusions based on the explanation, supporting documentation, and conclusions reached by the DLA Distribution compliance team, solely by the documentation itself.

**Criteria** include:

- a) According to the DLA/DLA Distribution Compliance Review Manual, which defines the process and the guidance for conducting Compliance Reviews at DLA/DLA Distribution, recommendations should be supported by facts that are verifiable - the meaning assigned to the facts can be corroborated and the information can be replicated.
- b) According to OMB Circular A-123, "Management's Responsibility for Internal Control," management should have a clear, organized strategy with well-defined documentation processes that contain an audit trail, verifiable results, and specify document retention periods so that someone not connected with the procedures can understand the assessment process.
- c) According to the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) "Quality Standards for Inspections, evidence supporting inspection findings, conclusions, and recommendations should be sufficient, competent, and relevant and should lead a reasonable person to sustain the findings, conclusions, and recommendations. The Quality Standard for Inspections requires inspection documentation to be appropriately detailed to provide a clear understanding of its purpose and source and the conclusions reached. In determining the sufficiency of evidence, inspectors should ensure that enough evidence exists to persuade a knowledgeable person of the validity of the findings. All relevant documentation generated obtained, and used in supporting inspection findings, conclusions, and recommendations should be retained for an appropriate period of time. Supporting documentation is the material generated and collected as part of an inspection that, when effectively organized, provides an efficient tool for data analysis and a sound basis for findings, conclusions, and recommendations that address the inspection objectives. Supporting documentation should also provide a record of the nature and scope of inspection work performed; and information to supervisors and team leaders enabling them to properly manage inspections and evaluate the performance of their staff. Supervisory and team leader review should be evidenced in the inspection documentation. Inspection organizations should establish policies and procedures for the safe custody and retention of inspection documentation.

**Cause:** The existing quality controls were insufficient to ensure compliance with the documentation requirements in the Quality Standard for Inspections, OMB Circular A-123, "Management's Responsibility for Internal Control," and the DLA/DLA Distribution Compliance Review Manual.

- a) The review teams were not consistently including a reference to the source and the purpose of the document on the supporting documents when relevant to understanding or appreciating the actual assessment work performed.

- b) The review teams were not consistently cross-referencing the supporting documentation back to the specific item number on the checklist to avoid becoming a confused mixture of data that is difficult to assimilate and use.
- c) The review teams were not consistently maintaining a copy of every completed checklist documenting the specific answers to each checklist item.
- d) The review teams were not consistently ensuring the scope of the documentation would allow an independent reviewer, with general knowledge of the operations under review to understand the process and the conclusions reached.
- e) The review teams were not consistently explaining checklist answers indicating deficiencies.
- f) The review teams were not consistently explaining why any significant problems, issues, observations, or violations noted on completed checklists were not always cited as a finding in the final compliance report.

**Effect:** As a result, there was a potential risk that (1) sufficient inspection work was not performed to support inspection opinions and conclusions, (2) DLA/DLA Distribution Compliance Reviews team's findings, conclusions, recommendations, or assurance may be improper or incomplete, and/or (3) intentional omissions or misleading information due to misrepresentation. In addition, the insufficient documentation would not enable an independent third party to reach the same conclusions based on the explanation, supporting documentation, and conclusions reached by the DLA Distribution compliance team. Inconsistency in control review process and documentation could result in the assessments not properly measuring all the levels of risks for a given activity. According to the Defense Logistics Agency (DLA)/DLA Distribution compliance review manual, each team member is responsible for collecting and analyzing data to fully support a judgment of compliance or non-compliance for each assigned core requirement, comprehensive standard, and policy. Each Team member is responsible for objectively documenting observations of the DC's distribution operations processes. The compliance review manual states data for the compliance review will be collected by observing site processes, interviewing site personnel, and reviewing documentation. In addition, the compliance review manual indicates recommendations should be supported by facts that are reliable, current, verifiable, coherent, objective, relevant, and representative. The term verifiable was specifically defined as the meaning assigned to the facts can be corroborated and the information can be replicated.

### **Recommendation C (*J-33 and DLA Distribution*)**

Compliance Review Teams should ensure results are supported by facts that are verifiable, and appropriate evidence is maintained so that another person can replicate the information if needed. At a minimum, the Compliance Review teams need to determine what steps they consider the most significant controls requiring testing, and what minimum documentation requirements they need to maintain on file to support their assessments.

### **Management Comments (DLA Distribution)**

**DLA Distribution RESPONSE:** Qualified concurrence. Management agrees that results must reflect verifiable facts and that documentation must be obtained and maintained in order to do so. Management does not agree that the documentation or evidence, which manifests itself in a Finding, must be replicated. After having conducted 24 reviews, DLA Distribution and DLA Headquarters have gained considerable experience and gathered a significant amount of information and documentation to substantiate all of its Findings. Consequently, management does not believe it is necessary that the documents assembled by the Review Team replicate the conditions leading to a Finding. DLA Distribution is in the process of revising the Compliance Review Manual and will delete the manual's reference to replicating information. Management will re-examine what it believes to be the minimum documentation needed to be obtained and retained to support a review's Findings.

### **Management Comments (MATERIEL POLICY, PROCESS AND ASSESSMENT (J-33))**

**J-33 RESPONSE:** Partially Concur. Management agrees that all Compliance Review findings and recommendations should be supported by facts and evidence in addition to retention of applicable documentation. The Inventory Management staff will work closely with DLA Distribution to identify minimum requirements for documentation retention.

### **Auditor Response**

The important points everyone generally seems to agree are (1) significant conclusions should be supported by facts that are verifiable and (2) there should be some consistent minimum requirements for documentation retention. The management comments provided were responsive and address the recommendation.

## **CONCLUSION**

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Overall, we concluded the assessments teams gathered, analyzed, and generally retained supporting documentation. However, we identified three areas in which improvement is needed. The Compliance Reviews provided an end-to-end in-depth review, oversight, validation of performance within distribution processes, supporting sub-processes, systems interfaces, and dependencies.

All 18 reports we reviewed for FY09 and FY10 resulted in an internal report containing recommendations, which were useful for the site visited for correcting immediate problems. The eleven FY09 DLA/DLA Distribution Compliance Review Reports had a total of 223 findings. The FY10 DLA/DLA Distribution Compliance Review Reports at the first seven depots had a total of 192 findings.

There was evidence DLA and DLA Distribution were working toward achieving one of the intended purposes of these assessments and that was to provide a means of observing, documenting and sharing

“best practices” and innovative approaches to distribution operations throughout the DLA/DLA Distribution network.

Some enterprise type actions have been instituted such as the DLA Distribution conducting an operational summit in 2009 to focus on developing enterprise SOPs for processing classified material and FMS shipments, with a goal was to ensure zero defects of all classified and FMS shipments. Compliance Review Reports were posted on the J-3O SharePoint site and made available to other distribution centers as well as the DLA Distribution staff who used them to ensure training materials were updated as necessary. Enterprise-Wide Training Manuals were accessible on the Logistics Operations section of the DLA Distribution intranet containing regulations, policies and procedures by which the depots were expected to operate. The DLA Distribution M SharePoint site contained categories and informative links to handbooks, instructions, and procedural/policy guidance. DLA/DLA Distribution has continually reviewed the checklists used by the team members in Compliance Reviews such as adding 107 steps for the receiving checklist and 74 steps for controlled area - security checklist

We were able to document the status of the local (depot) corrective actions taken from reviewing the respective depot’s corrective action plans on J3-O’s SharePoint site. However, we were generally unable to document the strategy that was being developed for the focus on repeat findings or the actions that were planned to be taken to address the root causes of findings enterprise-wide.

As a result of our audit, we found the following three deficiencies:

- There were recurring Compliance Review findings that were not prioritized or categorized by severity of non-compliant action making it difficult to develop enterprise wide strategies.
- The quality controls were insufficient to ensure compliance with documentation requirements that would enable corroboration and replication of the facts supporting the Compliance Reviews.
- Although the compliance checklists are continuously improved, we identified one area where improvements could be made to expand the checklists. Specifically, the review teams had not analyzed logbooks documenting the transfers of classified materiel from receiving to designated storage area to find problems found in the DLA Accountability Office (DA) audit.

These findings present risks to both DoD and to the DLA in the areas of providing reasonable assurance (1) Each respective depot’s distribution materiel receiving, storing, inventory, issuing, and shipping processes and controls reasonably assure that DLA inventory was accurately recorded and properly safeguarded in accordance with applicable policies and regulations. (2) The DLA/DLA Distribution Compliance Review team’s on-site evaluation procedures, supporting documentation and conclusions on the state of the respective depot’s distribution materiel receipt, warehousing, and shipping operations were reasonably reliable and complete.

This is the third and final part of an overall assessment of the DLA Distribution compliance assessments. (We assessed DDJC and DDSP).

## **ACKNOWLEDGMENTS**

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The following auditors contributed to this audit:

- (b)(6) Internal Audit Director, DLA Distribution Internal Audit Office
- (b)(6) Lead Auditor (Auditor-in-Charge), DLA Distribution Internal Audit Office
- (b)(6) Internal Auditor, DLA Distribution Internal Audit Office
- (b)(6) Internal Auditor, DLIS Internal Audit Office

## ADDITIONAL BACKGROUND INFORMATION

### RELEVANT DLA ORGANIZATIONS, GOALS, AND OBJECTIVES

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**Logistics Operations (J-3).** Logistics Operations (J-3) is responsible for the end-to-end supply chain management of DLA's eight supply chains, providing logistics policy, guidance and oversight, and monitoring supply chain performance. J-3 is the principal strategic, operational and tactical planner for DLA business operations, championing best business practices, business systems modernization, and value-added logistics solutions for the war fighter. J-3 oversees the daily operation of the DLA Logistics Field Activities. J-3 engages and advocates for customers to maximize readiness and combat logistics support.

**DLA Distribution.** DLA Distribution is responsible for the global distribution and warehousing of military service and DLA materiel line items. The DLA Distribution is headquarters to the 25 DLA worldwide distribution depots strategically located throughout the world, receives and issues over 21.8 million secondary lines and currently warehouses, and maintains about 118.9 million cubic feet of material. DLA Distribution's Mission is to provide the full range of distribution services and information enabling a seamless, tailored worldwide DoD distribution network that delivers effective, efficient and innovative support to combatant commands, military services and other agencies during peace and war.

**Twenty-five DLA Worldwide Distribution Depots.** The DD provide material distribution services including the receipt, storage, and issuance of material. The depots' primary mission is to plan, program, manage, and execute efficient and effective receiving, storage, inventory, packaging, COSIS, stock control, stock selection, issue processing, packing, shipping, and distribution of repair parts and secondary items in support of on-base, local, and worldwide customers. The continuing challenge is to identify the most cost effective way of getting the right product to the right place at the right time. The distribution depots are staffed by government employees, contractor personnel and government-operated MEO depending on results of A-76 competitions.

**DLA Installation Support Public Safety Office.** The Installation Support Public Safety Office, acts as the principal advisor and assistant to the Director, Installation Support and advises and assists the Director, DLA, the Director's Senior Staff, and the Commanders of DLA Lead Centers on the development and implementation of agency security programs and projects.

**DLA Enterprise Support New Cumberland.** The DLA Enterprise Support New Cumberland was established effective 3 Oct 2004 per General Order Number 5-04 as a result of the DLA Enterprise transformation initiative. Their mission is to provide quality support functions to the DLA Distribution and its twenty-five depots both Continental United States (CONUS) and Outside Continental United States (OCONUS), which include participation in the bi-annual physical Site Assessment Visits (SAVs) and the DLA/DLA Distribution Logistics/Security/Accountability assessments.

**DLA Goals and Objectives.** Management and distribution of inventories are major logistics functions performed by the DLA. The processes that impact the accountable inventory balance include receiving, warehousing, inventory control, and stock readiness. The DSS integrates all the basic distribution depot operations of receiving, storage, shipping, inventory, and transportation.

**Warehousing Functions.** Warehousing functions include receiving, storage and handling, order selection, packing, issuing, and preparing materiel for shipment. Warehousing/distribution centers act as buffers to minimize the effects of variability in the supply chain. The demands of the supply chain system require that warehousing/distribution centers serve customers in a timely fashion during peaks in demand or to ensure a steady supply of materiel. Warehouse/distribution depot performance must be consistent and dependable. As a part of the total supply chain, warehousing supports the objectives of reducing costs and improving customer service.

**The DLA Distribution Receiving Function is a Key Influence on all DLA Distribution Operational Functions.** If items are not properly processed through the receiving functional area, there will be an adverse effect on other functions within the distribution process and, potentially, an adverse effect on the customer and the customer mission. Failure to pick, pack, and stow items properly also has an adverse effect on other functions within the distribution process and, potentially, an adverse effect on the customer and the customer's mission. It is important to the DLA customers and the war fighter that the materiel receipted, stored, and issued be properly identified and properly accounted for at all times. Proper inventory control helps ensure that there is no delay at time of issue. Materiel received, stored, and issued within DD requires proper care to ensure that the items remain in a ready-for-issue condition. It is important to the customer and the war fighter that the materiel that is received, stored, and issued be properly identified, packaged, and stored. These elements help ensure that at time of issue there is no delay. Accordingly, the customer/war fighter receives the right item at the right time at the right place.

**Rigorous Enforcement of Inventory Accuracy Procedures.** It is an important goal of DLA to ensure rigorous enforcement of inventory accuracy procedures through all phases of DD operations to include receipt, store and issue and ensure that procedures are in place and enforced to prevent misdirected shipments or inaccurate receipt of DoD materiel. The DLA Distribution goal is to have 100% accuracy when handling FMS materiel and classified materiel. This zero error tolerance policy is driven by security concerns and the need to maintain our reputation for accuracy in the international community.

**Safeguarding and Properly Handling Classified Materiel.** Another major goal of DLA is to safeguard and properly handle classified materiel to prevent compromise of information which could put our war fighters at risk and helps to prevent terrorism. In addition to safeguarding classified materiel, it is a main goal of DLA to physically protect DLA personnel, installations, operations, and assets.

**Requirement for a Quality Control Program for Physical Material Warehousing Practices.** According to Chapter 6 of DoD 4000.25-M, The Defense Logistics Management System (DLMS), Volume 2, Supply Standards, the DoD Components shall establish a quality control program at each owner/ Integrated Material Manager (IMM) and storage activity that encompasses the objectives of DoD Directive 5010.38, and the physical inventory objectives contained in DoD 4140.1-R. Portions of the program can be accomplished during ongoing practices within inventory processes. Quality control results will assist management in identifying those human, procedural, or system errors that adversely

affect record accuracy and in achieving better control over physical material warehousing practices. Within the scope of this quality control program, those work processes directly related to the control of physical material shall be monitored for attained quality levels and performance evaluated on improvements, not numerical goals. Accordingly, all quality control programs shall include reviews to assess the accuracy/quality of the following work processes:

- Warehousing practices -- to include checks of storage practices, stock rotation, shelf-life management, identification of material in store, mixed stock, location accuracy and re-warehousing projects
- Receiving practices -- to include checks of documentation, material identity, quantity, and supply condition code; checks for processing timeliness; and verification of daily input data to the location system
- Issuing practices -- to include checks of legibility of issue documents; accuracy of stock selection as to identity, quantity, unit of issue, shelf life, Supply Condition Code (SCC) and type of pack (subsistence only); marking of outgoing shipments; and release to carriers
- Validity of automated data -- to include checks of receipt, issue, and adjustment transaction data entries against input documentation
- Inventory practices -- to include checks of inventory counts, location surveys, location reconciliation corrective actions, causative research, and adjustments at both the owner/Integrated IMM and storage activity
- Catalog practices -- to include checks of catalog change processing, accuracy, and timeliness, using the affected recorded locations as the universe
- Locator file updates -- to include checking the accuracy of changes to the locator file
- Report of discrepancy processing -- to include checks for processing timeliness and checking the accuracy of the SDR initiation, follow up and reply investigation research including identification and correction of supply errors, adjustment of accountable and financial records, and preparation of Financial Liability Investigation of Property Loss report (DD Form 200)
- Logistics reassignment processing -- checks to determine if the logistic reassignment action were completed
- Suspended asset processing -- to include checks of the timeliness in reclassifying suspended (SCCs J, K, L, Q, and R) material

**Prior External Audit Coverage of Processes Impacting the Accountable Balance.** In November 2006, the Department of Defense Office of Inspector General (DoDIG) issued a report entitled “Internal Controls over Inventory Stored at DLA DDs”, Report No. D-2007-009. The report stated DLA had successfully implemented several initiatives to improve controls over inventory stored at its distribution



depots. However, a review of the internal controls identified weaknesses in several inventory-related processes. The Director of DLA Logistics Operations concurred with the finding and recommendations. The Director stated that the DLA Distribution had developed a recurring training program that focuses on the processes that impacted the accountable balance including receiving, warehousing, inventory control, and stock readiness. The Director stated that the DLA Distribution Logistics Division was being reorganized to include a newly established policy division responsible for the oversight of quality checks for distribution performance

## SCOPE, METHODOLOGY AND CRITERIA

### SCOPE AND METHODOLOGY

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This review had the objective of summarizing the results of the 11 assessment team reviews in FY09 to identify appropriate enterprise and local corrective actions. Specifically, the audit was to determine if: (1) assessment teams gathered, analyzed, and retained appropriate documentation, (2) enterprise corrective actions were addressed to the appropriate management level, and (3) enterprise actions were implemented and corrected the problem.

The scope of the review was expanded to include the first seven FY10 DLA/DLA Distribution Compliance Reviews conducted to make the information more relevant as the information became available before the end of the fieldwork. For the eleven reports issued in FY 09 and the first seven reports issued in FY 10, we looked for common threads to see if program managers summarized and communicated information on audit results and recurring findings to management to determine if DLA/DLA Distribution isolated systemic problems and noted key issues/observations that could be shared for sustained process improvements throughout the DLA Distribution enterprise. The basis of determining if the findings fell into the category as recurring was when the checklist item showed up as a “No” three or more times as a “Finding” within the 18 Compliance Reviews. To determine if actions were implemented and corrected the problem, we reviewed the DLA/DLA Distribution Compliance Review Reports and all corrective action plans submitted from respective depots in response to the DLA/DLA Distribution Compliance Reviews. This audit did not either validate the implementation status of the agreed to recommendations or whether the actions actually corrected the problem.

We selected 10 sample items to test if there was an explanation and adequate supporting documentation for the conclusions reached in respective checklists and core discipline summary write-ups. For FY2009, the DLA/DLA Distribution Compliance Review teams conducted eleven Compliance Reviews. The DLA Distribution-Internal Review already reviewed and gave an opinion on DDCN and DDJF documentation in a consulting engagement; and the DA already reviewed and gave an opinion on DDJC and DDSP documentation in an audit. Considering this, this left seven DDs for review in FY 09. The DLA/DLA Distribution Compliance Review teams reviewed six core functional disciplines (Receiving, Transportation, Warehousing, Inventory, Stock Readiness, and Security). Seven sites times the six core disciplines to review equated to a total population of 42 possible items to review. The 42 possible items were arranged in a matrix and given a number. A sampling unit was the back-up documentation for one of the six core functional disciplines of one of the seven DDs. A deviation was any noted lapse in the control of having sufficient documentation such as not having verifiable supporting documentation of observations; instances of no documentation available outside completed checklist; persons interviewed, date, and time not consistently listed on the checklist; and inconsistent indexing of documentation to checklist number. The audit selected ten samples using a random number generator of a population of 42 items, (range of 1 to 42), U.S. Army Audit Agency Statistical Sampling System (Version 5.4).

	DDPW (Puget Sound, WA) (5-7 Jan 09)	DDDC (San Diego, CA) (9-13 Feb 09)	DDSI (Sigonella, IT) (9-13 Mar 09)	DDDE (Germersheim, GE) (16-20 Mar 09)	DDDK (Camp Carroll, Korea) (26-29 May 09)	DDTP (Tobyhanna, PA) (7-21 Aug 09)	DDRV (Richmond, VA) (21-25 Sep 09)
Receiving	1	7	13	19	25	31	37
Transportation	2	8	14	20	26	32	38
Warehousing	3	9	15	21	27	33	39
Inventory	4	10	16	22	28	34	40
Stock Readiness	5	11	17	23	29	35	41
Security	6	12	18	24	30	36	42

The auditor requested and received the checklists and back-up documentation for the following 10 sample items:

- DDPW – Warehousing (Checklist D, E, & F)
- DDDC – Transportation (Checklist B & C), Inventory (Checklist G) and Stock Readiness (Checklist H, I, & J)
- DDSI - Receiving (Checklist A) and Transportation (Checklist B & C)
- DDDE - Stock Readiness (Checklist H, I, & J)
- DDDK – Security (Checklist L)
- DDTP - Inventory (Checklist G)
- DDRV - Warehousing (Checklist D, E, & F)

The completed checklists and the respective documentation were manual and not electronically stored. The auditor scanned and returned over 1,500 pages of documentation back to the Distribution Operations' (DLA Distribution J3-O's) Program Integration Division.

## CRITERIA

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To determine if assessment teams gathered, analyzed, and retained appropriate documentation and whether enterprise corrective actions were addressed to the appropriate management level we reviewed the:

- Compliance Review checklists by functional area used by the Compliance Review teams as an evaluation tool in their reviews, Final reports documenting their findings and recommendations, and CAP located on DLA Distribution (JC-30) SharePoint site, which is a central web based "information exchange" providing a collaboration and document management resource via web sites or shared workspaces allowing users to connect and coordinate with each other from all over the organization.

- DLA/DLA Distribution Compliance Review Manual, which defines the DLA/DLA Distribution Compliance Review process and provides guidance for conducting Compliance Reviews at DLA/DLA Distribution.
- The data and evidence the Compliance Review teams collected, analyzed, and maintained to fully support their judgment of compliance or non-compliance for each assigned core requirement, comprehensive standard, and policy.
- PCIE ECIE Quality Standards for Inspections, which is used to guide the conduct of all inspection work performed by Offices of Inspector General (OIGs).
- FY 09 DLA Distribution Depot Commanders' filled out DD checklists which are used to complete their self assessment process, provide reasonable assurance controls are in place and operating effectively, and used to support the Depot Commander's ASA.
- FY2009 DLA & DLA Distribution annual Statement of Assurance (SOA), which indicates whether or not the management control system meets the program standards, goals, and objectives of sound and effectively implemented management controls.
- GAO Standards for IC in the Federal Government, which defines the minimum level of quality acceptable for internal control in government and provide the basis against which internal control is to be evaluated.
- OMB Circular A-123, "Management's Responsibility for Internal Control", which defines management's responsibility for internal control in Federal agencies to include taking systematic and proactive measures to develop and implement appropriate, cost-effective internal control for results-oriented management.
- DoDI 5010.40 - MIC program procedures, which establishes instructions for implementing and executing the MIC program. The MIC program basically includes developing a plan for monitoring key controls; an assessment of how well the controls are working; documentation of the results, and follow-up to ensure improvements are made. Evaluation of these assessments is the primary basis for the SOA, which DoD components must submit annually to the Secretary of Defense. This is a standing requirement of OMB Circular A-123, "Management's Responsibility for Controls," which complies with the Federal Managers Financial Integrity Act of 1982 (FMFIA).
- The DoD Continuous Process Improvement (CPI) transformation guidebook, which is resource to be used throughout the DOD for designing and managing CPI efforts.
- Information on corrective and preventive actions from the International Standards for Quality Management and Quality Assurance. International Organization for Standardization (ISO) 9000 Standards were created by the International Organization for Standardization and considered a consensus on "good management practices with the aim of ensuring that the organization can time again deliver the product or services that meet the client's quality requirements.

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- The best practices, lessons learned, and innovative approaches to distribution operations throughout the DLA/DLA Distribution network instituted as a result of the Compliance Reviews.

**APPENDIX C**  
**SUMMARY OF RECOMMENDATIONS AND MANAGEMENT RESPONSES**  
**WITHIN DEC 24, 2008 VULNERABILITY ASSESSMENT**

<b>Number</b>	<b>Recommendation</b>	<b>Office of Primary Responsibility</b>	<b>Management Response</b>
1	Establish a detailed transfer process to ensure that all NWRM items transferred to the US Air Force are bare item inspected, serial number recorded and signed for during movement.	J-3/DLA Distribution	Concur. DLA Distribution, in conjunction w2ith DLA and the USAF, are developing a Memorandum of Agreement (MOA) that outlines all actins to be taken during the NWRM materiel transfer. The MOA identifies bare item inspections, serial number recording and a requirement for personnel (AF and DLA) to sign off when materiel is inspected and transferred. ECD: mid November 2008.
2	Establish a quality review team to oversee the transfer process and to ensure the procedures developed meet the requirements.	J-3/DLA Distribution	Non-concur. The MOA being developed to document all actions to be taken will include quality checks as part of the process. DLA Distribution does not believe an additional quality review team will be necessary.
3	Develop training and detailed guidance for employees to identify NWRM and to notify their supervisor immediately 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.	J-3/DLA Distribution	Concur. OSD Policy Memo dated 16 Oct 08 requires all personnel handling NWRM to be provided awareness training on the proper handling of NWRM to include military marking for shipment and storage and MIL-STD 2073-1E DOD Standard Practice for Military Packaging. DLA Distribution will gear the awareness training towards the proper identification and handling of any NWRM materiel inadvertently shipped to a distribution depot. In order to identify NWRM materiel that may be inadvertently shipped to a DLA Distribution location, once identified by the AF, the National Stock Numbers (NSNs) will be loaded to the DSS Receipt alert screen and supervisor approval will be required to continue processing. ECD: 31 Dec 08 (or upon completion of NWRM population).
4	Ensure all depots have designated secure areas to place "frustrated" items. In addition, DLA Distribution 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	DLA Distribution	Concur. DLA Distribution will issue direction to all depots to designate secure areas for "frustrated" items. Full implementation of procedures will be accomplished by 14 Nov 08. Continued monitoring of this requirement will be accomplished through DLA/DLA Distribution Compliance Reviews.

5	Ensure that depots have procedures for monitoring items awaiting disposal to ensure that they are properly safeguarded. DLA Distribution and the depots should also coordinate closely with Defense Reutilization and Marketing Service (DRMS) to ensure that items are picked up in a timely manner.	DLA Distribution	Concur. DLA Distribution will ensure that current procedures for monitoring items awaiting disposal are adhered in and that property is safeguarded until it is disposed. DLA Distribution will continue to notify DRMS for pick-up of disposal materiel. ECD: 5 Dec 08. Continued monitoring of this requirement will be accomplished through DLA/DLA Distribution Compliance Reviews.
6	Establish a standardized training program plan for all depot employees and centrally monitor completion of the required training. The training program should ensure continued training for new hires and those reassigned and refresher training. Necessary changes to contracts should be made to ensure that contractor employees also receive the required training.	DLA Distribution	Concur. DLA Distribution is establishing an overarching training plan for all depot employees. SWARM training will be mandatory and scheduled for every employee. Technical reviews are conducted annually and all updates are provided to every distribution depot via the DLA Distribution Intranet; multiple Interactive Video Tele Training (IVT) training sessions are available several times a year. Each employee will be required to attend refresher training at least once every two years. DLA Distribution will maintain a database of distribution depot employees to monitor completion of training requirements. Following specific steps are underway: 1) Assign each SWARM Module a course number in the DLA Learning Management System (LMS); 2) Include SWARM training in Individual Development Plans (IDPs); 3) Identify training requirements by job series and coordinate the curriculum with distribution depot supervisors and leads. This training program will be required for government and contractor employees. ECD: 31 Jan 09
7	Establish and implement procedures to periodically review user profiles to ensure user accounts are limited to those roles necessary and that usage is adequately controlled. Develop a segregation of duties matrix defining incompatible roles for users of DSS.	J-6/DLA Distribution	It has been DLA Distribution's policy to limit employees' accounts to one user profile, because of the implementation of A-76 (contracting out of warehouses) which has made it a necessity in some cases for one user to work in two or more functional areas (i.e. receiving, Warehousing). Vulnerabilities will be controlled/minimized by management reviews on a quarterly or semiannual basis. There is a One Book procedure which mandates annual review of the user accounts. J6N and DLA Distribution are in the process of publishing a revised user access policy by November 28, 2008. The following areas have been added: CAC usage mandate and annual supervisory review of access levels and requirements; Updates to preexisting policy and procedures related to logon authentication and access validation. ECD: 28 Nov 2008
8	Establish and implement procedures to periodically review DSS user access to ensure that proper authorizations are maintained for all users and that DSS access is still needed.	J-6/DLA Distribution	See number 7.

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9	Work with and provide oversight to all depot Terminal Area Security Officer (TASOs) to ensure that a formal procedure is followed when initiating a system access request. Review current access lists and ensure that DD Form 2875 are generated for employees that currently have system access.	J-6/DLA Distribution	The user Access policy will address this recommendation. Resource Access Control Facility (RACF) software will be used at both DISA processing centers for DSS to ensure access lists are up to date. TASOs will follow DLA One Book Procedure to ensure all users have submitted DD Form 2875. ECD: 28 November 2008.
10	Develop policies and procedures which would require information assurance personnel to perform periodic reviews of user accounts for inactivity. In conjunction with Defense Information Systems Agency (DISA)-Ogden review the system configuration to determine if system is properly configured to automatically delete user accounts after the defined period of inactivity.	J-6	DISA will use RACF to meet the recommendation to monitor for inactive accounts. RACF has more capabilities than Top Secret to perform the security functions. Top Secret is currently the solution at the DISA Ogden. A timeframe for RACF use at DISA Ogden has not been identified, but we expect it completed on or before 30 September 2009. In the future, RACF will be implemented at DISA Ogden, based on DISA's implementation schedule. ECD: 30 Sep 2009
11	Update the DLA Distribution system access policy and procedure to include a process to disable and delete accounts at the time of departure. Periodically review user accounts to ensure separated employees have been removed from the system.	J-6/DLA Distribution	See numbers 7-10. ECD 28 Nov 2008.
12	Work with the Armed Services to fully use DSS or to create an automated feed between the customer's systems and DSS.	J-6/DLA Distribution	Working with Draft VA author (Auditor) to provide additional information on when error occurred. We concur with intent. Specific actions are currently driven by customer requirements and capabilities of Service systems, and will be documented in MOAs and other agreements as required. For example, currently DSS has an interface that could be used for the Air Force's Combat Ammunition System (CAS) and Standard Base Supply System (SBSS) systems to receive their Transshipment data which is used to populate the DSS Transship screens when the materiel/documentation arrives.
13	Evaluate why DSS is creating an incorrect Julian date on the RCN. In addition, receiving operators should monitor the RCN labels to ensure they contain the correct information.	J-6/DLA Distribution	Working with Draft VA author to provide additional information on when error occurred. The example cited in the VA Report was provided by Auditor. Condition occurred at DDOO; it appears to be an off-line manually generated RCN label rather than a label generated systemically by DSS. Occurrence is not frequent. Improvements will be documented & complied with; coordinating with DLA Distribution on operational procedures. ECD 30 Dec 08.



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14	Supplement existing guidance to include a requirement to perform trend analysis of SDR data that include, at a minimum, location, by discrepancy type, and Controlled Inventory Item Code. Additionally, improve SDR submission and processing training as well as update/create standard operating procedure for submitting and processing SDRs, checklists, and online help/job aids.	J-3	See number 15.
15	Begin performing trend analysis on SDR data with the goal of focusing attention on trends to identify site-specific issues, or whether errors are occurring in a specific part of the process. The results should be reviewed at least monthly to determine what corrective actions or changes in processes or training are necessary.	DLA Distribution	Concur. DLA Distribution concurs with the intent of #14 and 15. We will conduct trend analysis on SDR data and have currently categorized them in two buckets; Informational and Actionable. Informational SDRs will cease. DLA Distribution will further analyze trends on actionable SDRs to determine appropriate corrective actions and streamline processes. ECD: on-going
16	Establish a comprehensive review process of incoming and outgoing SDR procedures, focusing on internal controls and subsequent data analysis to determine how to streamline the SDR process.	J-3	See number 15.
17	Establish specific guidance about when SDRs should be prepared. Ensure implementation of the guidance at all distribution centers.	J-3/DLA Distribution	Concur. DLA Distribution participates in the J3/4 LSS working group whose charter is to establish specific guidance for submission of SDRs. Once J3/4 issues the policy, DLA Distribution will ensure implementation at all distribution centers. ECD: 30 days after policy issuance.
18	Ensure all personnel performing stock readiness/COSIS functions have received hands-on training and stock readiness SWARM training. In addition, all employees should receive sufficient training to understand the importance of stock readiness/COSIS to ensure they know when to contact a Stock Readiness Specialist.	DLA Distribution	see number 6
19	Monitor the monthly COSIS workload to ensure that distribution centers perform the required inspections.	DLA Distribution	Concur. DLA Distribution establishing dedicated Stock Readiness Program Managers at each distribution depot as well as a QAE to monitor the Stock Readiness Program. Two DSS System Change Requests (SCR) have been submitted to build and monitor COSIS metrics and are scheduled for DSS release 9.1 in Aug 09. Continued monitoring if this requirement will be accomplished through the DLA Distribution Stock Readiness Coordinator and through DLA/DLA Distribution Compliance Reviews.

