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IN REPLY  
REFER TO

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

OCT 16 2012

This letter responds to your April 22, 2012, Freedom of Information Act (FOIA) request for the audit reports listed in your request.

The enclosed records are being released in part. Portions of the records are withheld pursuant to FOIA exemptions 5 U.S.C. § 552 (b)(3), federal statute, 5 U.S.C. § 552 (b)(6), personal privacy and 5 U.S.C. § 552 (b)(7)(E), techniques and procedures for law enforcement investigations. Audit reports IAFA-FY08-02, OAFA-FY08-06, DAO-09-10, DAO-09-10b, DAO-10-02, and DAO-09-14 were previously released to you under FOIA case numbers DLA HQ-11-HFOI-00148 and DLA HQ-12-HFOI-00067.

Exemption 3, 10 U.S.C. § 128, Unclassified Special Nuclear Weapon Information, prohibits dissemination of information pertaining to security measures for the protection of special nuclear material. Therefore, DAO-10-07, which dealt with the handling of nuclear weapons related material, is withheld in full (72 pages). Exemption 6 protects information about individuals when disclosure of such information would constitute a clearly unwarranted invasion of personal privacy. Therefore, we have withheld the signatures of all DLA personnel and the names of DLA employees below the directorate level. Exemption 7(E) protects information that would disclose guidelines or techniques for law enforcement investigations and/or prosecutions which could reasonably be expected to risk circumvention of the law. Therefore, we have withheld information related to policies and procedures for sensitive property accountability (i.e., weapons).

You have the right to appeal this (full/partial denial or no records response). 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 charged for processing this request. Should you need further assistance, please contact Ms. Debbie Teer, (703) 767-5247 or [Deborah.teer@dla.mil](mailto:Deborah.teer@dla.mil), and reference case number  
DLA HQ-12-HFOI-00096.

Sincerely,

A handwritten signature in black ink, reading "Jan K. Demartini". The signature is written in a cursive style with a large, stylized "J" and "D".

JAN K. DEMARTINI  
COL., USA  
Inspector General



DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
8725 JOHN J. KINGMAN ROAD, SUITE 2533  
FORT BELVOIR, VIRGINIA 22060-6221

IN REPLY  
REFER TO

DA

April 23, 2009

MEMORANDUM FOR COMMANDER, DEFENSE DISTRIBUTION CENTER  
DIRECTOR, DEFENSE REUTILIZATION & MARKETING  
SERVICE  
DEPUTY DIRECTOR, LOGISTICS OPERATIONS &  
READINESS

SUBJECT: Final Defense Reutilization and Marketing Service (DRMS) Vulnerability  
Assessment

As directed by Operations Order 0331-08, phase 3, we conducted an end-to-end assessment of operations at DRMS field locations to provide actionable recommendations to Defense Logistics Agency (DLA) senior leadership. Defense Logistics Accountability Office (DA) assembled an Enterprise-wide team of auditors and investigators and on-site reviews were conducted from June 2008 through September 2008.

Our report identifies vulnerabilities in 11 areas and makes 26 recommendations to DRMS and Defense Distribution Center (DDC) for improvements to DLA operations. These vulnerabilities result in poor property accountability, receipt of unauthorized items, inefficiency, and potential theft, loss, and mishandling of property. Implementing the recommendations in this report will strengthen DLA operations by improving property accountability, handling, and security to provide world class warfighter support. Management comments were provided and are included as enclosures in this report.

We appreciate the courtesies and cooperation extended to us by all staff involved in this review. Please direct any questions to (b)(6) DRMS Internal Audit at (b)(6)  
(b)(6)

(b)(6)

BRIDGET SKJOLDAL  
Staff Director, Audit Division  
DLA Accountability Office

Attachment



# **DLA Accountability Office**

## **Final Report DRMS Vulnerability Assessment**



**April 23, 2009  
DA-09-05**

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**DLA**

## **Accountability Office**

### **Why DA Did this Review**

As directed by Operations Order 0331-08, the DLA Accountability Office (DA) conducted an end-to-end assessment of operations at Defense Reutilization and Marketing Service field locations to provide actionable recommendations to DLA Senior Leadership.

### **What DA Did**

DA established a joint team of auditors and investigators from various DLA field activities to conduct a review of DRMS Operations. The assessment was lead by DRMS Internal Review Office. Our objectives were to identify DRMS operational vulnerabilities and provide management recommendation for corrective actions.

### **What DA Recommends**

This report contains 26 recommendations to DRMS and DDC for improvements to DLA Operations.

**April 23, 2009**

## **Defense Reutilization and Marketing Service Vulnerability Assessment**

DRMS provides Department of Defense disposal management of excess and surplus military property supporting U.S. military forces worldwide. Generally, DRMS field activities are categorized into three functions, Defense Reutilization and Marketing Offices, Centralized Demilitarization Centers, and Controlled Property Centers.

We reviewed those operational functions and identified vulnerabilities in the following 11 areas:

- Classified receipt controls;
- Unauthorized item receipt;
- Recycling Control Point and Supply Discrepancy Reports;
- Troubled property receipt;
- Receiving efficiency;
- Segregation of duties;
- Batch lot discrepancies;
- DEMIL/Classified receipt;
- Transportation;
- Physical security; and
- Inventory.

These vulnerabilities result in poor property accountability, receipt of unauthorized items, inefficiency, and potential theft, loss, and mishandling of property.

Implementing the recommendations in this report will strengthen DLA Operations by improving property accountability, handling, and security to provide world class war fighter support.

**DEFENSE LOGISTICS AGENCY (DLA)**  
**DLA Accountability Office**

DA-09-05

**FINAL REPORT**

**I. Background**

DRMS provides centralized Department of Defense (DOD) disposal management of excess and surplus military property supporting U.S. military forces worldwide. DRMS operates globally in 16 countries, 40 states, and employs over 1,400 personnel to complete the mission. Generally, DRMS field activities are categorized into three functions, Defense Reutilization and Marketing Offices (DRMO), Centralized Demilitarization Centers (CDC), and Controlled Property Centers (CPC). Each activity has a unique function to support the DRMS mission.

On March 20, 2008, DLA learned that four MK-12 assemblies were incorrectly shipped to the Government of Taiwan. This materiel was shipped by F.E. Warren Air Force Base to Defense Distribution Center, Hill Utah (DDHU) and recorded into inventory as batteries. This materiel was then sent to the Government of Taiwan. On January 16, 2007, the Government of Taiwan submitted a Supply Discrepancy Report (SDR) indicating they did not receive the battery they ordered, but instead received an item they could not identify (the MK-12 assembly). The SDR went unresolved for 14 months until the MK-12 items were recovered. This incident, although specifically related to DDHU, promulgated Operations Order 0331-08, which required a DLA Vulnerability Assessment.

As directed by Operations Order 0331-08, phase 3, DA conducted an end-to-end assessment of operations at DRMS field locations to provide actionable recommendations to DLA senior leadership.

**II. Objectives**

DA established a joint team of auditors and investigators from various DLA field activities to conduct a review of DRMS operations. The assessment was lead by DRMS Internal Review Office. Our objectives were to identify DRMS operational vulnerabilities and provide management recommendations for corrective actions. Specifically, we reviewed the receipt, inventory, issue, transportation, supply discrepancy reports, physical security, and information technology processes.

**III. Scope and Methodology**

We conducted this review from June 2008 through September 2008 in accordance with generally accepted government auditing standards for attestation engagements with the exception of meeting the peer review requirement and organizational independence. DLA internal 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. Further, at the time of this review the DRMS Internal Review



Office was organizationally located within areas subject to audit, but not within operational areas reviewed in this attestation engagement. These exceptions have no effect on the quality of this report.

To accomplish the objectives, we conducted field work at DRMO Mechanicsburg, Pennsylvania; CDC Tucson, Arizona; CPC Columbus, Ohio; and HQ DRMS Battle Creek, Michigan. We selected these locations because they were representative of a DRMO, CDC, and CPC and would provide the greatest diversity in operational functions. In addition, these locations had a large volume of demilitarization (DEMIL) required property on hand as of June 25, 2008, or had a unique mission in the type of property being processed (i.e., F-14 and Recycling Control Point).

We reviewed applicable instructions, manuals, and standard operating procedures to identify current processes and controls. We conducted interviews with subject matter experts, area managers, and field activity personnel. At each location we observed processes and selected sample items for review. In most cases, sample items were judgmentally selected to include DEMIL required, pilferage, and other controlled items. The DRMS Automated Information System (DAISY) assessment was conducted at the Columbus Controlled Property Center with limited work conducted at HQ DRMS. DLIS J6 completed a DAISY vulnerability assessment and provided results to directly DLA J6 and to DRMS J-3/4<sup>1</sup>.

#### **IV. Findings and Recommendations**

##### **A: Classified Receipt Controls**

Controls over classified material receipt require improvement. DOD 4160.21-M, Defense Materiel Disposition Manual, states that DRMS can not accept classified items. Therefore, receipt of classified items is unauthorized and adherence to receipt procedures must be followed. However, our review identified weaknesses in this area. Specifically, DRMS Instruction 4160.14, Operating Instructions for Disposition Management, does not have procedures that (a) require field activities to obtain a hand receipt when classified items are returned to the generator or given to host security or (b) designate individuals at each field activity to handle, secure, and dispose of classified items. Further, DRMS J-3/4 has not been notifying the generating activities commander in writing of instances when classified items were turned in to a DRMS field activity as required in DRMS Instruction 4160.14. Finally, DRMS field activities do not always have a formal agreement with the host security to retrieve and secure classified items. DRMS Instruction 4160.14, states activities should request in the Inter-service Support Agreement (ISSA) that the host will secure any uncontrolled classified material discovered at DRMS field activities. Field activities should contact DLA Enterprise Support (DES) Battle Creek if the host declines to include these services in the ISSA. One location did not immediately contact the host security of the classified receipt because there was no formal agreement with the host security to retrieve such items. These conditions exist because of inadequate instructions and non-compliance with current instructions.

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<sup>1</sup> Results from the DLIS J6 assessment were provided to DRMS J-3/4 and DRMS Internal Review on October 29, 2008.

These conditions result in poor accountability that could lead to mishandling or loss of classified property. In addition, the generating activities commander may not be aware of the seriousness of the incident and implement corrective actions to prevent future occurrences.

#### **Recommendations:**

1. DRMS J-3/4 update the DRMS Instruction 4160.14 to (a) include a requirement to obtain a hand-receipt (*DLA Form 27, Classified Document Receipt*) from the generator or host security when classified items are retrieved and (b) designate individuals at each field activity to handle classified incidents.
2. DRMS J-3/4 implement procedures in DRMS Instruction 4160.14 to provide written notification from DRMS-D to the generator's commander upon the discovery of classified or suspected classified material.
3. DRMS J-3/4 coordinate with DLA J-3312 to update DOD 4160.21-M, Defense Materiel Disposition Manual, to clearly define the host base responsibility to retrieve and secure classified items immediately upon request of the DRMS field activity.
4. DRMS Disposal Service Director (DSD) complies with DRMS Instruction 4160.14 classified incident procedures to provide immediate notification to the installation information security manager upon the discovery of classified or suspected classified material.
5. DRMS DSD (a) establish language in the DRMS field activity Inter-service Support Agreements as outlined in DRMS Instruction 4160.14 to specifically define that the host security will immediately retrieve and secure classified items upon request of the DRMS field activity, (b) coordinate with J8B to ensure all agreements are updated to reflect the new language, and (c) notify DES Battle Creek if the host declines to include the service in the support agreement.

#### **B: Unauthorized Item Receipt**

DRMS Automated Information System (DAISY) processes allowed personnel to receive unauthorized items on the accountable record. Specifically, Communications Security Equipment Items (COMSEC) and Controlled Cryptographic Items (CCI) were received and processed by field activities. DRMS Instruction 4160.14, states not to accept property in Federal Supply Class 5810 (COMSEC) and 5811 (CCI) with a Controlled Inventory Item Code of 9<sup>2</sup>. Items with these characteristics should be rejected back to the military services for processing in accordance with National Security Agency regulations.

Based on discussion with DLIS J6 it appeared the condition occurred because of a DAISY system change implemented in September 2007. It was determined that if certain conditions were met, the system edits did not function properly and these unauthorized items could be added to the accountable property record. As a result, DRMS inappropriately received and processed 40 line items (quantity of 180) from September 2007 – July 2008. DAISY

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<sup>2</sup> This code identifies an item as a Controlled Cryptographic Item (CCI). CCI is described as secure telecommunications or information handling equipment, associated cryptographic component, or other hardware item which performs a critical COMSEC function. Items so designated are unclassified but controlled, and will bear the designation "Controlled Cryptographic Item" or "CCI".

transactions and support documents indicated the 40 line items were demilitarized by the generator prior to turn-in, demilitarized by the DRMS contractor, returned to the generator, or were issued. Not all documents supporting the DAISY transactions were in Web Enabled Document Conversion System (WEBDOCS). A recommendation for corrective action related to the WEBDOCS deficiency is addressed in finding 8. The DAISY Program Office implemented a system change in July 2008 to correct the receipt deficiency.

**Audit Comment:** DA was not able to complete the independent validation because of system limitations in the testing database and insufficient documentation on the specific preconditions that led to the deficiency and as a result, prevented reinventing those conditions for validation purposes. However, based on the data provided by DLIS J6 (i.e. DLIS J6 testing documentation, DAISY screen shots, and discussion with subject matter experts) we can conclude the system change has corrected the identified deficiency.

### **C: Recycling Control Point and Supply Discrepancy Reports**

Recycling Control Point (RCP) and Supply Discrepancy Report (SDR) processing require improvement. Specifically, RCP property<sup>3</sup> verification process is at a 4-5 month backlog, RCP property received for verification is not marked with the date of receipt, and the DRMS sales contractor is slow to remove previously verified property. For example, during our September 2008 visit to the Controlled Property Center, we identified RCP property that was verified by DRMS in March 2008 but had not been removed by the sales contractor. In addition, RCP property discrepancies did not have a SDR submitted through Web SDR for 13 (54 percent) of 24 sample items reviewed. The sample items reviewed were on a RCP discrepancy log, in location at the CPC awaiting shipment to the correct destination, or on a pallet in the RCP verification area identified as misshipped items.

The backlog occurred because the RCP verifier positions were not fully staffed until April 2008; however, property had been received at the CPC warehouse since December 2006. Further, DRMS receipt of misidentified property, inaccurate quantities, and misshipped property from the depot require extensive DRMS research and resources. In regards to misshipped property, we identified several instances where required property DEMIL was shipped from the depot and received at Columbus CPC; but items were clearly marked for shipment to another location. Finally, there are no established procedures to mark the RCP property with the date of receipt to ensure first in first out processing and timely submission of discrepancies.

The misshipped and misidentified property, including DEMIL required items, are being sent in error from the depot to DRMS activities which results in a DLA-wide vulnerability as well as poor customer service to the war fighter that did not receive the items requisitioned. In addition, untimely submission and identification of supply discrepancies to the shipping depot delay the resolution process. As of the end of August 2008, 166 misshipments of property from the depot

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<sup>3</sup> In general, RCP property are items sent for disposal from a DDC depot to a DRMS field activity. DRMS employees at the CPC (Columbus and Huntsville) verify whether the RCP property is eligible for public release prior to providing items to the sales partner. This control mechanism is in place to ensure the sales partner receive only those items that are safe to sell. The sales partner is co-located at the CPC and retrieves the property after DRMS verification.

to DRMS field activities have been identified for FY 2008. This number is most likely understated because of RCP and SDR backlog.

**Recommendations:**

6. DDC J-3 determines the root cause of the misidentified and misshipped property originating from the depots to DRMS activities.
7. DRMS J-3/4 train additional personnel at field locations and HQ DRMS to ensure timely submission of supply discrepancy reports.
8. DRMS J-3/4 and DSD (a) develop and implement a corrective action plan at the CPC to address the RCP backlog (b) coordinate with the contractor for timely removal of verified items and (c) ensure at all locations the date of receipt is annotated on each pallet of RCP property.

**D: Troubled Property Receipt**

Processing and accountability of troubled property requires improvement. Troubled property is items that cannot be processed by the DRMS field activity and requires additional information must be returned to the generator. We determined Disposal Service Representatives (DSR) may not be adequately reviewing the generator's property prior to turn in, DRMS field activities procedures varied as to when a DRMS Form 917, Property Disposal Reject/Advice Notification, was prepared, and activities are not obtaining generator signatures for returned items. For example, we reviewed 16 documents for items returned to the generator or rerouted to another location and none of the documents provided a clear chain of custody throughout the process or provided receipt confirmation at the final destination. DRMS Instruction 4160.14 requires that when property for turn-in must be rejected, personnel must complete and provide a DRMS Form 917 to the generator and have the generator sign the form as acknowledgement of item receipt.

The troubled property receipt and lack of generator signatures for items returned occurred for several reasons. We determined the trouble property receipt occurred because the DSR is not reviewing generator property and documentation for accuracy prior to shipment to the DRMS field activity. Regarding the DRMS Form 917, one location explained it is not always feasible to obtain a generator signature when items are returned because of the volume of property received from numerous geographic locations. Another location stated they did not have time to prepare the DRMS Form 917 documentation and instead coordinated directly with the DSR and generator to resolve the problem. In addition, that location was not aware a generator signature was required on the DRMS Form 917. Further, DRMS Instruction 4160.14 only addresses that a DRMS Form 917 is prepared for property being rejected, but it does not provide clear guidance for property that is undergoing resolution with the generator (i.e., awaiting a generator certification) or is rerouted to another location. In many instances, the DRMO will receive the required documentation from the generator and the property is processed.

As a result, there is not a clear audit trail for property returns or items rerouted to another location leaving the property susceptible to loss. In addition, property received without adequate review and documentation causes an increase work load on personnel and a risk that unauthorized property will be received.

#### **Recommendations:**

9. DRMS DSDs ensure the field activities obtain the generator signature on the DRMS Form 917 for items returned.
10. DRMS DSDs evaluate whether DSR staffing at field activities is adequate to (a) physically verify generator property and documentation is accurate prior to direct shipment to the CDC and (b) provide sufficient oversight of all property sent to DRMS field activities.
11. DRMS J-3/4 updates the DRMS Form 917 and applicable instructions to track the property chain of custody. The updated form should include typed name, signature, date, and telephone number of the (a) DRMO personnel completing the form, (b) the driver picking up the items, and (c) the generator or final destination acknowledging item receipt.
12. DRMS J-3/4 update DRMS Instruction 4160.14 to provide detailed instructions and timelines on when a 917 should be prepared (i.e., for all troubled items or only those items returned to the generator).

#### **E: Receiving Efficiency**

DRMS lack of automation throughout the receiving process is a concern. Specifically, at one location the lack of automation and the use of temporary employees are affecting the efficiency of material receipt. Items had been physically received 60 days prior to our visit and had not been received on the accountable property record. This occurred because the CDC lacks adequate amounts of computers and barcode scanners in the yard to efficiently process DEMIL material. The current manual and labor intensive receipt process contributes to the inefficient processing and backlog. Further, the frequent hire and release of contract employees could negatively impact production and quality. As of August 2008, 10 of 36 CDC personnel were contract employees. The lack of automation and the management of temporary employees impacts the CDC's ability to receive and process DEMIL materiel in an efficient manner. Although the weakness was identified at one location, the lack of automation in the receiving process should be evaluated throughout DRMS.

#### **Recommendations:**

13. DRMS J-3/4 evaluates the receiving processes at DRMS field activities and identifies methods to automate and streamline those processes throughout DRMS.
14. DRMS DSD evaluate whether temporary employees provide the best personnel resources for the Centralized DEMIL Center.

#### **F: Segregation of Duties**

DRMS field activity personnel processed both item receipt and release transaction to the accountable property record. We identified four personnel at two locations that processed both types of transactions without proper support documented in the administrative files. DRMS Instruction 4160.14 states that where personnel resources permit, DRMO individuals responsible for signing release documents for sold property will not be the same as those responsible for

signing receipt documents for property received in the DRMO. In those instances where it is not feasible to adhere to this policy, the Area Manager will document the reason for deviating from the instruction and place it in the official administrative files. The field activities did not comply with the instruction and the current guidance does not provide adequate oversight when there is a deviation from the instruction. Inadequate segregation of duties and oversight of processes can increase the risk of error or fraud.

**Recommendation:**

15. DRMS J-3/4 updates the 4160.14 to reflect field activities must receive DSD approval to deviate from the receipt/release instructions.

**G: Batch lot Discrepancies**

There are inadequate controls over property that is determined not safe to sell and removed during the batch lot verification process. The batch lot verification process involves determining whether items are safe to sell to the DRMS sales contractor. We reviewed 17 line items for property that was removed from sales delivery order because items were identified as DEMIL required. We determined 4 (24 percent) of 17 items could not be located and another 6 (35 percent) had not been added to the accountable property records and were in a bin in the general receiving area. The CPC standard operating procedures state that item discrepancies will be documented and accountable records updated. We did not identify detailed instructions or timelines for accounting for items removed from batch lots. These weaknesses occurred because there is lack of clear guidance for processing property pulled from batch lots and providing an audit trail from the discrepancy log to the new disposal turn-in document number assigned. In addition, CPC personnel resources were limited with 2 of 13 positions vacant and available resources had been assigned to the F-14 project. These inadequate inventory controls could result in mishandling, theft and loss of property to include DEMIL required items or hazardous property.

**Recommendations:**

16. DRMS J-3/4 develops detailed instruction and timelines for updating the accountable property record when items are removed from batch lots.
17. DRMS DSD evaluate whether the Columbus Controlled Property Center has adequate personnel resources to perform the mission.

**H: DEMIL/Classified Receipt**

Generators prepared DEMIL and declassification disposal documents were not available to support accountable record transactions. One location physically received and processed classified items (DEMIL code P) and ammunition, explosive and dangerous articles (DEMIL code G, AEDA) to the accountable record with a code indicating the generator had performed DEMIL prior to turn-in. However, for 22 (46 percent) of 48 line items reviewed there was no generator DEMIL or declassification statement on file or in WEBDOCS. We did verify a CDC DEMIL certification was on file for all 48 line items; however obtaining the DEMIL certification

was a manual and time-consuming process. In addition, another location downgraded a DEMIL required item to scrap with a generator DEMIL performed code entered in the system. However, there was no generator DEMIL support documentation on file for 1 (6 percent) of 18 items reviewed. DRMS Instruction 4160.14 requires a generator DEMIL/declassification statement in order to physically receive DEMIL G and P property. Further, WEBDOCS use is mandatory and should be used to electronically file receipt, issue, supply discrepancy reports, and DEMIL documentation

These conditions most likely occurred because of human error where the receiver did not validate the generator DEMIL/Declassification certification was provided and inappropriately received the item or the documentation was not properly added to WEBDOCS. Further, there currently are no automated processes available to capture the CDC DEMIL Certification in WEBDOCS. During our review, we noted inconsistencies in the DRMS Instruction 4160.14 procedures for receipt of DEMIL G and P items. Specifically, section 2, chapter one provides that DEMIL G property can only be received in place and DEMIL P will not be accepted physically or on the accountable property record. However, section 2, chapter 2 provides that DEMIL G and P property can be physically received by the DRMO if the generating activity has performed declassification/DEMIL. The identified weaknesses could result in improper handling of classified, DEMIL, or AEDA materiel. In addition, non-compliance with established procedures to provide an automated DEMIL certification makes it difficult to validate proper disposal has been accomplished.

#### **Recommendations:**

18. DRMS DSDs provide employee refresher training on (a) DEMIL G and P handling requirements and (b) the requirement to use WEBDOCS to electronically file receipt, issue, supply discrepancy reports, and DEMIL documentation.
19. DRMS J-3/4 review DRMS 4160.14 instructions related to DEMIL G and P receipt and ensure consistent guidance is presented throughout the instruction.

#### **I: Transportation**

Policies for applying seals to inbound shipments at DRMS field activities are not consistent. We reviewed bill of lading documentation and determined 8 (9 percent) of 85 bills of lading did not have a seal number documented on inbound shipments. The shipments were scheduled by the Most Efficient Organization (MEO), the generator, and by the DRMS field activities. Only one location regularly contacts the MEO scheduling office when an inbound shipment is not sealed. The policies on applying seals to shipments vary depending upon who schedules the shipment, the location it is shipped from, and the type of property. For example, DRMS MEO scheduling office instructions require that all trucks have seals, standard operating procedures for F-14 property require both DEMIL and non-DEMIL shipments are sealed, and Department of Homeland Security policy requires that all maritime containers inbound to the United States must be sealed. We did not identify any Defense Transportation Regulation requirement to seal all DEMIL required property. Non-compliance with MEO scheduling office instructions and inconsistent instruction on seal requirements leave property that is not sealed during transportation subject to loss or theft.

#### **Recommendations:**

20. DRMS J-3/4 develop a consistent DRMS-wide instruction for applying seals to all shipments and implement a centralized notification process when shipments arrive without seals.
21. DRMS J-3/4 evaluate whether a change to the Defense Transportation Regulation should be recommended to facilitate securing DEMIL items that are sent for disposal.

#### **J: Physical Security**

Physical security at the DRMS field activities requires improvement. Specifically, we observed the DEMIL and pilferage items area entrance door was left unlocked and unattended. DRMS Instruction 4160.14 mandates access to the pilferage storage area is strictly controlled and access should be restricted to a minimum number of employees to commensurate with operational needs. At one location, weaknesses from a DES Battle Creek Public Safety Antiterrorism/Force Protection Vulnerability Assessment and Physical Security Review dated September 2007 had not been corrected. At another location, we determined maintenance employees had not signed the visitor log or received visitor badges as required in DRMS Instruction 4160.14. In addition, overhead doors and day gates were left open. At another location, a DA investigator conducted a Crime Vulnerability Assessment (2008-DCIA-CVA-0019) in conjunction with the DRMS VA site visit. DA issued a separate report for comment to the DRMS Director regarding this visit. Therefore, those findings will not be included in this report. The identified physical security weaknesses increase the potential for unauthorized entry and theft of property.

#### **Recommendations:**

22. DRMS DSD implements the recommendations in the Mechanicsburg September 2007 DES Battle Creek report or identifies alternative corrective action.
23. DRMS DSDs ensure access controls for the DEMIL/Pilferage cage limit access to only those with an access requirement.
24. DRMS DSDs reinforce the importance of requiring visitors to sign the visitor log and to be issued a visitor badge.

#### **K: Inventory**

Physical inventory discrepancies of DEMIL required, pilferable, or F-14 items were identified at each location. We identified items in a storage location, but not on inventory records and items on record that were not in storage location. Please see table 1 for inventory discrepancies. In addition, at the Columbus CPC we observed 22 line items that appeared to be in location, but items were in a banded box with no inventory certification or disposal turn in document listings attached. The field activity chief explained these were F-14 items that had been received on the property records, but several discrepancies needed to be resolved to determine whether a Financial Liability Investigation of Property Loss (FLIPL) would be initiated. As a result of the self identified deficiency, we did not conduct an inventory of these items, but included a recommendation regarding this deficiency.