20	Consider replacing MEI vehicles in the monthly COSIS workload with stock requiring COSIS.	DLA Distribution	Non-concur. DLAI 4145.4 does not allow for an exception to conducting COSIS o MEI vehicles. Routine COSIS workload is identified by DSS logic based on type storage code; location activity code and date of last inspection. Only materiel with less than 500 requisitions per year are scheduled for COSIS inspection.
21	Provide hands-on training in conjunction with SWARM training. Shelf-life training is required to complete cyclic (shelf-life) inspections in accordance with DoD 4140.27-M. Packaging training is required to properly interpret packaging requirement codes when repackaging is needed.	DLA Distribution	Concur. DLA Distribution Trainers are scheduling Shelf Life Training; present schedule allows for six training sessions per year. Reviewing the schedule to consolidate sessions by geographical area to ensure more sites are trained as soon as possible. ECD: TBD. Packaging (PPP&M) training is currently under development and is expected to be finalized by early CY09; training will commence in CY09.
22	Ensure transportation personnel update the Transportation Facility Guide (TFG) as required by the DTR 4500.9-R-Part II.	DLA Distribution	Concur. All Transportation Officers were directed to follow the requirement to update the TFG as required; a DLA Distribution review of TFG records indicate this action has been accomplished through quarterly reviews of TFG entries, contract surveillance and DLA/DLA Distribution Compliance Reviews. ECD: action complete.
23	Develop standard procedures for actions to be taken when items are misdirected. The policy should require cause and trend analysis to help reduce the number of misdirected shipments received.	DLA Distribution	Concur. DLA Distribution centers submit actionable SDRs when incoming materiel is shipped to the incorrect DoDAAC. Additionally, they are monitored and direct contact is made with repeat offenders. ECD: action complete.
24	Ensure un-cleared personnel who are likely to open GSA Domestic Express Small Package Delivery Service packages should be briefed that, if a package is opened and the inner envelope is marked SECRET or CONFIDENTIAL, the inner envelope should be immediately delivered UNOPENED to an authorized, cleared employee for receipt and distribution.	DLA Distribution	Concur. All DLA Distribution centers will be made aware of the potential for small parcel carriers to deliver secret or confidential materiel. If such packages are received and the operator does not have the proper security clearance process, they are to notify their supervisor who will properly secure the materiel and have processed by an authorized person. ECD: 14 Nov 08.
25	Ensure Depot personnel maintain a logbook of all hand receipts transferring Classified Materiel from Central Receiving to Classified Storage Warehouse in order to maintain an adequate audit trail.	DLA Distribution	Concur. DLA Distribution will reissue the requirement to maintain a logbook of materiel transferred from Central Receiving to the Classified Storage warehouses). We will further monitor the use of logbooks through DLA/DLA Distribution Compliance Reviews and contractor surveillance. ECD: 14 Nov 08.
26	Establish a truck control policy to schedule incoming deliveries for all locations.	DLA Distribution	This recommendation should not be assigned to J-3. DLA Distribution will develop guidance related to scheduling truck control procedures for incoming deliveries. EDC: 27 Feb 09.

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27	Monitor incoming shipments to ensure controlled materiel is received as expected based on REPSHIP. Notify the shipper of non-receipt to initiate an investigation if the controlled materiel is not received within one day past the estimated time of arrival. Notify Shippers who do not provide either a Classified Materiel Receipt Document or a REPSHIP for classified materiel sent to DLA.	DLA Distribution	Concur. DLA Distribution will issue specific guidance to its distribution centers to ensure that REPSHIPS are followed up on if materiel is not received as expected to include notifying shippers so an investigation can be initiated. Continued monitoring of this requirement will be accomplished through DLA/DLA Distribution Compliance Reviews. ECD: 14 Nov 08.
28	Review the DLA One Book and the DTR to ensure that REPSHIP requirements are consistent.	J-3/DLA Distribution	Concur. DLA Distribution is participating with J3/4 in efforts to clear up inconsistencies between the DLA One Book and the DTR. Next scheduled meeting is 6 Nov 08 where DTR Chapter 205 will be discussed. ECD: 30 Dec 08.
29	Review the requirements for using the DLA Form 27 and determine whether requirements for following up with customers should be strengthened to ensure classified materiel is properly safeguarded.	J-3/DLA Distribution	Concur. The DLA Installation Support Distribution Security Office has reviewed the DLA Form 27 requirements and added additional controls. If the Form 27 is not signed/returned in a timely manner, delivery confirmation is to be obtained via carrier website using the Transportation Control Number (TCN) or Small Parcel tracking number, attached to the DLA Form 27 and maintained on file for the recommended retention period. Continued monitoring of this requirement will be accomplished through DLA/DLA Distribution Compliance Reviews.
30	Develop procedures to ensure an RCN is consistently placed on items as they are offloaded from the trucks.	DLA Distribution	Concur. The DLA Distribution procedure is to establish a unique DSS RCN for each conveyance. Each piece on the conveyance (pallet, skid, box, etc) requires a RCN label to be affixed. These procedures are enforced and included in SWARM training. DLA Distribution will monitor RCN application through contract surveillance and DLA/DLA Distribution Compliance Reviews.
31	Review the controls in place within DSS to determine what controls are needed to ensure data manually entered into DSS is accurate.	DLA Distribution	Concur. This recommendation was accomplished through the joint DLA Distribution/J6 tooth to tail review of DSS screens Jul/Aug 08 and the development of 29 DSS system change requests to address vulnerabilities. All system change requests are currently scheduled for DSS release 9.1 in Aug 09.
32	Provide additional guidance about the certification label including a standard label across the depots.	DLA Distribution	Concur. Directed all Distribution Centers to use a standard DSS produced certification label. Instructions were provided on how to produce the label from DSS. Continued monitoring of this requirement will be accomplished through DLA/DLA Distribution Compliance Reviews.

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33	Ensure that all personnel are fully trained on the FRAGO requirements and how to be very timely monitoring implementation of the FRAGO procedures and in providing clarifying guidance whenever needed	DLA Distribution	Concur. DLA Distribution drafted revised FRAGO to provide guidance and to de-conflict language. Continued monitoring of this requirement will be accomplished through DLA/DLA Distribution Compliance Reviews. ECD: 14 Nov 08.
34	DLA Distribution ensure all personnel, including contractors do not leave their CACs unattended or share CAC card and implement consequences for those that leave their CACs unattended or share them.	DLA Distribution	Concur. Procedures already exist and are in place.
35	To ensure active oversight of physical security and conformance with applicable laws and regulations, we recommend DLA Installation support begin performing cyclical physical security inspections of all depots to include verification of security clearance for all personnel handling classified materiel	DLA Installation Support	Concur. DLA Installation Support is required by DLAI 5710.1 to perform periodic physical security inspections of all DLA Distribution centers. The DLA Installation Support procedure is to conduct the inspections at least once every three years. The physical security inspection includes verification of security clearance for all personnel handling classified materiel. ECD: recommendation already in place.
36	During Fiscal Year 2009, additional DLA Distribution Contractor-Operated Distribution Depots should be assessed to ensure DLA Distribution and the Continuing Government Activity (CGA) are performing adequate contractor surveillance. These additional assessments will provide valuable information that will benefit DLA Management on the current oversight conditions of the contractor-operated depots. Not performing further assessments of the oversight on the contracted operated depots increases the likelihood of payments to contractors who are not performing to the standards in the contract.	DLA Distribution J7	Concur additional assessment of contract operated depots be conducted. However, we nonconcur with the statement that "if not, it increases the likelihood of improper payments". Improper payments cannot be linked to the absence of performing further assessments. Payment of invoices is made either by "count" completed, of by level of effort/allocable and allowable cost incurred. If Acceptable Performance Levels (APLs) or other terms and conditions of the contract are not met, the Contracting Officer (KO) had the authority to seek monetary or non-monetary consideration as deemed appropriate; This sentence should be deleted from the recommendation and the draft report on page 17.

## APPENDIX D

### Receiving Summaries

The common Findings in the First 18 DLA/DLA Distribution Compliance Reviews in the Core Discipline of Receiving were

1. Inadequate ESD Workstations
2. Not Using EDA or WAWF to Verify Information
3. Not Researching Packaging Requirements
4. Not Completing Visual KCC on One Bare Item
5. Not Applying RCN
6. Lack of familiarity with SDR process
7. Needed Training
8. Not Designating Frustrated Freight Area
9. No Log Books for the Transfer of Classified Materiel from Receiving

The chart below summarizes what Depots incurred those findings.

Receiving Findings	DDCN	DDJF	DDPW	DDJC	DDDC	DDSI	DDDE	DDSP	DDDK	DDTP	DDRV	DDNV	DDAG	DDPH	DDGM	DDAA	DDWG	DDCT
Inadequate Electrostatic Discharge (ESD) Workstations	x				x	x	x	x					x	x	x			x
Not Using EDA or WAWF to Verify Information	x	x		x		x		x		x		x	x	x		x	x	x
Not Researching Packaging Requirements				x	x	x	x	x				x				x	x	
Not Completing Visual Kind Count Condition (KCC) on One Bare Item						x				x			x	x		x	x	
Not Applying Receipt Control Number (RCN)				x					x				x	x			x	
Lack of familiarity with Supply Discrepancy Report (SDR) process				x	x	x	x											
Needed Training				x		x	x	x		x			x		x			
Not Designating Frustrated Freight Area								x								x	x	
No Log Books for the Transfer of Classified Materiel from Receiving												x				x		

#### Inadequate ESD Workstations

1. DDCN - Inadequate equipment at ESD workstation.
2. DDDC - The workers in the small parcel central receiving area have limited access to a proper ESD station to perform the required bare item marking identification at time of receipt for ESD materiel.
3. DDSI - No compliant ESD station.
4. DDDE - Not packaging ESD items properly.
5. DDSP - ESD inspection stations not installed.
6. DDAG - No ESD station in receiving.
7. DDPH - ESD station needing to be installed both at receiving and classified areas.
8. DDDE - ESD station not equipped with all the material required to perform inspection.
9. DDCT - ESD station not equipped with all the material required to perform inspection.

#### **Not Using EDA or WAWF to Verify Information**

1. DDCN - Employees did not have access to EDA.
2. DDJF - DDJF employees were not verifying signature for source inspected materiel. Employees did not have access to EDA for employees to properly verify the Procurement Item Identification Number (PIIN), Order Number (referred to as Call Number in DSS), Contract Line Item Number (CLIN), and shipment number for new procurement materiel.
3. DDJC - Employees nor verifying DD Form 250 or WAWF for Quality Assurance Representative (QAR) signature before processing materiel.
4. DDSI - Not verifying QAR signature of source inspected new procurement.
5. DDSP - WAWF not utilized in classified materiel area to verify electronic signatures. EDA not utilized in classified materiel area to verify contract data.
6. DDTP - EDA and WAWF no utilized to validate information on contract receipts.
7. DDNV - Allowing employee access to WAWF will benefit DDNV in two ways: First, receiving personnel would have access through WAWF to EDA to obtain contractual packaging requirements. Second, they would be able to check for required electronic signatures on receipts when they were not available on or in the absence of the receiving report.
8. DDAG - Not verifying QA representative's signature on DD 250 or WAWF receiving report.
9. DDPH - Not verifying QA representative's signature on DD 250 or WAWF receiving report.
10. DDAA - WAWF not utilized to check signatures.
11. DDWG - Not verifying electronic signature in WAWF.
12. DDCT - No access to WAWF.

#### **Not Researching Packaging Requirements**

1. DDJC - Not researching packaging requirements in DSS.
2. DDDC - Packaging requirements not verified in DSS.
3. DDSI - Not researching packaging requirements in DSS.
4. DDDE - The employees were not researching the packaging data in DSS and submitting estimated packaging costs in the SDR.
5. DDSP - Not researching packaging requirements.
6. DDNV - Most significant finding was that of employees not researching the packaging requirements of received materiel. Neither the Standard Practice for Military Packaging nor the DSS were being used when verifying New Procurement materiel. The importance of verifying packaging requirements In Accordance With (IAW) MIL-STD 2073-1 provided/defined in DSS and P-700 needed to be reinforced in order to ensure the materiel was packaged and preserved properly at time of receipt.
7. DDAA - Not verifying packaging data.
8. DDWG - Not verifying packaging data.

#### **Not Completing Visual KCC on One Bare Item**

1. DDSI - Bare item verification was not being performed to substantiate the part number in Federal Logistics Information System (FLIS). Not verifying P/N to NSN down to bare item.

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2. DDTP - Failure to conduct 100 percent bare item inspections for all customer returns and Military Service maintenance returns in the secure warehouse.
3. DDAG - Receiving personnel were not opening to verify items inside cartons for new procurement or performing bare item inspection to cross-reference the part number to ensure the correct item was received. It was recommended all the receiving employees gain access to the "Restricted Access" Federal Logistics Information System Public Web Inquiry (WebFLIS) site by completing the SAR form (DLA-2875).
4. DDPH - Bare item inspection not being performed on stock order transfers.
5. DDAA - No bare item inspection.
6. DDWG - Not performing bare item inspection on customer return material.

**Not Applying RCN**

1. DDJC - RCN not placed on material.
2. DDDK - RCN was not being properly created at time of offloading.
3. DDAG - Not placing a separate RCN label on each carton at time of receipt.
4. DDPH - Not placing a separate RCN label on each carton. DDPH prints only one (1) RCN document for all materiel offloaded and placed on multi-pallets. This caused the employee to use an 'RCN of the day' when materiel is separated. Doing so generated erroneous information that was subsequently used to measure DDPH's performance versus its receipt processing metrics.
5. DDWG - Not applying RCN at time of offloading.

**Lack of familiarity with SDR process**

1. DDJC - Cost estimates for repackaging materiel need to be included in the SDR.
2. DDDC - Not placing material in condition code "K" and submitting a SDR when items cannot be identified.
3. DDSI - Not placing material in condition code "K" and submitting a SDR when items cannot be identified.
4. DDDE - Employees were not submitting estimated packaging costs in the SDR.

**Needed Training**

1. DDJC - Recommend employees have packaging training to ensure materiel was packaged properly before being placed in storage to avoid degradation during storage.
2. DDSI - Lack of specialized training in the receiving and packaging areas has been noted and the DLA Distribution was currently working to schedule training for the employees.
3. DDDE - On-site training was recommended due primarily to the language barrier and the technological connectivity difficulties.
4. DDSP - There were still a number of employees awaiting SWARM receiving training.
5. DDTP - Training opportunities were minimal per conversations with the employees. A high number of employees required training in certain areas to perform up to standard.
6. DDAG - It was recommended the classified custodian attend SWARM receiving training to be able to induct classified receipts in the secured area.

7. DDGM - The Compliance Review team heartily recommended training on handling and packaging Electrostatic Discharge Sensitive (ESDS) materiel training to help ensure the SP employees' properly re-packaged materiel to prevent any degradation of materiel after the bare item inspection was performed.

**Not Designating Frustrated Freight Area**

1. DDSP - No designated frustrated freight area.
2. DDAA - Not designating area for frustrated freight.
3. DDWG - Not designating area for frustrated freight.

**No Log Books for the Transfer of Classified Materiel from Receiving**

1. DDNV - No log books for the transfer of classified materiel from receiving to designated storage area.
2. DDAA - no log books for the transfer of classified materiel from receiving to designated storage area.



## APPENDIX E

### Transportation Summaries

The common findings in the first 18 DLA/DLA Distribution Compliance Reviews in the core discipline of transportation were:

1. Non-use of GFMS
2. Inconsistent use of DD Form 626 (Motor Vehicle Inspection)
3. REPSHIP not sent within 2 days
4. Non-participation in GOCARE program
5. HAZMAT
6. Late Lines
7. Access to FACTS
8. FMS shipments and documents
9. Outdated transportation facility guide

The chart below summarizes what depots incurred those findings.

Transportation Findings	DDCN	DDJF	DDPW	DDJC	DDDC	DDSI	DDDE	DDSP	DDDK	DDTP	DDRV	DDNV	DDAG	DDPH	DDGM	DDAA	DDWG	DDCT
Non-use of Global Freight Management System (GFMS)	x		x		x					x								
Inconsistent use of DD Form 626 (Motor Vehicle Inspection)		x		x				x		x						x	x	
Report of Shipment (REPSHIP) not sent within 2 days		x	x															
Non-participation in Government Cargo Recovery Effort (GOCARE) Program			x	x		x				x								
HAZMAT	x							x		x	x		x		x	x	x	x
Late Lines				x												x		x
Access to Financial and Air Clearance Transportation System (FACTS)		x						x						x	x			
Foreign Military Sales (FMS) Shipments and Documents										x	x					x		
Outdated Transportation Facility Guide			x						x									

#### Non-use of GFMS

1. DDCN - DDCN employees did not use the GFMS for scheduling pick-ups (order of precedence) and the spot bid process when necessary.
2. DDPW - DDPW did not use GFMS. DDPW did not document refusals by the carriers in GFMS.
3. DDDC - DDDC did not utilize the GFMS to obtain transportation services when no government transportation contract existed.
4. DDTP - DDTP was not using the GFMS for unclassified materiel and DDTP was obtaining service by contacting carriers directly instead of using tenders approved by the SDDC.

#### Inconsistent use of DD Form 626 (Motor Vehicle Inspection).

1. DDJF - DDJF employee did not complete DD Form 626 for inspection of truck for AA&E shipment.

2. DDJC - DDJC was not completing the DD Form 626 for the movement of AA&E and placarded quantities of hazardous shipments. DDJC was not completing the DD Form 626 for the movement of AA&E and placarded quantities of hazardous shipments. DDJC did not use the DD Form 626 prior to the movement of placarded quantities of hazardous materials.
3. DDSP - DDSP was not using DD Form 626 to complete the inspection of the trailer hauling AA&E materiel and to annotate the employee's observation of the carrier's working Defense Transportation Tracking System (DTTS).
4. DDTP - Tobyhanna Army Depot (TYAD) did not complete the DD Form 62 for non-placarded AA&E shipments.
5. DDAA - Inspections of carrier vehicles and trailers utilizing DD Form 626 for all AA&E shipments requiring Transportation Protective Services (TPS)/Satellite Monitoring Service (SNS) was not done.
6. DDWG - Inspections of carrier vehicles and trailers utilizing DD Form 626 for all AA&E shipments requiring TPS/SNS was not done.

**REPSHIP not sent within 2 days.**

1. DDJF - A DDJF employee did not send a REPSHIP within two hours of shipment to customer.
2. DDPW - DDPW did not update transportation facilities guide with accurate billing and shipping destination information and DDPW did not provide REPSHIP information mentioned in the TFG.

**Non-participation in GOCARE Program**

1. DDPW - DDPW did not assist other government activities in resolving astray freight located within the depot's assigned district area as it related to the GOCARE and DDPW did not prepare and submit a quarterly report to the DCC for the GOCARE program.
2. DDJC - DDJC did not assist other government activities in resolving astray freight located within the Center's assigned district area as it related to GOCARE.
3. DDSI - DDSI did not participate in the GOCARE program because they were in a foreign country and foreign commercial carrier terminals had not been contracted to provide entry in their terminals.
4. DDTP - DDTP did not participate in the GOCARE program in contacting and visiting carriers to determine if any non-deliveries were government-owned freight and DDTP was not preparing and submitting quarterly GOCARE reports to DLA Distribution/DLA.

**HAZMAT**

1. DDCN - DDCN's only drawback in the hazardous area was the lack of trained personnel. Currently they have one employee that handled the receipt, storage, packing and shipping of all hazardous materiel. No documentation of Transportation Agent (TA) designated to sign HAZMAT documents.
2. DDSP - DDSP TAs was not verifying FACTS to validate shipment status of hazardous materiel prior to release for movement. TAs, who prepared and verified shipping papers and GBLs for

HAZMAT shipments were not trained for Curriculum E12 in the HAZMAT/Hazard Waste Training Plan.

3. DDTP - The overall assessment of the HAZMAT-Environmental Training was unsatisfactory and required immediate attention. Most DDTP personnel received Hazard Communication (HAZCOM) training in 2009 and First Responder Training in 2008, however, additional training was required to meet DLA One Book chapter titled Environmental Training, 29 CFR 1910.12 and 49 CFR Part 172 requirements. In accordance with the One Book Chapter, Commanders were responsible for ensuring all personnel receive the appropriate training and records are maintained in a standardized format. A TA not HAZMAT certified signed a HAZMAT Bill of Lading (BOL). DDTP personnel were not trained in accordance with the Environmental and Hazardous Material/Hazardous Waste Training Plan and 29 CFR 1910.1200(h)."
4. DDRV - DDRV does not have a transportation assistant certified to handle and process HAZMAT IAW DoD 4500.9-R, DTR. The DDRV Transportation Office had transportation assistants without a HAZMAT certification initialing transportation documents.
5. DDAG - Within the hazardous transportation function, DDAG personnel do require specific training in accordance with DLAD 5025.30, One Book Chapter, Environmental and Hazardous Material/Hazardous Waste Training Plan and 29 CFR 1910.1200 and they must be brought into compliance as soon as possible. Though personnel signing the declaration for dangerous goods were certified, supervisors were also required to be certified. DDAG personnel were not trained to meet the Hazardous Communications or First Responder awareness level and DDAG supervisors responsible for certifying hazardous material shipments were not certified in accordance with DLA policy.
6. DDGM - DDGM personnel required specific training in accordance with DLAD 5025.30, One Book Chapter, Environmental and Hazardous Material/Hazardous Waste Training Plan and 29 CFR 1910.1200 and must be brought into compliance as soon as possible. First Responder Awareness training was required annually. All personnel signing the declaration for dangerous goods were certified as required. DDGM personnel were not trained to meet the mandatory First Responder Awareness Level training requirement.
7. DDAA - DDAA personnel were not being trained to meet the First Responder awareness level. Hazmat certifier appointment letter that had been issued did not state an expiration date.
8. DDWG - Not all DDWG personnel have taken Environmental and Hazardous Material/Hazardous Waste Training Plan (Curriculum E07). Not all DDWG personnel had taken First Responder Awareness Level training. The DDWG TAs responsible for ensuring documentation of hazardous material shipments were not certified to do so.
9. DDCT - DDCT TAs responsible for ensuring documentation of hazardous materiel shipments were not certified in accordance with regulations and DLA policy.

#### **Late Lines**

1. DDJC - A DDJC employee did not research all late lines before "force closing".

2. DDAA - Monthly late line closure report was not being accomplished.
3. DDCT - DDCT was not fully compliant with the DLA Distribution Late Line Policy memorandum dated August 27, 2009.

**Access to FACTS - Accountability, Traceability, and Oversight of DLA shipments.**

1. DDJF - DDJF had no employees with access to FACTS.
2. DDSP - DDSP Transportation Assistants was not verifying FACTS to validate shipment status of hazardous materiel prior to release for movement.
3. DDPH - DDPH did not have access to FACTS to ensure accountability, traceability, and oversight of all DLA shipments.
4. DDGM - DDGM personnel were not monitoring the shipments in the FACTS to ensure the Air Clearance Authority was aware of the shipment.

**FMS Shipments and Documents**

1. DDTP - DDTP employee was unfamiliar with FMS procedures and process for resolving conflicts or problems when encountered. The review team was unable to locate all FMS archive documents or record of shipments to a storage facility
2. DDRV - The FMS shipments were backlogged.
3. DDAA - FMS shipping documentation required to be retained 30 years could only be accounted for from 1992 to date.

**Outdated Transportation Facility Guide**

1. DDPW - DDPW did not update transportation facilities guide with accurate billing and shipping destination information and DDPW did not provide REPSHIP information mentioned in the TFG.
2. DDDK - TFG was not updated for DDDK.

## APPENDIX F

### Warehousing Summaries

The common findings in the first 18 DLA/DLA Distribution Compliance Reviews in the core discipline of Warehousing were:

1. DSS Location Placards and Barcode Labels
2. FMS Materiel
3. Not Following the FIFO Principle
4. Employee Housecleaning and Safety
5. Improper Storage Practices
6. Use of LAC

The chart below summarizes what Depots incurred those findings.

Warehousing Findings	DDCN	DDJF	DDPW	DDJC	DDDC	DDSI	DDDE	DDSP	DDDK	DDTP	DDRV	DDNV	DDAG	DDPH	DDGM	DDAA	DDWG	DDCT
DSS Location Placards and Barcode Labels				x					x	x			x	x	x	x	x	x
Foreign Military Sale (FMS) Materiel		x	x		x			x		x	x					x	x	x
Not Following the First In/First Out (FIFO) Principle	x			x			x				x			x		x		
Employee Housecleaning and Safety	x									x	x			x		x	x	
Improper Storage Practices	x	x			x						x		x			x		x
Use of Locator Activity Code (LAC)		x												x				

#### DSS Location Placards and Barcode Labels

1. DDJC - Location placards were not being used in outside storage area C and the markings for the locations on the ground were barely visible or non-existent.
2. DDDK - Location placards in shed areas were not in protective covers to preserve and extend the life of the placard with some of placards applied directly to the materiel.
3. DDTP - Location placards were only in place at approximately 50 percent of the locations.
4. DDAG - No scanable location markings were found on racks nor were any location placards found on materiel in Warehouse 1221, bay G11, rows 37, 38, and 39.
5. DDPH - The Compliance Review team found numerous areas with neither location markings on racks nor any location placards on the materiel.
6. DDGM - The bulk section of Warehouse 2 was the one area noted as missing location placards which fostered the wrong stock being issued or made conducting inventories difficult. Areas in Bldg. 2 had no location placards on the materiel.
7. DDAA - Materiel found in outside storage locations were found without location placards.
8. DDWG - Multiple locations were found in Warehouses 380 and 333 at which DSS location placard labels were not used to mark the locations. In addition, barcode labels in multiple locations were damaged or unreadable in Warehouses 385, 380 and 641.
9. DDCT - Bulk, non-planograph location placards were not used on locations in Bldg. 111, thereby making materiel difficult to identify.

### **FMS Materiel**

1. DDJF - FMS perimeter was not clearly identified. DDJF employees were confused and there was conflicting opinion of the FMS requirements for bare item verification regarding vacuum-sealed engine/transmission containers and similar materiel.
2. DDPW - DDPW personnel were not performing bare-item verification on all FMS shipments IAW the DLA Distribution FMS SOP. When this could not physically be performed for any reason the Commander/Director, Deputy Director, or designee by written authority, was to provide a non-bare item certification. DDPW employees were confused about disturbing packaging to perform bare item inspection. DDPW was not performing workload planning in accordance with FMS manual.
3. DDDC - The FMS pack area was not clearly defined and not marked with a sign, tape, or paint as the designated FMS pack area. Observed employee conducting FMS picks on the Radio Frequency (RF) screen at the DSS 3270 Fixed Terminal vice bin face without visually observing the location, materiel, or quantity on-hand. Dedicated printers were not being used for FMS cycle drops to produce Issue Release Receipt Document (IRRD).
4. DDSP - Hazardous Materiel Bldg. 87 did not conduct dual verifications of FMS hazardous materiel. The packer conducted KCC verification, but an independent verification was not performed or annotated on the DD Form 1348 or the Materiel Certification Label (MCL). Per DLA Distribution SOP and training, a dual verification was required at pack for FMS.
5. DDTP - DDTP was attempting to adhere to the current FMS policy and procedures, but had minor issues in the FMS area.
6. DDRV - "Non-Bare Item Certification" labels were not being used for FMS being selected for issue.
7. DDAA - Recommendations have been made in the FMS pack area of Bldg. 362 to include a designated workstation and a designated staging area for all outbound FMS shipments. DDAA employees are not consistently using dual signature verification of FMS shipments. DDAA employees were not consistently signing and dating two copies of the MROs designated as FMS shipments. A DDAA employee was not familiar with the use of the Non-Bare Item Certification label for FMS shipments. FMS shipment was found without a KKC visual inspection being performed on the materiel and the cartons were not opened to verify the contents. There was no designated area for FMS processing in Bldg. 362's pack areas. There were no designated FMS personnel in the pack area of Bldg. 362. Three DDAA employees working in Bldg. 362 pack areas had not received FMS distribution training despite the fact they were responsible for FMS processing.
8. DDWG - DDWG employees were not consistently using dual signature verification of FMS shipments. DDWG employees were not familiar with the practice of using Non-Bare Item Certification label for FMS shipments. Three DDWG employees responsible for FMS processing

in Bldg. 376, FMS Pack Area, had not received FMS Distribution training. There was no certification label signed and dated by the picker found on materiel at the FMS pack area.

9. DDCT - DDCT employees were signing the FMS pick ticket in lieu of the DoD Single Line Item Requisition System Document (DD Form 1348-1).

#### **Not Following the First In/First Out (FIFO) Principle**

1. DDCN - Warehousing of material did not facilitate FIFO stock issues.
2. DDJC - DDJC was not performing FIFO warehousing practice in Bldgs. 56 and 57.
3. DDDE - DDDE personnel were not applying the FIFO principle for issuing materiel from stock.
4. DDRV - A DDRV employee was observed placing new materiel on top of existing stock in location when performing a stow action resulting in DDRV personnel not rotating old stock forward in accordance with the FIFO method.
5. DDPH - Numerous NSNs were stowed in block locations not accommodating the FIFO principle.
6. DDAA - FIFO procedures were not being followed in Bldg. 361.

#### **Employee Housecleaning and Safety**

1. DDCN - Improper warehousing of materiel in which materiel was found unstowed on floor and protruding from locations in addition to not practicing good housekeeping methods as trash was found on floors and in locations.
2. DDTP - The team observed trash commingled with materiel throughout the warehouse; leaning stacks of materiel (safety issue); broken pallets throughout the aisles; and nestainers being used inefficiently and laying on top of materiel. A fire exit was blocked.
3. DDRV - General housekeeping practices used in the rack areas in Bldg. 59 needed improvement. Safety procedures while operating MHE were not being followed such as utilization of seatbelts and safety harnesses.
4. DDPH - Good housekeeping practices were not being implemented in various buildings.
5. DDAA - There were significant findings during this Compliance Review to include procedural, safety, and warehousing deficiencies. Materiel found in location was unsafe and materiel stacked in a manner caused damage to the materiel and a leaning stow.
6. DDWG - There were significant findings during this Compliance Review to include procedural warehousing deficiencies and safety in the warehouses. In general, DDWG employees were not practicing good housekeeping throughout the warehouses.

#### **Improper Storage Practices**

1. DDCN - Untimely processing of frustrated materiel as two pallets of frustrated materiel were on floor and had not been processed in 6 months. Mission stock not accounted for in DSS. Materiel found in bulk storage locations (indoor and outdoor) that were not accounted for in DSS. DDCN stated materiel was part of a Navy Deckplate Engine Program (old AEMS).
2. DDJF - Bldg. 175 controlled area storage locations were identified in an inconsistent manner.

3. DDRV - Materiel was found in location which exceeded the maximum allowable storage space thereby extending past the racking impeding a fire alarm pull handle. During a compliance walk-through, material was found in a general storage warehouse that was not on record in DSS. Five NSN records were recognized as not on record and one active NSN was found, but it was in a different location.
4. DDAA - Members of the Compliance Review team observed binnable-type materiel in rack locations in Bldg. 1250 and three pilferable weapons parts were found being stored outside of the security cage in general storage.
5. DDDC - An employee was observed not placing MSL and Power Ship label on inside carton for classified shipment
6. DDAG - Materiel found in radioactive material storage area, Bldg. 112 was found with multiple identification markings on a reusable container.
7. DDCT - Frustrated flammable liquid materiel was being stored in a high MHE traffic area adjacent to the Logistics Modernization Program (LMP) Central Receiving area.

#### **Use of LAC**

1. DDJF - Employees in Bldg. 176 were not aware of the purpose of LAC which could be used to designate the demand of the items and used as a tool to place fast moving items closer to transportation and shipping areas.
2. DDPH - Locator activity code was not being used to facilitate storage.