**Table 1: Inventory Discrepancies**

<b>Inventory Discrepancies and Sample Size<sup>4</sup></b>	<b>Description</b>	<b>Action Taken</b>
2 of 45 (Tucson CDC, floor to book)	In location, not on record	One sample item was added to the accountable record and the other was moved to the troubled property area for resolution.
1 of 20 (Tucson CDC, Resi-B <sup>5</sup> book to floor)	On record, not in location	Accountable record updated to remove the item from inventory - item had been demilitarized in May.
1 of 43 (Columbus CPC, book to floor)	On record, not in location	FLIPL initiated
2 of 90 (Mechanicsburg, floor to book)	In location, 1 item not on record and 1 item not in correct location	One sample item was added to the accountable record and the other item's location was corrected.
2 of 25 (Columbus CPC, Resi-B book to floor)	On record, not in location.  In addition, 22 of 25 appeared to be in location, but boxes were banded with no inventory certification or listing attached. No inventory was conducted.	No corrections were made while we were on-site because these were among the F-14 items that required CPC research prior to initiating a FLIPL.

**Recommendations:**

25. DRMS DSDs reiterate the importance of property accountability and attention to detail in processing property.
26. DSD Columbus review physical inventory procedures and self-assessment results at the CPC and determine whether a wall-to-wall inventory is necessary.

<sup>4</sup> The sample sizes varied at each location. The results presented identify only those samples with discrepant items. Items were judgmentally selected from inventory records (book to floor) and warehouse locations (floor to book) to include DEMIL required, pilferable, and F-14 items.

<sup>5</sup> The Resi-B report is a listing of those items on inventory over 6 months based on the date the items were received.

## V. Conclusion

Our review of DRMS operations and identifies 11 vulnerabilities and provides 26 recommendations for corrective actions. Implementing the recommendations in this report will strengthen DLA Operations by improving property accountability, handling, and security to provide world class war fighter support.

## VI. Summary of Recommendations

Number	Recommendation (NLT 30 days)	Office of Primary Responsibility	Date Corrective Action will be Completed
1	Update the DRMS Instruction 4160.14 to (a) include a requirement to obtain a hand-receipt ( <i>DLA Form 27, Classified Document Receipt</i> ) from the generator or host security when classified items are retrieved and (b) designate individuals at each field activity to handle classified incidents.	DRMS J-3/4	March 31, 2009
2	Implement procedures in DRMS Instruction 4160.14 to provide written notification from DRMS-D to the generator's commander upon the discovery of classified or suspected classified material.	DRMS J-3/4	March 31, 2009
3	Coordinate with DLA J-3312 to update DOD 4160.21-M, Defense Materiel Disposition Manual, to clearly define the host base responsibility to retrieve and secure classified items immediately upon request of the DRMS field activity	DRMS J-3/4	February 28, 2009
4	Comply with DRMS Instruction 4160.14 classified incident procedures to provide immediate notification to the installation information security manager upon the discovery of classified or suspected classified material.	DRMS DSD	March 31, 2009
5	(a) Establish language in the DRMS field activity Inter-service Support Agreements as outlined in DRMS Instruction 4160.14 to specifically define that the host security will immediately retrieve and secure classified items upon request of the DRMS field activity, (b) coordinate with J8B to ensure all agreements are updated	DRMS DSD	September 30, 2009

Number	Recommendation (NLT 30 days)	Office of Primary Responsibility	Date Corrective Action will be Completed
	to reflect the new language, and (c) notify DES Battle Creek if the host declines to include the service in the support agreement		
6	Determine the root cause of the misidentified and misshipped property originating from the depots to DRMS activities.	DDC J-3	June 30, 2009
7	Train additional personnel at field locations and HQ DRMS to ensure timely submission of supply discrepancy reports.	DRMS J-3/4	April 30, 2009
8	(a) Develop and implement a corrective action plan at the CPC to address the RCP backlog (b) coordinate with the contractor for timely removal of verified items and (c) ensure at all locations the date of receipt is annotated on each pallet of RCP property.	DRMS J-3/4 and DSD	Management stated that all corrective actions are complete.
9	Ensure the field activities obtain the generator signature on the DRMS Form 917 for items returned.	DRMS DSDs	February 28, 2009 - Management partially concurs.
10	Evaluate whether DSR staffing at field activities is adequate to (a) physically verify generator property and documentation is accurate prior to direct shipment to the CDC and (b) provide sufficient oversight of all property sent to DRMS field activities.	DRMS DSDs	June 30, 2009
11	Update the DRMS Form 917 and applicable instructions to track the property chain of custody. The updated form should include typed name, signature, date, and telephone number of the (a) DRMO personnel completing the form, (b) the driver picking up the items, and (c) the generator or final destination acknowledging item receipt.	DRMS J-3/4	March 31, 2009 - Management partially concurs.
12	Update DRMS Instruction 4160.14 to provide detailed instructions and timelines on when a 917 should be prepared (i.e., for all troubled items or only those items returned to the generator)	DRMS J-3/4	March 31, 2009

Number	Recommendation (NLT 30 days)	Office of Primary Responsibility	Date Corrective Action will be Completed
13	Evaluate the receiving processes at DRMS field activities and identify methods to automate and streamline those processes throughout DRMS.	DRMS J-3/4	October 2013
14	Evaluate whether temporary employees provide the best personnel resources for the Centralized DEMIL Center.	DRMS DSD	July 31, 2009
15	Update the 4160.14 to reflect field activities must receive DSD approval to deviate from the receipt/release instructions.	DRMS J-3/4	March 31, 2009
16	Develop detailed instruction and timelines for updating the accountable property record when items are removed from batch lots.	DRMS J-3/4	February 28, 2009
17	Evaluate whether the Columbus Controlled Property Center has adequate personnel resources to perform the mission.	DRMS DSD	Management stated that all corrective actions are complete.
18	Provide employee refresher training on (a) DEMIL G and P handling requirements and (b) the requirement to use WEBDOCS to electronically file receipt, issue, supply discrepancy reports, and DEMIL documentation.	DRMS DSDs	May 31, 2009
19	Review DRMS 4160.14 instructions related to DEMIL G and P receipt and ensure consistent guidance is presented throughout the instruction.	DRMS J-3/4	April 30, 2009
20	Develop a consistent DRMS-wide instruction for applying seals to all shipments and implement a centralized notification process when shipments arrive without seals.	DRMS J-3/4	March 31, 2009 – Management partially concurs.
21	Evaluate whether a change to the Defense Transportation Regulation should be recommended to facilitate securing DEMIL items that are sent for disposal.	DRMS J-3/4/ DLA J-3/4	DRMS Management non-concurs.
22	Implement the recommendations in the September 2007 DES Battle Creek report or identify alternative corrective action	DRMS DSD	July 31, 2009

Number	Recommendation (NLT 30 days)	Office of Primary Responsibility	Date Corrective Action will be Completed
23	Ensure access controls for the DEMIL/Pilferage cage limit access to only those with an access requirement.	DRMS DSDs	February 28, 2009
24	Reinforce the importance of requiring visitors to sign the visitor log and to be issued a visitor badge.	DRMS DSDs	February 28, 2009
25	Reiterate the importance of property accountability and attention to detail in processing property.	DRMS DSDs	February 28, 2009
26	Review physical inventory procedures and self-assessment results at the CPC and determine whether a wall-to-wall inventory is necessary.	DSD Columbus	March 31, 2009

#### VII. Evaluation of Management Comments.

Management comments are added as an attachment to this report. Managements proposed corrective actions taken and planned address the recommendations in this report with the exception of partial concurrence with recommendations 9, 11, and 20 and non-concurrence with 21. Specifically, management provided alternate corrective action for recommendation 9, 11, and 20. Regarding management non-concurrence with recommendation 21, DRMS stated that an evaluation was outside the purview of this activity. Therefore, we will elevate our recommendation to DLA J-3/4 policy for consideration. We plan to conduct a follow-up on all corrective actions to ensure the actions are implemented and properly address the weaknesses identified.

We appreciate the courtesies and cooperation extended to us by all staff involved in this review. Please direct any question to (b)(6) DRMS Internal Audit at (b)(6) DSN (b)(6).

Appendix 1  
*Acronyms*

CPC	Controlled Property Center
CDC	Centralized Demilitarization Center
COMSEC	Communications Security Equipment Items
CCI	Controlled Cryptographic Items
DA	DLA Accountability Office
DAISY	DRMS Automated Information System
DDC	Defense Distribution Center
DDHU	Defense Distribution Center, Hill Utah
DEMIL	Demilitarization
DES	DLA Enterprise Support
DLA	Defense Logistics Agency
DOD	Department of Defense
DRMO	Defense Reutilization and Marketing Office
DRMS	Defense Reutilization and Marketing Service
DSD	Disposal Service Director
DSR	Disposal Service Representative
FLIPL	Financial Liability Investigation of Property Loss
ISSA	Inter-service Support Agreement
MEO	Most Efficient Organization
RCP	Recycling Control Point
SDR	Supply Discrepancy Report
VA	Vulnerability Assessment
WEBDOCS	Web Enabled Document Conversion System

Appendix 2  
*Team Members*

(b)(6)

DRMS Assessment and Compliance Office  
DRMS Internal Audit  
DRMS Internal Audit  
DRMS Internal Audit  
DRMS Compliance  
DRMS Compliance  
DDC Internal Audit  
DLIS Internal Audit  
DLIS Internal Audit  
DSCC Internal Audit  
DSCC Internal Audit  
Special Agent, DLA Accountability Office  
Special Agent, DLA Accountability Office  
Special Agent, DLA Accountability Office  
Special Agent, DLA Accountability Office  
Special Agent, DLA Accountability Office



DEFENSE REUTILIZATION AND MARKETING SERVICE  
74 WASHINGTON AVENUE NORTH  
BATTLE CREEK, MICHIGAN 49037-3092

IN REPLY  
REFER TO DRMS-D

FEB 10 2003

MEMORANDUM FOR MR. FRED BAILLIE, SES  
DIRECTOR, DLA ACCOUNTABILITY OFFICE

SUBJECT: Response to Draft DRMS Vulnerability Assessment

We have reviewed the subject report and concur with the findings and the intent of the recommendations. DRMS is taking immediate action to implement corrective actions. The status of those actions and estimated completion dates are attached.

We appreciate the efforts of your staff related to this assessment and thank them for bringing these matters to our attention. We welcome the opportunity to continuously improve operations and reduce vulnerabilities.

(b)(6)

*for*  
*Col, USA*  
*Deputy*

TWILA C. GONZALES, SES  
Director

Attachment





DRMS Responses to DLA Audit/Vulnerability Assessment Recommendations:

**Recommendation 1:** Update the DRMS Instruction 4160.14 to (a) include a requirement to obtain a hand-receipt (DLA Form 27, Classified Document Receipt) from the generator or host security when classified items are retrieved and (b) designate individuals at each field activity to handle classified incidents.

**CONCUR.** DRMS-I 4160.14 paragraph C1.4.6.3. will be rewritten to read "The DRMO will require the activity personnel retrieving the classified item to sign a hand-receipt (DLA Form 27, Classified Document Receipt). See DRMS-I 4160.14, Section 4, Supplement 2, Enclosure 8."

Additionally, DRMS Area Managers will designate individuals to handle classified incidents. DRMS will add an audit protocol to the OER checklist to verify that this has been accomplished.

**OPR:** DRMS J-3/4 and J-5, ECD to incorporate language into DRMS-I 4160.14 and add protocol is Mar 09.

**Recommendation 2:** Implement procedures in DRMS Instruction 4160.14 to provide written notification from DRMS-D to the generator's commander upon the discovery of classified or suspected classified material.

**CONCUR.** DRMS will clarify notification procedures in DRMS-I 4160.14 and implement process to provide letters from DRMS-D to the generator's Commanding Officer when classified property is received.

**OPR:** DRMS J-3/4, ECD to clarify procedures and implement processes is Mar 09.

**Recommendation 3:** Coordinate with DLA J-3312 to update DOD 4160.21-M, Defense Materiel Disposition Manual, to clearly define the host base responsibility to retrieve and secure classified items immediately upon request of the DRMS field activity.

**CONCUR.** DRMS will provide suggested language to DLA for incorporation into DOD 4160.21-M.

**OPR:** DRMS J-3/4, ECD to provide language to DLA is Feb 09.

**Recommendation 4:** Comply with DRMS Instruction 4160.14 classified incident procedures to provide immediate notification to the installation information security manager upon the discovery of classified or suspected classified material.

**CONCUR.** DSDs have contacted their Area Managers to re-emphasize guidance and severity of classified property issues, specifically that they should immediately notify the installation information security manager upon discovery. Refresher training is being conducted, and a review of classified incidents is being added to the DSDs quarterly reviews. DRMS will revise the protocols to verify that DRMOs are notifying the information security manager as required in the DRMS-I 4160.14.

**OPR:** DRMSJ-3/4, ECD to add protocol is Mar 09.

**Recommendation 5:** (a) Establish language in the DRMS field activity Inter-service Support Agreements (ISSAs) as outlined in DRMS Instruction 4160.14 to specifically define that the host security will immediately retrieve and secure classified items upon request of the DRMS field activity, (b) coordinate with J8B to ensure all agreements are updated, (c) notify DES Battle Creek if the host declines to include the service in the support agreement.

**CONCUR.** DRMS has written language to include in ISSAs a requirement for the host security to immediately retrieve classified property. DLA-J8B will add this language to the ISSAs as they come up for review. DLA J8B will notify DES if any host declines to include the language in their agreements.

**OPR:** DRMS J-3/4 and DLA J8B ECD, All ISSAs to be updated by the end of FY09.

**Recommendation 6:** Not a DRMS action (assigned to DDC).

**Recommendation 7:** Train additional personnel at field locations and HQ DRMS to ensure timely submission of supply discrepancy reports (SDR).

**CONCUR.** DRMS will provide a study period for the SDR process. DRMS is also planning an RCP workshop that will include training personnel to input, track and complete the research on SDRs. DRMS is developing an automated discrepancy log to provide an audit trail for SDRs and provide management reports.

**OPR:** DRMS J-3/4, ECD for study period, log completion and workshop is Apr 09.

**Recommendation 8:** (a) Develop and implement a corrective action plan at the CPC to address the RCP backlog (b) coordinate with the contractor for timely removal of verified items and (c) ensure at all locations the date of receipt is annotated on each pallet of RCP property.

**CONCUR.** 8a. Backlog currently worked by additional staff sent in to support the CPC/RCP process. Backlog will be monitored and additional resources will be made available as needed. Additionally, contract labor support has been requested and approved. Long-term solution has been proposed and approved to convert contract labor to (4-year) term employees.

8b. DRMS has issued a new usable sales contract. Under the new contract, the contractor has a 14-day free removal for property and pays a fee of \$10 per day per DTID to accelerate removals. In addition, the contractor is only provided a staging area for non-bulk and rolling stock property.

8c. The CPC/RCP SOP will be updated to require the date material is received to be added to the material along with the Commercial Bill of Lading (CBL) number. The CPC Service Contract (currently in transition) requires the contractor to match inbound property with CBL/DTID and attach DRMS 355 or equivalent document (B.3.3.1.4).

**OPR:** All actions complete.

**Recommendation 9:** Ensure the field activities obtain the generator signature on the DRMS Form 917 for items returned.

**PARTIALLY CONCUR.** Current procedures require the generator sign the 917 form. DSDs will stress this requirement to the field at their next staff meeting with their Area Managers. An audit protocol for this requirement already exists, but will be revised to reflect that the 917 form be signed by whomever picks up property on behalf of the generator and DRMS will ensure that it is checked during Operational Effectiveness Reviews.

**OPR:** DSDs, ECD to discuss with Area Managers is Feb 09.

**Recommendation 10:** Evaluate whether DSR staffing at field activities is adequate to (a) physically verify generator property and documentation is accurate prior to direct shipment to the CDC and (b) provide sufficient oversight of all property sent to DRMS field activities.

**CONCUR.** DRMS has established a "Right Sizing Strategic Planning Team" to review and make recommendations on the role of the DSRs as well as staffing and placement.

**OPR:** Rightsizing Team, ECD to provide recommendations is June 09. Implementation of those recommendations is dependant upon the recommendations made and is therefore TBD.

**Recommendation 11:** Update the DRMS Form 917 and applicable instructions to track the property chain of custody. The updated form should include typed name, signature, date, and telephone number of the (a) DRMO personnel completing the form, (b) the driver picking up the items, and (c) the generator or final destination acknowledging item receipt.

**PARTIALLY CONCUR.** DRMS will update DRMS Form 917 as recommended and require signature of person picking up the property. Regarding recommendation 11c - Once the property is removed, DRMS has no control over whether the final destination signs and returns documentation acknowledging receipt.

**OPR:** DRMS J-3/4, ECD to update form and publish new procedures is Mar 09.

**Recommendation 12:** Update DRMS Instruction 4160.14 on when a 917 should be prepared (i.e., for all troubled items or only those items returned to the generator).

**CONCUR.** DRMS will update instruction and publish change on when Form 917 should be prepared.

**OPR:** DRMS J-3/4, ECD to develop and publish change is Mar 09.

**Recommendation 13:** Evaluate the receiving processes at DRMS field activities and identify methods to automate and streamline those processes throughout DRMS.

**CONCUR.** This issue is already being addressed in detail in both the Reutilization Business Integration (RBI) Initiative and with current Lean Six Sigma projects going on in DRMS.

The **RBI initiative** is the movement of DRMS systemic processes that currently reside primarily in DAISY, into new systems (either the Decision Support System (DSS) or the Enterprise Business System (EBS), depending on the process). All DRMS processes, to include receiving, are being scrutinized in detail and looked at in the context of potential business process improvement, and utilizing new or existing systems technology (to include upgraded barcode technology, etc. as part of this RBI process).

**Continuous Process Improvement (CPI) / Lean Six Sigma (LSS)** projects are focusing on the receiving processes at the DRMOs. Some improvements have already occurred because of these projects.

**OPR:** Various, CPI/LSS is an ongoing process. ECD for RBI Oct 2013.

**Recommendation 14:** Evaluate whether temporary employees provide the best personnel resources for the Centralized DEMIL Center.

**CONCUR.** DRMS has evaluated the use of contract versus temporary employees at the CDCs and recommended that contract labor be converted to 4-year term employees. This will provide consistency, continuity and build a more experienced workforce capable of maintaining current and future generations at manageable levels. This proposal requires an adjustment of the DRMS end strength that will be discussed during mid-year budget discussions.

**OPRs:** DSDs and DLA J8B, ECD to obtain approval of new end strength authority is July 09. ECD for replacing contract employees with term would be 120 days after receipt of authority.

**Recommendation 15:** Update the 4160.14 to reflect field activities must receive DSD approval to deviate from the receipt/release instructions.

**CONCUR.** DRMS will revised the DRMS-I 4160.14 to reflect DSD level approval needed to deviate from receipt/release instructions.

**OPR:** DRMS J-3/4, ECD to revised the procedures in DRMS-I 4160.14 is Mar 09.

**Recommendation 16:** Develop detailed instruction and timelines for updating the accountable property record when items are removed from batch lots.

**CONCUR.** DRMS will update the CPC/RCP SOP to better define the property accounting time lines. The CPC Service Contract (currently in transition) requires the contractor to update the accountable record within three days.

**OPR:** DRMS J-3/4, ECD to update and publish the new SOP is Feb 09.

**Recommendation 17:** Evaluate whether the Columbus Controlled Property Center has adequate personnel resources to perform the mission.

**CONCUR.** DRMS has completed an evaluation of the current CPC staffing and determined that it is in line with projected workload. In addition, the recently awarded CPC Service Contract will provide additional support in the processing of the property and updating the accountable record. Workload surges and special mission requirements will always arise and require additional resources on a temporary basis but from a basic workload standpoint the Center is sufficiently staffed. Staffing will be reevaluated on a periodic basis.

**OPR:** Action completed.

**Recommendation 18:** Provide employee refresher training on (a) DEMIL G and P handling requirements and (b) the requirement to use WEBDOCS to electronically file receipt, issue, supply discrepancy reports, and DEMIL documentation.

**CONCUR.** Once guidance is confirmed and/or changed to be consistent (see Recommendation 19), DSDs will confirm they have provided refresher training on handling of DEMIL G and P property, as well as the additional requirement to ensure WEBDOCS is used to electronically file the associated documentation. Note: This training is already supplied in required DEMIL courses and DEMIL refresher courses.

**OPR:** DSDs, ECD to provide refresher training is May 09.

**Recommendation 19:** Review DRMS 4160.14 instructions related to DEMIL G and P receipt and ensure consistent guidance is presented throughout the instruction.

**CONCUR.** DRMS is reviewing all the instructions related to DEMIL G and P and will resolve any inconsistencies.

**OPR:** DRMS J-3/4, ECD to make the required changes to DRMS-I 4160.14 is Apr 09.

**Recommendation 20:** Develop a consistent DRMS-wide instruction for applying seals to all shipments and implement a centralized notification process when shipments arrive without seals.

**PARTIALLY CONCUR.** DRMS will revise DRMS-I 4160.14 to require seals for full truckload shipments between the DRMOs and demil centers/deman contractors and the procedures for reporting shipments with missing or broken seals. Regarding all other shipments of demil required property DRMS will not be any less stringent on the use of truck seals than required by Defense Transportation Regulation DOD 4500.9R Part II. Note that only certain categories of demil required items (such as weapons parts) are required to be shipped in sealed trucks and it makes little sense to ship used parts at a higher standard (and cost) than when they are shipped new from the depots to the customer.

**OPR:** DRMS J-3/4, ECD to revise DRMS-I 4160.14 is Mar 09.

**Recommendation 21:** Evaluate whether a change to the Defense Transportation Regulation should be recommended to facilitate securing DEMIL items that are sent for disposal. Coordinate recommended updates with DLA J-xxx.

**NON-CONCUR.** As stated in the answer to recommendation 20, it makes little sense to hold the shipments of used demil required items to a higher shipment security standard than that used for new parts or active inventory. Whether that standard should be changed would require a comprehensive study on the risk of loss throughout the items life cycle – that study is not within the purview of this Activity. Therefore, we do not believe a change to the requirements covering just one of the items many transportation occurrences reduces risk commensurate with the increased costs.

**Recommendation 22:** Implement the recommendations in the September 2007 DES Battle Creek report or identify alternative corrective action.

**CONCUR.** Findings/recommendation only applies to DRMO Mechanicsburg. Area Manager will be implementing all DES report recommendations. As of 23 Jan 09, six items are closed, 12 remain open.

**OPR:** DSD East, ECD to implement all DES recommendations is Jul 09.

**Recommendation 23:** Ensure access controls for the DEMIL/Pilferage cage limit access to only those with an access requirement.

**CONCUR.** DSDs reiterating the importance of this issue with their Area Managers at their staff meetings. Some refresher training being conducted as well. DRMS will also add to the DSD oversight program a quarterly review/audit on this for each site. Some areas applying even more stringent standards, further limiting access to cage and/or requiring documentation to support reason for needing access. This issue already has audit protocols that are reviewed on the OER audits.

**OPR:** DSDs, ECD to discuss at one of the DSD staff meetings is Feb 09.

**Recommendation 24:** Reinforce the importance of requiring visitors to sign the visitor log and to be issued a visitor badge.

**CONCUR.** DSDs confirmed with Area Managers that policies are being followed via e-mails and staff meetings. Some refresher training being conducted as well. Will also add to the DSD oversight program a quarterly review/audit on this for each site. This issue already has audit protocols that are reviewed on the OER audits.

**OPR:** DSDs, ECD to discuss at one of the DSD staff meetings is Feb 09.

**Recommendation 25:** Reiterate the importance of property accountability and attention to detail in processing property.

**CONCUR.** DSDs confirmed with Area Managers that policies are being followed via e-mails and at January staff meetings. Some refresher training being conducted as well. Property accountability

issues already part of the DSD oversight program with quarterly reviews. This issue already has audit protocols that are reviewed on the OER audits.

**OPR:** DSDs, ECD to discuss at one of the DSD staff meetings is Feb 09.

**Recommendation 26:** Review physical inventory procedures and self-assessment results at the CPC and determine whether a wall-to-wall inventory is necessary.

**CONCUR.** OSD has issued the final policy on F-14 parts and the inventory at CPC Columbus is being processed for shipment to destruction. Any discrepancies noted during the pull, pack and ship process will be identified and a FLIPL initiated. As all the F-14 inventory will be processed, this will mirror a wall-to-wall inventory.

**OPR:** DSD East, ECD to completed the inventory and shipment of the F-14 property is Mar 09.







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

System Review Report

August 5, 2010

To Director, DFAS Internal Review  
Defense Finance and Accounting Service

We have reviewed the system of quality control for the audit organization of the Defense Finance Accounting Service (DFAS) in effect for the year ended September 30, 2009. A system of quality control encompasses DFAS-IR's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards* (GAS). The elements of quality control are described in GAS. DFAS-IR is responsible for designing a system of quality control and complying with it to provide DFAS with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and DFAS-IR's compliance therewith based on our review.

Our review was conducted in accordance with GAS, *July 2007 Revision*, with the exception of meeting the peer review requirement. However, we do not think that this departure from GAS had any impact on this report. In addition, we used the guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE), *March 2009*. During our review, we interviewed DFAS-IR personnel and obtained an understanding of the nature of the DFAS-IR organization, and the design of DFAS-IR's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with DFAS-IR's system of quality control. The engagements selected represented a reasonable cross-section of DFAS-IR's organization, with emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with DFAS-IR management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for DFAS-IR's organization. In addition, we tested compliance with the with DFAS-IR's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of DFAS-IR's policies and procedures on selected engagements. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

There are inherent limitations in the effectiveness of any system of quality control, and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies and procedures may deteriorate.

Appendix A to this report identifies the offices of DFAS-IR that we visited, the engagements that we reviewed and our scope and methodology. Verbatim management comments are included in Appendix B and the DLA System Review Team's responses are included in Appendix C.

In our opinion, the system of quality control for the audit organization of DFAS in effect for the year ended September 30, 2009, has been suitably designed and complied with to provide DFAS-IR with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. DFAS-IR has received a peer review rating of *pass*.

As is customary, we have issued a letter of comment dated August 4, 2010 that includes findings, recommendations and other matters where DFAS-IR can improve its quality control program related to auditing and attestation engagement practices. The letter of comment sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

(b)(6)

STEVEN D. PIGOTT  
Deputy Staff Director, Audit  
DLA Accountability Office

## SCOPE AND METHODOLOGY

### Scope and Methodology

We tested compliance with DFAS-IR's system of quality control to the extent we considered appropriate, by reviewing 6 of 16 projects. These tests included:

- Three audit and attestation reports (issued during the period October 1, 2008 through September 30, 2009) selected for complete review.
- One internal quality control review performed by DFAS-IR, dated June 13, 2008.
- One cancelled project to determine how it was reported to DFAS management.
- One "quick look" project to determine if it was conducted in accordance with GAS. During the review, we determined it should have been reported as a non-audit service.