APPENDIX G

## Inventory Summaries

The common findings in the first 18 DLA/DLA Distribution Compliance Reviews in the core discipline of inventory were:

1. Location surveys
2. Classified materiel inventories accuracy goals not met
3. Pilferable materiel inventories accuracy goals not met
4. Unclassified materiel inventories accuracy goals not met
5. Financial liability investigations of property loss

The chart below summarizes what depots incurred those findings.

Inventory Findings	DDCN	DDJF	DDPW	DDJC	DDDC	DDSI	DDDE	DDSP	DDDK	DDTP	DDRV	DDNV	DDAG	DDPH	DDGM	DDAA	DDWG	DDCT
Location Surveys		x		x				x		x			x					
Classified Materiel Inventories Accuracy Goals Not Met					x					x			x			x	x	
Pilferable Materiel Inventories Accuracy Goals Not Met	x	x						x		x				x		x	x	
Unclassified Materiel Inventories Accuracy Goals Not Met	x		x	x	x			x		x			x			x		
Financial Liability Investigations of Property Loss		x								x								

### Location Surveys

1. DDJF - Only 15 months of location survey documentation were available. Location survey schedules are to be maintained for two years.
2. DDJC - Location surveys were not consistently completed within 24 hours as required and quality checks had not been conducted on location surveys for the current fiscal year.
3. DDSP - DDSP did not complete location surveys on 100% of the location population during FY08 as required. The location survey completion rate for FY08 was 83%.
4. DDTP - Location surveys were not always completed within 24 hours. Control (QC) checks were not performed on location surveys as required.
5. DDAG - The Compliance Review team observed eight location surveys and only data element checked during those surveys was the National Item Identification Number (NIIN).

### Classified Materiel Inventories

1. DDDC - A random sample book-to-floor location inventory was performed for classified items in Bldg. 322. Of the 45 locations selected there were two errors.
2. DDTP - One critical finding identified during the assessment was due to errors discovered during the classified sample inventory. The overall classified sample inventory accuracy rate was 97.75%, which was below the DoD goal of 100%.
3. DDAG - The Compliance Review team conducted thirteen classified inventory samples identifying one error resulting in an inventory accuracy rate of 92.3%, which was below the classified inventory accuracy goal of 100%.

4. DDAA - The accuracy rate for classified/sensitive sample was 96.4%, which was below the DoD goal of 100%. A random sample of classified/sensitive materiel identified three errors of the 85 classified/sensitive item locations selected.
5. DDWG - A random sample of 90 locations was performed for classified items in Bldg. 368C identifying three errors.

#### **Pilferable Materiel Inventories**

1. DDCN - Of 8 locations for pilferable items were checked, 3 errors were found. Accuracy rate for the pilferable sample was 63%.
2. DDJF - Conducted a sample of 15 pilferable items using a randomizer program and performed eight book to floor and seven floor to book counts. Of the 15 counts, there were two count variances between DSS and what was on the shelf. Accuracy rate for the pilferable sample was 87%.
3. DDSP - The overall pilferable sample accuracy rate was 76.7%, which was below the DLA Distribution pilferable goal of 95% per referenced memorandum. There were a total of 7 errors out of 30 sample inventories. The Compliance Review team conducted 15 file-to-floor sample inventories and two errors were identified, which resulted in an inventory accuracy rate of 87%. Additionally, 15 floor to file samples were taken and five errors were identified, which resulted in an inventory accuracy rate of 67%.
4. DDTP - A sample inventory of 32 pilferable item locations had four errors (three losses and one Condition Code (CC) discrepancy). The inventory accuracy rate of 87.5% was below the required pilferable item inventory accuracy goal of 95%.
5. DDPH - A random sample of pilferable items was selected in Bldg. 474 identifying two errors of the 30 locations selected resulting in an inventory accuracy rate of 93%.
6. DDAA - A random sample of pilferable materiel identified seven errors of the 87 pilferable locations selected. Accuracy rate for the pilferable sample was 91.9%.
7. DDWG - A random sample of 30 locations was performed for pilferable items in Bldg. 368 identifying four errors. Accuracy rate for the pilferable sample was 87%.

#### **Unclassified Materiel Inventories**

1. DDCN - Of 15 locations for unclassified items checked, 4 errors were found (73.33% inventory accuracy rate).
2. DDPW - Inspector randomly selected 20 unclassified locations (file to floor) and conducted a physical count which resulted in 2 errors being identified. The inventory accuracy rate for this sample was 90%, which is below the DoD inventory accuracy goals for sample inventories.
3. DDJC - The overall unclassified inventory accuracy rate was 86.1%. The review team randomly selected 23 unclassified locations to conduct the book-to-floor sample inventory. Seven errors were identified resulting in an inventory accuracy rate of 69.57%. The DD was conducting causative research on the seven items.
4. DDDC - With respect to inventory, the team recommend that employees pay closer attention to detail when stowing materiel to ensure material was properly stowed in the correct location, which seemed to be a noticeable trend we found in the random samples. A random sample of

unclassified items (floor to book) was performed. Of the 44 random samples selected there were 7 errors (84.09% inventory accuracy rate). A random sample of unclassified items (book to floor) was performed. Of the 45 random samples selected there were 8 errors (82.22% inventory accuracy rate).

5. DDSP - The Compliance Review team conducted 45 file-to-floor unclassified sample inventories and five errors were identified, which resulted in an inventory accuracy rate of 88.9%. Additionally, 45 floor to file unclassified samples were taken and six errors were identified, which resulted in an inventory accuracy rate of 86.7%. The overall unclassified sample accuracy rate was 87.8%, which was below the unclassified inventory goal of 95% accuracy rate.
6. DDTP - A sample inventory of 60 unclassified locations had six errors (three losses, one gain, and one CC discrepancy). The inventory accuracy rate of 90% was below the required unclassified inventory accuracy goal of 95%.
7. DDAG - Ninety unclassified locations were randomly selected identifying five errors resulting in an inventory accuracy rate of 94.4%, which was below the unclassified inventory accuracy goal of 95%.
8. DDAA - DDAA inventory accuracy for the unclassified sample was 84.6%.

#### **Financial Liability Investigations of Property Loss**

1. DDJF - DDJF had not been forwarding DD Form 200, Financial Liability Investigations of Property Loss (FLIPL), initiated at Headquarters DLA Distribution to the security officer for review and initials.
2. DDTP - DD-200 FLIPL forms were not initiated/prepared as required.

## Stock Readiness Summaries

The common findings in the first 18 DLA/DLA Distribution Compliance Reviews in the core discipline of stock readiness were:

1. Shelf-life program
2. Lack of visual COSIS inspections
3. PPP&M
4. Storage quality control report - cost estimates for repairs

The chart below summarizes what depots incurred those findings.

Stock Readiness Findings	DDCN	DDJF	DDPW	DDJC	DDDC	DDSI	DDDE	DDSP	DDDK	DDTP	DDRV	DDNV	DDAG	DDPH	DDGM	DDAA	DDWG	DDCT
Shelf-Life Program					x	x		x		x	x	x	x	x		x	x	
Lack of Visual COSIS Inspections				x	x			x		x			x					x
Preservation, Packaging, Packing and Marking	x			x	x	x	x	x	x	x		x	x	x	x	x	x	x
Storage Quality Control Report - Cost Estimates for Repairs						x							x	x				

### Shelf-life Program

1. DDDC - SR - There was no record of shelf-life training for personnel responsible for the shelf-life program.
2. DDSI - Observed a visual inspection of packing assembly which was a rubber item. One was properly preserved and packaged. Another was in a neutral chemical wrapping material and not sealed in a waterproof barrier bag. However, the unprotected rubber item was brittle and cracking. The Inventory Control Point (ICP) must be notified of the deterioration or an inventory adjustment-dual-purpose transfer transaction input to DSS to change the condition code to 'H'. The DDSI inspector was not trained at a level to identify such discrepancies. Additionally, this item must be coded as a shelf-life item. The personnel were not knowledgeable on identifying shelf-life items by Federal Supply Class (FSC) or visually. Observed and documented the review of three hazardous material NSNs requiring review of shelf life. DDSI personnel were using the FED-STD-793 process when extending the shelf life instead of the Material Quality Control Storage Standards (MQCSS) data in the DoD shelf-life program. FED-STD-793 was only to be used when inspecting and extending GSA managed materiel. The employee did generate new labels as required and updated DSS. The Compliance Review team provided on-the spot training on the use of the MQCSS/QLS program.
3. DDSP - DDSP did not follow the correct procedures for extending shelf-life items. Observed employee extending the shelf life of type II shelf-life item, lubricating oil, by three years. However, this item was not due for an extension review until 9 months prior to the inspection test date of February 2010. The employee interpreted the re-inspection limit of '2' to mean 'they' had the authority to extend the shelf-life two times. Observed employee place Type I batteries in C/C J based on end item cost. However, policy defined procedures for downgrading Type I material to

C/C H once shelf-life had reached its expiration date. DDSP was not using the proper identification label when downgrading shelf-life items from C/C A to B to C to H. They were using serviceability tags that were only to be used by maintenance repair facility per MIL-STD-129, Military Marking for Shipment and Storage.

4. DDTP - Employees required shelf-life training. DDTP completed the August cyclic (shelf-life) inspections prior to the arrival of the Compliance Review team. Consequently, a DDTP employee provided the team with an explanation of the process used at DDTP. It was noted by members of the Compliance Review team that the process, as described, was incomplete. Three NSNs having a shelf-life code of zero, indicating that the item is not shelf-life materiel, also had expiration/manufacture dates. The correct and complete process included researching the items in question and upon confirming that they were not shelf-life items, the expiration and manufacture were to be deleted from DSS. Additional research indicated that there were over 30 NSNs with a shelf-life code of zero possessing expiration/manufacture dates. A medical kit was not placed into CC 'J' (suspended) when one of the items within the kit had expired; thus requiring disposition instructions from the Item Manager (IM). DD Form 1225, Storage Quality Control Report, was not prepared and sent to the IM requesting disposition instructions as required. The SWARM did not have guidance for this circumstance. DDTP employees had not received the appropriate training in shelf-life management. For example, they were unaware of the shelf-life extension program which allowed the assigned shelf-life code to be challenged.
5. DDRV - DDRV employees were not preparing and submitting a written shelf-life challenge to the shelf-life administrators when finding an erroneous shelf-life code.
6. DDNV - Employees required shelf-life training.
7. DDAG - DDAG personnel involved in performing shelf-life management duties were not adequately trained in shelf-life principles, policies, and procedures.
8. DDPH - On Type II material, an inspection flag was set in DSS at nine (9) months during the receiving process. The flag caused DSS to generate 9 months prior to the materiel's expiration date cyclic workload for SR personnel. SR personnel were then to inspect the material and verify, within the guidelines of the shelf-life extension program, that the materiel's shelf life had previously been tested and extended. The DC's SR personnel were not following these procedures. They were waiting until the materiel automatically downgraded to CC 'C'; three (3) months prior to expiration. Occasionally, the DDPH inspector extended the shelf-life expiration date without receiving ICP approval for materiel that required IM disposition.
9. DDAA - Shelf-life management issues were identified. Of particular note was the fact that shelf-life material of different expiration dates were comingled in the same locations. DDAA personnel were not performing shelf-life inspections IAW policies. If shelf-life materiel did not have an expiration date on the materiel at the time of receipt processing, DDAA personnel were using the date the materiel was received as the starting point for establishing the expiration dates. As a result, cyclic inspections were generated on the basis of erroneous shelf-life expiration dates. For example, Type II materiel with a shelf-life code of '9' (5 years) was received on January 2008 with

no expiration date. The expiration date entered into DSS was January 2010. This item did have a cure date of 1997 on its nameplate. It must be noted that the cure date was synonymous with the manufacture date and it was further noted that that date was used as the starting point for determining the expiration date. Consequently, the materiel had actually expired prior to its being received at the DD. Complicating situation was the fact that the materiel was part of a kit and was received as CC 'G', but should have been CC 'F'. DDAA personnel were not familiar with shelf-life inspection procedures and had limited knowledge as to when to suspend materiel to CC 'J' (because it had already passed its expiration date at time of receipt and submit Storage Quality Discrepancy Report (DD Form 1225) requesting disposition guidance from the ICP.)

10. DDWG - DDWG was not using the proper package identification label when downgrading shelf-life items from CC - A to B to C to H. DDWG should have been using the loose issue label printed from DSS. Instead, DDWG personnel were using serviceability tags that were only to be prepared by maintenance repair personnel per MIL-STD-129, Military Marking for Shipment and Storage. Reported during the review, the SR personnel had Intermec printers within their work area, but do not have access to the DSS link to generate self-adhesive Package Identification Labels. DDWG was not utilizing the DLA-approved shelf-life extension label (DD Form 2477).

#### **Lack of Visual COSIS Inspections**

1. DDJC - SR - DDJC did not generate or conduct visual COSIS inspections. Standing Route Order (SRO) reported that they were not doing visual COSIS inspections because of lack of manpower. Their Full Time Equivalents (FTEs) had been increased and they expected to start visual COSIS inspection in the next two months.
2. DDDC - No documentation was provided to demonstrate that visual COSIS inspections were performed. Personnel were not conducting visual COSIS inspections as stated in the Distribution Depot operations contract, paragraph 5.3.1.1.
3. DDSP - DDSP was not completing visual COSIS inspections (300 per month) based on the type of storage within required timeframes. DDSP SR Section reported that they did not have the proper level of personnel resources required to perform 100 percent of these inspections.
4. DDTP - DDTP was not performing COSIS visual inspections.
5. DDAG - DDAG personnel did not conduct visual COSIS inspections. DDAG's Letter of Obligation specified the requirement to conduct a 100% visual inspection in accordance with the referenced instruction using DSS inspection categories. It was reported that discrepancies were identified during location surveys or warehouse actions, but there was no workload generated monthly based on storage environment and frequencies. If discrepancies were noted, they suspended the material and input to DSS an inventory adjustment-dual-condition transfer transaction, i.e., Document Identifier Code - Dual Adjustment Code (DAC), to PPP&M. A Storage Quality Control Report (DD-1225) requesting disposition instruction was then submitted to the appropriate ICP.
6. DDCT - DDCT personnel were not performing visual COSIS inspections.

#### **PPP&M**

1. DDCN - The Team noted inadequate minor package repair during COSIS process. DDCN did not fix all minor packaging repairs due to high workload and limited manpower. There were incomplete COSIS actions exceeding minor repairs. DDCN was not in compliance as only one location (not all locations) was inspected when identified for COSIS action exceeding minor repairs. DDCN employees only researched unit pack requirements 50% of the time unless it was the subject of surveillance findings.
2. DDJC - Most packers and woodworkers had never attended any packaging training and were unfamiliar with packaging requirements and specifications as defined by the IM. All personnel performing packaging and packing had not received required formal training.
3. DDDC - Packers were not properly trained to interpret regulations in the Service and DLA packaging database. DLA Distribution may want to consider the re-establishment of a packaging specialist position at the DD. The Compliance Review team observed a packer apply packaging to NSN 5895-01-333-6734 located in Bldg. 465 without adhering to proper procedures. The packer did not correctly interpret the requirements defined in the Navy's P-700 packaging database. The packer did not provide the heat sealed barrier bag (MIL-DTL-117) in accordance with the Method of Preservation (MOP) code 'GX'.
4. DDSI - DDSI personnel were not familiar with how to retrieve the packaging data from either the DSS or ICP database nor were they trained to identify when an item was improperly packaged during the visual inspection. DDSI personnel conducted minor repairs at the location and forwarded to PPP&M only when the packaging was damaged. DDSI did not have the expertise to perform PPP&M above a method of preservation of Code '10', physical and mechanical protection. Most repackaging was performed to meet unit of issue of 'EA'.
5. DDDE - DDDE personnel were not trained in PPP&M processes. During the assessment, the team identified three areas within SR and PPP&M that require improvement: (1) using proper labeling procedures when performing cyclic (Shelf-Life) inspections, (2) interpreting the MOP by querying the services' and DLA's packaging databases, and (3) using proper ESD protective packaging and an ESD worktable.
6. DDSP - DDSP (Box Shop) was not using the proper Wood Packaging Material (WPM) DoD Pest-Free Self Certification Stamp when certifying pallets, crates, skids, etc. The current DDSP stamp displayed the DoD Pest-Free logo and 'DDSP.' The approved stamp must include the shipper's DODAAC (e.g. W25G1U or SW3224), the DoD Pest-Free logo, and the words 'USA-DOD.'
7. DDDK - During the assessment, the review team identified areas within stock readiness and PPP &M that require improvement: (1) using proper labeling procedures when performing cyclic (Shelf-Life) inspections, (2) interpreting the MOP by querying the Services' and DLA's packaging databases, and (3) using proper ESD protective packaging and an ESD worktable. Proper packaging materials to preserve and protect materiel was not equipped. ESD workstation was not provided. Personnel not trained on the use of ESD precautionary procedures. Packers not properly trained on packaging. Training needed to be provided to perform preservation and packaging on

- materiel received, stored or issued to include protection of ESD components. Need to possess the knowledge or packaging materials to meet the customers/ICP packaging requirements.
8. DDTP - DDTP employees had not received formal materiel packaging training in accordance with DLA One Book. Although personnel in DDTP's PPP&M shop had received the DLA Distribution's PPP&M SWARM training on DSS and an overview of PPP&M operations, they had not received formal training that provides in-depth instruction on all aspects of PPP&M. The DDTP box shop was using expired container specifications for building boxes and crates.
  9. DDNV - While conducting the review for the inventory component of the Compliance Review in Bldg. W-143, improperly packaged ESD materiel was found. DDNV employees had not received formal packaging training. The employees working in PPP&M received PPP&M SWARM training from DLA Distribution on navigating DSS and an overview of PPP&M operations. They had not, however, received the formal training that provided in-depth instruction on all aspects of PPP&M.
  10. DDAG - DDAG personnel were not using the appropriate packaging references when performing PPP&M functions. They did not have function-specific SOP for PPP&M and had not received PPP&M training. Personnel were not familiar with interpreting the MOP to ensure proper protection is afforded the materiel. DDAG personnel completed the packaging/packing process without verifying that the materiel's NSN or Part Number mirrored that on the documentation.
  11. DDPH - DDPH did not have a fully functional PPP&M work area. There were currently 1,053 line items in backlog requiring PPP&M. DDPH's capabilities were limited to relabeling and constructing wood box containers for materiel shipment. The DD was in the process of establishing a PPP&M section; all equipment and packaging materials had been ordered including ESD workstations.
  12. DDGM - DDGM did not have a serviceable PPP&M work area. Their capabilities were limited to relabeling and constructing wood box containers for shipping materiel. However, these wood boxes did not meet specifications. They did not have a functioning ESD workstation with the proper equipment or materials to preserve materiel requiring ESD protection or minimum methods of preservation. DDGM did not have heat-sealing machines required to seal barrier bags. The list of materials compiled by the Accent Control, Inc (ACI) Site Manager was not complete. Additional equipment and materials were needed in order to establish a proper PPP&M work area at DDGM. DDGM was not utilizing Naval Inventory Control Point (NAVICP) P700-Common Naval Packaging (CNP) system. The P700-CNP was a web-based search tool used to find packaging requirements for Navy items managed by the NAVICP, the Naval Operational Logistics Support Center (NOLSC), and the Marine Corps.
  13. DDAA - An Optional Indicator Code defined authorizations to modify the packaging specified by the ICP. If the code was 0 or blank, the packaging may have been deviated as long as the MOP had not changed and the packaging applied was equal to or better than that which was specified by the ICP. The Compliance Review team observed the packer located in PPP&M, Bldg. 362 apply



packaging. The packer was not familiar with this code and was repackaging material that did not require it. By doing so, both the PPP&M workload and packaging costs were being increased.

DDAA had approximately 4,800 line items backlogged awaiting PPP&M that exceeded 90 days.

14. DDWG - DDWG was not using the proper package identification label when downgrading shelf-life items from CC - A to B to C to H. DDWG should have been using the Loose Issue Label printed from DSS. Instead, DDWG personnel were using serviceability tags that were only to be prepared by maintenance repair personnel per MIL-STD-129, Military Marking for Shipment and Storage. Reported during the review, the stock readiness personnel had Intermec printers within their work area, but do not have access to the DSS link to generate self-adhesive Package Identification Labels.
15. DDCT - DDCT employees had not received formal packaging training in accordance with One Book chapter. Although the employees working in PPP&M had received PPP&M Distribution Training on navigating DSS and an overview of PPP&M operations from DLA Distribution, they had not received the proper formal training that provided in-depth instruction on all aspects of PPP&M. DDCT did not have ESD work stations in the PPP&M area to properly handle and package ESD items. DDCT employees working in the box shop did not have access to the American Society for Testing and Material (ASTM) material specifications specified in MIL-STD-2073-1D. Consequently, the more experienced personnel could not properly instruct new employees on constructing wood boxes or crates when specified by the ICP. Instruction to new employees was provided primarily by experienced employees by way of on-the-job training. DDCT personnel were working with ESD material without an ESD workstation or proper training.

#### **Storage Quality Control Report (DD Form 1225) – Cost Estimates For Repairs**

1. DDSI - Estimated costs to repackage were not annotated on the DD Form 1225. DDSI personnel did not prepare cost estimates of packaging material or labor costs.
2. DDAG - DDAG personnel did not annotate the labor hours and materials costs on the DD- 1225 prior to submitting it to the materiel's owner/manager.
3. DDPH - DDPH personnel did not annotate the labor hours and materials costs on the Storage Quality Control Report (DD Form 1225) prior to submitting them to the owner/item manager-requesting disposition.

## APPENDIX I

### Security Summaries

The common findings in the first 18 DLA/DLA Distribution Compliance Reviews in the core discipline of security were:

1. Improper classified materiel practices
2. Improper pilferable material practices
3. Improper AA&E practices
4. Random monthly inspections of secure storage areas
5. Nonuse of SF 702 (Security Container Check Sheet) and SF 701 (Activity Security Checklist)
6. Inadequate IDS
7. Emergency destruction/relocation plan

The chart below summarizes what depots incurred those findings.

Security Findings	DDCN	DDJF	DDPW	DDJC	DDDC	DDSI	DDDE	DDSP	DDDK	DDTP	DDRV	DDNV	DDAG	DDPH	DDGM	DDAA	DDWG	DDCT
Improper Classified Materiel Practices	x			x	x					x	x	x	x	x	x	x	x	
Improper Pilferable Material Practices	x				x											x		
Improper Arms, Ammunition and Explosives (AA&E) Practices					x											x	x	
Random Monthly Inspections of Secure Storage Areas		x								x				x		x	x	x
Nonuse of SF 702 (Security Container Check Sheet) and SF 701 (Activity Security Checklist)														x	x	x		
Inadequate Intrusion Detection Systems (IDS)													x				x	x
Emergency Destruction/Relocation Plan														x	x	x		x

#### Improper Classified Materiel Practices

1. DDCN - No production of DLA Form 27, Classified Document Receipt. DDCN was not producing the DLA Form 27 for outbound or inbound classified shipments. CGA identified this deficiency and provided the DDCN with proper procedures. Improper processing of classified material. Receipt of classified material in central receiving must be escorted by personnel with the proper clearance to a secure temporary location then to a secure permanent location for induction and stow. Improper physical security for classified vault. Roll-up door used to secure the classified vault did not meet regulatory requirements. No procedure for classified materiel determination. Procedures have not been developed to protect incoming mail/small parcels until a determination was made as to whether parcel contains classified material. Open storage of classified materiel was not authorized without the prior written approval of HQ-DLA. While performing a physical security inspection of the Secret Internet Protocol Router Network (SIPRNET) room, the Laptop and the Tactical Local Area Network Encryptor (TACLANE) w/key had been left out and unattended. When asked why this was done, the DDCN security officer stated when the host security forces had performed their inspection and found this acceptable. The materiel was immediately secured after advising the security officer of the DLA requirement.
2. DDJC - Receiving personnel did not know what "Postmaster: Address Correction Requested, Do Not Forward" was used for and did not screen any shipments being unloaded or opened in the

small parcels receiving area (Warehouse #16). Temporary cage was not designated a "Restricted Area". Personnel move any classified materiel immediately to temporary cage (Warehouse #16) or vault (Warehouse #19). Material was removed from temporary cage by close of business. The temporary storage cage located in Warehouse #16 did not meet the physical security standards due to missing IDS (alarms system).

3. DDDC - The classified vault in Warehouse B-322 is used to store CIIC "9" materiel controlled/unclassified/cryptographic) per DLA policy. However, the materiel was commingled with classified materiel.
4. DDTP - In Warehouse 2-6, classified material was being co-mingled with pilferable material within the secure storage facility. Regulatory guidance requires segregating the classified material from the pilferable within the secure storage facility. Co-mingling of the material could lead to error(s) when selecting materiel. HQ DLA approved a waiver/exception to allow storage of classified and pilferable materiel within the same bay, contingent upon designating and appropriately identifying specific racks for classified and pilferable materiel.
5. DDRV - USPS first class mail was not being screened by personnel for possible classified material.
6. DDNV - USPS first class mail was not being screened by DDNV personnel for potential classified material.
7. DDAG - classified document receipt forms (DLA Form 27s) were not kept on file for past two (2) years as required. This discrepancy was discovered locally in April 2009 and the records were now being maintained. However, no logbook or organized file system was being utilized to properly suspense the DLA Form 27s. No temporary holding area was being used for classified material. All items were immediately moved into the classified cage upon receipt or discovery. While the classified cage was properly constructed, it was not properly alarmed. The installed alarm system was not monitored and did not alert a response force nor was it equipped with backup power. The alarm merely sounds at the depot security representative's desk.
8. DDPH - While an alternate classified materiel custodian was physically in place, the individual was not designated by the Commander in writing. DDPH had the SIPRNET system running 24/7 in unapproved "open storage", restricted area in Bldg. 1900. Any areas with classified "open storage" must be approved in writing by DLA HQ.
9. DDGM - During the Compliance Review it was inadvertently learned that none of the SP's personnel on the classified access roster actually possessed valid security clearances. Once made aware of this major deficiency, the CGA staff, with the assistance of DLA Installation Support Distribution-ES, immediately began taking actions to rectify the situation.
10. DDAA - Although a Security Container Check Sheet (Standard Form (SF) 702) was in place on the classified cage, it was not being used daily. Additionally, there was no SF 701 utilized. The security representative did not request and receive a monthly computer printout showing the location of all classified material. Classified material was being commingled with non-classified material within the classified storage cage in Bldg. 360. In addition, the items had Property Disposal Order (PDO) documents with them, some of which were dated 1999. The outside

storage areas for classified materiel were not being patrolled by the security force at least once every two hours during non-duty hours. DDAA employees were not properly trained on what actions to take when classified materiel was inadvertently or unexpectedly received in an unclassified receiving. A shipment of CIIC "R" items was delivered to DDAA that was not properly received into the system as it sat in central receiving unprocessed, because receiving personnel did not know how to properly process this classified materiel. Classified Document Receipt (DLA Form 27) and DD Form 1907 were not being retained on file for a period of two years. No suspense file was being kept for the DLA Form 27. The shipping and receiving office in Bldg. 502 did not maintain the DLA Form 27/DD Form 1907 on file for a period of two years. No DLA Forms were generated by that office prior to DSS generating the forms automatically. No suspense file was being kept for DLA Form 27s and no follow-up was conducted when DLA Form 27s were not returned. No DLA Form 27 was being shipped with the classified item. In addition, a daylight visit to the area revealed the following concerns: No access roster for these outside classified storage areas exists. Personnel without the appropriate security clearance were routinely allowed access to the classified material. No primary or alternate classified custodians were appointed for these areas. Gates to these areas were left standing open with unimpeded access to all personnel on DDAA and a roadway through the middle of the area adjacent to Bldg. 524 was actually being used as a detour route for a general construction zone. Personnel at DDAA did not take custody of the material when they found classified material out of proper control.

11. DDWG - The DDWG Classified SOP, while well written, did not include local procedures for inspecting items moving into/out of the restricted area; opening/closing cargo and personnel doors; trash removal; package inspections; or searches/inspections. CIIC 9 items were being stored in a restricted area as DLA Installation Support Distribution policies required. However, the unclassified CIIC 9 material was required to be segregated from all classified material. While this was being accomplished for the most part, it was difficult for distribution centers to determine whether or not the CIIC 9 material was actually classified or unclassified. Therefore, some unclassified material may inadvertently be commingled with other classified material.

#### **Improper Pilferable Material Practices**

1. DDCN - Improper storage of pilferable items. Numerous pilferable items were being stored in nonconforming storage. The pilferable storage area in Bldg 147 Bay C has been designated as a controlled area, but was not posted. Security procedures were not being followed.
2. DDDC - Some pilferable items CIICs "Y" and "J") were found in a general storage area waiting to be moved into controlled storage. In addition, material was found sitting outside, unsecured on the FedEx ramp-awaiting pick-up. This materiel also commingled with unclassified material. On 9 Feb 09, two pilferable items (CIIC Code "J") were found unsecured outside on the FedEx ramp and left overnight awaiting pick-up. (Note: During the overnight hours, the wind had apparently moved a box on the ramp and some packages were damp from the overnight rain, which caused

packaging tape to peel off of some packages due to the moisture). Per the reference, materiel that was removed from a security area for shipment will be loaded onto carriers as soon as possible. A cage or container would be available at the designated staging areas for temporary storage of pilferable items that were awaiting shipment or transfer.

3. DDAA - DDAA had no controlled/ storage warehouses in compliance with regulatory guidance to properly identify and segregate controlled inventory items. Through a combination of hands-on inspections and examinations of warehouse location reports, there were pilferable items found randomly comingled with general purpose materiel throughout DDAA

### **Improper AA&E Practices**

1. DDDC - CIIC "2" materiel (High Sensitivity (Category II) AA&E) was found unsecured outside of Bldg. B-3304 awaiting pick-up. Upon further investigation, the Compliance Review team determined that the materiel was actually CIIC "U." The Navy IM had processed a change to the CIIC. Although the materiel was ultimately determined to be CIIC "U", employees neither challenged the marking nor treated it as CIIC "2" stock until a final determination of the code was made. Although the materiel was marked incorrectly, employees should have treated the materiel as CIIC "2" until verification of the actual CIIC. Category II AA&E requires constant surveillance and storage in restricted areas.
2. DDAA - There were no authorized temporary holding areas in central receiving (Bldg. 362) or in the sixth receiving area (Bldg. 360). There was a box of twenty-nine M1, 30-caliber rifles stored in a fenced area under the supervisors' mezzanine. The weapons were processed on 21 January 2010 (Thursday). The fenced-in area was not an authorized temporary storage cage inasmuch as there was office equipment and other miscellaneous items stored within the area. At the time of receipt, DDAA personnel from Bldg. 360 should have been notified and the weapons secured within the restricted area in Bldg. 360.
3. DDWG - The AA&E cage within the classified storage area, Warehouse 368, was not designated as a restricted area; it did not possess the appropriate signage; nor did it contain an access list, key control, alarm system and security forces checks during non-duty hours.

### **Random Monthly Inspections of Secure Storage Areas**

1. DDJF - Random monthly inspections were conducted, but had not been documented.
2. DDTP - The DDTP security representative was conducting monthly inspections of secure storage facilities as required. The inspection, however, did not include a random physical inventory of five line items to compare the results with the depot computer system in accordance with the reference listed above. The DDTP security representative was unaware of the requirement to do so.
3. DDPH - Random inspections of restricted/controlled storage areas were conducted monthly to confirm the adequacy of the DD's physical security measures. However, a report of findings was not prepared for submission to the DD Commander.

4. DDAA - The security representative did not request and receive a monthly computer printout showing the location of all classified material and monthly random "five" count was not being performed.
5. DDWG - Random monthly inspections of storage areas to confirm adequacy of physical security measures were not being performed and documented.
6. DDCT - Monthly "five counts" of controlled items were not being conducted. Historical records could not be located.

**Nonuse of SF 702 (Security Container Check Sheet) and SF 701 (Activity Security Checklist)**

1. DDPH - Security checks were not being performed and documented at the close of business on many of the designated restricted areas.
2. DDGM - Although SP personnel were utilizing a SF 702 (Security Container Check Sheet) in the restricted area in Bldg. 2118, they were not using it to record when the security container was not opened during the duty day and when security checks of the materiel were conducted. Additionally, the SF 701 (Activity Security Checklist) was not being utilized for the restricted area itself. Security checks were not being performed and documented at the close of business in the Ozone Depleting Substance (ODS) restricted area.
3. DDAA - Although a Security Container Check Sheet SF 702 was in place on the classified cage, it was not being used daily. Additionally, there was no SF 701 utilized. No SF 701 or SF 702 was in place on the restricted cage in Bldg. 126; no end-of-day procedures existed; and no visitor control system was in place.