DFAS-IR revised their policies and procedures in July 2009. Due to these revisions, we could not determine if DFAS-IR conformed to the revised policy for 2 of the 16 projects since these projects were completed before the revised policy was issued. For example:

- One attestation engagement was started prior to issuance of the revised DFAS-IR Audit Manual, Chapter 1700, Attestation Engagements, dated February 2009.
- One performance audit was started prior to issuance of the DFAS-IR Audit Manual, Chapter 1210, Planning the Audit, dated July 2009.

We visited the Indianapolis, IN; Cleveland, OH; and Columbus, OH offices of DFAS-IR. At each site we:

- Conducted interviews using the audit staff questionnaire in the CIGIE Guide to determine if the DFAS-IR's quality control and assurance policies and procedures related to audits and attestation engagements have been communicated to its professional staff.
- Reviewed procedures for personal and organizational independence to ensure management did not exert undue influence on individuals or organizations.
- Reviewed continuing professional education records and training documentation to enhance auditor's knowledge, skills and abilities.

### Reviewed Engagements Performed by DFAS-IR

1. "Defense Agencies Initiative Internal Controls," project number IN09SRC012DFAS, dated August 3, 2009.
2. "DFAS Tax Identification Number Material Weakness Mitigation Validation," project number DE08PRC009CO, dated October 16, 2008.
3. "Mechanization of Contract Administration Services," project number CO08PROC008CO, dated September 9, 2009.

4. "Electronic Funds Transfer Internal Controls Process," project number IN06SRP012DFAS, undated.
5. "DFAS Internal Self Assessment," project number CO08PRS004DFAS, dated June 13, 2008.
6. "Management Letter for Annuitant Pay Review," project number CO08SRP011CO, dated September 30, 2009.

**Reviewed Quality Control Review of DFAS-IR Performed by the U.S. Department of Defense, Office of Inspector General**

1. "Quality Control Review of the Defense Finance and Accounting Service Office of Internal Review," project number D-2007-6-003, dated October 31, 2006.

## MANAGEMENT COMMENTS



**DEFENSE FINANCE AND ACCOUNTING SERVICE**  
2490 EAST 50TH STREET  
INDIANAPOLIS, INDIANA 46249

HI

July 29, 2010

MEMORANDUM FOR DIRECTOR, AUDIT DIVISION DLA ACCOUNTABILITY OFFICE

SUBJECT: Defense Finance and Accounting Service – Internal Review Peer Review Draft Report

Thank you for verifying our quality control system was suitably designed and reasonably assured we complied with Generally Accepted Government Auditing Standards. Your thorough peer review and report provided an objective evaluation of our system. We greatly appreciate the members of the DLA Accountability Office staff who conducted this review in a professional and effective manner.

The one comment we have is the final report should be issued to the Director, DFAS Internal Review in accordance with the External Peer Review Memorandum of Understanding between the DLA Accountability Office and DFAS Internal Review.

If you have any questions, please contact Mr. Ed Romesburg, Deputy for Performance Review, at (614) 693-1283, DSN 869-1283. We look forward to working with you and your staff on future engagements.

(b)(6)

Stephen Borushko  
Acting Director, Internal Review

**DLA External Peer Review Team Responses to DFAS-IR Management Comments**

Report Issuance: The report is now issued to the Director, DFAS-IR.





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

IN REPLY  
REFER TO

DA

JUN 13 2008

MEMORANDUM FOR J-85  
DG

SUBJECT: Final Audit Report Related to Sustainment Audit of Contingent Legal Liabilities (CLL)

Attached is our final report documenting the results of our audit performed related to CLL. The DLA Accountability Office (DA) Audit Division was the lead for this audit. In accordance with DLA One Book: Internal Audit Process, the Office of Internal Audits supports DLA management in achieving improvements in the efficiency and effectiveness of DLA activities by conducting audits and providing advisory services. This is a memorandum to document the results of our validation performed related to CLL as of September 30, 2007.

In our evaluation and testing of CLL, we are unable to assert that CLL is presented fairly as of September 30, 2007. We identified internal control weaknesses that, taken as a whole, may have an impact on the fair presentation of CLL. These findings, if unresolved, increase the risk that misstatements material in relation to CLL would not be prevented or detected on a timely basis.

Management comments are incorporated into this report where appropriate, and their comments are attached as an appendix. No further comments are required.

We appreciate the courtesies and cooperation extended to us by J-85 and DG staff involved in this review. Please direct any questions to (b)(6) Financial Accountability, at (b)(6)

(b)(6)

KATIE SCHIRANO  
Audit Director, Financial Accountability  
DLA Accountability Office

Attachment



**Defense Logistics Agency**

**DLA Accountability Office  
Audit Division**

**Final Audit Report**

**Sustainment Audit of Contingent Legal Liabilities**



**June 2008  
IAFA-FY08-01**

**DEFENSE LOGISTICS AGENCY**  
**Audit Division**

**IAFA-FY08-01**

**Final AUDIT REPORT**

**Sustainment Audit of Contingent Legal Liabilities**

**A. Results in Brief**

During our sustainment audit of Contingent Legal Liabilities (CLL), we identified internal control weaknesses that affect the fair presentation of CLL. These issues concern (1) CLL preparation and reporting, (2) compliance with OMB guidance, (3) timeliness of cases entered into the Case Management System, (4) lack of re-evaluation of Unable to Determine cases, (5) estimated loss of Probable and Reasonably Possible cases reported as zero, and (6) outdated policies and procedures.

Our recommendations follow the discussion of each of these findings in the following sections. As a result of our findings and recommendation, we are unable to assert that CLL is presented fairly as of September 30, 2007.

**B. Background**

In March 2007, the Department of Defense Office of the Inspector General (DODIG) reported on DLA's management assertion that Contingent Legal Liabilities<sup>1</sup> (CLL) was fairly presented and ready for audit. The March 2007 DODIG report found that management's assertion presented, in all material respects, an accurate representation as of September 30, 2006. In accordance with Defense Financial Improvement and Audit Readiness (FIAR) Plan, previously validated segments are to maintain audit readiness, and sustainment will be achieved by annual evaluations. Sustainment will include annual review of documentation, evaluation, and testing to assure continued audit readiness. DLA Accountability Office, Audit Division performed the sustainment audit of CLL.

The purpose of this report is to present areas of CLL internal control weaknesses identified during our sustainment audit that could be improved. This report contains 6 recommendations to DLA Agency Accounting Operations (J-85) and General Counsel (DG) to improve these internal controls and procedures.

---

<sup>1</sup> A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible losses to the entity. DLA's contingent legal liabilities include pending or threatened litigation, claims and assessments for events such as property, damages, environmental claims and contractual disputes.

### **C. Objectives, Scope, and Methodology**

In accordance with the DLA Internal Audit Process One Book Chapter, our objective is to determine whether Contingent Legal Liabilities were fairly presented as of September 30, 2007 and remained ready for audit.

To determine whether contingent legal liabilities were presented fairly as of September 30, 2007, we did the following:

- Obtained full read access to the Case Management System (CMS). CMS is the repository of DLA's contingent legal liabilities and is used in preparing the financial statements.
- Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
- Tested all cases recognized and disclosed in the September 30, 2007 financial statements.
- Selected a random sample of 45 items to test internal controls as they relate to entering cases into CMS.
- Obtained an understanding of the CLL process, including its internal controls related to financial reporting and compliance with laws and regulations.
- We requested comments on a draft of this report from J-85 and DG. Their written comments are included in enclosure I.

We conducted the audit from January to April 2008 in accordance with generally accepted government auditing standards issued by the United States Government Accountability Office with the exception of meeting the peer review requirement. We have not received a peer review in over three years because a DOD peer review team has not been available.

### **D. Results**

In our evaluation and testing of CLL, we identified internal control weaknesses that, taken as a whole, may have an impact on the fair presentation of CLL. These findings, if unresolved, increase the risk that misstatements material in relation to CLL would not be prevented or detected on a timely basis.

### **E. Findings and Recommendations**

#### **CLL Preparation and Reporting**

We reviewed documentation downloaded from CMS as well as documents prepared by J-85 and found that Judgment Fund cases were not included on the financial statement as of September 30, 2007. The amount for CLL reported on fiscal year 2007 financial statement was understated by \$2.5 million. According to Interpretation of Federal Financial Accounting Standards No. 2, *Accounting for Treasury Judgment Fund Transactions*, until the Judgment Fund is determined to be the appropriate source for the payment of the claims, the liability should be reported by the entity. The entity involved in the litigation should disclose in a footnote to the financial statements the Judgment Fund's role in the payment of a possible loss. By excluding the Judgment Fund cases, CLL was understated at September 30, 2007.

We did not see evidence of supervisory review of the CLL preparation and reporting process. Supervisory review should be documented after the preparation of the journal voucher (JV) and again after it has been posted by the Defense Finance and Accounting Service (DFAS). According to the Department of Defense (DOD) Financial Management Regulation (FMR) Volume 6A, Chapter 2, adequate internal controls shall be maintained at each level of management to ensure proper oversight of journal voucher preparation. Without supervisory review, there is a risk that CLL is misstated.

**Recommendation #1** - We recommend that J-85 develop and implement internal controls, such as requiring supervisory review, in the CLL preparation and reporting process to provide DLA management with reasonable assurance that the CLL balances presented in the financial statements and related disclosures are supported by underlying accounting records.

**CLL Is Not Presented in Accordance With OMB Circular A-136**

CLL is recognized on the financial statements as a part of the Other Liabilities line item on the Balance Sheet. Additional disclosures of the Other Liabilities line item are presented in Note 12, *Other Liabilities*, and Note 13, *Commitments and Contingencies*. During our review of the footnotes, we did not see a breakdown of how much CLL make up the Other Liabilities line item. Although Note 13 disclosed the amount of Reasonably Possible loss contingencies, there was no disclosure of the amount of Probable loss contingencies recognized on the Balance Sheet. We obtained the composition of the Other Liabilities line item by contacting DFAS and obtained a copy of the breakdown from the Defense Departmental Reporting System - Audited Financial Statements (DDRS-AFS). In accordance with Office of Management and Budget (OMB) Circular A-136, *Federal Reporting Requirements*, composition of line items must be provided, either as subcategories on the face of the statements or in a footnote. Without a breakdown of CLL in the financial statements, CLL is not presented in accordance with OMB Circular A-136.

**Recommendation #2** - We recommend that J-85 disclose the specific CLL total reported in the financial statements in accordance with OMB Circular A-136.

**Cases Not Entered In CMS Within 5 Days**

J-85 uses data from CMS to calculate CLL. In our testing of CMS cases, we noted 16 cases that were not entered in CMS within 5 days as outlined by the Process Cycle Memorandum (PCM). Government Accountability Office's (GAO) *Standards for Internal Controls in the Federal Government* states transactions should be promptly recorded to ensure that all transactions are completely and accurately reported. Without proper controls to ensure cases are entered on a timely basis, there is risk that DLA financial statements are not reported fairly and accurately.

**Recommendation #3** - We recommend DG implement controls to ensure cases are entered in CMS on a timely basis.

#### **Unable to Determine Cases Are Not Consistently Re-Evaluated**

In accordance with the PCM, cases that have been assessed as "Unable to Determine" are to be re-evaluated after 60 days. If after 60 days, a determination of outflow of monies cannot be made, the reason (narrative description) should be provided in the History tab of CMS. Furthermore, the case should be re-evaluated and documented in the History tab every 30 days thereafter until a better assessment can be made. We determined that Unable to Determine cases were not being consistently re-evaluated. Without proper controls to ensure cases are consistently re-evaluated, there is risk that case information in CMS are not promptly and accurately recorded.

**Recommendation #4** - We recommend DG develop and implement controls to ensure Unable to Determine cases are consistently re-evaluated.

#### **Estimated Loss of Zero in Probable and Reasonably Possible Cases**

In reconciling FY 2007's CMS data to J-85's supporting documentation, we noted 7 cases that were assessed as "Probable" and "Reasonably Possible" having an estimated loss of \$0 in the minimum range. One of those cases had \$0 in both the minimum and maximum range. J-85 reports the minimum of the range in the financial statements. In accordance with SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation* (an amendment of SFFAS No. 5, *Accounting for Liabilities of the Federal Government*), a contingent liability should be recognized when all of these conditions are met:

- A past event or exchange transaction has occurred.
- A future outflow or other sacrifice of resources is probable.
- The future outflow or sacrifice of resources is measurable.

The estimated liability may be a specific amount or a range of amounts. If some amount within the range is better estimate than any other amount within the range, that amount is recognized. Disclosure should include the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made. Furthermore, a contingent liability should be disclosed if any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss may have been incurred. Without a measurable loss amount in the minimum range, there is a risk that CLL is understated.

**Recommendation # 5** - We recommend DG report the estimated loss or range of possible loss in CMS. If an estimate cannot be made, DG should notify J-85 so that a statement that such an estimate cannot be made is disclosed.

#### **Policies and Procedures are Outdated**

Current J-85 and DG policies and procedures are outdated. As noted in our findings listed above, internal controls identified in the PCM have deficiencies or do not reflect current practices. For example, the PCM states the CLL JV is auto reversed and a new JV is done quarterly. However, based on our review, the JV is adjusted quarterly rather than reversed. In addition, a memo from the DG Office that provides standard procedures for managing, tracking, and reporting CLL is outdated. The memo outlines the criteria in assessing contingent legal liabilities. We noted the criteria for assessing probable cases outlined in the

memo have not been updated in accordance with SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*. According to GAO's *Standards for Internal Control in the Federal Government*, internal control needs to be clearly documented through management directives, administrative policies, or operating manuals and the documentation should be readily available for examination. Therefore, not having comprehensive policies and controls increases the risk that CLL will not be completely, accurately, and consistently recorded and reported.

Recommendation #6 - We recommend J-85 and DG work collectively to update and implement policies and procedures that will provide DLA management with reasonable assurance that CLL is accurate and complete.

#### **F. Conclusion**

As a result of our findings and recommendations, we are unable to assert that CLL is presented fairly as of September 30, 2007.

#### **G. Management Comments**

We provided a draft of this report to J-85 and DG for comment. Both J-85 and DG concurred with our recommendations. Specifically, DG agreed with our suggested courses of action and noted implementation of the recommendations will be completed by September 30, 2008. J-85 concurred with our recommendations and will implement procedures for supervisory reviews and signature prior to submission to DFAS, among others. J-85's written comments are included in their entirety in enclosure I of this report.

We acknowledge and appreciate the courtesies and cooperation extended to us by all staff involved in this review. Please direct any questions to (b)(6) Financial Accountability at (b)(6)

Enclosure I



DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
872B JOHN J. KINGMAN ROAD, SUITE 2533  
FORT BELVOIR, VIRGINIA 22060-6221

IN REPLY  
REFER TO J-85

MAY 23 2008

MEMORANDUM FOR EXECUTIVE DIRECTOR DA

SUBJECT: Draft Audit Report Related to Sustainment Audit of Contingent Legal Liabilities

We have reviewed the subject draft report and have the following comments:

Recommendation #1 – We recommend that J-85 develop and implement internal controls, such as requiring supervisory review, in the CLL preparation and reporting process to provide DLA management with reasonable assurance that the CLL balances presented in the financial statements and related disclosures are supported by underlying accounting records.

J-85 Comments – J-85 concurs with the finding and will implement a process for supervisory review and signature prior to submission to DFAS. This will provide authorization for DFAS to prepare the journal voucher to report CLL in the Financial Statements. The estimated completion date for this finding will be as of 3<sup>rd</sup> Quarter, FY 2008, Financial Statements.

Recommendation #2 – We recommend that J-85 disclose the specific CLL total reported in the financial statements in accordance with OMB Circular A-136.

J-85 Comments – For Financial Statement purposes, CLL is routinely reported as part of the total "Other Liabilities" and not displayed separately. As in the past, J-85 will disclose the total CLL amount, and the minimum and maximum potential liability in Note 13.

Point of contact for this action is (b)(6)  
email at (b)(6)

(b)(6)

J. ANTHONY POLEO  
Director, Financial Operations  
Chief Financial Officer



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

IN REPLY  
REFER TO J-85

10 JUN 2008

MEMORANDUM FOR EXECUTIVE DIRECTOR DA

Subject: Draft Audit Report Related to Sustainment Audit of Contingent Legal Liabilities

We have reviewed the subject draft report and have the following comments:

Recommendation #5 - We recommend DG report the estimated loss or range of possible loss in CMS. If an estimate cannot be made, DG should notify J-85 so that a statement that such an estimate cannot be made is disclosed.

J-85 Comment - J-85 concurs.

Point of contact for this action is (b)(6) or by email,

(b)(6)

(b)(6)

KAREN OPIH-TOLER  
Staff Director, Agency Accounting  
Operations

cc:  
J-8

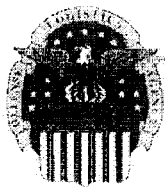
Federal Recycling Program



Printed on Recycled Paper





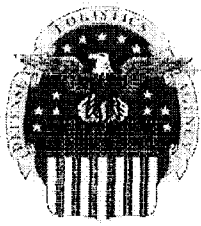


## *DLA Accountability Office*

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# **Audit of Law Enforcement Support Office**

**Defense Reutilization and Marketing Service**



# Executive Summary

Audit Report DAO-09-01  
March 1, 2010

## Audit of Law Enforcement Support Office

Defense Reutilization and Marketing Service

### Results

The DLA Law Enforcement Support Office (LESO) was established to administer the 1033 Program—a DoD initiative to support Law Enforcement Agencies (LEAs) by transferring excess Defense personal property for use in law enforcement activities. Property that has typically been transferred includes weapons, automobiles, boats, aviation equipment, clothing, and other equipment. Between FY 2006 and FY 2008, LESO issued over 17,000 sensitive items valued over \$180 million to over 2,300 program recipients.

As a result of our audit, we found the LESO Program had systemic issues that lead to weaknesses in the administration and accountability of sensitive property issued to program recipients. These issues included:

- Outdated policies and procedures that were not detailed and were not always operating, limiting the ability of LESO to adequately track federal government property distributed to LESO activities.
- State Coordinators conducting limited site visits with no requirement for frequency or scope, thus increasing the likelihood of discrepancies in the accountability of property issued and the probability of using property for unauthorized purposes.
- Control weaknesses in the accountability of sensitive items issued to law enforcement agencies, leading to the use of sensitive items (such as weapons) outside the scope of the 1033 program and without the knowledge and consent of DLA.
- Inaccurate and incomplete data in LESO property tracking system, which decreased LESO's ability to provide adequate oversight of issued property.

These significant deficiencies in the accountability of sensitive property have lead to significant risks to both DoD and DLA.

### Why DA Did this Review

As approved in the FY2009 DLA Annual Audit Plan, we conducted an audit of the LESO Program to provide a comprehensive assessment of the program and practical recommendations, as appropriate, for DLA senior leadership. Additionally, the audit was initiated as a result of administrative issues previously reported by the Government Accountability Office, the DoD Inspector General and the DLA Accountability Office.

### What DA Did

Our audit objectives were to determine whether: (1) the LESO had policies and procedure in place and operating regarding the issuance, transfer, turn-in and disposal of LESO property, (2) State Coordinators conducted periodic site visits to verify the use and existence of issued property, (3) law enforcement agencies properly accounted for, safeguarded and used property in accordance with MOA conditions, and (4) LESO input all necessary information into the Law Enforcement Equipment Database System.

### What DA Recommends

This report contains 15 recommendations addressed to LESO and DRMS. Our recommendations provide opportunities for DLA to further develop their processes and procedures for issue, transfer, turn-in and disposal of LESO property and improve oversight and accountability of property provided through the program.

J-3/4 and LESO concurred with nine recommendations and took, or will take, actions that meet the intent of the remaining six recommendations.



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

March 1, 2010

MEMORANDUM FOR DIRECTOR, LOGISTICS OPERATIONS & READINESS (J-3/4)  
DIRECTOR, DEFENSE REUTILIZATION AND MARKETING  
SERVICE (DRMS)  
DIRECTOR, LAW ENFORCEMENT SUPPORT OFFICE (LESO)

SUBJECT: Audit Report for Law Enforcement Support Office

This is our report on the audit of the LESO Program. It includes the results of our audit and conclusion of LESO program administration.

We conducted this audit from November 2008 to July 2009 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 Accountability Office has 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 objectives.

This report contains 15 recommendations addressed to the Director of LESO or the Director of DRMS to improve the operations of the LESO program.

I appreciate the courtesies and cooperation extended to us during the audit. For additional information about this report, contact the DLA Accountability Office at 703-767-6464.

(b)(6)

STEVEN D. PIGOTT  
Deputy Staff Director, Audit Division  
DLA Accountability Office

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## INTRODUCTION

### OBJECTIVES

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The overall objective of the audit was to evaluate the Law Enforcement Support Office (LESO) Program's administration. Specifically, the audit determined whether:

- LESO had policies and procedures in place and operating regarding the issuance, transfer, turn-in and disposal of property.
- State Coordinators conducted periodic site visits to verify the use and existence of property.
- Law Enforcement Agencies (LEAs) properly accounted for, safeguarded and used property in accordance with LESO conditions.
- LESO input all necessary information into Law Enforcement Equipment Database System (LEEDS).

### WHAT WE AUDITED

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The DLA Accountability Office audited transactions representative of the LESO program for the period FY 2006 through FY 2008. Our audit covered all phases of the program from issuance of equipment to usage and accounting for equipment used by authorized program users, individual LEAs. We focused on six categories of sensitive items to include weapons, aircrafts, watercrafts, armored personnel carriers, High-Mobility Multipurpose Wheeled Vehicles (HMMWVs) and other vehicles.

### BACKGROUND

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The LESO program office, under authorization from the Office of the Secretary of Defense, is responsible for the administration of this program, which was established in Section 1033 of the National Defense Authorization Act for Fiscal Year 1997. This legislation repealed Section 1208 of the National Defense Authorization Act for Fiscal Year 1990 and expanded the scope by

making the program permanent and making all LEAs eligible for receipt of property. Additionally, the change gave preference to LEAs involved in counterdrug and counterterrorism activities. LEAs participating in the program are guided by the Memorandum of Agreement (MOA) between DLA and each state. Individual LEAs are directly overseen by a State Coordinator appointed by their Governor.

The LESO Program permits the Secretary of Defense to transfer excess Defense personal property to LEAs. Property that has typically been transferred includes weapons, automobiles, aviation equipment, clothing, and other equipment. Between FY 2006 and FY 2008, LESO issued over 17,000 sensitive items valued over \$180 million to over 2,300 program recipients. Transfers to LEAs from DoD organizations are made on an "as-is, where-is basis". Property is transferred without expense to DoD and the recipient accepts responsibility for all costs associated with the transfer.

Personal property is transferred to LEAs with the assistance of the Defense Reutilization and Marketing Service (DRMS) through the property accounting system known as the Defense Reutilization and Marketing Service Automated Information System (DAISY). To administer the LESO Program, LESO uses a manual interface between DAISY and a web-based system called LEEDS. LEEDS was designed to track the on-hand quantities and disposals of all DoD property issued to individual LEAs. Equipment is issued to and transferred among LEAs using a Form 1348-1A (Issue Release/Receipt Document). Additionally, this form is used to input the equipment data into LEEDS and shows acceptance of the property by signature in block 22 and acceptance date in block 23.

During the audit, DLA began transferring LESO from J-3/4 to DRMS. This transfer was made to more closely align LESO management with the reutilization mission of DRMS and was announced prior to the start of this audit. Although the office was in transition during our audit, we were able to interview appropriate operating personnel and review transaction supporting data. Therefore, we do not believe that the move had an adverse impact on our audit. If implemented as planned, the LESO office should be able to operate more effectively under this reorganization.

As approved in the FY 09 DLA Annual Audit Plan, we conducted an audit of the LESO Program to provide a comprehensive assessment of the program and practical recommendations, as appropriate, for DLA senior leadership. Additionally, the audit was initiated as a result of systemic issues related to the accountability of DoD excess property that were previously reported by the Government Accountability Office, the DoD Inspector General and the DLA Accountability Office.

# RESULTS, RECOMMENDATIONS AND CONCLUSIONS

## RESULTS AND RECOMMENDATIONS

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In this section, we discuss these four areas:

- Policies and Procedures.
- State Coordinator Site Visits.
- Property Accountability.
- Database Accuracy.

### POLICIES AND PROCEDURES

Although LESO had general policies and procedures in place, they were outdated and did not include all the specific procedures necessary to correctly process transactions. Specifically, written procedures lacked detailed instruction on how to issue, transfer, turn-in, and dispose of property. In addition, LESO policies and procedures weren't always operating—we found issues with the processing of weapons transactions, documentation retention of transaction files, and unauthorized transfer of equipment by LEAs. These problems occurred because current LESO staff was dedicated to processing daily transactions, as opposed to updating policies and procedures and did not monitor LEA usage of property. As a result, automated records lacked essential details in order to adequately track federal government property distributed to LESO recipients. Additionally, without detailed procedures and prior-year documentation, valuable lessons-learned may be lost in the ongoing transfer to DRMS.

#### Procedural Instructions

LESO Standard Operating Procedures (SOPs) lacked detailed instruction on how to issue, transfer, turn-in and dispose of property. Although LESO procedures provided general instruction on how to process some equipment transactions, the procedures did not provide specific details documenting all of the necessary steps for each process.

We found that the SOP (dated January 2008) only contained detailed instructions for issuing, transferring, turning-in and disposing of aircrafts. The SOP contained a 14-step process for



LESO personnel, State Coordinators, and the LEA to accomplish in order to complete the aircraft transfer. However, the SOP did not provide instruction or steps to process the issuance of weapons, watercrafts, armored personnel carriers, HMMWVs or other vehicles. The only guidance that was included in the SOP was factors that would be considered when issuing weapons and peacekeeper vehicles (for example, weapon transfers would be executed on a "first-come, first served basis").

Additionally, LESO policies and procedures included processing steps for the previous system used by LESO to track equipment. We found that the LESO SOP required employees to use the Counter-Narcotics Management Information System (CMIS) database when processing transactions. According to LESO staff, the office discontinued the use of CMIS to track equipment in November 2005 when it was replaced with LEEDS. The SOP required that LESO staff use CMIS to:

- Issue. The guidance required the staff to check CMIS to insure that the requesting LEA is enrolled in the 1033 program and provided specific details on how to use CMIS along with screen shots of the CMIS database to process the transaction.
- Transfer. The guidance required LESO to make property adjustments within the CMIS system when property is transferred between LEAs.
- Turn-In and Disposal. The guidance provided specific details on how to use CMIS along with screen shots of the CMIS database in order to return the property to DRMS and remove it from the accountability records.

This occurred because LESO staff focused exclusively on fulfilling LEA transfer request documents. Additionally, when LESO last reviewed their SOP, rather than updating it with current system information and procedures, they simply updated the date of the publication. As a result, new personnel may have problems with issuing, transferring, turning in and disposing of future equipment as LESO relocates to DRMS.