**Inadequate IDS**

1. DDAG - While the classified cage was properly constructed, it was not properly alarmed. The installed alarm system was not monitored and did not alert a response force nor was it equipped with backup power. The alarm merely sounds at the depot security representative's desk.
2. DDWG - Several components comprised this finding. Namely, the AA&E cage within the classified storage area, Warehouse 368, was not designated as a restricted area; it did not possess the appropriate signage; nor did it contain an access list, key control, alarm system and security forces checks during non-duty hours.
3. DDCT - During the Compliance Review it was discovered that while apparently properly installed, none of the DDCT IDS were being monitored by the host installation. Consequently, no security force would be alerted and/or respond if the alarm was activated. This situation was exacerbated by the fact that patrols were not being conducted by the host security force in compliance with DLA regulatory guidance.

**Emergency Destruction/Relocation Plan**

1. DDPH - The exterior of security containers did not bear priority numbers for emergency evacuation or destruction. DDPH had an emergency destruction/relocation plan. However, the plan was outdated, i.e., 2007, and lacked detail.

2. DDGM - The exteriors of security containers did not bear priority numbers that are used for ascertaining the precedence/priority of action to be taken to the materiel during an emergency evacuation or for destruction. DDGM did not have a documented emergency materiel destruction/relocation plan.
3. DDAA - DDAA did not have an emergency destruction/relocation plan. The exterior of security containers did not bear priority numbers needed for use during emergency evacuation or for destruction.
4. DDCT - DDCT did not have an emergency destruction/relocation plan.

**SUMMARY OF RECOMMENDATIONS  
AUGUST 2010 REPORT**

	<b>Recommendation Text</b>	<b>Addressee</b>	<b>Status of Corrective Action</b>	<b>Estimated Completion Date</b>
A-1	<p>DLA Compliance assessment teams should update their compliance assessment checklist to ensure the evaluators review the sufficiency of information recorded in the log book maintained to document the transfers of classified materiel from receiving to designated storage area in order to:</p> <ul style="list-style-type: none"><li>a. Review the frequency specific shippers are sending classified materiel to Central Receiving,</li><li>b. Determine how long classified items might have been sitting in Central Receiving until discovery,</li><li>c. Determine what DODAAC addresses were actually on the classified deliveries,</li><li>d. Determine whether Distribution Depots were sending Transportation Discrepancy Reports to those shippers who were not using the correct classified DODAAC address, and</li><li>e. Confirm the secured warehouse eventually picked up the materiel to the accountable record using the correct receipt control number (RCN) date.</li></ul>	J-33 and DLA Distribution		



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B	Recommend analyzing, categorizing, assessing, and ranking risks associated with the Compliance Review Team's findings of deficiency. Decide which risks should be the focus of resources for enterprise corrective action. Communicate key patterns and significance of enterprise wide deficiencies found to DD Commanders in addition to sharing individual Compliance Review Reports within SharePoint.	J-33 and DLA Distribution		
C	Compliance Review Teams should ensure results are supported by facts that are verifiable, and appropriate evidence is maintained so that another person can replicate the information if needed. At a minimum, the Compliance Review teams need to determine what steps they consider the most significant controls requiring testing, and what minimum documentation requirements they need to maintain on file to support their assessments.	J-33 and DLA Distribution		

## ABBREVIATIONS USED IN THIS REPORT

AA&E	Arms, Ammunition and Explosives
ACI	Accent Control Inc
APL	Acceptable Performance Levels
ASA	Annual Statement of Assurance
ASTM	American Society for Testing and Materials
BOL	Bill of Lading
CAC	Common Access Card
CAP	Corrective Action Plan
CAS	Combat Ammunition System
CC	Condition Code
CFO	Chief Financial Officer
CGA	Continuing Government Activity
CIIC	Controlled Inventory Item Codes
CLIN	Contract Line Item Number
CNP	Common Naval Packaging
CONUS	Continental United States
CONOPs	Concept of Operations
COSIS	Care of Supplies in Storage
CPI	Continuous Process Improvement
DA	DLA Accountability Office
DAC	Dual Adjustment Code
DD	Defense Distribution Depots
DDAA	DLA Distribution Anniston, AL
DDAG	DLA Distribution Albany, GA
DDCN	DLA Distribution Cherry Point, NC
DDCT	DLA Distribution Corpus Christi, TX
DDDC	DLA Distribution San Diego, CA
DDDE	DLA Distribution Europe, Germersheim, GE
DDDK	DLA Distribution Korea, (Camp Carroll)
DDGM	DLA Distribution Guam, Marianas
DDHU	DLA Distribution Hill, UT
DDJC	DLA Distribution San Joaquin, CA
DDJF	DLA Distribution Jacksonville, FL
DDMA	DLA Distribution Mapping Activity & Locations
DDNV	DLA Distribution Norfolk, VA
DDOO	DLA Distribution Oklahoma City, OK

DDPH	DLA Distribution Pearl Harbor, HI
DDPW	DLA Distribution Puget Sound, WA
DDRT	DLA Distribution Red River, TX
DDRV	DLA Distribution Richmond, VA
DDSI	DLA Distribution Sigonella, Italy
DDSP	DLA Distribution Susquehanna, PA
DDTP	DLA Distribution Tobyhanna, PA
DDWG	DLA Distribution Warner Robins, GA
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DLMS	Defense Logistics Management System
DoD	Department of Defense
DODAAC	Department of Defense Activity Address Code
DoDIG	Department of Defense Office of Inspector General
DRMS	Defense Reutilization and Marketing Service
DSS	Defense Distribution System
DTTS	Defense Transportation Tracking System
ECD	Expected Completion Date
ECIE	Executive Council on Integrity and Efficiency
EDA	Electronic Data Access
ESD	Electrostatic Discharge
ESDS	Electrostatic Discharge Sensitive
FACTS	Financial and Air Clearance Transportation System
FIFO	First In/First Out
FLIPL	Financial Liability Investigations of Property Loss
FLIS	Federal Logistics Information System
FMFIA	Federal Managers Financial Integrity Act of 1982
FMS	Foreign Military Sales
FRAGO	Fragmented Order
FSC	Federal Supply Class
FTE	Full Time Equivalents
FY	Fiscal Year
GAO	Government Accountability Office
GFMS	Global Freight Management System
GOCARE	Government Cargo Recovery Effort
GSA	General Services Administration
HAZCOM	Hazard Communication
HAZMAT	Hazardous Material
IAVs	Inventory Adjustment Vouchers
IAW	In Accordance With
IC	Internal Control
ICP	Inventory Control Point

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IDPs	Individual Development Plans
IDS	Intrusion Detection Systems
IM	Item Manager
IMM	Integrated Material Manager
IRRD	Issue Release Receipt Document
ISO	International Organization for Standardization
IVT	Interactive Video Tele Training
J-3	Logistics Operations & Readiness
KCC	Kind Count Condition
KO	Contracting Officer
LAC	Locator Activity Code
LMP	Logistics Modernization Program
LMS	Learning Management System
MCL	Material Certification Label
MEI	Major End-Item
MEO	Most Efficient Organizations
MHE	Material Handling Equipment
MIC	Manager's Internal Control
MILSTRAP	Military Standard Transaction Reporting and Accounting Procedures
MOA	Memorandum of Agreement
MOP	Method of Preservation
MQCSS	Material Quality Control Storage Standards
MSL	Military Shipment Label
NAVICP	Naval Inventory Control Point
NIIN	National Item Identification Number
NOLSC	Naval Operational Logistics Support Center
NSN	National Stock Number
NWRM	Nuclear Weapons-Related Materiel
OCONUS	Outside Continental United States
ODS	Ozone Depleting Substance
OIGs	Offices of Inspector General
O&M	Operations and Maintenance
PCIE	President's Council on Integrity and Efficiency
PDO	Property Disposal Order
PIIN	Procurement Item Identification Number
PPP&M	Preservation, Packaging, Packing and Marking
QAE	Quality Assurance Evaluator
QAR	Quality Assurance Representative
RACF	Resource Access Control Facility
REPSHIP	Report of Shipment
RF	Radio Frequency
RFID	Radio-Frequency Identification

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RCN	Receipt Control Number
SAVs	Site Assessment Visits
SBSS	Standard Base Supply System
SCR	System Change Requests
SDR	Supply Discrepancy Reports
SF	Standard Form
SIPRNET	Secret Internet Protocol Router Network
SMEs	Subject Matter Experts
SNS	Satellite Monitoring Service
SOA	Statement of Assurance
SOP	Standard Operating Procedure
SR	Stock Readiness
SRO	Standing Route Order
STOs	Stock Transfer Orders
TA	Transportation Agent
TACLANE	Tactical Local Area Network Encryptor
TASOs	Terminal Area Security Officer
TCN	Transportation Control Number
TFG	Transportation Facility Guide
TPS	Transportation Protective Services
TYAD	Tobyhanna Army Depot
USPS	United States Postal Service (U.S. Postal Service)
VA	Vulnerability Assessment
WAWF	Wide Area Work Flow
WEBLIS	Federal Logistics Information System Public Web Inquiry
WPM	Wood Packaging Material
WWX	World Wide Express

## DLA DISTRIBUTION COMMENTS



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Form J-3

OCT 13 2010

MEMORANDUM FOR DLA-DA

SUBJECT: Enterprise Audit Related to Compliance Reviews

We have reviewed the subject report and provide management comments for recommendations directed to DLA Distribution in the attached. My POC for further questions is (b)(6) or via email at (b)(6)

(b)(6)

WILLIAM H. BUDDEN, SES  
Deputy Commander

Attachment



## DLA DISTRIBUTION COMMENTS

### SUMMARY OF RECOMMENDATIONS AND MANAGEMENT RESPONSES AUGUST 2010 REPORT

Number	Recommendation	Management Response
A-1	<p>DLA Compliance assessment teams should update their compliance assessment checklist to ensure the evaluators review the sufficiency of information recorded in the log book maintained to document the transfers of classified materiel from receiving to designated storage area in order to:</p> <ul style="list-style-type: none"><li>a. Review the frequency specific shippers are sending classified materiel to Central Receiving,</li><li>b. Determine how long classified items might have been sitting in Central Receiving until discovery,</li><li>c. Determine what DODAAC addresses were actually on the classified deliveries,</li><li>d. Determine whether Distribution Depots were sending Transportation Discrepancy Reports to those shippers who were not using the correct classified DODAAC address, and</li><li>e. Confirm the secured warehouse eventually picked up the materiel to the accountable record using the correct receipt control number (RCN) date.</li></ul>	<p>Concur. The applicable functional area checklist has been expanded to include questions specifically addressing the points of information cited in the recommendation. The revision was made on August 26, 2010, preparatory to using the new checklist for the review at Cherry Point, NC, scheduled to begin October 4, 2010.</p>
B	<p>Recommend analyzing, categorizing, assessing, and ranking risks associated with the Compliance Review Team's findings of deficiency. Decide which risks should be the focus of resources for enterprise corrective action. Communicate key patterns and significance of enterprise wide deficiencies found to DD Commanders in addition to sharing individual Compliance Review reports within Sharepoint.</p>	<p>Concur. Although the Findings and Recommended Corrective Actions are posted to the J3-O Sharepoint site, the results of trend analyses, risk assessment, etc., should be made available to all distribution sites as well. In concert with DLA J-33, DLA Distribution J3 will determine what is the most meaningful and beneficial information to distribute and the best means of delivering that information to all distribution sites.</p>

## DLA DISTRIBUTION COMMENTS

### SUMMARY OF RECOMMENDATIONS AND MANAGEMENT RESPONSES AUGUST 2010 REPORT

Number	Recommendation	Management Response
C	Compliance Review Teams should ensure results are supported by facts that are verifiable, and appropriate evidence is maintained so that another person can replicate the information if needed. At a minimum, the Compliance Review teams need to determine what steps they consider the most significant controls requiring testing, and what minimum documentation requirements they need to maintain on file to support their assessments.	<p><b>Qualified concurrence.</b> Management agrees that results must reflect verifiable facts and that documentation must be obtained and maintained in order to do so.</p> <p>Management does not agree that the documentation or evidence which manifests itself in a Finding must be replicated. After having conducted 24 reviews, DLA Distribution and DLA Headquarters have gained considerable experience and gathered a significant amount of information and documentation to substantiate all of its Findings. Consequently, management does not believe it is necessary that the documents assembled by the Review Team replicate the conditions leading to a Finding. DLA Distribution is in the process of revising the Compliance Review Manual and will delete the manual's reference to replicating information.</p> <p>Management will re-examine what it believes to be the minimum documentation needed to be obtained and retained to support a review's Findings.</p>



## J-33 COMMENTS



DEPARTMENT OF DEFENSE  
HEADQUARTERS  
ATTN: JOHN J. KINGMAIER/OAO  
FORT BELVOIR, VIRGINIA 22060-0001

IN REPLY TO J-3312  
REFER TO

14 OCT 2010

### MEMORANDUM FOR DLA ACCOUNTABILITY OFFICE

SUBJECT: Response to DLA Accountability Office Report: Audit of DLA Distribution Compliance Assessments (Audit Report DAO-10-01)

The Inventory Management Process Owner concurs or partially concurs with the recommendations contained in the DAO Report.

J-3312 will work with DLA Distribution to resolve the identified deficiencies in the Compliance Review process. The HQ staff will continue to provide management oversight and participate in future distribution site visits.

The point of contact for this matter is Mr. Nathanael Hale, J-3312, (703) 767-1079, or e-mail: [nathanael.hale@dla.mil](mailto:nathanael.hale@dla.mil).

(b)(6)

MICHAEL SCOTT  
Executive Director  
Materiel Policy, Process and Assessment

Attachments

**A DRAFT REPORT -DATED August 24, 2010 Audit Report: DAO-10-01**

**"Audit of DLA Distribution Compliance Assessments"**

**MATERIEL POLICY, PROCESS AND ASSESSMENT (J-33) COMMENTS**

**DA RECOMMENDATION A:** DLA Compliance assessment teams should update their compliance assessment checklist to ensure the evaluators review the sufficiency of information recorded in the log book maintained to document the transfers of classified materiel from receiving to designated storage area in order to:

- a. Review the frequency specific shippers are sending classified materiel to Central Receiving,
- b. Determine how long classified items might have been sitting in Central Receiving until discovery,
- c. Determine what DODAAC addresses were actually on the classified deliveries,
- d. Determine whether Distribution Depots were sending Transportation Discrepancy Reports to those shippers who were not using the correct classified DODAAC address, and
- e. Confirm the secured warehouse eventually picked up the materiel to the accountable record using the correct receipt control number (RCN) date.

**J-33 RESPONSE:** Concur; Inventory Management (J-3312) verified that applicable functional area checklists were revised to address DA recommendations. Checklist revisions were completed on August 26, 2010.

**DA RECOMMENDATION B:** Recommend analyzing, categorizing, assessing, and ranking risks associated with the Compliance Review Team's findings of deficiency. Decide which risks should be the focus of resources for enterprise corrective action. Communicate key patterns and significance of enterprise wide deficiencies found to DD Commanders in addition to sharing individual Compliance Review reports within SharePoint.

**J-33 RESPONSE:** Concur; Inventory Management (J-3312) will coordinate with DLA Distribution J3 on efforts to develop and share trend analysis and risk assessment information with all distribution sites upon completion and follow-up of Compliance Assessments. If analysis identifies repetitive trends across distribution sites, immediate attention/training will be provided to the applicable functional areas.

**DA RECOMMENDATION C:** Compliance Review Teams should ensure results are supported by facts that are verifiable, and appropriate evidence is maintained so that another person can replicate the information if needed. At a minimum, the Compliance Review teams need to determine what steps they consider the most significant controls requiring testing, and what minimum documentation requirements they need to maintain on file to support their assessments.

**J-33 RESPONSE:** Partially Concur; Management agrees that all Compliance Review findings and recommendations should be supported by facts and evidence in addition to retention of applicable documentation. The Inventory Management staff will work closely with DLA Distribution to identify minimum requirements for documentation retention.

### **Comments on the Compliance Review Document**

Perspective is from a member of the DDAA Compliance review.

There were eight findings for DDAA; most of the findings were administrative and DDAA was working on appointment letters, correcting documentation, or taking the required training in Environmental and Hazardous Material/Hazardous Waste (per Vickie Edgar, Packaging Specialist). In other instances, DDAA stated they were not aware of the requirement, and took steps to comply before the Compliance Team departed. The DDAA employees exhibited a positive attitude and caring concern towards accomplishing the mission; employees are cross-trained and rotate periodically. Of the eight DDAA findings, most were administrative and immediately corrected. Of significance was the failure to check the operational status of a Defense Transportation Tracking System (DTTS) carrier equipment prior to release; this issue was reflected in internal policy, and was immediately rectified.

**Comment:** The classified Department of Defense Activity Address Code (DODAAC) was only established since late May 2010 and available to DOD shippers only since May 2010: DLA Distribution facilities were sending Transportation Discrepancy Reports (TDRs) to those shippers who were not using the correct classified DODAAC address.

**Recurring Transportation Findings.** Analysis of the data found in Appendix E indicated these were the common findings in Transportation.

1. Non-use of the Global Freight Management (GFM) System: not witnessed at DDAA

\*2. Inconsistent use of DD Form 626 (Motor Vehicle Inspection): Per Defense Transportation Regulation (DTR) 4500.9-R, Part II, Chapter 204 paragraphs F.3.e. and G.1., and Figure 204-11

\*3. REPSHIP not sent within 2 days: Per DTR Part II, Chapter 205 states that the TO will use an organizational e-mail address (or an automated link in the case of DSS and CMOS) to notify recipients of processing or shipment receipt, with shipment information within two (2) hours for CONUS shipments and within eight (8) hours for OCONUS shipments.

4. Non-participation in Government Cargo Recovery Effort (GOCARE) Program: DLAI 1306, the Government Cargo Recovery Effort Program, at URL: <https://headquarters.dla.mil/DES/policy/i1306.htm>.

\*5. HAZMAT: HQ DLA has policy on HAZMAT training at an unnumbered policy letter, Subject: Hazardous Materials Training Requirements, dated May 5, 2009, at URL: <https://headquarters.dla.mil/DES/policy/letter050509.pdf> .and: DLAI 1307, the Hazardous Material (HAZMAT) Training for Packaging and Transportation Personnel Process Guidance, at URL: <https://headquarters.dla.mil/DES/policy/i1307.htm>.

6. Late lines; a DLA Distribution process

7. Access to Financial and Air Clearance Transportation System (FACTS): not witnessed at DDAA

\*8. FMS shipments and documents: HQ DLA has explicit policy on FMS records retention at unnumbered policy letter, Subject: Foreign Military Sales Shipment Documentation – Records Retention, dated March 5, 2009, at URL <https://headquarters.dla.mil/DES/policy/letter030509.pdf>.

\*9. Outdated Transportation Facility [sic] Guide: HQ DLA provides a monthly review of each DLA-assigned Transportation Facilities Guide webpage to ensure information is current and that DLA Distribution personnel update their TFG webpage annually/bi-annually (secure holding site), or immediately (when a facility change is made);

(1) DTR, Part II, Ch. 201. P., [http://www.transcom.mil/j5/pt/dtrpart2/dtr\\_part\\_ii\\_201.pdf](http://www.transcom.mil/j5/pt/dtrpart2/dtr_part_ii_201.pdf)

(2) DTR Part II, DTR Part II, APPENDIX A.

(3) TFG Instructions SDDC Customer Advisory, CA-08-02/29-0041, dated February 29, 2008, Subject: 2008 Terminal [sic] Facilities Guide (TFG) Update

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\*Note: These "recurring transportation findings" were highlighted during the DLA Tack-On during the Military Surface Deployment and Distribution Command (SDDC) Workshop, held in March 2010.

**DDAA findings for Transportation:**

**T-1. Finding:** Appendix C 1. Reference: DTR 4S00.9-R, Part II, Chapter 201, Paragraph C.14.d. DDAA Transportation Agents (TAs) have not been designated in writing via official appointment letters.

**Recommended Corrective Action:** DDAA management issue individual letters appointing designated employees as TAs. It is noted that appointment letters were completed and issued on 25 January following discussions with the DDAA Transportation Officer (TO).

**T-2. Finding:** Appendix C 1. Reference: DTR 4500.9-R, Part II, Chapter 213, DTIC PWS. The CA Dispatch B39G Report (Electronic Data Interchange (EDI) Rejects Report) is not being reviewed and errors corrected daily. For example, errors appearing on the B39G reports dated 14 and 15 January remained on the report dated 20 January. **Recommended Corrective Action:** Ensure the report is reviewed and errors corrected each business day.

**T-3. Finding:** Appendices C23 and C24. Reference: DTR 4500.9-R, Part II, Chapter 205, Paragraph C.2.b.(3) and Figure 205-2. Vehicles being loaded which require Transportation Protective Services/Satellite Monitoring Service (TPS/SNS) and those which require TPS/SNS, dual drivers, and Defense Transportation Tracking System (DTTS) are not being inspected utilizing the Motor Vehicle Inspection form (DD Form 626); the DTTS operational status is not being checked; and the DD Form 626 is not being completed. **Recommended Corrective Action:** Ensure all personnel are aware of and implement the requirement to inspect carrier vehicle and trailer utilizing DD Form 626 for all Arms, Ammunition and Explosives (AA&E) shipments requiring TPS/SNS. In addition, the operational status of DTTS for those shipments requiring DTTS service is checked and annotated on the DD Form 626.

**T-4. Finding:** Appendix C4. Reference: DTR 4500.9-R, Part II, Chapter 204, Paragraph D.4. A Hazmat certifier appointment letter has been issued. However, it is a consolidated letter for all certifiers and does not state an expiration date. **Recommended Corrective Action:** DDAA Commander issues individual appointment letters to include an expiration date. An individualized letter for each certifier will preclude the need to reissue the appointment document for everyone cited on the consolidated letter in the event one person or expiration date changes. Letters must be signed by the Distribution Center Commander with copies given to the certifier and the Training Officer. It is suggested that this letter be maintained by the Training Officer who will have the training records and can ensure appointment letters are reissued by the Commander whenever an individual obtains the requisite recertification training.

**T-5. Finding:** Appendix C32. Reference: DTR 4500.9-R, Part II, Appendix E, Paragraph Q. DLA assumed the distribution mission at DDAA in 1992. FMS shipping documentation is retained locally, but could only be accounted for from 1992 to date; a period of 18 years. FMS shipping documentation is required to be retained locally or in a records retention repository for 30 years. No evidence could be found to indicate older records had been forwarded to a records retention area or were stored elsewhere on base. **Recommended Corrective Action:** Locate the older FMS shipping documents, document the storage location of all required documents and maintain log.

**T-6. Finding:** Appendix C34. Reference: DLAI 5710.1, Paragraph E.3.i.(1)(f)(5). Truck seals are being used properly for outgoing shipments. However, seat logs are not being maintained in shipping areas where seals are stored (Buildings 360 and 502). **Recommended Corrective Action:** Immediately establish a truck seal log in each storage area. The log may be kept manually (e.g., in a logbook (Marble composition book with sewn binding) or on an electronic (EXCEL) spreadsheet.

**T-7. Finding:** Appendix C46. Reference: DDC Instruction MC-2009-01, Instructions for Processing Open/Unconfirmed Material Release Orders dated 27 August 2009. Monthly late line closure report is not being accomplished. **Recommended Corrective Action:** Immediately begin monthly reporting late lines closed.

**T--8. Finding:** Appendices B1-B5, Reference: DLAD 5025,30, One Book Chapter, Environmental and Hazardous Material/Hazardous Waste Training Plan and 29 CFR 1910, 1200(h) and (q)(6)(i). Courses defined in accordance with federal regulations and the DLA training plans are mandatory requirements for all distribution center employees. DDAA personnel are not trained to meet the First Responder awareness level. **Recommended Corrective Action:** DDAA personnel complete required training using the HAZWOPER First Responder DVD within 60 days of the assessment visit and update the Learning Management System (LMS) upon completion. It is suggested the local information technology (IT) organization upload the DVD onto a shared drive for all personnel to access or that the DDAA Safety Officer distributes it to personnel during safety training. (Vickie Edgar, Packaging Specialist)

In the Executive Summary it was mentioned that they work unable to document the strategy being developed for the focus on repeat findings or the actions that were planned to address the root causes of findings enterprise-wide. I concur that there isn't an evident strategy being shared with the SME's other than dealing with the short term issues discovered at each site visit. The program does a good job of taking the developed checklists and reporting compliance or violations. We do need to do better with making sure the CAP is complete and DLA HQ/DLA Distribution should analyze the results to identify trends and

come up with solutions to correct those trends. Those corrections should then be monitored and reanalyzed to verify their effectiveness. Looking at the CAP for the first Compliance Review of this year (DDCN) there are still open actions posted on the share drive from the visit 2 years ago. Suggest developing a way to follow up with sites to ensure that corrections are done or that corrections fixed the issues. This should not wait for the next visit 2 years later. As HQ, we need to do a better job of keeping track of recommendations that require DLA Distribution action. A DLA Distribution CAP should be part of this process. CAP updates should be tracked by Compliance Leads. DLA HQ.

Page 6: Mention was made that when obtaining documentation in support of our observations, names and titles of personnel information was acquired from needs to be included. This is something that should be reiterated to the team members at the start of each compliance review be one part of this standard report. Further improvement for the program could include guidance on what is required to ensure valid documentation.

Page 7: DA states they are unaware of any formal risk analysis and systemic approach to approaching problems. It seems the only approach is listing all the deficiencies and requiring them to be corrected. Risk analysis is done somewhat during the daily Commander out briefs. When findings are reviewed, discussions are held to gauge the extent and the significance of those findings so the sites leadership can decide which finding carries the most risk and should be corrected first.

Page 8: DA identifies several risks.

1. Same compliance review findings in previous DLA Distribution inspections could be encountered at subsequent DD inspections. If they are saying a finding at one site may be found at other sites, I concur that this is happening. If instead they are saying that a finding at a site may be found at that same site on following reviews of that site, this is a possibility especially if follow up monitoring is not done prior to the next visit to that site.
2. Risk we could be missing opportunities to derive lessons learned for sustained process improvements that are transferable to other sites. Sites are able to see other review results from the postings on the share drive. Some sites have reviewed the findings at other sites and have used that information to correct problems prior to their own sites being visited. This is not pushed to the sites however and requires review of all previous reports. Consolidated lessons learned report would be beneficial. This should be placed on SharePoint -n- also reviewed at the DLA Distribution Commanders annual meeting.



3. Risk we are not compiling and reporting audit results centrally that could reveal or confirm the existence of internal control problems. Done but not done well. We need a more standard approach to the posting of information. Also need a comparison of findings to identify internal control problems and resolve them.
4. Risk that the team's findings may be improper or incomplete. Disagree. Findings are reviewed by the HQ and DLA Distribution team members and are presented and discussed at daily outbriefs. Any disagreements are researched further for validation or removal as a finding. Trip reports are available for review and comments prior to becoming the final report.

Page 12: Mention is made that DLA Distribution issued in November 2008 a requirement for sites to start the use of a logbook in central receiving for the transfer of classified materiel. It was discovered that sites were not compliant (October 2009 and January 2010), were unaware of the requirement, or had just started to comply (April 2009). DLA Distribution was going to reissue the requirement. I believe these actions should be coordinated through DLA HQ who would have the responsibility to ensure DLA Distribution has completed this and similar tasks identified by DA.

Page 13: Disagree with comments made about risk of classified materiel controls. DA states that there is especially a risk when DDs did not strictly enforce the requirement for shippers to provide REPSHIPS. A DD cannot enforce this. There is no control over what others choose to do. A DD can report through a Transportation Distribution Report (TDR) and mitigate the impact of someone else's process. What can be done is enforcing the DD's requirement to sign and return the classified materiel receipts when an item is delivered to a DD.

Page 14: There is a recommendation to review the frequency specific shippers are sending classified materiel to Central Receiving. I don't believe this should be a checklist item. To do this correctly, DD's should be required to send their logbook information into one individual to compile all DD data and to identify and address any trends that develop. This maybe an internal metric if required.

Page 15: Recommendation sub point "d" should be expanded beyond a TDR for not using the correct classified DoDAAC. It should also include shipping it by incorrect methods (i.e. WWX carrier to OCONUS locations) or to locations not authorized to handle classified materiel.

Recommendation sub point "e" shouldn't be a checklist item either. This should be a 100% check which requires research by either historical records or current records in DSS. Essentially, DA calls for a check that the accountable record contains the correct RCN and not the "Receipt Control Number of the day". This could be part of the monthly reporting as mentioned in the Page 14 comments.

Concur that part of the DD Final Report should include copies of the checklists used during the review.

Page 21: Mention is made that although the trends and findings of deficiencies are being captured, they are not being prioritized and categorized by severity. Recommend this be done in the final report as well as holding meetings between DLA HQ and DLA Distribution to identify trends and prioritize corrective actions.

Page 26: A list of 6 deficiencies on documentation collection was provided. Recognizing that Compliance Review teams are not auditors and are not conducting audits, this list would be beneficial to review with the team at the start of each compliance review as a reminder of things they should be aware of while collecting their supporting documentation.

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***DLA Office of the Inspector General  
for Audit***

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**AUDIT OF FUELS  
ACCOUNTABILITY IN  
AFGHANISTAN**

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**Audit Report: DAO-10-10**

**February 16, 2012**

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# Executive Summary

Audit Report DAO-10-10

February 16, 2012

## AUDIT OF FUELS ACCOUNTABILITY IN AFGHANISTAN

### Results

This report addresses fuel accountability in Afghanistan. A forthcoming DLA OIG report will address whether command personnel properly performed contract administration for fuel contracts in Afghanistan.

At the request of DLA Energy, the DLA Office of the Inspector General conducted a Crime Vulnerability Assessment on fuel operations in Afghanistan in 2009. The assessment identified potential issues with fuel truck downloading procedures, outbound fuel truck uploading procedures, fuel testing, and the collapsible fuel bag measurement system. The assessment led to this audit on fuel accountability.

DLA Energy managed two fuel supply chains in Afghanistan, and had the responsibility to ensure the military services received quality fuel when and where they needed it. The DLA Energy Middle East Office was responsible for daily oversight of fuel operations. This included contract management, fuel orders, transportation, daily inventory accountability, and the end-of-month inventory reconciliation. The DLA Energy Middle East Office had personnel stationed in Bahrain, Tampa, Florida, and Ft. Belvoir, Virginia.

Our audit results show that DLA Energy established policies and procedures to properly account for fuel in Afghanistan. Our review of policies and our observations of procedures in place at two Defense Fuel Support Points and at Bagram Air Field found responsible personnel effectively implemented policies and procedures to properly account for fuel. Also, DLA Energy mitigated the risk of having to pay for fuel loss en route to capitalized sites by changing the contract terms. Moreover, the Responsible Officer implemented a new policy of no cash collections at the Bagram retail fuel point. This policy strengthened internal controls and mitigated the risk for potential theft.

However, DLA Energy did not have effective daily oversight of contractor fuel operations at Bagram Air Field because of the operational structure. DLA Energy relied upon the Army contractor to conduct daily fuels operations. Under this model, DLA Energy had limited assurance that the contractor properly accounted for fuel at Bagram. DLA Energy did not always have supporting documentation for adjustments made to monthly inventory records at the regional level; or address the root causes for out-of-tolerance fuel balances in a timely manner. Not maintaining supporting documentation for adjustments could result in fuel accountability problems. Also the operational structure prevented DLA Energy from implementing immediate fixes to the identified causes for out-of-tolerance fuel accounts.

### Why DLA OIG Did this Audit

In 2009, DLA Energy requested DLA OIG conduct a crime vulnerability assessment of DLA Energy Fuel Operations in Afghanistan. DLA J-5, Office of Counsel, and DLA OIG assessed fuel operations as a significant risk area. We included this area as an audit in the DLA FY 2010 Annual Audit Plan.

### What DLA OIG Did

Our overall objective was to evaluate the fuels accountability process in Afghanistan and specifically determine whether: Policies and procedures used to receive, capitalize (store), and distribute fuel provide DLA Energy with proper accountability.

### What DLA OIG Recommends

This report contains four recommendations addressed to the Acting Commander, DLA Energy. The Acting Commander should:

- (1) Perform a cost-benefit analysis of the feasibility of secondary sales rather than capitalizing future sites;
- (2) Update DLA Energy's policy and procedures to include in the Responsible Officers duties the requirement to conduct periodic spot checks of the fuels operations and test contractor entries made in to the DLA Energy accountability systems for accuracy and completeness.
- (3) Direct responsible personnel to conduct periodic reviews of the region end-of-month reports to ensure forms are completed and reconciled in a timely manner.
- (4) Direct responsible personnel to establish policy to specifically address consecutive out-of-tolerance levels.



DEFENSE LOGISTICS AGENCY  
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FORT BELVOIR, VIRGINIA 22060-6221

February 16, 2012

**MEMORANDUM FOR**  
**Director, DLA Energy**

This is our report on the audit of Fuel Accountability in Afghanistan. It includes the results of our audit and conclusions concerning the implementation of policies and procedures to ensure DLA Energy maintained proper accountability of fuel in Afghanistan.

Our main objective was to evaluate the fuels accountability process in Afghanistan. Specifically, to determine whether:

- Policies and procedures used to receive, capitalize (store), and distribute fuel provide DLA Energy with proper accountability.
- Command personnel properly performed contract administration for fuel contracts in Afghanistan. (We addressed this objective in a separate report.)

We determined that DLA Energy established policies and procedures to properly account for fuel in Afghanistan and responsible personnel generally implemented the fuels guidance. However, DLA Energy did not have effective daily oversight of contractor fuel operations at Bagram Air Field because of the operational structure. DLA Energy relied upon the Army contractor to conduct daily fuels operations. Under this model, DLA Energy had limited assurance that the contractor properly accounted for fuel at Bagram Air Field. Additionally, DLA Energy did not always have supporting documentation for adjustments made to monthly inventory records at the regional level; or address the root causes for out-of-tolerance fuel balances in a timely manner. This report contains four recommendations addressed to the Acting Commander of DLA Energy to improve their processes used for accounting for fuel in Afghanistan.

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 (b)(6) or email at

(b)(6) @dla.mil

(b)(6)

**BRIDGET SKJOLDAL**  
Deputy Inspector General For Audit  
DLA Office of the Inspector General

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# INTRODUCTION

## OBJECTIVE, SCOPE, AND METHODOLOGY

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The primary audit objective of this review was to evaluate fuels accountability in Afghanistan. Specifically, we focused on whether the processes and procedures to receive, capitalize (inventory and store), and distribute fuel in Afghanistan provided DLA Energy with proper accountability.

### Scope

We conducted this audit from October 2010 to October 2011. We performed the audit at three capitalized fuel locations in Afghanistan, DLA Energy Headquarters, and at DLA Energy Middle East offices in Tampa, Florida and Bahrain. Our scope of work included documents, transactions, and contracts related to fuel in Afghanistan for the period FY 2009 and FY 2010.

### Methodology

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

- DOD 4140.25, “DOD Management of Bulk Petroleum Products, Natural Gas, and Coal”, dated June 22, 1994, Volume II, Chapter 10
- DLA policy P-1, “Recording and Processing Inventory Transactions and End-of-Month Physical Inventory and Operating Gain/Loss Adjustment Transactions”, dated 28 October 2009
- DLA Energy Policy P-2, “Receipt and Shipment of Petroleum Products”, dated 16 June 2009
- DLA Energy Instruction I-11, “Standard Operating Procedures for Defense Working Capital Fund Owned Fuel at Defense Fuel Support Points Supporting Operation Enduring Freedom,” dated 28 September 2010
- Military Standard 3004B, “Quality Assurance/Surveillance for Fuels, Lubricants, and Related Products”, dated 14 November 2008.

Additionally, we also:

- Conducted on-site observations at the three capitalized fuel locations in Afghanistan of fuel receipt and distribution procedures, to include the retail fuel point.
- Reviewed and analyzed fuel accountability records.
- Interviewed responsible personnel at DLA Headquarters, the DLA Energy Middle East Office, and the capitalized sites in Afghanistan.

- Randomly selected 45 days of fuel receipt transactions that took place from FY 2009 through 2010 to determine if responsible personnel entered the data from the paper copy fuel receipt into the DLA Energy databases completely and accurately.

During this audit, we did not specifically perform additional audit work to confirm the reliability of computer processed data. However, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 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.

## **BACKGROUND**

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DLA Energy maintained capitalized fuel sites in Afghanistan since 2003. Capitalized fuel was defined as fuel owned by DLA. Fuel operations grew congruently with the military contingency operations related to Operation Enduring Freedom. DLA Energy managed two fuel supply chains in Afghanistan, and had the responsibility to ensure the military services received quality fuel when and where they needed it.

Historically, fuel was a pilferable item in the theater environment. There were many investigations by agencies such as the Army Criminal Investigation Department, and successful Federal prosecutions of personnel, both military and contractor, for stealing fuel or committing fraud to assist others with fuel theft. Additionally, according to DLA personnel, the theater of operations proved to be a challenging environment for fuel accountability. Drastic changes in the weather, a lack of fixed fuel facilities, frequent changes in military personnel, and a reliance on contractors contributed to accountability challenges. Both the criminal and environmental elements created a high-risk area for DLA Energy. At DLA Energy's request, DLA Accountability Office (now known as DLA Office of the Inspector General) conducted a Crime Vulnerability Assessment of fuel operations in Afghanistan in 2009. The assessment identified potential issues with fuel truck downloading procedures, outbound fuel truck uploading procedures, fuel testing, and the collapsible fuel bag measurement system. DLA J-5, Office of Counsel, and DLA Accountability Office (DLA OIG) conducted a risk assessment, and placed fuel losses in the significant risk category in the FY 2010 Annual Audit Plan. The DLA OIG included the audit in the FY 2010 Annual Audit Plan as a result of the risk assessment and vulnerability assessment.

**Responsibility.** Accountability for fuels in Afghanistan involved a combination of personnel and systems from the DLA Energy Headquarters level down to the three capitalized sites in Afghanistan. The three capitalized sites were Bagram Air Field and two Defense Fuel Support Points (DFSPs) located in Kabul. The DLA Energy headquarters components that had responsibility for fuel oversight world-wide, to include Afghanistan, were the:

- Inventory Accountability Division
- Reconciliation Branch
- Accountability and Analysis Branch
- Inventory Accountability Support Branch
- Compliance and Policy Branch.

While centralized management oversight of inventory accountability policy, processes, and controls remained at DLA Energy headquarters, de-centralized execution of the daily inventory accountability mission and DFSP oversight resided with the Energy Regional Offices.

DLA Energy headquarters functions included: providing metric data (monthly/quarterly reports), issuing corrective action plans, maintaining the Inventory Accountability Web Tool, world-wide invoice resolution, inventory reconciliation, inventory policy and updates, regional Staff Assistance Site Visits, internal systems support, systems access, and training.

The DLA Energy Middle East Office was responsible for daily oversight of fuel operations. This included contract management, fuel orders, transportation, daily inventory accountability, and the end-of-month inventory reconciliation. The DLA Energy Middle East Office had personnel stationed in Bahrain, Tampa, Florida, and Ft. Belvoir, Virginia.

The Army's Logistics Civil Augmentation Program (LOGCAP) contained the requirements for executing fuel operations at Bagram Air Field. The LOGCAP contractor conducted the daily fuel operations that include fuel receipts and sales, quality testing and inventory functions. The Responsible Officer, appointed by the Army, was accountable for the entire inventory of fuel at Bagram Air Field.

DLA Energy contractors conducted fuel operations at the two Defense Fuel Support Points in Kabul. At the support points, DLA Energy contracted for third party inspection services for fuel receipt, inventory, and sales processes due to the lack of government personnel at those remote locations.

DLA Energy used several systems for fuel accountability in Afghanistan:

- Defense Fuels Automated Management System (DFAMS)
- Fuels Enterprise Server (FES)
- Base Level Support Application (BLSA)

# RESULTS, RECOMMENDATIONS, AND CONCLUSIONS

## RESULTS AND RECOMMENDATIONS

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**Objective:** Did policies and procedures used to receive, capitalize (inventory and store), and distribute fuel in Afghanistan provide DLA Energy with proper accountability?

**Conclusion:** Partially. DLA Energy established policies and procedures to properly account for fuel in Afghanistan. Our review of policies and our observations of procedures found that responsible personnel at Bagram Air Field, Defense Fuel Support Point – Tryco, and Defense Fuel Support Point – National, effectively implemented DOD and DLA Energy fuel regulations and policies to conduct fuel receipts and sales properly. Our analysis of fuel receipt documentation compared to the accountability database entries resulted in minor discrepancies, which indicated responsible personnel accurately reported fuel receipt data. Also, in 2007, DLA Energy contracting personnel changed the fuel supply contract delivery terms from free-on-board origin to free-on-board destination. The new contract terms eliminated the risk of the government paying for fuel lost en route to the capitalized sites and significantly decreased the number of movement investigations. Additionally, for fuel sales, the Responsible Officer implemented a new policy of no cash collections at the Bagram retail fuel point. The policy strengthened internal controls over cash collection and mitigated the risk for potential theft.

However, DLA Energy did not have effective daily oversight of contractor fuel operations at Bagram Air Field because of the operational structure. Even though the accountability for the fuel inventory resided with an Army appointed Responsible Officer at Bagram, and a Terminal Manager was on-site as part of the Army contract; DLA Energy relied on the Army contractor to conduct daily fuel operations in addition to relying on the Army to conduct contract oversight. Under this model, DLA Energy had limited assurance that the contractor properly accounted for fuel at Bagram Air Field. Additionally, DLA Energy did not always have supporting documentation for adjustments made to monthly inventory records at the regional level; or address the root causes for out-of-tolerance fuel balances in a timely manner. Not maintaining supporting documentation for adjustments could have resulted in fuel accountability problems. Also the operational structure prevented DLA Energy from implementing immediate fixes to the identified causes for out-of-tolerance fuel accounts.

Our recommendations to address these conditions are on page 13 of this report.

## Discussion of Results

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In this section, we discuss these three areas:

- Fuel receipts.
- Fuel sales.
- Capitalized fuel.

## Fuel Receipts

Responsible personnel, at Bagram Air Field, Defense Fuel Support Point-Tryco, and Defense Fuel Support Point-National, effectively implemented DOD and DLA Energy fuel regulations and policies to conduct fuel receipts properly. Through on-site observations and conducting limited database testing, we found no issues with the fuel receipt process. Additionally, DLA Energy changed the fuel supply contract terms from free-on-board (f.o.b.) origin to f.o.b. destination and mitigated DLA Energy's risk of fuel loss.

**Receipt Process.** The receipt of fuel at the three capitalized locations in Afghanistan was governed by DLA Energy Policy P-2, "Receipt and Shipment of Petroleum Products", dated 16 June 2009. The DLA Energy Policy P-2 required the following procedures for fuel receipts:

- Verification of shipping documentation.
- Inspection of the conveyance (fuel truck). Check the fuel truck for signs of tampering, sabotage, leaks, or other obvious safety or quality discrepancies. Verify the seals are not broken, missing, or tampered with and the seal numbers match the recorded numbers on the DD Form 250.
- Verification of product. Obtain a sample for visual analysis for color, sediment, and water.
- Determination of receipt quantity.

**Bagram Air Field.** During our on-site visit to Bagram, we spent two days observing personnel conducting fuel receipts during the day and night shifts. The Logistics Civil Augmentation Program (LOGCAP) contractors performed the fuel truck inspections, fuel sampling, and on-site lab testing in accordance with regulations. DLA Energy Instruction I-11, "Standard Operating Procedures for Defense Working Capital Fund Owned Fuel at Defense Fuel Support Points Supporting Operation Enduring Freedom," dated 28 September 2010, provided instructions to personnel on what data they needed to verify and annotate on the DD Form 250 "Material Inspection and Receiving Report". The procedures provided personnel with an example of a properly completed DD Form 250. According to the procedures, the DD Form 250 was the primary document personnel used to record the fuel receipt process; and personnel should have used the form to annotate dipstick measurements, truck seal numbers, any observed inspection discrepancies, net receipt quantity, and a quality assurance signature. During our observations, LOGCAP contractors verified all information contained on the DD Form 250 "Material Inspection and Receiving Report", such as the seal numbers, and properly completed the document.

In addition to on-site observations, we compared DD Form 250 documentation maintained at Bagram Air Field with Bagram fuel receipts in the Fuels Enterprise Server (FES) database. We randomly selected 45 days of fuel transactions (325 separate fuel receipts) from FY 2009 through FY 2010, to determine if the LOGCAP contractor entered the data from the paper copy fuel receipt into the DLA Energy databases completely and accurately. Our analysis showed that the contractor accurately entered the 325 fuel receipt transactions into the Energy system, with minor discrepancies. Of the transactions analyzed, we found three transactions that totaled 26,322 gallons out of 18,660,900 gallons on the DD Form 250s that differed from data in the FES. The differences were mainly due to timing of when the receipt transactions posted in FES. Based on the results of our analyses, we concluded that the LOGCAP contractor properly entered fuel receipts into the Energy database for accountability.

**DFSPs.** DLA Energy's contractor at the DFSPs properly conducted DFSP fuel receipt operations, to include downloading, testing, and subsequent validation of fuel quantity and quality. The contractor stamped and signed the DD form 250s and performed receipt operations in accordance with DLA Energy guidance. During our site visit to the DFSPs, we observed the third party inspection contractor performing oversight of the fuel receipt operations.

**Contract Terms.** In 2007, DLA Energy contracting personnel changed the contract terms for Afghanistan bulk fuel supply from f.o.b. origin to f.o.b. destination to reduce DLA Energy's risk of fuel loss in transit. Under the f.o.b. origin contracts, DLA Energy owned the fuel after it was uploaded to the fuel truck at the supply point. This meant DLA assumed all risk for the fuel as it was transported from the supply point to the destination. DLA Energy personnel stated fuel loss was an issue under the f.o.b. origin contracts. By changing the fuel supply contracts for Afghanistan to f.o.b. destination, DLA Energy only paid for the quantity of fuel received at the capitalized site. The new contract terms eliminated the risk of the government paying for fuel lost en route and decreased the number of movement investigations. DOD 4140.25, "DOD Management of Bulk Petroleum Products, Natural Gas, and Coal", dated June 22, 1994, Volume II, Chapter 10, required responsible personnel to investigate in-transit quantity variances that exceeded the allowable level, which was a 0.5 percent difference between the quantities of fuel shipped and the quantity of fuel received. According to DLA Energy Policy P-2, the DLA Middle East Office "shall monitor Movements Under Investigation (MUI) reports and follow-up to ensure appropriate actions were initiated to investigate and resolve root causes for excessive in-transit variances". DLA Energy's MUI workload for in-transit variances in Afghanistan decreased with the f.o.b. destination contract terms. This was evident by the number of MUIs DLA Energy experienced pre and post f.o.b. origin contracts for fuel supply. When fuel supply contracts were f.o.b. origin, DLA Energy reported 1,329 excessive in-transit variance investigations in FY 2006, as required by DOD 4140.25 Volume II, Chapter 10. During FY2009, only 55 movement investigations occurred – a significant decrease from FY 2006.

## **Fuel Sales**

DLA Energy had proper policies and procedures in place to account for fuel sales. At the DFSPs, fuel sales occurred when personnel uploaded the product into either the contract carrier or the Army-owned conveyance. Sales also occurred when personnel pumped fuel into a vehicle at the retail fuel point or at the flight line when uploaded into aircraft.

We conducted observations of the retail fuel point at Bagram Air Field. Based on our observations of 30 vehicles, retail fuel point personnel only pumped fuel into vehicles with the proper designation affixed to the vehicle, tactical vehicles, or a memo issued by Base Operations. Also, the RO implemented a new policy of no cash collections at the retail fuel point. Instead of collecting cash, the Army LOGCAP accountant would collectively bill the approved customers based on the daily log sheets completed at the fuel point. The policy strengthened internal controls over cash collection and mitigated the risk for potential theft.

We conducted observations of fuel sales at the two DFSPs and at Bagram Air Field. DLA Energy Instruction I-11 contained guidance on how to properly upload and account for fuel sales. We observed

fuel uploads at Bagram Air Field conducted by the Army LOGCAP contractor. The four fuel uploads we observed were conducted in accordance with I-11 and Military Standard 3004B, "Quality Assurance/Surveillance for Fuels, Lubricants, and Related Products" criteria. Contract personnel properly checked and recorded the totalizer (meter) readings before and after uploading fuel; verified the seal numbers and correctly affixed them to the trucks; and used the Alternate Foreign Government and Commercial Fuel Customer Billing Information form (DD Form 1898), to record the upload numbers. Additionally, we witnessed the contractor using an internal checklist during the upload process.

## Capitalized Fuel

DLA Energy established policies and procedures to properly account for capitalized fuel in Afghanistan. Due to Bagram Air Field's operational structure, DLA Energy had limited assurance that Army contractors at Bagram Air Field conducted daily fuel operations in accordance with regulations. Additionally, Energy personnel at the region corrected about 10 percent of completed end-of-month forms eighteen months later than required at the three capitalized sites. Six reports did not have an explanation for the out-of-tolerance gains and losses, as required by Energy policy P-1.

Fuel maintained at Bagram Air Field was out-of-tolerance on a regular basis, according to monthly reconciliation reports. Many of the reasons given by the Responsible Officer and the Middle East office personnel for the gains or losses were repetitive, indicating that the root cause was not known or could not be addressed in a timely manner.

Our recommendations to address these conditions are on page 13 of this report.

**Bagram Air Field Oversight.** DLA Energy did not have effective daily oversight of contractor fuel operations at Bagram Air Field because of the operational structure.

The Army had a Logistics Civil Augmentation Program (LOGCAP) contract in place at Bagram Air Field that contained the requirement for executing fuel operations. The contractor conducted the daily capitalized fuel operations with approximately 125 staff, to include a Terminal Manager. These contractors processed all fuel receipts, uploaded fuel trucks for sales, operated the retail fuel point, maintained the fuel farms and storage tanks (to include inventory functions), and tested fuel quality. LOGCAP contractors were responsible for entering all receipt, sales, and inventory level transactions in to the Fuels Enterprise System. The Army oversaw the LOGCAP contractor through periodic inspections and through a Contracting Officer's Representative (COR) located at Bagram.

DLA Energy had a Responsible Officer (RO) and Liaison Officer (LNO) on site. The LNO stated he was not involved in the daily fuel operations at Bagram. Further, the LNO's statement of duties included the following tasks:

- Coordinates Class III bulk fuels support to contingency operations/exercises in the area of responsibility.

- Provides Deployment Support Team (DST) Forward Commander with daily and monthly Situation Reports to include all issues, on-going projects, and actions.
- Manages, coordinates, and resolves warfighter concerns/issues concerning bulk petroleum.
- Interacts and negotiates with foreign government's military, International Security Assistance Force Headquarters, and civilian representatives for fuel exchange agreements, replacement in-kind and their international agreements.

According to DLA Energy P-7, the Responsible Officer and the Terminal Manager had the following responsibilities:

- Safeguard Energy inventory and establish and maintain inventory in compliance with governing accounting procedures.
- Ensure Defense Working Capital Fund Energy transactions are processed in to the Business System Modernization – Energy according to guidance.
- Ensure DFSP compliance with Federal, DoD, and military safety directives and regulations and ensure compliance with Federal, State, and Host Nation environmental laws.
- Train all military and civilian personnel who operate and maintain DFSP petroleum facilities/equipment to fulfill assigned duties effectively and safely.
- Make DWCF Energy sales only to authorized customers.

The RO and his team tracked the previous day's fuel receipts on an internal Access database and generated Transportation Discrepancy Reports, if needed. The RO did not perform duties as he would have at a Government-Owned Government Operated DFSP because the Army classified Bagram as a Government-Owned, Contractor Operated facility and had a Terminal Manager on site. Additionally, the RO rotated out of the area of operations about every six months, which meant the continuity of daily operations resided with the contractor. A forthcoming DLA Energy policy will designate the RO as the government official who accepts fuel.

There were challenges for DLA associated with the Bagram operational structure. First, DLA Energy could not amend the LOGCAP contract for fuel operations immediately. For example, in September 2010, DLA Energy requested the Army make changes to the LOGCAP contractor's performance work statement to require the contractor to:

- Follow DLA Energy interim policies.
- Use calibrated meters, and
- Initiate investigations when the daily loss is excessive.

The Army did not respond until November 2010. The Army decided not to amend the contract but instead issued a letter of technical direction to the contractor. Secondly, DLA personnel did not have access to or possess the contractor's standard operating procedures or government quality assurance surveillance reports. DLA had to rely on the Army to properly manage and perform adequate oversight of the contractor responsible for capitalized fuel operations.

Also, DLA personnel did not have the authority to direct the LOGCAP contractor. For example, Energy personnel could not direct the LOGCAP contractor to correct berm placement on the fuel farms, which



caused out-of-tolerance fuel accounts. During our site visit to Bagram, we noted that neither the Liaison Officer nor the RO knew who the LOGCAP COR was. The RO did not receive any updates or reports from the Army on how proficiently the contractor performed. Although we did not observe any deviation from DLA Energy regulations, DLA had limited assurance that proper accountability and oversight measures were in place and operational at Bagram. Given the pending RO acceptance responsibility and the operational structure at Bagram, the RO could have conducted additional measures to increase DLA Energy's assurance that the contractor effectively performed fuel operations.

Our recommendations to address this condition are located on page 13 of this report.

**End of Month Reports.** DLA Energy did not ensure personnel completed monthly inventory reconciliations at the region level or address the root causes for out-of-tolerance fuel balances in a timely manner.

**Guidance.** According to DLA Energy Instruction I-11, "Standard Operating Procedures for Defense Working Capital Fund Owned Fuel at Defense Fuel Support Points Supporting Operation Enduring Freedom," dated 28 September 2010, end-of-month account reconciliation was:

- The process of verifying all transactions have been processed to the Fuel Enterprise System (FES).
- Accounting for all source documentation.
- Reconciling the closing book inventory against the closing physical inventory for each product.

DLA policy P-1, "Recording and Processing Inventory Transactions and End-of-Month Physical Inventory and Operating Gain/Loss Adjustment Transactions", dated 28 October 2009, required Defense Fuel Support Points to process End-of-Month (EOM) physical inventory, adjustment transactions, and operating gain or loss adjustment transactions for each type of fuel within two business days after the last calendar day of the month. The end-of-month reports had out of tolerance levels for fuel. DLA Energy guidance determined the out-of-tolerance level depending on fuel type.

**End-of-Month Report Analyses.** We analyzed the DLA Energy Form 24--EOM reports from the three capitalized sites in Afghanistan for the period October 2008 through September 2010 to determine whether the reports were accurate and complete.

Our analyses showed there were discrepancies between the fuel receipts and sales quantity data in the FES and the receipts and sales data entered on the DLA Energy Form 24 -- EOM report. This occurred because responsible personnel at the region level did not always complete the inventory reconciliation process by ensuring there was source documentation to support reconciled accounts. As a result of our review, inventory personnel issued 29 corrected EOM reports at least eighteen months after the initial reconciliation month. The table below shows the results of our review by location:

End-Of-Month Report Corrections			
<u>Location:</u>	<u>Total Completed Reports:</u>	<u>No. Corrected:</u>	<u>Percent of Total</u>
<b>Tryco</b>	79	12	15%
<b>National</b>	61	7	10%
<b>Bagram</b>	144	10	7%
<b>Total:</b>	284	29	10%

Although personnel may have needed additional time to conduct causative research to explain the out-of-tolerance levels, responsible personnel could not explain why the EOM reports and FES were not reconciled until eighteen months later. Moreover, many of the corrected EOM reports impacted the same type of fuel accounts for consecutive months.

Not reconciling the EOM reports with FES in a timely manner could have resulted in fuel accountability problems going undetected by responsible personnel for more than a month. Monthly reconciliation was an important oversight tool and key control for Energy management to ensure that fuel inventory is reported accurately by the capitalized sites.

**Out-of-Tolerance Analyses.** Using the same sample, we analyzed the EOM reports for out-of-tolerance gains and losses by fuel type and location. The following table summarizes the out-of-tolerance data from the monthly reports:

Out-of-Tolerance Gains/Losses FY 2009-FY 2010			
<u>Location:</u>	<u>Fuel Type:</u>	<u># of Months Out-of-Tolerance:</u>	<u>Quantity Gained/Lost (in USG):</u>
<b>DFSP National</b>	F34	8 of 24	-55,598
	RDF	5 of 10	-345
<b>DFSP Tryco</b>	F34	2 of 24	-32,334
	RDF	1 of 24	610
<b>Bagram Air Field</b>	F34	19 of 24	-759,527
	TS1	22 of 24	369,735
	PAD	19 of 24	-341,993
	PAG	23 of 24	-58,041
	DF1	5 of 6	-129,730

Our analyses showed that Bagram fuel was frequently out-of-tolerance during the 24 month period of the audit. DLA Energy personnel indicated that out-of-tolerance levels for three months or more for any one product would cause a thorough investigation request by the RO. The DLA Energy Middle East office issued multiple memorandums to the RO at Bagram Air Field requesting further investigation in to repeated gains or losses for specific product accounts. This demonstrated that the region personnel did monitor consecutive out-of-tolerance levels and initiated investigation requests.

Two EOM reports from Bagram and two reports from National did not have an explanation for out-of-tolerance gains/losses in the memo block section, as required by DLA Energy Policy P-1. Two more EOM reports from National stated "Being investigated" in the memo, and no further causative research was documented. Energy management should review the EOM reports to ensure accuracy and completeness.

Additionally, we reviewed the causative research results that responsible personnel documented on the EOM reports for out of tolerance levels. Many of the out-of-tolerance causes identified in the EOM reports had similar and repetitive reasons – lack of meter calibration, changes in temperature, and differences between meter and gauge readings. For example, 24 Bagram reports cited issues with berm placement preventing an accurate four-string measurement. During our observations of inventory close-out procedures at Bagram Air Field, the subject matter expert noted at least one bag was too close to the berm to accurately measure the quantity of fuel with the stick and string method.

We asked the responsible personnel about the out-of-tolerance balances and the repetitive causes. Responsible personnel stated the meter calibration contract and a new tactical fuel gauging system should improve accountability and resolve the out-of-tolerance issues. Consequently, DLA Energy management relied upon future solutions to address the repetitive causes for fuel out-of-tolerance levels. DLA Energy also attributed the inability to address out-of-tolerance causes timely at Bagram Air Field to the operational structure in place there.

**Improvement of Fuel Measurement.** During our audit, DLA Energy personnel explained that they were testing a new tactical automatic tank gauging system that would improve the measurement of fuel in the fuel bags in Afghanistan. Since DLA Energy had not completed the testing of the new system, we did not evaluate the system during our audit.

Our recommendation to address this condition is located on page 13 of this report.

## **Recommendations and Management Comments**

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We recommend that the Acting Commander, DLA Energy:

**Recommendation 1.** Perform a cost-benefit analysis of the feasibility of secondary sales vice future capitalized sites.

### **Management Comments**

DLA Energy partially concurred with this recommendation. DLA Energy officials agreed with the need to address secondary sales as a viable option to capitalization; however, DLA Energy officials did not agree that they needed to perform a cost benefit analyses. DLA Energy plans to update DLA Policy P-15, entitled "Defense Working Capital Fund Capitalization" to include secondary sales as a formal decision point for the Director of Operations as part of the capitalization process. The estimated completion date is March 2012.

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

Although DLA Energy partially concurred with our recommendation, we believe the corrective action meets the intent of the recommendation by updating the DLA Policy P-15 to include secondary sales as formal decision point for the capitalization process.

**Recommendation 2.** Update DLA Energy's policy and procedures to include in the Responsible Officers duties the requirement to conduct periodic spot checks of the fuels operations and test contractor entries made in to the DLA Energy accountability systems for accuracy and completeness.

### **Management Comments**

Concurred. DLA Energy officials reported that Policy P-7, entitled "Accountability and Custodial Responsibilities for Defense Working Capital Fund Inventory and Government Property had been updated in October 2011, to address the responsibilities of the Responsible Officer. Additionally, the DLA Energy Instruction I-11 would require the responsible officer to use standardized checklist when observing fuel operations. Estimated completion date is January 2012.

**Recommendation 3.** Direct responsible personnel to conduct periodic reviews of the region end-of-month reports to ensure forms are completed and reconciled in a timely manner.

### **Management Comments**

Concurred. DLA Energy's Middle East Office updated their local review process to include initial review by the sub-region inventory managers followed by a second level review by the Tampa Office. DLA Energy's Policy and Compliance Branch has scheduled a site assistance visit to the Middle East Region Office for January 2012.

**Recommendation 4.** Establish policy to specifically address consecutive out-of-tolerance levels.

**Management Comments**

Concurred. DLA Energy will formalize the requirement that DLA Energy Regions use the automated tools to identify consecutive gains and losses and send letters to the DFSPs with consecutive gains and losses. DLA Energy will formalize the requirement in DESC 4140.01, entitled "Reconciliation, Accountability and Management Oversight of Defense Working Capital Funds Petroleum Funds Petroleum Products." Estimated completion date for DLA Energy world-wide is December 2012.

## **CONCLUSIONS**

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This report addressed fuel accountability in Afghanistan. The audit results showed that DLA Energy established policies and procedures to properly account for fuel in Afghanistan. Our review of policies and our observations of procedures in place at two Defense Fuel Support Points and at Bagram Air Field found responsible personnel effectively implemented policies and procedures to properly account for fuel. Also, DLA Energy mitigated the risk of having to pay for fuel loss en route to capitalize sites by changing the contract terms which in-turn lead to a decrease in movement investigations. Moreover, the Responsible Officer implemented a new policy of no cash collections at the Bagram retail fuel point. This policy strengthened internal controls and mitigated the risk for potential theft. However, DLA Energy did not have effective daily oversight of contractor fuel operations at Bagram Air Field because of the operational structure. DLA Energy relied upon the Army contractor to conduct daily fuels operations. Under this model, DLA Energy had limited assurance that the contractor properly accounted for fuel at Bagram. DLA Energy did not always have supporting documentation for adjustments made to monthly inventory records at the regional level; or address the root causes for out-of-tolerance fuel balances in a timely manner. Not maintaining supporting documentation for adjustments could result in fuel accountability problems. Also the operational structure prevented DLA Energy from implementing immediate fixes to the identified causes for out-of-tolerance fuel accounts.

## SUMMARY OF RECOMMENDATIONS

	Recommendation	Addressee	Estimated Completion Date
1	Perform a cost-benefit analysis of the feasibility of secondary sales vice future capitalized sites.	Acting Commander, DLA Energy	March 2012
2	Update DLA Energy's policy and procedures to include in the Responsible Officers duties the responsibility to conduct periodic spot checks of the fuels operations and test contractor entries made in to the DLA Energy accountability systems for accuracy and completeness.	Acting Commander, DLA Energy	January 2012
3	Direct responsible personnel to conduct periodic reviews of the region end-of-month reports to ensure forms are completed and reconciled in a timely manner.	Acting Commander, DLA Energy	January 2012
4	Establish policy to specifically address consecutive out-of-tolerance levels.	Acting Commander, DLA Energy	December 2012

## **ABBREVIATIONS USED**

COR – Contracting Officer’s Representative

DFSP – Defense Fuel Support Point

EOM – End-of-Month

FES – Fuels Enterprise Server

LNO – Liaison Officer

LOGCAP – Logistics Civil Augmentation Program

MUI – Movements Under Investigation

OIG – Office of the Inspector General

RO – Responsible Officer

## OTHER MATTERS

During our visit to Afghanistan, several other matters came to our attention. Although these areas were not in the scope of our audit, we believe they were important enough to include in this audit report. The two areas are:

- Personal Security
- Physical Security

### Personal Security

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### Physical Security

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## MANAGEMENT COMMENTS



DEFENSE LOGISTICS AGENCY  
ENERGY  
3725 JOHN F. KINGMAN ROAD  
FORT BELVOIR, VIRGINIA 22060-6222

MEMORANDUM FOR DLA OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Audit of Fuels Accountability in Afghanistan (Audit Report: DAO-10-10)

DLA Energy has reviewed the DLA Office of the Inspector General report regarding the Audit of Fuels Accountability in Afghanistan. While there are continuing challenges to ensure effective oversight of all capitalized fuel locations due to the nature of an active combat environment, DLA Energy believes we have mitigated those challenges by increasing actual oversight footprint and procedures since the auditors visit.

DLA Energy partially concurs with recommendation 1 and concurs with recommendations 2 through 4. Specific responses to the recommendations and additional clarification are below.