#### **Recommendation 1** *(LESO Program Office and DRMS)*

Document detailed instructions on how to issue, transfer, turn-in and dispose of all categories of property in the LESO SOP, including the correct operating system.

#### **Management Comments**

Concur. DRMS revised the staff training guide in July 2009 to include detailed instructions on issuing, transferring, turning-in, and disposing of property. Additionally, DRMS plans to issue

the staff training guide as a standard operating procedures by March 31, 2010 and review and revise it each fiscal year as needed.

### Weapons Transaction Processing

Weapons transactions processed by LESO did not comply with established policies and procedures. The LESO SOP limits the number of weapons that may be given to a LEA to (b)(7)(E) of the LEAs authorized strength. For example, (b)(7)(E)

(b)(7)(E)

We tested 49 randomly-selected weapons transactions processed by LESO between FY 2006 and FY 2008. These transactions processed a total number of 256 weapons and included all four processes – issuance, transfer, turn-in, and disposal. We found about 31-percent of the weapons transactions in our sample exceeded (b)(7)(E) limitation and occurred in all of the processes except for turn-in.

Weapons Transactions Processing			
Weapons Process	Total Number of Transactions Tested	Total Number of Transactions Exceeding (b)(7)(E)	Percent of Transactions Exceeding the (b)(7)(E)
Issuance	(b)(7)(E)		
Transfer			
Turn-in			
Disposal			
Totals			

Of particular concern were the following five issue transactions that exceeded (b)(7)(E) limitations:

	Total Number of Officers	True Total Number of Weapons Authorized	Rounded Total Number of Weapons Authorized	Total Number of Weapons Issued	Weapons Issued in Excess of (b)(7)(E) Limitation	Percentage of Weapons Issued to Authorized Strength
1	(b)(7)(E)					
2						
3						
4						
5						

We compared the total number of officers in each LEA to the number of weapons issued in each of the five transactions and found LESO issued weapons that:

- Slightly exceeded (b)(7)(E) limitation in two transactions. In these two transactions, LESO exceeded the (b)(7)(E) limitation by (b)(7)(E). Based on the LEA authorized strength, each activity was authorized (b)(7)(E) weapons; however, they were issued (b)(7)(E) weapons respectively.
- Grossly exceeded the (b)(7)(E) limitation in three transactions by issuing (b)(7)(E) and (b)(7)(E) more weapons than the LEAs authorized strength.

This occurred because the LESO staff provided exceptions for LEAs with special circumstances (for example, a LEA with officers spread over different duty shifts or geographic areas). However, the SOP does not include provisions for the LESO staff to exceed (b)(7)(E) limitation.

Since, DLA has more requests for weapons than weapons available for distribution, some LEAs may not receive necessary equipment and LESO may not effectively meet program goals of distributing excess DoD equipment to support counter-drug and counter-terrorism programs.

#### Recommendation 2 (LESO Program Office)

(b)(7)(E)

#### **Management Comments**

Concur. On October 30, 2009 DRMS issued a policy letter detailing the steps for exceeding the established weapon limitation percentage individual LEAs. The policy letter will be incorporated into the standard operating procedure that will be issued by March 31, 2010.

#### **Documentation Retention**

Of the 49 total weapon transactions in our sample, 39 transactions required the LEA to prepare ATF documentation to issue and transfer weapons. We found LESO did not retain the required Bureau of Alcohol, Tobacco, and Firearms (ATF) documentation for 32 of the 39 transactions (about 82-percent).

LEAs must forward ATF Forms 5 (Application for Tax Exempt Transfer and Registration of Firearms) and ATF Form 10 (Application for Registration of Firearms Acquired by Certain Government Entities) to LESO after the issuance or transfer of each weapon, except for handguns and pistols. (b)(7)(E)

(b)(7)(E) These documents validate each weapon's registration and current ownership with ATF and provide an audit trail for all processed transactions.

ATF documentation was not on-file because LESO did not develop document retention procedures to ensure that all required documentation was accessible as part of their SOP. As a result, LESO does not have an audit trail for all weapons issued and transferred to LESO recipients. Without the supporting documents on-file, LESO has no mechanism to reconfirm a weapon's location and serial number.

### **Recommendation 3 (LESO Program Office)**

(b)(7)(E)

### **Management Comments**

Concur. (b)(7)(E)

(b)(7)(E)

### **Unauthorized Transfer of Equipment**

Weapons were transferred among LEAs without proper authorization from the State Coordinator and LESO. During one site visit to physically verify the on-hand quantity of LEA equipment, we found 48 rifles on-hand that were not reflected in LEEDS.

The MOA between DLA and the State Coordinators requires that LEAs must request the transfer or turn-in of weapons through their State Coordinator, who in turn must request approval from LESO. Additionally, the current LESO SOP requires that LESO approve all transfers of equipment before the physical transfer is completed. To ensure compliance with the MOA, DLA has the option to suspend or terminate an LEA or State Coordinator if they materially fail to comply with the terms of the agreement.

This unauthorized transfer of weapons occurred because according to the LEA, the weapons were transferred from another agency after the transfer request was submitted to LESO. The LEA erroneously believed that simply sending the request to LESO constituted permission to transfer the weapons. While processing errors occurred in the LESO office, the weapons should not have been transferred to another LEA without the express permission of the State Coordinator and LESO.

As a result, LESO does not have an accurate and complete audit trail for the 48 rifles, property accountability of weapons has been lost and military grade weapons could become available to the public.

#### **Recommendation 4 (LESO Program Office)**

Develop procedures to disbar LEAs and State Coordinators from the LESO program that do not comply with program conditions. The disbarment procedures should address both persistent failures to abide by the program conditions as well as significant isolated incidents of noncompliance.

#### **Management Comments**

Partially Concur. DRMS stated that new procedures do not need to be developed to disbar LEAs and State Coordinators from the program that don't comply with program conditions since procedures already exist in the MOA.

#### **Auditor Evaluation of Management Comments**

Based on the recent reorganization of DRMS, the additional management reviews, and the renewed focus on complying with LESO guidance, we believe the actions proposed by management meets the intent of the recommendation.

#### **Recommendation 5 (DRMS)**

Develop performance metric to hold individual employees accountable for the performance of all tasks in the SOP and MOA. Additionally, document employee performance and ensure individual employees are accountable for achieving specific performance metrics.

#### **Management Comments**

Partially Concur. DRMS stated that individual employees will be held accountable for all assigned tasks and that deviation from performance standards are handled in accordance with Performance Management Regulations.

#### **Auditor Evaluation of Management Comments**

Based on the recent reorganization of DRMS with the replacement of many staff members, the continuous training of employees, and the additional emphasis on employee performance, we believe proposed actions by management meet the intent of the recommendation.

### Recommendation 6 (LESO Program Office)

Take immediate action to either recover the 48 rifles erroneously shipped between LEAs or approve the transaction and record it in LEEDS.

### **Management Comments**

Concur. Action to recover the 48 rifles erroneously shipped between LEAs was scheduled to be completed by the end of FY 2009.

## **STATE COORDINATOR SITE VISITS**

State Coordinators conducted periodic site visits to verify on-hand quantities of property and maintained detailed records of the location and owner of property; however, we noted that the frequency of site visits provided inadequate coverage of all LEAs enrolled in the LESO Program. In addition, State Coordinator positions were often "temporary" and had budgetary constraints. As a result, the program has an increased likelihood of discrepancies in the accountability of property issued and the use of property for unauthorized purposes.

Based on our review of five State Coordinators, we found that the frequency of reviews provided inadequate coverage of LEAs. We found that the number of State Coordinator annual reviews ranged from 3 to 85 visits per year. Based on the number of participating LEAs in each state, we calculated that, given the present rate of review, the State Coordinators would take between 6 and 311 years to review all property located in their state. The following chart summarizes the number and frequency of State Coordinator reviews within our sample:

State Coordinator Reviews of LEAs			
State Coordinator	Number of LEAs In the state	Number of LEAs Reviewed each year	Computed Frequency of Reviews (Years)
State Coordinator #1	348	4	87
State Coordinator #2	732	20	37
State Coordinator #3	542	85	6
State Coordinator #4	580	24	24
State Coordinator #5	934	3	311
AVERAGE	627	27	93

The infrequent State Coordinator reviews were caused by the MOA between DLA and the States not defining the frequency and scope of State Coordinator property reviews. In addition,

the State Coordinator positions were often temporary or considered additional duties and had budgetary constraints:

- The MOA (dated October 2003) requires State Coordinators to conduct periodic reviews of each LEA enrolled in the program, to include physical inventory or spot checks of property received and any related records. When the MOA was revised in March 2009, the language was strengthened to require State Coordinators to conduct an operational effectiveness review of LEAs participating in the program in order to ensure accountability, responsibility, and program compliance. However, the revised MOA did not include a timeframe for completing the reviews.
- Almost all of the State Coordinator position were either temporary positions or considered additional duties. Also, the positions did not have a budget that would allow the State Coordinators to conduct the required periodic inspections. During our interviews, some of the State Coordinators stated that budget constraints prevented them from conducting additional annual reviews of LEAs.

As a result, LESO does not have an audit trail for all property issued and transferred to LESO recipients – therefore, property accountability over weapons and other sensitive military-issue equipment could be lost.

#### **Recommendation 7 (DRMS)**

Modify the existing memorandum of agreements with State Coordinators (b)(7)(E)

(b)(7)(E)

#### **Management Comments**

Partially Concur. DRMS does not believe it is necessary to modify the existing MOA with State Coordinators (b)(7)(E). LESO developed a schedule to conduct performance reviews with all participating States and Territories by the end of FY 2011. The details of the performance reviews will be incorporated into the MOA. As of the last quarter of FY 2009, LESO had completed all scheduled reviews.

#### **Auditor Evaluation of Management Comments**

Based on the recent reorganization of DRMS and development of a detailed performance review procedure and scheduled, we believe the proposed actions by management meet the intent of the recommendation.

### **Recommendation 8 (DRMS)**

Begin discussions with state governments to ensure that the LESO State Coordinator positions are permanent positions with an adequate budget to ensure physical verifications and usage of equipment. Disbar those state governments that refuse to comply with the terms of the MOA.

### **Management Comments**

Partially Concur. DRMS believes that ensuring State Coordinator positions are permanent and that they have an adequate budget is outside the scope of their authority. DRMS also stated that existing procedures contain adequate guidance for suspending or terminating LEAs or States for non-compliance.

### **Auditor Evaluation of Management Comments**

We agree that ensuring State Coordinator positions are permanent and have an adequate budget may be outside the LESO scope of authority. The replacement of many staff members, continuous training of employees, and performance reviews of all participating States and Territories should correct the identified problem of lack of oversight of State Coordinators, the implementation of these proposed actions meet the intent of the recommendation.

## **PROPERTY ACCOUNTABILITY**

Although the majority of the property provided by LESO was properly accounted for, safeguarded and used in accordance with LESO conditions, some items were not physically on location. During our site visits, we found that only 91-percent of property could be physically verified. We found similar results on our questionnaires; only 73-percent of law enforcement agencies reported the same on-hand quantities of equipment as contained in LEEDS. This occurred because, as previously discussed, LESO did not have effective controls in place to account for all sensitive equipment at all times and State Coordinators failed to conduct adequate operational effectiveness reviews of LESO property. Additionally, LEAs were not aware of LESO conditions regarding the use of equipment. As a result of LEEDS containing inaccurate accountability information, property may be used outside the scope of the LESO program and without the knowledge and consent of DLA.



During the audit, we judgmentally-selected 60 LEAs in 11 states to physically verify their on-hand quantities against the data reported in LEEDS (see Appendix C for specific locations in sample). Of the 1,235 items, we found:

Category	Quantity
Items Physically Verified	1,127
Items Transferred without LEEDS Update, Items Being Transferred or Items Transferred Outside the Scope of the Audit	47
Items Not on Location - Location Not Known	43
Turned-In / Property Not Accepted	8
Disposed of by LEA	7
LEA under investigation	2
Property Reported Stolen	1
<b>TOTALS</b>	<b>1,236</b>

- 1,127 items were on hand at the assigned LEA – there were no problems with these items.
- 47 items were either transferred without updating LEEDS to reflect the change, were in the process of being transferred during our visit or were transferred after we selected our sample. As previously discussed, some of these transactions did not follow the appropriate review and approval process.
- 43 items could not be found because the LEA and State Coordinator could not locate the property. After completion of the fieldwork, 19 items were located by a State Coordinator. However, 6 vehicles, 16 weapons and 2 aircrafts remained unaccounted for, at the conclusion of fieldwork.
- 8 items were either not accepted by the LEA because of the property's poor condition or were appropriately returned to the DRMS when no longer needed.
- 7 items were inappropriately disposed of by the LEA. One LEA disposed of a vehicle that was sold at auction and a second LEA sold six other weapons to a local gun shop. The six weapons have since been recovered.
- 2 items, both vehicles, are currently under investigation by the Defense Criminal Investigative Services because the property could not be located.

- 1 item, a rifle, was reported as stolen by the LEA. The activity conducted an investigation and reported the weapon as stolen; however, the weapon should be removed from LEEDS (see Appendix C for all missing property details).

During our site visits, we also found 96 additional items that the LEAs stated were received through the LESO program, but were not included in LEEDS. The majorities of the additional items identified (60 of 96 items) were weapons; however, we also found 34 vehicles and 2 watercrafts.