**1. Perform a cost-benefit analysis of the feasibility of secondary sales vice future capitalized sites.**

PARTIALLY CONCUR – DLA Energy concurs with the need to address secondary sales as a viable option vice capitalization; however, a cost benefit analysis is unnecessary. DLA Energy will strengthen language regarding “secondary sales” in existing DLA Energy Policy P-15, entitled “Defense Working Capital Fund Capitalization,” which governs the Capitalization Merit Review Board process. The updated policy will include secondary sales as a formal decision point for the Director of Operations as part of the capitalization process. Estimated completion – March 2012.

**2. Update DLA Energy’s policy and procedures to include in the Responsible Officer’s duties the responsibility to conduct periodic spot checks of the fuels operations and test contractor entries made into the DLA Energy accountability systems for accuracy and completeness.**

CONCUR – DLA Energy updated Policy P-7, entitled “Accountability and Custodial Responsibilities for Defense Working Capital Fund (DWCF) Inventory and Government Property,” in October 2011, to address this issue. The responsibilities of the Responsible Officer (RO) outlined in paragraphs 5.1 -- 5.21 include the completeness and accuracy of inventory transaction recording.

To strengthen the existing policy, DLA Energy will require the RO to use the standardized checklist included in Appendix H of DLA Energy Instruction I-11, entitled, “Standard Operating Procedures for Defense Working Capital Fund Owned Fuel at DFSP Supporting Operation Enduring Freedom.” Current policy states the RO “may” utilize the

checklist; the updated policy will mandate the use of the checklist. Estimated completion – January 2012.

**3. Direct responsible personnel to conduct periodic reviews of the region end-of-month reports to ensure forms are completed and reconciled in a timely manner.**

CONCUR – DLA Energy's Standard Operating Procedures, DESC1 4140.01 requires the DLA Energy Region personnel to review the completeness and accuracy of end-of-month reports received from the DFSP. DLA Energy's Middle East Office updated their local review process to include initial review by the sub-region inventory managers followed by a second level review by the Tampa Office.

DLA Energy's Policy/Compliance Branch has scheduled a Site Assistance Visit to the Middle East Region Office for January 2012. Controls, associated with the Region's oversight of its DFSPs, are part of the checklist used during the evaluation and will be emphasized during the visit.

**4. Establish policy to specifically address consecutive out-of-tolerance levels.**

CONCUR – DLA Energy's automated tools identify consecutive gains and losses at DFSPs. DLA Energy Regions use these automated tools to send letters to DFSPs with consecutive gains and losses when the Region responsible for oversight determines it is applicable. DLA Energy will formalize the requirement in DESC1 4140.01, entitled "Reconciliation, Accountability and Management Oversight of Defense Working Capital Funds Petroleum Funds Petroleum Products." Estimated completion for Kabul, Afghanistan - January 2012; Estimated completion for Bagram, Afghanistan - March 2012; Estimated completion DLA Energy world-wide - December 2012.

**OTHER MATTERS**

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PATRICK J. DULIN  
Acting Commander





## *DLA Office of Inspector General*

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Purpose: To document the final issued report for the Audit of DLA's Triannual Review Process.

# **DLA's Triannual Review Process**

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**Report: DAO-10-11**

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**June 10, 2011**

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# Executive Summary

Report DAO-10-11  
June 10, 2011

## DLA's Triannual Review Process

### Results

The overall purpose of our audit was to evaluate whether the Defense Logistics Agency (DLA) was performing Triannual Reviews in accordance with the Department of Defense (DoD) Financial Management Regulations (FMR). We identified 5 findings indicating that DLA is not performing the Triannual Review Process in accordance with the DoD FMR.

DLA has designed a process where the DLA Finance, Agency Accounting Operations (J-85) is responsible for submitting DLA's Triannual Review Confirmation Statement to the Office of the Under Secretary of Defense (OUSD). Field activities provide confirmation statements and supporting spreadsheets to J-85 to document the review at their activity level. The current process is hindered by several system limitations and lacks the internal controls necessary to perform an effective review.

Defense Finance and Accounting Service (DFAS) as a service provider to DLA is responsible for performing the Triannual Review Process over accounts receivable for several of the DLA activities. We performed procedures over the review process at DFAS and noted that they were performing the review in accordance with the DoD FMR.

Although issues were identified surrounding DLA's Triannual Review Process, we noted that management is working to develop corrective actions to help make the process more effective.

### Why DLA OIG Did this Review

DLA OIG identified the assessment of outstanding obligations and commitments within DLA as a high-risk area. Accordingly, DLA OIG included testing the Triannual Review Process in the FY2010 Enterprise Annual Audit Plan.

### What DLA OIG Did

The primary objectives were:

- To determine if DLA is performing the Triannual Review Process in accordance with the DoD FMR.
- To determine if DLA is complying with DoD regulations and sound accounting and internal control requirements related to the Triannual Review Process.
- To observe and evaluate the reliability and completeness of DLA's Triannual Review Process.

We conducted walkthroughs to obtain an understanding of the process as well as inspected the Triannual review reporting package submissions at J-85, DLA Energy, DLA Troop Support, and DFAS, Columbus to determine if they were in compliance with the FMR.

### What DLA OIG Recommends

This report contains 5 recommendations which relate to system limitations and a lack of controls.

DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
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FORT BELVOIR, VIRGINIA 20060-6221

June 10, 2011

MEMORANDUM FOR DIRECTOR, DLA FINANCE

SUBJECT: DLA's Triannual Review Process

This is our final report on the audit of DLA's Triannual Review Process. We evaluated whether DLA is performing the Triannual Review Process in accordance with the Department of Defense (DoD) Financial Management Regulation (FMR).

We identified 5 findings related to system limitations and lack of internal controls indicating that DLA is not performing the Triannual Review Process in accordance with the DoD FMR. This report contains recommendations to improve the Triannual Review Process. We requested and obtained comments from Management. Management generally concurred with our findings and recommendations and their comments are included in their entirety in Appendix C. Management partially concurred with finding 2 and the related recommendations.

We appreciate the courtesies and cooperation extended to us during the audit. For additional information about this report, contact (b)(6) or email at (b)(6)

(b)(6)

Katie Schirano  
Audit Director, Financial Accountability  
DLA Office of Inspector General



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# INTRODUCTION

## OBJECTIVES, SCOPE, AND METHODOLOGY

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Our objectives were:

- To determine if DLA is performing the Triannual Review Process in accordance with the Department of Defense (DoD) Financial Management Regulation (FMR).
- To determine if DLA is complying with DoD regulations and sound accounting and internal control requirements related to the Triannual Review Process.
- To observe and evaluate the reliability and completeness of DLA's Triannual Review Process.

The scope of our procedures included the Triannual Review Process for the period October 1, 2009 through May 31, 2010. Our methodology included conducting walkthroughs to obtain and document an understanding of the process as well as inspecting the Triannual review reporting package submissions to determine if they were in compliance with the DoD FMR.

We judgmentally selected the January 31, 2010 and May 31, 2010 Triannual review submissions and obtained the J-85 certification packages. However, based on the issues identified while reviewing the January submission, we did not perform procedures over the May submission. In addition to performing testwork at DLA Finance, Agency Accounting Operations (J-85), we also selected DLA Energy, DLA Troop Support, and Defense Finance Accounting Service (DFAS), Columbus to complete testwork. We selected these sites based on total activity as well as the total number of records in the population.

We conducted the performance audit from February 2010 through October 2010 in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Government Accountability Office (GAO) except for an organizational impairment to our independence and assessment of audit and fraud risk during the planning phase of the audit. The organizational impairment to our independence resulted from the DLA Office of Inspector General (formerly DLA Accountability Office, Audit Division) reporting structure not being accountable to the head or deputy head of DLA; in addition, auditors conducted nonaudit services related to OMB Circular A-123, Appendix A, "Management's Responsibility for Internal Control." The deficiencies resulted from the DLA audit organization's system of quality control not being suitably designed, the lack of policies and procedures adopted and established to provide reasonable assurance of performing and reporting in conformity with

applicable professional standards in all material respects. We are developing corrective actions to address the organizational independence and quality control deficiencies in consideration of future or ongoing performance audits. However, this has no effect on the quality of this report as those 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 based on our performance audit objectives.

## BACKGROUND

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The DLA Office of Inspector General identified the assessment of outstanding obligations and commitments within DLA as a high-risk area. Accordingly, DLA Office of Inspector General included the DLA Triannual Review Process in the FY2010 Enterprise Annual Audit Plan.

The DoD FMR Volume 3, Chapter 8 defines the Triannual process as “an internal control practice used to assess whether commitments and obligations recorded are bona fide needs of the appropriations charged. Fund holders, with assistance from supporting accounting offices, shall review dormant commitments, unliquidated obligation, accounts payable and accounts receivable transactions for timeliness, accuracy, and completeness during each of the four month periods ending on January 31, May 31, and September 30 of each fiscal year.”

“The goal in performing the Triannual Review is to increase DoD Component’s ability to use available appropriations before they expire and ensure remaining open obligations are valid and liquidated before the cancellation of the appropriation. The Triannual Reviews should be particularly rigorous in reviewing commitments and obligations of appropriations prior to their expiration. Attaining the Triannual Review goal is contingent on effective integration and synchronization of the Funds Holder (Resource Manager), Accounting, Program Management, Contracting Officers, and successfully completing the Triannual Review is a collaborative effort. The integrating of all the stakeholders into the review process will allow for an effective review of commitments, obligations, contracts, and all fiscally related requirements.”

J-85 has the overall responsibility of compiling information received from the various activities and certifying to the Office of the Under Secretary of Defense (OUSD), Office of the Deputy Comptroller that the Triannual Review was performed. J-85 provides guidance to the activities for performing this review. Each activity is responsible for submitting a confirmation letter and supporting worksheets to J-85 indicating that the review was performed.

The field activities perform reviews for commitments, obligations, accounts receivable and accounts payable. The reviews may be performed by Resource Managers, Inventory Managers, Accountants, and Accounting Technicians. During their review, the validity and disposition of the transaction is determined and subsequently resolved or cleared by the reviewer. Any documentation to support the decision is maintained by the reviewer and may not be provided or reviewed by the supervisors prior to submission to J-85.

# Results, Recommendations and Conclusions

## RESULTS AND RECOMMENDATIONS

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### 1. Incorrect Reporting Periods

DLA submitted the Triannual Review results to the OUSD, Office of the Deputy Comptroller for the incorrect performance period. The Triannual Review results were submitted on March 15, 2010 for the period of September 1, 2009 – December 31, 2009 instead of October 1, 2009 – January 31, 2010 as required by the DoD FMR. The guidance provided by J-85 to the activity point of contacts (POCs) revealed that the POCs were advised to report their first Triannual Review of FY10 for the period of September 1, 2009 – December 31, 2009.

DoD FMR Volume 3, Chapter 8, Paragraph 080401 states the following:

“The Triannual Review process is an internal control practice used to assess whether commitments and obligations recorded are bona fide needs of the appropriations charged. Fund Holders, with assistance from supporting accounting offices, shall review dormant commitments, unliquidated obligation, accounts payable and accounts receivable transactions for timeliness, accuracy, and completeness during each of the four month periods ending on January 31, May 31, and September 30 of each fiscal year.”

J-85 issued incorrect guidance to POCs because they believed there would be insufficient time for obtaining, reviewing and compiling data for submission to the OUSD, Office of the Deputy Comptroller by March 15, 2010. As a result, DLA is not in compliance with the reporting requirements as stated in the DoD FMR.

### **Recommendation:**

We recommend J-85 perform the following to ensure compliance with DoD FMR, Triannual Review requirements:

- Issue new guidance to Financial Services Offices (FSOs) informing them of the correct reporting periods per the DoD FMR.
- Monitor FSOs' submissions to verify that they are reporting the correct periods.

- Inform the OUSD, Office of the Deputy Comptroller that DLA reported the incorrect reporting for the January 2010 Triannual Review results, as well as any other submissions for which incorrect periods were submitted.

#### **Management Comments:**

Management concurs with the finding and recommendations.

#### **2. System Limitations**

In performing our walkthroughs over the Triannual review process, we noted that Enterprise Business System (EBS) has several limitations that prevent the DLA Troop Support supply chains from effectively performing the reviews as required by the DoD FMR. Specifically, the system

- does not generate accurate reports;
- is unable to produce reports that agree to the trial balance;
- is unable to produce reports for certain profit centers as well as for certain accounts;
- does not provide enough detail in the reports for the users to perform the review to the level that is required; and
- does not produce standardized obligation reports to ensure consistent reporting.

During our walkthroughs at DLA Troop Support, we noted that EBS does not produce accurate reports. Specifically, the DLA Troop Support supply chains use the Unliquidated Obligations Report (ULO Report) to identify those obligations that need to be reviewed as part of the Triannual Review Process. However, we noted two instances where obligations that were cleared from the financial records were still being identified on the report. In one instance a purchase order had been cleared in EBS but was still showing as an open obligation on the ULO Report. In another instance, a disbursement cleared an obligation but was identified as open on the ULO Report. We also noted that the ULO Report does not agree to the trial balance and as a result we were unable to verify the completeness of the report.

The system is also unable to provide reports for certain profit centers due to the voluminous amount of data. As a result, two supply chains are unable to obtain the reports that they need in order to perform their reviews. Specifically, DLA Troop Support-Medical is only able to obtain a report for 1 out of 8 profit centers. DLA Troop Support-Subsistence is only able to obtain a report for 3 out of 5 profit centers.

In addition, the DoD FMR requires the Triannual Review Process to include reviewing those obligations that have been dormant (i.e. no activity for a period of 120 days).

However, the ULO Report is generated using the contract date. As such, the supply chains are reviewing those obligations for contracts with an expired period of performance. The open obligations with current periods of performance but no activity for a period of 120 days are not being captured on the ULO Report and therefore not being reviewed.

Also, the system does not produce standardized obligation reports to ensure consistent reporting. Each activity is responsible for generating its own reports identifying the population and determining which transactions should be reviewed.

During our walkthrough at DLA Energy, we noted that the HAMRE report, which is used by DLA Energy to identify the population of transactions for review, does not agree to the trial balance and as a result we were unable to verify the completeness of the report.

DoD FMR Volume 3, Chapter 8, Paragraph 080401 states the following:

“The Triannual Review process is an internal control practice used to assess whether commitments and obligations recorded are bona fide needs of the appropriations charged. Fund Holders, with assistance from supporting accounting offices, shall review dormant commitments, unliquidated obligation, accounts payable and accounts receivable transactions for timeliness, accuracy, and completeness during each of the four month periods ending on January 31, May 21, and September 30 of each fiscal year. “

DoD FMR Volume 3, Chapter 8, Paragraph 080403 states the following:

“Accounting offices shall provide fund holders with listing(s) or automated media identifying both dormant commitments and unliquidated obligations recorded for the funds holder. The accounting office also shall provide listing(s) or automated media identifying accounts payable and accounts receivable which enable the funds holder to verify proprietary accounts (as well as budgetary accounts) and, thus, ensure that proprietary and budgetary accounts are valid, accurate and reconciled.”

DoD FMR Volume 3 Chapter 8 Paragraph 080409 states the following:

“Components are encouraged to adopt automated tools to support the Triannual Review. Several tools are available that track duplicate obligation documents; certification requirements as well as commitment status; certification requirements as well as commitment and obligation status. Automated tools should be evaluated by the Components for possible savings in cost, time and enhanced accuracy of the review process.”

The financial system does not produce accurate and complete reports which are needed to perform the Triannual review as required by the DoD FMR. As a result, the activities are unable to effectively perform the Triannual reviews and invalid obligations and accounts payable may exist on the financial records.

**Recommendation:**

We recommend that the system be updated to allow it to generate accurate and complete reports. In addition, we recommend that the ULO report be enhanced to provide the needed information for the DLA Troop Support supply chains to perform an effective review.

We recommend that DLA develop and implement formal policies and procedures that require the use of standardized reports to ensure that the data being reviewed is consistent.

In addition, DLA Energy should perform a reconciliation of the HAMRE report to the trial balance to verify the completeness of the populations prior to performing their review.

**Management Comments:**

Management partially concurs with the finding and recommendations and the comments provided are responsive.

Management non-concurs with the conclusion that EBS reports are inaccurate. However, they concur that there is currently not one standardized report for each account (commitments, obligations, and Accounts Payables (AP)) with sufficient details for users to perform the review, which ties to the trial balance. In addition, management acknowledges that there are system limitations and volume impacts that negatively affect the efficiency of the triannual review. Further, management agrees with the intent of the recommendations to ensure that all PLFAs use a standard method for obtaining and reviewing detailed information to conduct the triannual review.



### 3. Lack of Internal Controls

Our inspection of the January 31, 2010 Triannual review submission revealed the following observations:

- The DLA Certification letter did not include a statement that identified the internal controls used to ensure that the detailed reviews were conducted;
- For 10 of the 17 activities tested, the activity did not use the recommended confirmation letter template provided by J-85;
- For 4 of the 17 activities that submitted confirmation letters, the activity did not complete the recommended supporting spreadsheet provided by J-85;
- For 3 of the 13 activities that submitted confirmation letters, the supporting spreadsheets contained mathematical errors;
- The required review of accounts receivable was not performed by 4 of 17 activities that submitted confirmation letters;
- The required review of accounts payable was not performed by 7 of 17 activities that submitted confirmation letters; and
- The required review of commitments was not performed by 9 of 17 activities that submitted confirmation letters.

DoD FMR Volume 3, Chapter 8, Paragraph 080401 states the following:

“The Triannual Review process is an internal control practice used to assess whether commitments and obligations recorded are bona fide needs of the appropriations charged. Fund Holders, with assistance from supporting accounting offices, shall review dormant commitments, unliquidated obligation, accounts payable and accounts receivable transactions for timeliness, accuracy, and completeness during each of the four month periods ending on January 31, May 31, and September 30 of each fiscal year.”

DoD FMR Volume 3, Chapter 8, Paragraph 080408 states the following:

“Within 45 working days following the end of January, May and September each fiscal year, the Assistant Secretaries of the Military Departments (Financial Management and Comptroller) and the Comptrollers of the Defense Agencies shall provide confirmation statements to the Director for Program and Financial Control, Office of the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller). The Confirmation Statement, and all Triannual Review documents, should include the name, email address, office symbol and telephone number (both commercial and Defense Switched Network ) of the Certifying Official. These confirmation statements must (1) confirm that

the required commitment and obligation reviews have been conducted; (2) confirm that all known obligations have been recorded; and (3) identify the internal controls used to ensure that the detail reviews were conducted. In addition, the confirmation statement will identify by organization and individual, any funds holder that was unable to complete the required review or confirm the accuracy of the reported commitments and obligations and provide a full explanation of and any corrective action taken.”

DoD FMR Volume 3 Chapter 8 section 080409, Automated Tools Supporting the Triannual Review states the following:

“Components are encouraged to adopt automated tools to support the Triannual Review. Several tools are available that track duplicate obligation documents; certification requirements as well as commitment status; certification requirements as well as commitment and obligation status. Automated tools should be evaluated by the Components for possible savings in cost, time and enhanced accuracy of the review process.”

J-85 does not maintain formal policies and internal controls requiring detailed reviews of confirmation statements and supporting spreadsheets submitted by the activities. Activities are permitted to report whatever information they feel is appropriate to satisfy the Triannual Reporting requirements. As a result of the lack of monitoring and oversight by J-85, the Triannual Review submission may be inaccurate and incomplete.

#### **Recommendation:**

We recommend that DLA develop and implement formal policies, procedures and internal controls that require the J-85 Accountant or other appropriate personnel to perform a detailed review of confirmation statements and supporting spreadsheets submitted by the activities.

The detailed review should include the following:

- agreeing amounts reporting on confirmation statements to the supporting spreadsheets;
- agreeing amounts reported to supporting documents and reports;
- ensuring completeness of transactions reported by agreeing the universe to the trial balance;
- performing inquiries about significant variances and fluctuations to amounts reported;
- verifying that all required transactions and transaction types were reviewed; and

- verifying that any limitations which were encountered are included in the confirmation statement.

#### **Management Comments:**

Management concurs with the finding and recommendation.

#### **4. Lack of Review over Dormant Obligations**

In performing our walkthroughs over the Triannual review process at DLA Troop Support, we noted that the Subsistence group is not performing the review in accordance with the DoD FMR. Specifically, we noted that the Subsistence group is reviewing unliquidated obligations for only the current 4 month period instead of dormant obligations as of the end of the reporting period.

DoD FMR Volume 3, Chapter 8, Paragraph 080401 states the following:

“The Triannual Review process is an internal control practice used to assess whether commitments and obligations recorded are bona fine needs of the appropriations charged. Fund Holders, with assistance from supporting accounting offices, shall review dormant commitments, unliquidated obligation, accounts payable and accounts receivable transactions for timeliness, accuracy, and completeness during each of the four month periods ending on January 31, May 31, and September 30 of each fiscal year.

- A. Review of Commitment and Unliquidated Obligation transactions. Fund holders review and validate commitments and obligations as transactions occur. For purposes of this chapter, commitments and obligations are defined as dormant if no obligations, adjustments, contract modifications, disbursements, or withdrawals occur within a 120 day period. Additionally, commitments and obligations are defined as dormant in the case of contracts that are physically complete and for which the period of performance has expired (hereinafter, “dormant contracts”). For dormant contracts, which have been physically complete for 12 months or more and have remaining funds of less than \$1,000, the accounting office will deobligate the funds based on a written consent from the funds holder and contracting officer...”

There is a lack of management oversight in ensuring that the Triannual review is being performed in accordance with the DoD FMR. By only reviewing the current 4 month

period, there may be older obligations with no activity for greater than 120 days that are not being captured as part of the Subsistence group's review. As a result, dormant obligations may not be reviewed and invalid obligations may be reported on the financial records.

**Recommendation:**

We recommend that the DLA Troop Support Subsistence group follow the DoD FMR guidance and expand its review to include all unliquidated obligations that meet the specified criteria of no activity within 120 days.

**Management Comments**

Management concurs with the finding and recommendation.

**5. Lack of Management Review**

In performing our walkthroughs over the Triannual Review Process at DLA Troop Support, we noted that the confirmation statements submitted to J-85 by the supply chains are not reviewed by the Chief, Financial Services Office prior to his/her certification. We noted that the Chief, Financial Services Office relies on the financial accountant's analysis and does not perform a review over the information that is submitted.

The Federal Managers Financial Integrity Act of 1982 (FMFIA) Section 2 states the following:

"Internal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurances that --

- i. obligations and costs are in compliance with applicable law
- ii. funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- iii. revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

There is a lack of management oversight in ensuring that the information being submitted to J-85 is accurate and complete. As a result of the lack of review, the Triannual Review submission may be inaccurate and incomplete.

**Recommendation:**

We recommend that the DLA-Troop Support Branch Chiefs perform a review over the information presented on the confirmation statement prior to certification.

In addition, we recommend that J-85 implement procedures to ensure that all certifying officials are performing a review over the information prior to certification.

**Management Comments:**

Management concurs with the finding and recommendation.

**CONCLUSION**

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As a result of our procedures, we determined that DLA is not performing the Triannual Review Process in accordance with the DoD FMR. Specifically, we identified 5 findings related to several system limitations and a lack of internal controls that prevent DLA from effectively performing the Triannual Review Process.

## SUMMARY OF RECOMMENDATIONS

No.	Finding	Recommendation	Addressee	Status of Corrective Action	Estimated Completion Date
1	1	We recommend that J-85 issue new guidance to FSOs informing them of the correct reporting periods per the DOD FMR.	J-85	Complete <sup>1</sup>	9/30/10
2	1	We recommend that J-85 monitor FSOs' submissions to verify that they are reporting the correct periods.	J-85	Complete <sup>1</sup>	9/30/10
3	1	We recommend that J-85 inform the OUSD, Office of the Deputy Comptroller that DLA reported the incorrect reporting for the January 2010 Triannual Review results, as well as any other submissions for which incorrect periods were submitted.	J-85	Complete <sup>1</sup>	9/30/10
4	2	We recommend that the system be updated to allow it to generate accurate and complete reports. In addition, we recommend that the ULO report be enhanced to provide the needed information for the DLA Troop Support supply chains to perform an effective review.	J-85	Open	9/30/11
5	2	We recommend that DLA develop and implement formal policies and procedures that require the use of standardized reports to ensure that the data being reviewed is consistent.	J-85	Open	9/30/11
6	2	We recommend that DLA Energy perform a reconciliation of the HAMRE report to the trial balance to verify the completeness of the populations prior to performing their review.	DLA Energy	Open	To be determined.

<sup>1</sup> Complete means the auditee reports the corrective action has been implemented; however, the DLA Office of Inspector General has not validated the claim.

No.	Finding	Recommendation	Addressee	Status of Corrective Action	Estimated Completion Date
7	3	We recommend that DLA develop and implement formal policies, procedures and internal controls that require the J-85 Accountant or other appropriate personnel to perform a detailed review of confirmation statements and supporting spreadsheets submitted by the activities.	J-85	Open	9/30/11
8	4	We recommend that the DLA-Troop Support Subsistence group follow the DOD FMR guidance and expand its review to include all unliquidated obligations that meet the specified criteria of greater than \$50K and no activity within 120 days.	Troop Support J-8.	Open	9/30/11
9	5	We recommend that the DLA-Troop Support Branch Chiefs perform a review over the information presented on the confirmation statement prior to certification.	Troop Support J-8.	Open	9/30/11
10	5	We recommend that J-85 implement procedures to ensure that all certifying officials are performing a review over the information prior to certification.	J-85	Open	9/30/11

**ABBREVIATIONS USED IN THIS REPORT**

AP	Accounts Payable
AR	Accounts Receivable
DFAMS	Defense Fuel Automated Management System
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DoD	Department of Defense
DoD IG	Department of Defense Inspector General
EBS	Enterprise Business System
FAS	Fuels Automated System
FMFIA	Federal Managers Financial Integrity Act of 1982
FMR	Financial Management Regulation
FSO	Financial Service Office
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
J-85	DLA Finance, Agency Accounting Operations
PLFAs	Primary Level Field Activities
POCs	Point of Contacts
ULO	Unliquidated Obligations
OUSD	Office of the Under Secretary of Defense



## MANAGEMENT COMMENTS



DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
8725 JOHN J. KINGMAN ROAD, SUITE 2533  
FORT BELVOIR, VIRGINIA 22060-6221

IN APPLY  
REFER TO J-8

NOV 27, 2010

## MEMORANDUM FOR DLA ACCOUNTABILITY OFFICE

SUBJECT: Response to Draft Report on the Audit of the DLA Triannual Review Process.

This memorandum is in response to the referenced draft report initiated by your office as part of the Fiscal Year (FY) 2010 Enterprise Annual Audit Plan. Below are our comments.

1. Finding # 1 (Incorrect Reporting Period)

Management concurs with the finding and recommendations.

DLA Finance, Agency Accounting Operations (J-85), adjusted the reporting periods by 30 days from the dates indicated on the Department of Defense (DoD) Financial Management Regulation (FMR), to provide the Primary Level Field Activities (PLFA) more time to complete their reviews while learning and becoming familiar and proficient with the reporting tools provided by Enterprise Business System (EBS). However, in FY 2010, J-85 issued written guidance for the 2<sup>nd</sup> and subsequent triannual reviews complying with the reporting periods required by the DoD FMR.

In addition, the template and guidance provided to the PLFAs required that they indicate the reporting period for each review. J-85 will closely monitor the periods reported by the PLFAs to ensure compliance with the guidance provided.

Furthermore, J-85 submitted the 2<sup>nd</sup> and 3<sup>rd</sup> confirmation letters of FY 2010 to the Office of the Deputy Comptroller, Office of the Under Secretary of Defense (OUSD), reflecting the reporting periods in accordance with the DoD FMR.

2. Finding # 2 (System Limitations)

Management partially concurs with the finding and recommendations.

Management non-concurs with the conclusion that EBS reports are inaccurate. However, we concur that there is currently not one standardized report for each account (commitments, obligations, and Accounts Payables (AP)) with sufficient details for users to perform the review, which ties to the trial balance. In addition, management acknowledges that there are system limitations and volume impacts that negatively affect the efficiency of the triannual review. Further, management agrees with the intent of the recommendations to ensure that all PLFAs use a standard method for obtaining and reviewing detailed information to conduct the triannual review.

In response to internally identified report limitations, the DLA Finance Information Management Project was initiated to gather requirements for commitments, obligations, Accounts Receivable (AR), and AP reports. The new reports will utilize the integrated Business Object Enterprise suite of tools coupled with the EBS Business Warehouse to eliminate performance issues (e.g. timeouts and non-attrition of transactions cleared) currently experienced with reports. The development and implementation of reports in Business Objects Enterprise that tie to the trial balance and allow users to query only open transactions is targeted for completion by 3<sup>rd</sup> quarter of FY 2011.

Until these reports are available, DLA Finance will develop standard guidance to be used by all PLFAs. This guidance will include the reports to be used and procedures for obtaining detailed information, and DLA review expectations. This will help ensure that the data being reviewed and submitted by the PLFA's is consistent.

DLA Energy concurs with the finding and is aware that the triannual review summary does not currently tie to the trial balance. As a result, DLA Energy is actively working to resolve this condition. Current period data extracted from Defense Fuel Automated Management System (DFAMS) and the Fuels Automated System (FAS) can be tied to the trial balance while historical data cannot. DLA Energy is currently evaluating the level of effort that will be required to tie the cumulative (historical and current) activity to the trial balance. At this time, DLA Energy does not have a delivery date to tie DFAMS cumulative data to the trial balance. DLA Energy expects to link cumulative FAS data to the trial balance by the 2<sup>nd</sup> triannual review, FY 2011.

### 3. Finding # 3 (Lack of Internal Controls)

Management concurs with the finding and recommendation.

Beginning with the 3<sup>rd</sup> Triannual Review FY 2010, DLA included a statement in the confirmation letter reiterating the guidance provided to ensure that the detail reviews were conducted. In addition, J-85 issues written guidance and hosts a teleconference with all PLFAs to communicate review expectations and discuss any obstacles. The written guidance includes templates for the confirmation letters and the supporting spreadsheet. However, some PLFAs consistently submitted revised confirmation letters. During the teleconference held on September 22, 2010, in anticipation to the 3<sup>rd</sup> Triannual review, PLFAs were reminded that the templates provided were required for their confirmation letters and spreadsheets. Furthermore, J-85 advised the PLFAs that submissions made not in accordance with the standard template will be returned for immediate correction.

The mathematical errors identified were the result of J-85 transposing record count information provided by the PLFAs and did not impact the triannual review submission to OUSD. The record count information was collected in response to previous request as part of the quarterly Financial Statement briefing. J-85 continues to collect this information for internal purposes and has corrected the consolidated spreadsheet to ensure all formulas and links are correct.

The Defense Finance and Accounting Service (DFAS) perform the review of all AR data for DLA. During the 1<sup>st</sup> and 2<sup>nd</sup> review periods of each FY, the scope of the AR review is all AR line items with a dollar value greater than \$50K (over 30 days old), and all line items greater than 2 years old, regardless of dollar value that were in a receivable status as of the last day of each review period, are recorded in United States Standard General Ledger account 13100100, AR. For the 3<sup>rd</sup> Triannual Review of each FY, the scope of the AR review is all open AR lines items (100%), whether current or dormant, to substantiate the year-end certification requirements. "Any AR outside the threshold values during the initial two reviews will not be included." Starting with the 1<sup>st</sup> review of FY 2011, supporting documentation from DFAS will be maintained confirming which activities are below the established threshold values.

Per the PLFAs, the lack of commitment and AP review was the result of systems limitations encountered with EBS. A corrective action to address EBS systems limitations is being targeted for completion by 3<sup>rd</sup> Quarter of FY 2011. Meanwhile, J-85 will discuss the requirement to review AP balances based on workaround reports until the adequate EBS report is available.

4. Finding # 4 (Lack of Review over Dormant Obligations)

Management concurs with the finding and recommendation.

The DLA Troop Support (Subsistence) 3<sup>rd</sup> Triannual Review of FY 2010 included dormant obligations as of the end of the reporting period.

5. Finding # 5 (Lack of Management Review)

Management concurs with the finding and recommendation.

J-85 will ensure that Accounting Branch Chiefs certify the Triannual review confirmation statement. The Accounting Branch Chief is responsible for the day to day accounting operations to include ensuring that obligations and costs are recorded in compliance with applicable laws, and that funds, property, and other assets are safeguarded against waste, loss, and unauthorized use or misappropriation. Any confirmation letter not certified at the appropriate level will be return for their immediate correction.

(b)(6)

J. ANTHONY POLEO  
Director, DLA Finance  
Chief Financial Officer

## ACKNOWLEDGMENTS

Katie Schirano, Audit Director, Audit Division, DLA Office of Inspector General

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*DLA Office of the Inspector General*

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## **Audit of Subsistence and Nonprescription Drug Recalls**

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# Executive Summary

Audit Report DAO-10-13

March 16, 2012

## Audit of Subsistence and Nonprescription Drug Recalls

### Results

Joint DLA Regulation (DLAR) 4155.26 created the "DOD [Department of Defense] Hazardous Food and Nonprescription Drug Recall System" to ensure that appropriate actions are taken to protect the health of military personnel and their dependents; as well as the financial interests of the DOD. Within this system, DLA Troop Support is responsible for acting as the "sole agent for DOD to coordinate all hazardous, tampered or suspected tampering of food and nonprescription drug recalls which may involve the Services." In this role, DLA Troop Support notifies DOD activities of recalls affecting DOD supplies and ensures that recalls of DLA-managed food and nonprescription drugs are managed efficiently and effectively.

DLA Troop Support had procedures in place to ensure customers received timely notification that subsistence products and nonprescription drugs procured by the DOD supply chain had been recalled. However, DLA Troop Support did not have documentation to support all actions taken for reports of hazardous food or nonprescription drugs including the initiation of All Food/Drug Activity (ALFOODACT) recall messages through Defense Messaging System (DMS). This occurred because DLA Troop Support recall notification procedures did not address document retention. As a result, if an adverse health consequence is attributed to the use or consumption of recalled hazardous food or nonprescription drugs, DLA may not be able to prove all appropriate actions were taken to communicate the recall to DOD personnel.

Additionally, DLA did not effectively manage recalled subsistence products and nonprescription drugs to obtain either credit or replacement products in a timely manner. Specifically, DLA Troop Support did not retain documentation to show that all identified products subject to the 2009 recall of nonfat dry milk affecting DLA-managed operational rations were removed from the supply chain and did not receive credit or replacement products for all items subject to the recall. This occurred because DLA Troop Support did not have standard operating procedures to document the manual process used to bypass Enterprise Business System (EBS) design limitations and MRE contracts were not worded appropriately to ensure that DLA Troop Support had the ability to pursue credit or replacement products subject to recall by the Food & Drug Administration (FDA). As a result, DLA Troop Support did not remove all material identified for recall from the supply chain, account for all material in EBS, or receive credit or replacement products for MREs subject to recall by the FDA.

### Why DLA OIG Did this Review

As approved in the DLA FY 2010 Annual Audit Plan, we conducted an audit of Subsistence and Nonprescription Drug Recalls to evaluate the subsistence and nonprescription drug recall notification and management procedures.

### What DLA OIG Did

The specific objectives of this audit were to determine if: Procedures were in place to ensure that customers received timely notification that subsistence products and nonprescription drugs procured by the DOD supply chain had been recalled; and DLA was effectively managing recalled subsistence products and nonprescription drugs and obtaining either credit or replacement products in a timely manner.

### What DLA OIG Recommends

This report contains four recommendations addressed to DLA Troop Support. DLA OIG recommends that DLA Troop Support:

- Update recall notification procedures to include document retention controls.
- Create formal recall management operating procedures to document the process used to manage recalled product outside of EBS.
- Purse EBS updates that provide in system visibility of MRE stock movement.
- Clarify MRE contract solicitation language to ensure that DLA has the ability to return recalled products for credit or replacement products.



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

March 16, 2012

MEMORANDUM FOR  
Director, Logistics Operation  
Commander, DLA Troop Support

This is our report on the audit of Subsistence and Nonprescription Drug Recalls. It includes the results of our audit and conclusions concerning recall notification and management procedures.

The DLA Office of the Inspector General (OIG) conducted an enterprise audit to evaluate the subsistence and nonprescription drug recall notification and management procedures. The specific objectives of this audit were to determine if:

- Procedures were in place to ensure that customers received timely notification that subsistence products and nonprescription drugs procured by the Department of Defense (DOD) supply chain had been recalled.
- DLA was effectively managing recalled subsistence products and nonprescription drugs and obtaining either credit or replacement products in a timely manner.

We determined that DLA Troop Support had procedures in place to ensure customers receive timely notification that subsistence products and nonprescription drugs procured by the DOD supply chain had been recalled. However, DLA Troop Support did not have documentation to support the initiation of recall messages through DMS. Additionally, we determined DLA did not effectively manage recalled subsistence products and nonprescription drugs to obtain either credit or replacement products in a timely manner. This report contains four recommendations addressed to the Commander of DLA Troop Support to improve recall notification and management procedures.

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

We appreciate the courtesies and cooperation extended to us during the audit. For additional information about this report, contact (b)(6) or email at

(b)(6)

(b)(6)

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



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# INTRODUCTION

## OBJECTIVES, SCOPE, AND METHODOLOGY

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The DLA Office of the Inspector General (OIG) conducted an audit to evaluate the subsistence and nonprescription drug recall notification and management procedures. The specific objectives of this audit were to determine if:

- Procedures were in place to ensure that customers received timely notification that subsistence products and nonprescription drugs procured by the Department of Defense (DOD) supply chain had been recalled.
- DLA was effectively managing recalled subsistence products and nonprescription drugs and obtaining either credit or replacement products in a timely manner.

We conducted this performance audit in accordance with generally accepted government auditing standards issued by the Government Accountability Office (GAO) except for the standard related to organizational independence. This organizational impairment resulted from the DLA 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 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 those standards require that we plan and conduct the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusion related to our audit. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

To determine whether customers received timely recall notification, we:

- Reviewed and analyzed DLA Regulation 4155.26 "DOD Hazardous Food and Nonprescription Drug Recall System" dated July 2, 2008, to gain an understanding of the recall notification process.
- Interviewed personnel from the DLA Troop Support Food Safety Office to determine local DLA recall notification procedures.
- Reviewed and analyzed recall notification messages distributed by the United States Department of Agriculture, Food and Drug Administration (FDA), and DLA Troop Support Food Safety Office from January 1, 2010 through December 31, 2010.

To determine whether DLA effectively managed recalled subsistence products and nonprescription drugs, we:

- Interviewed DLA Troop Support contracting personnel to gain an understanding of DLA's recall management process.
- Identified recalls affecting DLA-managed subsistence items from January 1, 2006 through December 31, 2010.
- Reviewed Enterprise Business System (EBS) receipt and shipment records for the recall of DLA-managed operational rations.
- Reviewed supporting documentation for contract actions taken in response to the recall affecting DLA-managed operational rations.
- Analyzed subsistence contracts to identify clauses related to the recall of subsistence items by federal oversight agencies.
- Reviewed Meals Ready-to-Eat (MRE) contracts to determine acquisition costs.
- Interviewed DLA Troop Support EBS subject matter experts to gain an understanding of EBS subsistence functions.

## BACKGROUND

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GAO identified the Federal Oversight of Food Safety as a high risk area in 2007. Although GAO indicates that the food supply is generally safe, GAO recognizes that changes in food sources, consumption patterns, and demographics have created additional food safety risks for the general population.

Joint DLA Regulation (DLAR) 4155.26 created the "DoD Hazardous Food and Nonprescription Drug Recall System" to ensure that appropriate actions are taken to protect the health of military personnel and their dependents; as well as the financial interests of the DOD. DLAR 4155.26, dated July 2, 2008, assigns recall responsibilities within the DOD and prescribes policy to be followed when recalls are issued by the FDA, U.S. Department of Agriculture, U.S. Department of Commerce, DLA Troop Support, or other Government or nongovernment agencies which concern food or nonprescription drugs that are or may be expected to be in military accounts. Within the DOD Hazardous Food and Nonprescription Drug Recall System, DLA Troop Support is responsible for acting as the "sole agent for DOD to coordinate all hazardous, tampered or suspected tampering of food and nonprescription drug recalls which may involve the Services." In this role, DLA Troop Support notifies DOD activities of recalls

affecting DOD supplies and ensures that recalls of DLA-managed food and nonprescription drugs are managed efficiently and effectively.

**Recall Notification.** To execute DLA's recall notification responsibilities, DLA Troop Support's Food Safety Office evaluates recalls and reports of hazardous foods or nonprescription drugs, determines whether or not the item may affect the accounts of DOD food/nonprescription drug accountable personnel, and notifies appropriate DoD installations and activities worldwide of recalls with All Food/Drug Activity (ALFOODACT) messages sent through the Defense Messaging System (DMS). To differentiate each recall message, DLAR 4155.26 requires ALFOODACT messages to have a serial number taken from a sequence that begins and ends within a calendar year. Based on the Food Safety Office's initial knowledge of the recalled product, the following actions are taken:

- If the recalled product is clearly not in the DOD supply chain, no further action is taken.
- If the recalled product is in the DOD supply chain with limited distribution, the Food Safety Office attempts to contact known distributors by phone and verify that the recalled product is contained. If the Food Safety Office is able to verify that the product is contained, no further action is taken.
- If the recalled product is in the DOD supply chain and the Food Safety Office is not able to verify that the product is contained, an ALFOODACT recall message is initiated.
- If it is not known whether or not the recalled product is in the DOD supply chain, the Food Safety Office initiates a query of DOD agencies to determine if the product is in DOD inventories. If the Food Safety Office receives a positive reply, an ALFOODACT message is initiated.

Although DLAR 4155.26 requires ALFOODACT messages to be distributed through DMS without establishing a specific timeframe for the preparation of ALFOODACT messages, DLA Troop Support formal desktop recall notification procedures instruct the Consumer Safety Officer to initiate ALFOODACT messages as soon as it is confirmed that the recall affects DOD supplies. These procedures also instruct the Consumer Safety Officer to expand DMS ALFOODACT message distribution and notify DOD personnel through Microsoft Outlook distribution lists, the U.S. Army Veterinary Corps' Lotus Notes, and the websites of the U.S. Army Veterinary Corps and DLA Troop Support.

**Recall Management.** To recall DLA-managed food and nonprescription drugs, DLA Troop Support works directly with contractors and DLA storage facilities to identify products affected by recall and ensure they are removed from the supply chain for credit or replacement products.

DLA Troop Support only considers components of operational rations as DLA-managed food and nonprescription drug supplies. As a result, DLA Troop Support only manages recalls involving operational rations. DLA Troop Support lists the following items as operational rations:

- MRE
- First Strike Rations,
- Meal, Religious, Kosher/Halal
- Meal, Cold Weather/Long Range Patrol
- Tailored Operational Training Meal
- Humanitarian Daily Ration
- Meal, Alternative Regionally Customized
- Unitized Group Rations
- Survival, General Purpose, Improved
- Survival, Abandon Ship
- Survival, Aircraft, Life Raft
- Ultra High Temperature Milk

### **DLA and GAO Guidance**

As part of the DoD Hazardous Food and Non-prescription Drug Recall System identified in DLAR 4155.26, DLA Troop Support is responsible for evaluating recalls and reports of hazardous foods or nonprescription drugs for DoD involvement, notifying appropriate installations and activities worldwide of recalls affecting DoD through DMS, and managing the recall of DLA-managed food and nonprescription drug supplies to protect the health of military personnel and their dependents; as well as the financial interests of DoD. Additionally, GAO's "Standards for Internal Control in the Federal Government", dated November 1999, states in the "Appropriate Documentation of Transactions and Internal Control" section that "all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination"

# RESULTS, RECOMMENDATIONS, AND CONCLUSIONS

## RESULTS AND RECOMMENDATIONS

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DLA Troop Support had procedures in place to ensure customers received timely notification that subsistence products and nonprescription drugs procured by the DOD supply chain had been recalled. However, DLA Troop Support did not have documentation to support all actions taken for reports of hazardous food or nonprescription drugs including the initiation of All Food/Drug Activity (ALFOODACT) recall messages through DMS.

This occurred because DLA Troop Support recall notification procedures did not address document retention. As a result, if an adverse health consequence is attributed to the use or consumption of recalled hazardous food or nonprescription drugs, DLA may not be able to prove all appropriate actions were taken to communicate the recall to DOD personnel.

Additionally, DLA did not effectively manage recalled subsistence products and nonprescription drugs to obtain either credit or replacement products in a timely manner. Specifically, DLA Troop Support did not retain documentation to show that all identified products subject to the 2009 recall of nonfat dry milk affecting DLA-managed operational rations were removed from the supply chain and did not receive credit or replacement products for all items subject to the recall. This occurred because DLA Troop Support did not have standard operating procedures to document the manual process used to bypass EBS design limitations and MRE contracts were not worded appropriately to ensure that DLA Troop Support had the ability to pursue credit or replacement products subject to recall by the FDA. As a result, DLA Troop Support did not remove all material identified for recall from the supply chain, account for all material in EBS, or receive credit or replacement products for all MREs subject to recall by the FDA.

### Recall Notification

DLA Troop Support did not have documentation to support all actions taken for reports of hazardous food or nonprescription drugs and the initiation of ALFOODACT recall messages through the Defense Messaging System (DMS).

During our audit, we reviewed ALFOODACT messages distributed by DLA Troop Support from January 1, 2010 through December 31, 2010. During this period, DLA Troop Support distributed 38 ALFOODACT recall messages and one ALFOODACT message summarizing the ALFOODACT messages distributed in the previous calendar year. We found:

- 29 recalls had sufficient documentation (76%).
- 9 recalls had incomplete documentation (24%).

While no published standard existed, of the 76 percent of ALFOODACT messages where source documentation was available, each message contained the appropriate content and was distributed appropriately through the DMS distribution list within 11 days. Specifically, we determined:

- 15 messages were distributed within 1 day.
- 6 messages were distributed within 2 to 3 days.
- 3 messages were distributed within 4 to 5 days.
- 5 messages were distributed within 6 to 11 days.

For the 24 percent with incomplete documentation, we were unable to determine specific causes for the delays because source documentation for the initial positive confirmation of DOD involvement in the recall was not retained. Additionally, we were unable to determine the DMS message content, distribution, and timeliness of 7 recalls and 2 ALFOODACT messages.

The Consumer Safety Officer did not retain documentation because DLA Troop Support recall notification procedures did not specifically address document retention, although the procedures provided detailed instructions on how to distribute recall messages through DMS (as well as other sources). As a result, if an adverse health consequence is attributed to the use or consumption of recalled hazardous food or nonprescription drugs, DLA may not be able to prove all appropriate actions were taken to communicate the recall to DOD personnel.

To correct this issue, DLA Troop Support should modify the recall notification procedures to require retention of source documents. Examples of documentation to retain could include source documents to verify:

- Recall notification from the issuing agency.
- Initial positive confirmation of Department of Defense involvement.
- Message distribution through the Defense Messaging System.

### **Recommendation 1**

Update the recall notification procedures associated with DLA Regulation 4155.26 to include document retention controls that ensure source documents are retained for each distributed ALFOODACT message.

### **Management Comments**

Concur. DLA Regulation 4155.26, Recall Notification Procedures changes will be reviewed and updated via a Change Sheet. The Change Sheet will then be linked to current 4155.26 and available via the Subsistence Directorate website by March 30, 2012. Additionally, the Subsistence Food Safety Officer has already worked with appropriate Troop Support personnel to retain both source documents and DMS confirmation emails

### **Recall Management**

DLA did not effectively manage recalled subsistence products and nonprescription drugs to obtain either credit or replacement products in a timely manner in accordance with DLAR 4155.26. Specifically, we identified about 60,000 of 1,200,000 cases of recalled MREs that were misclassified between the FDA and expanded Recalls and found that recalled MREs were not appropriately tracked in EBS, which resulted in about 26,000 cases of MREs not being appropriately recalled. This occurred because DLA Troop Support did not have standard operating procedures to document the manual process used to bypass EBS design limitations nor were contract clauses clearly communicated. As a result, DLA Troop Support was overcharged by approximately \$286,500. This additional cost represents funds that could have been put to better use.

**Recall Population.** During our audit, we found that one recall affected DLA-managed operational rations between January 1, 2006, and December 31, 2010. DLA Troop Support communicated this recall through ALFOODACT message 130-2009 and updates 131-2009 and 139-2009. ALFOODACT message 130-2009 initially notified DOD activities that the FDA recall of nonfat dry milk affected the dairy shake components of operational rations and established a "Do Not Consume" order. The updates provided specific courses of action on implementing the recall.

While the "Do Not Consume" order was in effect, DLA Troop Support worked with operational ration contractors to determine the extent of the recall and consulted with the Services to determine an effective course of action. ALFOODACT 131-2009 provided additional information regarding:



- Establishing production cut off dates to separate safe products from product may have been affected by the recall.
- Concluding that placing the affected lots on medical hold could create a shortage of rations available to the war fighter.
- Determining that the scope of rework required on rations outside of DLA Depot control was impractical.
- Reworking DLA controlled MREs so that products are safe to consume.
- Informing Service member that the “do not consume” order remains in effect for products that have not been reworked.
- Concluding that it was practical for consumers and end user to continue removing and destroying all flavors of dairy shake powder until the potentially contaminated stock was exhausted.

After consulting with the DOD Veterinary Service Agency, DLA Troop Support published ALFOODACT 139-2009 which created an expanded recall covering additional MRE production lots outside of the production lots identified in the FDA recall.

**Management of Recall.** To identify the universe of recalled DLA-managed MREs, DLA Troop Support provided the affected the production lot information to operational ration contractors and DLA storage facilities. DLA Troop Support identified 1,211,838 cases of DLA-managed MREs subject to the FDA and expanded recalls while contractors identified reworking 1,185,692 cases. DLA Troop Support generally did not have EBS records or other documentation to support the recalled MREs that the contractors reported reworking.

Table 1: Subsistence Recall (in cases)

Recall	DLA Troop Support Universe	Contractor Universe	Misclassification	Contractor Rework	Cases Not Reworked
FDA	957,331	882,652	+ 59,817	942,469	14,862
Expanded	254,507	303,040	-59,817	243,223	11,284
<b>Total</b>	<b>1,211,838</b>	<b>1,185,692</b>	<b>0</b>	<b>1,185,692</b>	<b>26,146</b>

Because the contractor records initially indicated that the number of cases of MREs reworked under the expanded recall was in excess of the number identified by DLA Troop Support, we reviewed the contractor’s detailed billing records. The billing records showed that the contractor reworked MREs subject to both the FDA and expanded recalls. By comparing the number of cases reworked to the total population identified for recall by DLA Troop Support,

we identified 59,817 cases that were actually subject to the FDA recall but billed as expanded recall work. For example, lots 7206 and 7226 were reworked during the expanded recall; however, the same lots were initially identified by the contractor as being subject to the FDA recall. A detailed listing of the lots identified for recall by the FDA and reworked as part of the expanded recall can be found in Appendix B.

Additionally, we found that a total of 26,146 cases of potentially contaminated MREs were not reworked by contractors. The cases not reworked included cases of MREs that were produced by three contractors and subject to both the FDA and expanded recalls.

**System Limitations.** The primary cause of these issues was that DLA Troop Support conducted this manual recall process outside of EBS and had not documented the process in the form of a standard operating procedure. Additionally, DLA Troop Support did not maintain other documentation outside of EBS to validate recall receipt and shipment quantities.

According to DLA Troop Support Business Process Support personnel, DLA Troop Support typically manages MREs through EBS. However, DLA Troop Support's ability to track recalled MREs was impacted by EBS design limitations that did not allow DLA Troop Support to alter condition codes or create Stock Transport Orders for MREs at non-DLA storage facilities storing DLA-managed MREs. Therefore, DLA Troop Support needed to use a series of manual transactions outside of normal EBS procedures to move MREs to and from the contractor for rework. These manual transactions included:

- Creating manual Stock Transport Orders in EBS.
- Emailing Distribution Standard System Material Release Order and transportation requests to DLA Distribution.
- Faxing Material Issue/Release Receipt Documents (DD Form 1348) to validate operational ration shipment quantities.
- Blocking stock at non-DLA storage facilities through EBS to prevent the movement of recalled operational rations.
- Unblocking stock at non-DLA storage facilities through EBS to allow the movement of reworked operational rations.

As a result of these system limitations, DLA Troop Support did not have EBS records or other documentation to support the receipt of 69 percent (819,923 of the 1,185,692 cases) of the recalled MREs that the contractor reported reworking. Based on contract records for the affected MREs that show an average acquisition value of roughly \$55 per case, we calculated the acquisition value of 819,923 MREs to be approximately \$45 million.

We also found that 26,146 cases of potentially contaminated MREs, identified for recall by DLA Troop Support, were not removed from the supply chain and returned to the assembler for credit or replacement. This is of particular concern because the recall was initiated due to potential salmonella contamination of the dairy shake mix.

### **Recommendation 2**

Create formal recall management operating procedures associated with DLA Regulation 4155.26 to document the process used to manage recalled products outside of EBS.

### **Management Comments**

Concur. The US Army Veterinary Command liaison is in the process of revising DLAR 4155.26 (AR 40-660, NAVSUPINST 10110.8C, AFR 161-42, and MCO 10110.38C) including Formal Recall Management Operating Procedures. The US Army Veterinary Command liaison will be visiting Troop Support in April 2012.

### **Recommendation 3**

Pursue EBS updates that provide in system visibility of MRE stock movement.

### **Management Comments**

Concur. DLA Troop Support concurs that system limitations do not provide the level of automated transactions that would provide a paper trail for all stock movements required in a recall environment. DLA Troop Support has taken steps to increase visibility by reclassifying some of the commercial storage sites as "plants" within the EBS system. This will provide DLA Troop Support with additional stock movement capability and visibility in the system. Additional enhancements to aid recall efforts will require a system change request approved by DLA Headquarters.

**Contracts.** The second cause of these issues was that MRE contracts were not worded to ensure that DLA Troop Support had the ability to pursue credit or replacement for products subject to recall by the FDA.

DLA Troop Support Subsistence Contracting personnel identified two contract clauses, the FDA Compliance Clause and the Warranty Clause, which allow DLA to return recalled products to the contractors for credit or replacement.

Although each contract affected by the recall contained both the FDA Compliance Clause and Warranty Clause, the contractor assembling the MREs interpreted these clauses differently from DLA Troop Support. The contractor initially stated they were only responsible for the repair or replacement of MREs received by the Government in the six months prior to the recall notification. The contractor also contended that the FDA Compliance Clause must be read in conjunction with the Federal Food, Drug, and Cosmetic Act and the Wholesome Meat Act, which states that the government has six months from the date of delivery of supplies to discover a breach of warranty. Their argument further bolstered their interpretation of the contract by pointing out that the Warranty Clause also contains a six month limitation of the warranty. However, the contractor eventually agreed to rework MREs recalled by the FDA at no cost, but reserved the right to sue DLA for the cost of rework associated with the recall.

To execute the rework of MREs affected by the expanded recall, DLA Troop Support issued a contract modification to rework all identified MREs at a cost of \$4.79 per case. The contractors detailed billing records show that 303,040 cases were reworked, of which 59,817 were due to the FDA recall, which the contractor had previously agreed to rework at no cost. We computed the amount of potential overpayment by multiplying the number of cases reworked by the cost per case, and concluded that DLA overpaid the contractor by about \$286,500.

To determine if DLA could recoup these funds from the contractor, we met with DLA General Counsel and DLA Troop Support Subsistence Counsel. DLA Troop Support Subsistence Counsel determined that it was not in DLA's best interest to pursue reimbursement for the costs associated with reworking MREs covered by the FDA recall.

#### **Recommendation 4**

Clarify MRE contract solicitation language to protect the financial interests of the DOD by ensuring that DLA has the ability return recalled products for credit or replacement products.

#### **Management Comments**

Concur. DLA Troop Support Subsistence is working with Office of Counsel to review two Defense Logistics Acquisition Directive (DLAD) clauses regarding FDA compliance and warranty. Recommendations to revise DLAD clauses must be approved by DLA Headquarters.

## CONCLUSIONS

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DLA Troop Support generally had procedures in place and operating to notify customers of recalled products; however, DLA Troop Support did not have documentation to support all actions taken for reports of hazardous food or nonprescription drugs and the initiation of ALFOODACT recall messages through DMS. Additionally, DLA Troop Support did not effectively manage recalled subsistence products and nonprescription drugs to obtain either credit or replacement products in a timely manner. Specifically, we identified about 60,000 cases of MREs that DLA paid to rework, which should have been reworked at no cost by the MRE assembling company. We also found that about 26,000 cases of MREs were not reworked, which allowed potential contaminated MREs to enter the distribution system. This occurred because DLA Troop Support either lacked standard operating procedures or the procedures that were in place did not adequately address document retention and MRE contracts did not clearly identify how warranty clauses should be interpreted.

## SUMMARY OF RECOMMENDATIONS

	Recommendation	Addressee	Status of Corrective Action	Estimated Completion Date
1	Update the recall notification procedures associated with DLA Regulation 4155.26 to include document retention controls that ensure source documents are retained for each distributed ALFOODACT message.	DLA Troop Support	Open	March 30, 2012
2	Create formal recall management operating procedures associated with DLA Regulation 4155.26 to document the process used to manage recalled products outside of EBS.	DLA Troop Support	Open	March 1, 2013
3	Pursue EBS updates that provide in system visibility of MRE stock movement.	DLA Troop Support	Open	April 15, 2012
4	Clarify MRE contract solicitation language to protect the financial interests of the DoD by ensuring that DLA has the ability return recalled products for credit or replacement products.	DLA Troop Support	Open	April 15, 2012

**LOTS IDENTIFIED FOR RECALL BY THE FDA AND REWORKED  
AS PART OF THE EXPANDED RECALL**

<b>Production Lot</b>	<b>FDA Recall Production Lot</b>	<b>Quantity Billed to DLA for Expanded Recall</b>
7206	X	11,085
7207	X	14,203
7208	X	8,649
7220	X	4,175
7226	X	8,591
7228	X	46
7334	X	2,256
7352	X	23
8007	X	1
8009	X	82
8060	X	37
8065	X	1
8078	X	3,696
8080	X	6,780
8355	X	192
<b>Total</b>		<b>59,817</b>

**ABBREVIATIONS USED**

DLAR	DLA Regulation
DLAD	Defense Logistics Acquisition Directive
DOD	Department of Defense
ALFOODACT	All Food/Drug Activities
DMS	Defense Messaging System
MRE	Meals Ready-to-Eat
EBS	Enterprise Business System
FDA	Food and Drug Administration
OIG	Office of the Inspector General
GAO	Government Accountability Office



## ACKNOWLEDGMENTS AND OTHER SUPPLEMENTAL INFORMATION

(b)(6) Audit Manager, Operational Audits, DLA Office of the Inspector General  
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## MANAGEMENT COMMENTS



DEFENSE LOGISTICS AGENCY  
TROOP SUPPORT  
700 ROBBINS AVENUE  
PHILADELPHIA, PENNSYLVANIA 19111-5082

MAR 9 2012

MEMORANDUM FOR DLA OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Response to DLA-OIG Draft Audit of Subsistence and Nonprescription Drug  
Recalls

Reference is made to DLA Office of the Inspector General Audit Report #DAO-10-13,  
Audit of Subsistence and Nonprescription Drug Recalls, dated February 6, 2012. Attached is  
DLA Troop Support's response to recommendations in referenced report.

Point of contact for this action is (b)(6)

(b)(6)

(b)(6)

DAVID F. BAUCKOM  
Rear Admiral, SC, USN  
Commander

Attachment  
As stated

DLA Office of the Inspector General  
Audit of Subsistence and Nonprescription Drug Recalls  
Audit Report: DAO-10-13    February 6, 2012

**Recommendation #1**

Update the recall notification procedures associated with DLA Regulation 4155.26 to include document retention controls that ensure source documents are retained for each distributed ALFOODACT message.

**DLA Troop Support Response:**

Concur. DLA Regulation 4155.26, Recall Notification Procedures changes will be reviewed and updated via a Change Sheet. The Change Sheet will then be linked to current 4155.26 and available via the Subsistence Directorate website by 03/30/2012.

ECD for DIAR Change Updates: 03/30/2012

Concur. The Subsistence Food Safety Officer has already worked with appropriate Troop Support personnel. Source retention folders have been created to store both source documents and DMS/AMHS confirmation emails in the DLA Troop Support, X-drive, under ALFOODACT "Continuity Book".

ECD for Document Retention: Completed

**Recommendation #2**

Create formal recall management operating procedures associated with DLA Regulation 4155.26 to document the process used to manage recalled products outside of EBS.

Concur. (b)(6) (US Army VETCOM liaison) is in process of revising DIAR 4155.26 (AR 40 660, NAVSUPINST 101.10.8C, AFR 161-42, and MCO 10110.38C) including Formal Recall Management Operating Procedures. He will be visiting Troop Support in April 2012.

ECD for complete revision of DIAR 4155.26: 03/01/2013

NOTE: Since the actual conducted DLA Audit, some procedures have already changed. One change is that a DMS Access Request is no longer generated to transmit the ALFOODACT message. This process has been automated, when an ALFOODACT message is disseminated.

**Recommendation 3**

**Pursue EBS updates that provide system visibility of MRE stock movement**

**DLA Troop Support Response:**

**Concur.** DLA Troop Support concurs that system limitations do not provide the level of automated transactions that would provide a paper trail for all stock movements required in a recall environment. DLA Troop Support has taken steps to increase visibility by reclassifying some of the commercial storage sites as "plants" within the EBS system. This will provide DLA Troop support with additional stock movement capability and visibility in the system. Additional enhancements to aid recall efforts will require a system change request (SCR) that requires approval at DLA TIQ.

**ECD:** SCR to be forwarded to DLA TIQ by April 15, 2012.

**Recommendation 4**

**Clarify MRE contract solicitation language to protect the financial interests of the DOD by ensuring that DLA has the ability to return recalled products for credit or replacement products.**

**DLA Troop Support response:**

**Concur.** DLA Troop Support Subsistence is working with Office of Counsel to review two DLAD clauses regarding FDA compliance and warranty. Recommendations to revise DLAD clauses must be approved at TIQ DLA.

**ECD:** DLAD clause recommended revisions to TIQ DLA by April 15, 2012.



Purpose: To document the issuance of the final audit report for the Audit of LOG R&D.  
Source: Final report issued by (b)(6) Audit Manager, DLA OIG Audit, DLA Aviation,  
(b)(6) Issued on November 9, 2011, see C.4.PRG

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

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

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**Audit Report: DAO-10-21**

**November 4, 2011**

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# 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.



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

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 (b)(6) or email at

(b)(6)

(b)(6)

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



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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:

Project	FAD to J335		
	FY08	FY09	FY10
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

	Recommendation	Addressee	Status of Corrective Action	Estimated Completion Date
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

(b)(6)	Audit Manager, Operational Audits, DLA OIG Audit Division
(b)(6)	Auditor, Operational Audits, DLA OIG Audit Division
(b)(6)	Auditor, Operational Audits, DLA OIG Audit Division
(b)(6)	Auditor, DLA Aviation
(b)(6)	Auditor, DLA Troop Support
(b)(6)	Auditor, DLA Troop Support

## MANAGEMENT COMMENTS



OFFICE OF THE INSPECTOR GENERAL  
 DEPARTMENT OF DEFENSE  
 1215 JEFFERSON DRIVE  
 WASHINGTON, D.C. 20304-3040

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 Addl 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 withholdings 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 Addl 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 (b)(6)

(b)(6). We appreciate the opportunity to review the draft report.

(b)(6)

LYNN A. COLLYAR  
 BCL USA







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

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# **Information Technology Asset Management Audit**



# Executive Summary

Audit Report DAO-10-26

September 15, 2011

## Information Technology Asset Management Audit

### Results

This audit examined the process in place for managing and accounting for Information Technology (IT) assets such as laptops, desktops, Personal Digital Assistants (PDAs) – specifically, Blackberries that were under the accountable property threshold amount. We performed testing from September 2010 through February 2011 over the DLA HQ process and interviewed personnel at DLA Troop Support-Philadelphia, PA and DLA Distribution-New Cumberland, PA.

We found that DLA Information Operations did not have effective controls in place to maintain accountability over IT assets from procurement to disposal. Specifically, we identified the following:

- Lack of DLA enterprise policies and procedures over managing and accounting for IT assets;
- Maintaining records of IT assets after issuance were not tracked; and
- Process for handling excess assets for disposal was not documented.

Additionally, during the audit, we noted two observations that presented risks to the IT asset management process that merit management's attention:

- Lack of monitoring Blackberry data and cell phone usage; and
- Lack of assigned responsibility for the investigation of lost/stolen IT assets.

As a result, we identified issues that presented significant risks to DLA. However, we noted that management is working towards identifying better solutions and business practices to help improve the management of IT assets.

### Why DLA OIG Did this Audit

During the risk assessment of the DLA Office of the Inspector General (OIG) FY 2010 Enterprise Audit Plan, IT asset management was identified as a high risk area. We conducted an audit of the accountability and management of IT assets.

### What DLA OIG Did

Our audit objectives were to determine if DLA had adequate procedures in place to ensure accountability for IT assets, specifically whether procedures were documented and implemented for (1) delivery and receipt from vendors; (2) issuance of assets to DLA personnel; (3) maintaining accurate records of assets after issuance; and (4) disposal handling.

### What DLA OIG Recommends

This report contains seven recommendations addressed to the Director of DLA Information Operations. Our recommendations were intended to strengthen accountability and controls surrounding IT asset management within DLA. Additionally, this report also contains two observations noted during testing.

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September 15, 2011

MEMORANDUM FOR DIRECTOR, DLA INFORMATION OPERATIONS

SUBJECT: Final Report: Information Technology (IT) Asset Management Audit

This is our final report on the audit related to IT Asset Management. It includes the results of our audit and the conclusion of the IT asset management process.

We conducted an audit over the management and accountability of IT assets throughout the lifecycle from (1) delivery and receipt from vendors; (2) issuance of assets to DLA personnel; (3) maintaining accurate records of assets after issuance; and (4) disposal handling. IT assets were defined as desktops, laptops and Personal Digital Assistants (PDAs) -specifically, Blackberries. We found that DLA Information Operations did not have effective controls in place to maintain accountability over IT assets across the DLA enterprise from procurement to disposal.

We requested and obtained comments from Management. DLA Information Operations concurred with all of our findings and five recommendations and partially concurred with two of our recommendations. Management's written comments are included in their entirety in Appendix E of this report. We have addressed their comments in the final report.

We appreciate the courtesies and cooperation extended to us during the audit. For additional information about this report, contact (b)(6) or email at

(b)(6)

(b)(6)

TRANG HO  
IT Audit Director  
DLA Office of the Inspector General Audit Division

cc:

Director, DLA Installation Support  
Director, DLA Disposition Services

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## INTRODUCTION

### OBJECTIVES, SCOPE, AND METHODOLOGY

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The DLA Office of the Inspector General (OIG) conducted an enterprise audit over the management and accountability of Information Technology (IT) assets throughout the lifecycle from procurement to disposal. Throughout this audit, IT assets were defined as desktops, laptops and Personal Digital Assistants (PDAs) –specifically, Blackberries and were under the accountable property threshold amount that was identified in the DOD Instruction 5000.64. Our audit objectives were to determine whether procedures were documented and implemented for:

- 1) Delivery and receipt from vendors;
- 2) Issuance of IT assets to DLA personnel;
- 3) Maintenance of accurate records of IT assets after issuance; and
- 4) Disposal handling of IT assets.

Refer to Appendix B for details of the audit scope and methodology used to complete this audit.

### BACKGROUND

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DLA OIG solicited risk areas from DLA Executive Board members, the DLA audit community, the Government Accountability Office (GAO) high risk areas, as well as current events and risks on an annual basis; and determined the high risk areas to DLA be included in our annual *Enterprise Audit Plan*. The controls for ensuring accountability over IT assets were identified as a high risk area and were included in the fiscal year 2010 *Enterprise Audit Plan* which was approved by the Director of DLA.

IT assets were defined as all Automated Data Processing Equipment and software. It included central processors, telecommunication, digital assistants, and Local Area Network (LAN) equipment, and desktop items including, but limited to personal computers, monitors, and printers.

Management over IT assets was vital to DLA because it allowed DLA employees and contractors with the right equipment to achieve their mission and business goals. Additionally, it was important to track, identify, and record IT assets to ensure that they were adequately protected from theft or misuse and to be able to monitor each IT asset throughout its lifecycle from procurement to final disposition.

# RESULTS, RECOMMENDATIONS, AND CONCLUSIONS

## RESULTS AND RECOMMENDATIONS

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In this section, we discussed the following three areas related to IT assets:

- Policies and Procedures;
- Maintenance of IT Asset Records After Issuance; and
- Disposal Process of IT Assets.

### POLICIES AND PROCEDURES

Since the completion of our fieldwork, DLA Information Operations began the process of identifying and documenting policies and procedures for IT asset management based on Information Technology Asset Management (ITAM) best practices. However, during the audit, there were no approved and finalized DLA guidance established for IT assets. Specifically, we identified the following throughout the audit:

- There were no formal DLA enterprise policies and procedures over managing and accounting for IT assets from procurement to disposal; and
- IT assets were not defined as pilferable property by DLA.

As a result, DLA Information Operations managed IT assets differently across the enterprise.

#### Enterprise IT Asset Management Policies and Procedures

One of the objectives outlined in the *DOD Information Management & Information Technology Strategic Plan* from 2008-2009 was to establish an IT asset management process to track and manage DOD's IT hardware and software inventory. Additionally, the DOD Chief Information Officer (CIO) was working on establishing a DOD Net-Centric ITAM framework for managing the Department's Commercial off the Shelf IT hardware and software assets.

During the audit, we found that DLA Information Operations did not have effective controls in place to maintain accountability over IT assets. Additionally, there was not an ITAM system in place to accurately track, monitor, and manage IT assets. Specifically, we found lack of formal DLA enterprise policies and procedures for the following areas:

- Receiving assets from vendors (for example, no visual inspection performed to validate serial numbers of each IT asset to ensure the correct items were received);
- Performing inventories of IT assets (for example, guidance over picking a random sample of IT assets to perform inventory count and the frequency of the inventory performed); and

- Maintaining accurate records of assets issued, distributed, and retrieved (for example, IT assets are only being tracked and recorded by serial number once they are issued to DLA HQ employees and contractors).

*The United States (US) GAO, Standards for Internal Control in the Federal Government*, November 1999, Control Activities states: Internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives, such as the process of adhering to requirements for budget development and execution. They help ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results. Internal controls should be designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use, or disposition of an agency's assets.

This occurred because there were no DOD requirements for military services and DOD organizations to follow for managing and accounting for IT assets.

As a result, DLA Information Operations managed IT assets differently across the DLA enterprise. Specifically, lost, stolen or missing IT assets would not be identified in a timely manner and sensitive data on IT assets could be compromised.

### **Recommendation 1**

The Director of DLA Information Operations should develop, document, and implement DLA enterprise IT asset management policies and procedures that includes the requirements and criteria over managing IT assets throughout their lifecycle. Specifically, the policies and procedures should address the process from procurement, to the issuance of IT assets to DLA employees and contractors, through the disposal process.

### **Management Comments**

DLA Information Operations concurred. DLA Information Operations are currently in the process of implementing a replacement ITAM program enterprise wide. The ITAM program will work with field offices to define processes and policies for governing IT asset tracking throughout the entire lifecycle of an IT asset.

### **DLA OIG Response**

Management comments were responsive.

## **Recommendation 2**

The Director of DLA Information Operations should establish and implement an effective system for managing and tracking IT assets that will be in compliance with the newly developed DLA enterprise IT asset policies and procedures.

### **Management Comments**

DLA Information Operations concurred. As part of the replacement DLA ITAM program, software will be selected. Once the software is implemented, it will work hand-in-hand with the newly developed processes and procedures to create an effective ITAM system. Upon final review of the ITAM requirements and processes, an implementation plan will be established. A roadmap is being developed to establish milestones and key dates.

### **DLA OIG Response**

Management comments were responsive.

### **Pilferable Assets**

DOD Instruction 5000.64, *Accountability and Management of DOD-Owned Equipment and Other Accountable Property*, November 2, 2006, defines pilferable assets as property that has a ready resale value or application to personal possession and are subject to theft.

During the audit, we found that IT assets met the criteria for pilferable assets. However, the Defense Logistics Agency Instruction (DLAI) 4202, *Accountability of Property, Plant & Equipment (PP&E)* did not define IT assets as pilferable.

This occurred because DLA Information Operations wanted to keep IT assets as part of DLA Information Operations responsibility for tracking and recording purposes and out of the Enterprise Business System (EBS) property accountability system to avoid reconciliation issues between DLA Information Operations and DLA Installation Support.

As a result, without re-evaluating the list of pilferable assets, which may contain sensitive data, IT assets may not be accounted, recorded, and tracked or may be subject to theft or misuse.

## **Recommendation 3**

The Director of DLA Information Operations in coordination with the Director of DLA Installation Support should re-evaluate the list of pilferable assets at DLA and document any associated rationale for not including IT assets as pilferable.



## **Management Comments**

DLA Information Operations concurred. The owner of the DLAI 4202, the Director of DLA Installation Support, will be contacted to review the omission of IT assets as part of the pilferable items list. Further discussion with the EBS stakeholders is necessary to understand the impacts to the EBS system resulting from a change in the DLAI 4204. Justification will be provided for the determination of these IT assets as either pilferable or not pilferable.

## **DLA OIG Response**

Management comments were responsive. The DLAI 4204 was inadvertently referred to as the DLAI 4202. We confirmed with DLA Information Operations and they verified that the policy they were referring to is the DLAI 4202.

## **Recommendation 4**

The Director of DLA Information Operations in coordination with the Director of DLA Installation Support should establish or modify a policy and procedure to track and account for IT assets if they are identified as pilferable.

## **Management Comments**

DLA Information Operations concurred. Processes are being developed and documented as part of the ITAM program, which will include the tracking and accounting for IT assets, which may be classified as pilferable assets if deemed necessary by the DLAI 4202.

## **DLA OIG Response**

Management comments were responsive.

## **MAINTAINING RECORDS OF IT ASSETS AFTER ISSUANCE**

DLA Information Operations at Fort Belvoir utilized an Access Database to track, record, and manage IT assets once they are issued to DLA employees and contractors. Although DLA had a process for maintaining records of IT assets after issuance, we found that IT assets were not retrieved timely from departing DLA employees and contractors at HQ.

This occurred because DLA Information Operations at Fort Belvoir was not always notified when DLA employees and contractors were leaving the agency. As a result, IT assets can become missing or stolen.

## **Retrieval of Terminated DLA Users IT Assets**

DLA Information Operations at Fort Belvoir recently began coordinating with DLA Human Resources to improve the process over retrieving IT assets from departed federal employees in a timely manner. However, during our audit, we found that DLA Information Operations at Fort Belvoir, were not always made aware of the date when DLA users (such as, federal employees and contractors) departed from the agency so they could retrieve the departing user's IT assets.

*US GAO, Standards for Internal Control in the Federal Government*, November 1999, states that internal control should be designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use, or disposition of an agency's assets.

This occurred because the organization's Terminal Area Security Officer (TASO) did not always notify DLA Information Operations at Fort Belvoir when DLA employees were departing DLA. For DLA contractors, their Contracting Officer Technical Representative (COTR) did not always notify DLA Information Operations at Fort Belvoir when contractor personnel were departing DLA. As a result, without timely notice of departing users, IT equipment can be left unattended and subject to unauthorized use or theft.

### **Recommendation 5**

The Director of DLA Information Operations in coordination with the Director of DLA Human Resources and the Director of DLA Acquisition should develop and implement a process that will assist them with performing a periodic reconciliation of issued IT assets to terminated DLA employees and contractor personnel to ensure that their issued IT assets are retrieved timely.

### **Management Comments**

DLA Information Operations concurred. The processes and procedures to be established as part of the ITAM program will establish standard processes for retrieving IT assets in a timely manner from terminated DLA employees and contractors. Established processes and tools will assist in the audit process of IT assets and will increase the speed and accuracy of identifying IT assets previously issued to a DLA employee or contractor.

### **DLA OIG Response**

Management comments were responsive.

## DISPOSAL PROCESS OF IT ASSETS

There was an informal process developed for the sanitization and disposal process of excess IT assets. However, during the audit, we identified the lack of:

- Knowledge of the true condition of the turn-in IT assets; and
- Documented process for handling excess assets for disposal.

As a result, DLA may not be able to ensure that sensitive or personal identifiable information is protected from unauthorized disclosure.

### Condition Code Assignment

At DLA HQ, the disposal process was initiated when: (1) DLA Information Operations at Fort Belvoir determined an IT asset was excess equipment, and (2) completed the *Equipment Transfer or Return Form*, DLA Form 1311. Then, the excess IT asset would be transferred to DLA Installation Support at Fort Belvoir for sanitization and disposal. DLA Installation Support at Fort Belvoir would complete the *Issue Release/Receipt Document*, DD Form 1348-1A prior to sending the IT asset to DLA Disposition Services.

At DLA HQ, DLA Information Operations at Fort Belvoir explained that they recently began using the Supply Condition Code (SCC) on the DLA Form 1311 in accordance with *MILSTRAP*. However, during the audit, we found that DLA Installation Support at Fort Belvoir may not have known the true condition of the turn-in IT assets prior to sending it to DLA Disposition Services. DLA Installation Support at Fort Belvoir used the condition code documented on the DLA Form 1311 to determine the alphabetic character SCC to complete the DD Form 1348-1A to comply with *MILSTRAP*.

DOD 4000.25-2- *MILSTRAP* September 2001, Appendix 2.5.1, SCCs states: "Classify materiel in terms of readiness for issue and use or to identify action underway to change the status of materiel. When materiel is determined to be in excess of approved stock levels and/or no longer serviceable, SCCs A through H and S will be utilized to reflect materiel condition prior to turn in to DLA Disposition Services." Additionally, DOD 4160.21-M Defense Demilitarization Manual, Chapter 3, Receipt, Handling and Accounting states for documentation for turn-in, "Generating activities are responsible to ensure that proper SCCs are assigned."

This occurred because the SCC that was documented by DLA Information Operations at Fort Belvoir on the DLA Form 1311 was either "new", "good" or "bad" instead of the alphabetic character SCC.

As a result, without the correct IT asset SCC documented on the disposal turn-in form, key information may be missing in order for DLA Disposition Services to accurately process the excess equipment.

### **Recommendation 6**

The Director of DLA Information Operations in coordination with the Director of DLA Installation Support should develop, document, and implement procedures for handling IT assets that have been determined to be excess equipment, specifically ensuring that personnel completing the DLA Form 1311 properly document the condition code using the *MILSTRAP* SCC alphabetic characters in accordance with procedures.

### **Management Comments**

DLA Information Operations partially concurred. The procedure for using the condition codes for excess equipment is documented in the *MILSTRAP*. DLA Information Operations intend to document the processes and procedures for excess equipment that require utilizing the DLA Form 1311 in the DLA Instruction for ITAM which is DLA Information Operations intended deliverable for recommendation 1.

### **DLA OIG Response**

Management comments were responsive. DLA Information Operations is the owner of the IT asset management process and they will be responsible for handling IT assets that are determined to be excess equipment.

### **Inadequate Process for Handling Excess Assets**

DLA Information Operations at Fort Belvoir recently took control of the sanitization process over IT assets. Specifically, a vendor will be selected to provide onsite destruction of hard drives. However, during the audit, we found that DLA Information Operations at Fort Belvoir and DLA Installation Support at Fort Belvoir did not have effective controls in place to maintain accountability over the disposal process for IT assets. Specifically, we found the following issues over the disposal process:

- DLA Information Operations at Fort Belvoir and DLA Installation Support at Fort Belvoir's role within the IT asset disposal process was not documented at DLA HQ;
- IT assets that were determined to be excess equipment that were unopened (i.e., IT assets are in the original packaging) or have never been issued to DLA employees and contractors were not tracked by DLA Information Operations at Fort Belvoir in their Access Database or by DLA Installation Support at Fort Belvoir;

- Once the hard drives were removed from the laptops they were not being sanitized and they were stored in boxes within the DLA Installation Support at Fort Belvoir warehouse;
- Once DLA Information Operations at Fort Belvoir turned the IT asset over to DLA Installation Support at Fort Belvoir, DLA Information Operations at Fort Belvoir were no longer responsible for the IT asset; and
- A large amount of obsolete IT assets were identified and were stored in the DLA Installation Support at Fort Belvoir's warehouse and were being processed to be sent to DLA Disposition Services.

*Assistant Secretary of Defense, Disposition of Unclassified DOD Computer Hard Drives, June 4, 2001* states the following: "Reference (b) , Deputy Secretary of Defense Memorandum, "Disposition of Unclassified DOD Computer Hard Drives, dated May 29, 2001", directed that the January 8, 2001 guidance be amended to provide Department-wide procedures, methods, and specifications regarding the disposition of unclassified hard drives, to include allowing hard drives to be overwritten before leaving DOD custody or control."

This occurred because DLA Information Operations at Fort Belvoir and DLA Installation Support at Fort Belvoir did not have a clear policy or procedure developed over sanitizing, tracking, and managing excess IT assets.

As a result, without performing proper sanitization, tracking, and management of excess IT assets prior to disposal, DLA may not be able to ensure that sensitive or personal identifiable information is protected from unauthorized disclosure.

### **Recommendation 7**

The Director of DLA Information Operations in coordination with the Director of DLA Installation Support should:

1. Identify and implement a solution for proper sanitization and disposal of excess IT assets.
2. Document and implement a policy and procedure over handling IT assets that are identified as excess equipment. Also, ensure that all IT assets determined to be excess are identified, recorded, tracked, and accounted for in a timely manner.

### **Management Comments**

DLA Information Operations partially concurred.

1. By documenting a policy and procedure and implementing the processes as part of the DLA Instruction for ITAM, DLA Installation Support will not need to be involved in mitigation for this recommendation.

2. The processes to be implemented will track IT assets starting from the time of requisition, not the time of issuance. The processes will also track IT assets through disposal and will not stop when an asset is no longer in service.

## **DLA OIG Response**

Management comments were responsive. DLA Information Operations is the owner of the IT asset management process and they will be responsible for handling IT assets that are determined to be excess equipment. Also, DLA Information Operations inadvertently documented that March 1, 2011 was the Estimated Completion Date (ECD) for the second part of the recommendation. We confirmed with DLA Information Operations and they verified that the correct ECD is March 1, 2012.

## **OTHER OBSERVATIONS**

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Throughout the course of the audit, additional areas of risk were identified. Some of these observations that were identified could be strengthened to enhance the process for managing and accounting for IT assets that are currently in place. DLA OIG will not formally track the observations and will not require future audit follow up. The observations relating to the management and accountability of IT assets are noted below.

### **Monitoring of Blackberry/Cellular Phone Usage**

At DLA HQ, DLA employees were required to read and sign the *J6 Wireless Device Agreement* that describes the terms and conditions of using the wireless device including the agreement to use the wireless device for official government use only.

DLA Information Operations at Fort Belvoir had the DLA users sign the *J6 Wireless Device Agreement* in order to hold the user accountable for their usage of the Blackberry. However, during the audit, we found that there was a lack of monitoring over the usage of Blackberries including data and voice usage. Specifically, there was no process or best practice in place for DLA Information Operations at Fort Belvoir to monitor the usage of the Blackberries and cellular phones for non-compliance of the *J6 Wireless Device Agreement*.

This occurred because each Blackberry issued has an unlimited data plan and it would be difficult to monitor each DLA employee's Blackberry usage. As a result, without performing a review over the usage of Blackberries, DLA employees could potentially misuse the Blackberry or cellular phone for personal use outside the signed wireless agreement.

## Investigation of Lost/Stolen IT Assets

The DD Form 200, *Financial Liability Investigation of Property Loss form*, must be used when reporting DLA government property lost, damaged, destroyed, or stolen in which meets the definition of accountable property. Additionally, DLA Information Operations at Fort Belvoir developed the internal DLA Form 1734 that was used for DLA Information Operations at Fort Belvoir to track lost/stolen IT assets that fall under the \$5,000 threshold amount.

DLA Information Operations at Fort Belvoir are currently meeting with DLA Installation Support to discuss which office should investigate lost or stolen IT assets. However, during the audit of the IT asset management process at DLA HQ, we found that it was unclear who was designated as the "Approving Authority", "Appointing Authority", and "Financial Liability Officer (FLO)" representative for investigating lost or stolen IT assets at DLA HQ.

*DLA Instruction 4208, Financial Liability for PP&E Lost, Damaged, Destroyed, or Stolen (LDDS)*, September 14, 2009, Section 4a. The Director, DLA Enterprise Support (now DLA Installation Support) states:

"1) Develop and disseminate Agency policy and procedural guidance for Financial Liability for real and personal Government property within DLA that is lost, damaged, destroyed, or stolen; perform related updates, and implement changes as required.

2) Designate the Approving Authority for the DLA Army permitted Installations. The approving authority responsibility includes all Government DLA property to include real property, capitalized and non-capitalized personal property and equipment, and property and supplies assigned to stock record accounts at depots and operational commands.

Section 4, Responsibilities, b. Activity Directorates, Commanders, Business Areas' organizational head or equivalent (see paragraph for definitions) will: 1. Designate the Approving Authority, in writing, for their respective business area, organization/activities or they may choose to be the Approving Authority. Section 4, Responsibilities, d. Appointing Authority: 1. Appoint a FLO, if required. "

This occurred because the appropriate approving officials were never designated by DLA Installation Support or DLA Information Operations at Fort Belvoir to perform investigation over lost or stolen IT assets. As a result, without proper investigation over IT assets that were reported as missing or stolen, it could lead to unauthorized access to sensitive information and misuse of government equipment without detection.

## CONCLUSION

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As a result of our audit, we determined that DLA did not have effective controls in place for managing and accounting for IT assets across the DLA enterprise. Specifically, DLA did not have adequate procedures in place over (1) delivery and receipt from vendors; (2) issuance of IT assets to DLA employees and contractors; (3) maintaining accurate records of assets after issuance; and (4) disposal handling. We identified five findings related to the following areas:

- Lack of DLA enterprise policies and procedures over managing and accounting for IT assets;
- Pilferable assets were inappropriately defined;
- Untimely retrieval of IT assets from departed DLA employees and contractors at DLA HQ;
- Condition code assignments did not follow the DOD standards; and
- Process for handling excess assets for disposal was not documented.

DLA OIG has made seven recommendations directed to DLA Information Operations in order to improve the accountability and management of IT assets. A summary of these recommendations can be found in Appendix A.



## SUMMARY OF RECOMMENDATIONS

	Recommendation	Addressee	Status of Corrective Action	Estimated Completion Date
1	We recommend that the Director of DLA Information Operations should develop, document, and implement DLA enterprise IT asset management policies and procedures that includes the requirements and criteria over managing IT assets throughout their lifecycle. Specifically, from the procurement, to the issuance of IT assets to DLA employees and contractors through the disposal process.	The Director of DLA Information Operations	Open	March 1, 2012
2	We recommend that the Director of DLA Information Operations should establish and implement an effective system for managing and tracking IT assets that will be in compliance with the newly developed DLA enterprise IT asset policies and procedures.	The Director of DLA Information Operations	Open	December 3, 2012
3	We recommend that the Director of DLA Information Operations in coordination with the Director of DLA Installation Support should re-evaluate the list of pilferable assets at DLA and document any associated rationale for not including IT assets as pilferable.	The Director of DLA Information Operations	Open	October 1, 2011
4	We recommend that the Director of DLA Information Operations in coordination with the Director of DLA Installation Support should establish or modify a policy and procedure to track and account for IT assets if they are identified as pilferable.	The Director of DLA Information Operations	Open	March 1, 2012
5	We recommend that the Director of DLA Information Operations in	The Director of DLA	Open	March 1, 2012

	coordination with the Director of DLA Human Resources and the Director of DLA Acquisition should develop and implement a process that will assist them with performing a periodic reconciliation of issued IT assets to terminated DLA employees and contractor personnel to ensure that their issued IT assets are retrieved timely.	Information Operations		
6	We recommend that the Director of DLA Information Operations in coordination with the Director of DLA Installation Support should develop, document, and implement procedures for handling IT assets that have been determined to be excess equipment, specifically ensuring that personnel completing the DLA Form 1311 properly document the condition code using the MILSTRAP SCC alphabetic characters in accordance with procedures.	The Director of DLA Information Operations	Open	March 1, 2012
7	We recommend that the Director of DLA Information Operations in coordination with the Director of DLA Installation Support should: <ol style="list-style-type: none"> <li>1. Identify and implement a solution for proper sanitization and disposal of excess assets.</li> <li>2. Document and implement a policy and procedure over handling IT assets that are identified as excess equipment. Also, ensure that all IT assets determined to be excess are identified, recorded, tracked, and accounted for in a timely manner.</li> </ol>	The Director of DLA Information Operations	Open	March 1, 2012

## SCOPE AND METHODOLOGY

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 the organizational impairment. The organizational impairment resulted from the DLA OIG 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. The impairments, resulted from the lack of established policies and procedures to provide reasonable assurance of conforming with all material aspects of applicable professional standards. We are developing corrective actions to address the organizational impairment. However, this 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 conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted our audit from September 2010 through February 2011 over the DLA HQ process and interviewed personnel at DLA Troop Support-Philadelphia, PA and DLA Distribution-New Cumberland, PA. To accomplish our audit objectives, we performed the following:

- Interviewed personnel within DLA Information Operations at Fort Belvoir, DLA Information Operations at New Cumberland, and DLA Installation Support at Fort Belvoir to obtain an understanding of the process for ordering and receiving IT assets from vendors.
- Obtained and reviewed internal draft policies within DLA Information Operations at Fort Belvoir for ordering and receiving IT assets from the vendor, issuing IT assets to DLA employees and contractors, and maintaining accurate records of IT assets after issuance to DLA employees and contractors.
- Interviewed DLA HQ personnel within DLA Information Operations at Fort Belvoir and DLA Installation Support at Fort Belvoir to obtain an understanding of the process that was being followed for recording, tracking, issuing, and maintaining records after issuance of IT assets.
- Interviewed DLA Information Operations at DLA HQ, New Cumberland, PA and DLA Information Operations, Philadelphia, PA personnel to discuss the different types of ITAM tools that were being piloted and to obtain an understanding of how their IT assets were tracked.

- Performed a walkthrough of the Access Database and observed functions and capabilities of how DLA Information Operations at Fort Belvoir record and track IT assets that were issued to DLA employees and contractors and after issuance to DLA employees and contractors at DLA HQ.
- Interviewed DLA Information Operations at Fort Belvoir and DLA Installation Support at Fort Belvoir to obtain an understanding of the process for determining when IT assets were excess and the process for sanitizing and disposing of IT assets.

## ABBREVIATIONS USED IN THIS REPORT

CIO	Chief Information Officer
COTR	Contracting Officer's Technical Representative
DES	DLA Enterprise Support (now known as DLA Installation Support)
DLAI	Defense Logistics Agency Instruction
EBS	Enterprise Business System
ECD	Estimated Completion Date
FLO	Financial Liability Officer
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
IT	Information Technology
ITAM	Information Technology Asset Management
LAN	Local Area Network
LDDS	Lost, Damaged, Destroyed, or Stolen
MILSTRAP	Military Standard Transaction Reporting and Accounting Procedures
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PDA	Personal Digital Assistant
PP&E	Property Plant & Equipment
SCC	Supply Condition Code
TASO	Terminal Area Security Officer

## ACKNOWLEDGMENTS

The following OIG personnel contributed to this report:

Trang Ho, Audit Director, Information Technology, DLA OIG

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## MANAGEMENT COMMENTS



DEFENSE LOGISTICS AGENCY  
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SEP 07 2011

MEMORANDUM FOR DLA OFFICE OF THE INSPECTOR GENERAL  
ATTN: MS. MIA DAVIDSON

SUBJECT: Draft Audit Report: Information Technology Asset Management Audit Report,  
DAO-10-26, July 7, 2011

The DLA Information Operations staff has reviewed the draft audit report and concurs with the findings and recommendations. Actions associated with the recommendations are outlined on the attachment.

The technical point of contact is Ms. Mindy White, DLA Logistics Information Services, at (269) 961-7118, DSN 661-7118, or email: mindy.white@dla.mil. The administrative point of contact is (b)(6) DLA Information Operations, Policy, Plans, and Assessment Management, at (b)(6)

(b)(6)

EDWARD J. CASH  
Director, DLA Information Operations  
Chief Information Officer

Attachment:  
As stated

MEMORANDUM FOR J651

SUBJECT: Draft Audit Report: Information Technology Asset Management Audit Report,  
DAO-10-26, July 7, 2011

The information below provides a detailed listing of the DLA OIG findings and recommendation pertaining to Information Technology Asset Management (ITAM).

**Recommendation #1.** We recommend that the Director of DLA Information Operations should develop, document, and implement DLA enterprise IT asset management policies and procedures that includes the requirements and criteria over managing IT assets throughout their lifecycle. Specifically, from the procurement, to the issuance of IT assets to DLA employees and contractors through the disposal process.

**DLA Comments:** Concur. The DLA is currently in the process of implementing a replacement IT Asset Management (ITAM) program enterprise wide. The ITAM program will work with field offices to define processes and policies for governing IT asset tracking over the entire lifecycle of an IT asset. ECD: March 1, 2012

**Recommendation #2.** We recommend that the Director of DLA Information Operations should establish and implement an effective system for managing and tracking IT assets that will be in compliance with the newly developed DLA enterprise IT asset policies and procedures.

**DLA Comments.** Concur. As part of the replacement DLA ITAM program, software will be selected, that once implemented, will work hand-in-hand with the newly developed processes and procedures to create an effective ITAM system. Upon final review of ITAM requirements and processes, an implementation plan will be established. A roadmap is being developed to establish milestones and key dates. ECD: December 3, 2012

**Recommendation #3.** We recommend that the Director of DLA Information Operations in coordination with the Director of DLA Installation support should re-evaluate the list of pilferable assets at DLA and document any associated rationale for not including IT assets as pilferable.

**DLA Comments.** Concur. The owner of DLA 4202 (Director of Installation Support) will be contacted to review the omission of IT Assets as part of the pilferable items list. Further discussion with EBS stakeholders is necessary to understand the impacts to the EBS system resulting from a change in the 4204 policy. Justification will be provided for the determination of these assets as either pilferable or not pilferable. ECD: October 1, 2011

**Recommendation #4.** We recommend that the Director of DLA Information Operations in coordination with the Director of DLA Installation Support should establish or modify a policy and procedure to track and account for IT assets if they are identified as pilferable.



**DLA Comments.** Concur. Processes being developed and documented as part of the ITAM program will include the tracking of and accounting for IT assets, which may be classified as pilferable assets if deemed necessary by the 4202 document. ECD: March 1, 2012

**Recommendation #5.** We recommend that the Director of DLA Information Operations in coordination with the Director of DLA Human Resources and the Director of DLA Acquisition should develop and implement a process that will assist them with performing a periodic reconciliation of issued IT assets to terminated DLA employees and contractor personnel to ensure that their issued IT assets are retrieved timely.

**DLA Comments.** Concur. The processes and procedures to be established as part of the ITAM program will establish standard processes for retrieving assets in a timely manner from terminated DLA employees and contractors. Established processes and tools will assist in the audit process of IT assets and will increase speed and accuracy of identifying assets previously issued to an employee or contractor. ECD: March 1, 2012

**Recommendation #6.** We recommend that the Director of DLA Information Operations in coordination with the Director of DLA Installation Support should develop, document, and implement procedures for handling IT assets that have been determined to be excess equipment, specifically ensuring that personnel completing the DLA Form 1311 properly document the condition code using the MILSTRAP SCC alphabetic characters in accordance with procedures.

**DLA Comments.** Partially Concur. The procedure for using the condition codes for excess equipment is documented in the Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP). We intend to document the processes and procedures for excessing equipment that require utilizing the DLA form 1311 in our DLA Instruction for ITAM which is our intended deliverable for recommendation #1. ECD: March 1, 2012

**Recommendation #7.** We recommend that the Director of DLA Information Operations in coordination with the Director of DLA Installation Support should:

1. Identify and implement a solution for proper sanitization and disposal of excess assets.
2. Document and implement a policy and procedure over handling IT assets that are identified as excess equipment. Also, ensure that all IT assets determined to be excess are identified, recorded, tracked, and accounted for in a timely manner.

**DLA Comments.** Partially Concur.

1. By documenting policy and procedure and implementing the processes as part of the DLA Instruction for ITAM, DS will not need to be involved in mitigation for this recommendation. ECD: March 1, 2012
2. The processes to be implemented will track IT assets starting from the time of requisition, not the time of issuance. The processes will also track IT assets through disposal and will not stop when an asset is no longer in service ECD: March 1, 2011