In addition to conducting physical verifications of assets, we sent self-reporting questionnaires to an additional 178 randomly-selected LEAs in two government agencies and 39 different states to verify on-hand quantities of equipment (see Appendix C for specific locations in our sample). Based on the information received from 84 agencies (about a 47-percent response rate), only 73-percent of LEAs reported the same on-hand quantities as contained in LEEDS.

There were significant variances between the on-hand and recorded quantities because LEAs had not received any training on the LESO program to ensure that property was properly handled by LEAs (i.e. such as preventing the unauthorized disposal of DoD property). Our questionnaire results showed that:

- Approximately 94 percent had a low to medium understanding of the LESO process.
- Approximately 64 percent had not received any training on the LESO program.

To prevent the unauthorized sale of LESO property, the North Carolina State Coordinator places liens on the titles of all vehicles issued through the program. Should an LEA attempt to sell a LESO-provided vehicle, the transaction will be flagged as “unauthorized” by the Department of Motor Vehicles. Without developing and implementing more controls like the lien process, LESO is unaware of the location and primary usage of sensitive equipment provided to program recipients.

### **Recommendation 9 (LESO Program Office)**

Require all law enforcement agencies to conduct a 100-percent inventory of all property they have received through the LESO program, and to report the results to their State Coordinator and the LESO Program Office. Also, require the State Coordinators to investigate all discrepancies between the actual on-hand and reported quantities to the LESO program office.

### **Management Comments**

Partially Concur. DRMS agreed that a physical inventory should be completed but limited it to only "demil required" and "controlled property" that has been issued to LEAs by September 2010. This is in addition to the already required annual reconciliation of high profile, high visibility, or high awareness property.

### **Auditor Evaluation of Management Comments**

Conducting 100-percent inventories of "demil required" and "controlled property" and focusing on the six categories of sensitive property discussed in the report, along with the annual reconciliations currently required by the MOA, meet the intent of the recommendation.

### **Recommendation 10 (LESO Program Office)**

Investigate each of the cases of unaccountable LESO property, including the property currently in the process of being transferred. For investigations, if any, where the property remains unaccounted for, determine if either the law enforcement agency or the State should be barred from the program.

### **Management Comments**

Partially Concur. Unaccounted for property must be investigated by the LEA and State Coordinator with a report of investigation forwarded to LESO for review. The current MOA provides detailed procedures for suspending or terminating LEAs or States for noncompliance.

### **Auditor Evaluation of Management Comments**

We agree that ensuring State Coordinator positions are permanent and have an adequate budget may be outside the LESO scope of authority. The replacement of many staff members, continuous training of employees, and performance reviews of all participating States and Territories should correct the identified problem of lack of oversight of State Coordinators, the implementation of these proposed actions meet the intent of the recommendation.

### **Recommendation 11 (LESO Program Office)**

Provide training to current and new law enforcement agencies and State Coordinators involved with the LESO program on the proper procedures for issuing, transferring, turning-in and disposing of LESO equipment, as well as the appropriate uses of LESO property.

### Management Comments

Concur. In August 2009, DRMS updated the State Coordinator Automation Guide and the Law Enforcement Agency Automation Guide, which detail the proper procedures for issuing, transferring, turning-in, and disposing of LESO equipment.

### Recommendation 12 (LESO Program Office)

(b)(7)(E)

### Management Comments

Concur. (b)(7)(E)

(b)(7)(E)

### Recommendation 13 (LESO Program Office)

Investigate whether the Bureau of Alcohol, Tobacco and Firearms can flag automatic weapon transfers to preclude the unauthorized sale and transfer of these items.

### Management Comments

Concur. DRMS has engaged the Bureau of Alcohol, Tobacco, and Firearms on whether automatic weapons can flag automatic weapons to prevent unauthorized transfer. The estimated completion date was first quarter fiscal 2010.

## DATABASE ACCURACY

LESO staff didn't input all necessary information about the sensitive equipment in LEEDS. (b)(7)(E)

(b)(7)(E)

(b)(7)(E)

As a result, LESO had a decreased ability to provide adequate oversight of issued and transferred property.

(b)(7)(E)

(b)(7)(E) . Within our sample of 60 agencies selected for physical verification, there were about 200 vehicles included in the sample; however, none of the vehicles had VINs recorded in LEEDS. Instead, LESO could only provide item descriptions (such as truck tractor, stake truck, and 2-1/2 ton).

(b)(7)(E)

As a result of LEEDS not having the necessary information in the system, LEAs, State Coordinators and LESO cannot properly account for property provided through the LESO program and have no assurance that it is being used for intended purposes.

**Recommendation 14 (LESO Program Office)**

(b)(7)(E)

**Management Comments**

Concur.

(b)(7)(E)

(b)(7)(E)

**Recommendation 15 (LESO Program Office)**

(b)(7)(E)

**Management Comments**

Concur.

(b)(7)(E)

(b)(7)(E)

## CONCLUSION

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The LESO Program had systemic issues that lead to weaknesses in the administration and accountability of sensitive property issued to program recipients. These issues included:

- Outdated policies and procedures that were not detailed and were not always operating, limiting the ability of LESO to adequately track federal government property distributed to LESO activities.
- State Coordinators conducting limited site visits with no requirement for frequency or scope, thus increasing the likelihood of discrepancies in the accountability of property issued and property use for unauthorized purposes.
- Control weaknesses in the accountability of sensitive items issued to law enforcement agencies, leading to the use of sensitive items (such as weapons) outside the scope of the 1033 program and without the knowledge and consent of DLA.
- Inaccurate and incomplete data in LESO property tracking system, which decreased LESO's ability to provide adequate oversight of issued property.

These significant deficiencies in the accountability of sensitive property have lead to significant risks to both DoD and DLA.

## **SCOPE, METHODOLOGY, AND CRITERIA**

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We focused on six categories of sensitive items to include weapons, aircrafts, watercrafts, armored personnel carriers, HMMWVs and other vehicles. For these six categories of sensitive items, we audited transactions representative of FY 2006 through FY 2008. Due to time and personnel constraints, we excluded less sensitive items such as clothing and other equipment.

To determine if LESO policies and procedures in place and operating regarding the issuance, transfer, turn-in and disposal of 1033 property, we:

- Obtained, reviewed and analyzed current LESO SOPs to gain an understanding of LESO's business processes.
- Interviewed LESO staff to understand their desk-level procedures to issue, transfer, turn-in and dispose of LESO-provided property.
- Reviewed and analyzed LESO files to include Forms 1348-1A, ATF Forms 5 and 10, and various other documents.

To determine whether State Coordinators conducted periodic site visits to verify the use and existence of issued property, we:

- Analyzed the original MOA (dated October 2003) and the revised MOA (dated March 2009) to determine the roles and responsibilities of the State Coordinators.
- Interviewed the State Coordinators to assess their level of understanding of and compliance with MOA terms and conditions.

To determine whether LEAs properly accounted for, safeguarded and used property in accordance with LESO conditions, we:

- Verified on-hand equipment of 10-percent of LEAs issued property (238 of a total 2,372 agencies) between FY 2006 and FY 2008 using a statistical sample. We verified on-hand equipment with:
  - Physically verification of equipment at 60 LEAs in 11 different states using a judgmental sample. Our judgmental sample was based on the LEAs quantity of transactions and dollar-value of transactions.
  - Self-reported questionnaire of on-hand equipment at 178 LEAs in two government agencies and 39 different states using questionnaires self-reported by a random sample of LEAs.
- Interviewed LEA personnel to determine the actual use of on-hand equipment and whether the usage was in compliance with LESO legislation.

## CRITERIA

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To answer our audit objectives and evaluate the LESO's administration of the 1033 Program, we reviewed and analyzed:

- Section 1033 of the National Defense Authorization Act of FY97, 10 U.S.C.
- Section 1208 of the National Defense Authorization Act of FY90, 10 U.S.C.
- LESO SOPs, dated January 2008.
- DLA One Book - LESO Program, dated January 2007.
- MOA between LESO and the States, dated March 2009.
- MOA between LESO and the States, dated October 2003.



## SUMMARY OF RECOMMENDATIONS

	Recommendation	Addressee	Status of Corrective Action	Estimated Completion Date
1	Document detailed instructions on how to issue, transfer, turn-in and dispose of all categories of property in the LESO SOP, including the correct operating system.	LESO Program Office and DRMS		
2	(b)(7)(E)	LESO Program Office		
3	(b)(7)(E)	LESO Program Office		
4	Develop procedures to disbar LEAs and State Coordinators from the LESO program that do not comply with program conditions. The disbarment procedures should address both persistent failures to abide by the program conditions as well as significant isolated incidents of noncompliance.	LESO Program Office		

## SUMMARY OF RECOMMENDATIONS

	Recommendation	Addressee	Status of Corrective Action	Estimated Completion Date
5	Develop performance metrics to hold individual employees accountable for the performance of all tasks in the SOP and MOA. Additionally, document employee performance and ensure individual employees are accountable for achieving specific performance metrics.	DRMS		
6	Take immediate action to either recover the 48 rifles erroneously shipped between LEAs or approve the transaction and record it in LEEDS.	LESO Program Office		
7	Modify the existing memorandum of agreements with State Coordinators (b)(7)(E)	DRMS		
8	Begin discussions with state governments to ensure that the LESO State Coordinator positions are permanent positions with an adequate budget to ensure physical verifications and usage of equipment. Disbar those state governments that refuse to comply with the terms of the MOA.	DRMS		

## SUMMARY OF RECOMMENDATIONS

	Recommendation	Addressee	Status of Corrective Action	Estimated Completion Date
9	Require all law enforcement agencies to conduct a 100-percent inventory of all property they have received through the LESO program, and to report the results to their State Coordinator and the LESO Program Office. Also, require the State Coordinators to investigate all discrepancies between the actual on-hand and reported quantities to the LESO program office.	LESO Program Office		
10	Investigate each of the cases of unaccountable LESO property, including the property currently in the process of being transferred. For investigations, if any, where the property remains unaccounted for, determine if either the law enforcement agency or the State should be barred from the program.	LESO Program Office		
11	Provide training to current and new law enforcement agencies and State Coordinators involved with the LESO program on the proper procedures for issuing, transferring, turning-in and disposing of LESO equipment, as well as the appropriate uses of LESO property.	LESO Program Office		

## SUMMARY OF RECOMMENDATIONS

	Recommendation	Addressee	Status of Corrective Action	Estimated Completion Date
12	(b)(7)(E)	LESO Program Office		
13	Investigate whether the Bureau of Alcohol, Tobacco and Firearms can flag automatic weapon transfers to preclude the unauthorized sale and transfer of these items.	LESO Program Office		
14	(b)(7)(E) (b)(7)(E)	LESO Program Office		
15	(b)(7)(E)	LESO Program Office		

Pages 25 thru 29  
Withheld in full B7(E)

## Appendix C

DA PHYSICAL VERIFICATION: PROPERTY NOT ON-HAND		
ITEM DESCRIPTION	QUANTITY	DA COMMENTS
KAWASAKI MULE	2	PROPERTY NOT ON LOCATION - LEA IS CURRENTLY UNDER INVESTIGATION
TRUCK, MAINTENANCE	1	PROPERTY WAS NOT ON LOCATION
RIFLE, 7.62 MILLIMETER	1	PROPERTY WAS NOT ON LOCATION
RIFLE, 7.62 MILLIMETER	7	PROPERTY WAS TRANSFERRED OUTSIDE OF THE AUDIT SCOPE AND TWO RIFLES CAN NOT BE LOCATED
RIFLE, 7.62 MILLIMETER	5	PROPERTY WAS TRANSFERRED OUTSIDE OF THE AUDIT SCOPE
GLIDER XIMANGO TG-14 (AEROMOT AMT-200S)	1	PROPERTY WAS TRANSFERRED OUTSIDE OF SCOPE
TRUCK STAKE	1	PROPERTY WAS NOT ON LOCATION
RIFLE, 5.56 MILLIMETER	1	ONE RIFLE WAS REPORTED STOLEN - LEA PROVIDED POLICE REPORT.
TRUCK TRACTOR	1	PROPERTY WAS TURNED-IN TO DRMO
TRUCK STAKE	1	PROPERTY WAS TRANSFERRED OUTSIDE OF SCOPE
VAN CARGO	1	CONDITION OF PROPERTY WASN'T ACCEPTABLE, THEREFORE IT WAS NOT ACCEPTED BY LEA.
TRUCK VAN	3	CONDITION OF PROPERTY WASN'T ACCEPTABLE, THEREFORE IT WAS NOT ACCEPTED BY LEA.
AUTOMOBILE SEDAN	1	PROPERTY TURNED-IN TO DRMO
AUTOMOBILE SEDAN	1	CONDITION OF PROPERTY WASN'T ACCEPTABLE, THEREFORE IT WAS NOT ACCEPTED BY LEA.
TRUCK CARGO	1	CONDITION OF PROPERTY WASN'T ACCEPTABLE, THEREFORE IT WAS NOT ACCEPTED BY LEA.
HELICOPTER OH-58 (NON-FLYABLE)	2	THIS PROPERTY WAS NOT ON LOCATION - PHYSICALLY LOCATED IN PHILADELPHIA FOR STORAGE
RIFLE, 7.62 MILLIMETER	6	PROPERTY WAS SOLD TO LOCAL GUN SHOP (HAS SINCE BEEN RECOVERED)
TRUCK MAINTENANCE	1	PROPERTY WAS NOT ON LOCATION
TRUCK DUMP	1	PROPERTY WAS NOT ON LOCATION
SHOTGUN, 12 GAGE, RIOT TYPE	3	PROPERTY WAS NOT ON LOCATION
SHOTGUN, 12 GAGE, RIOT TYPE	2	PROPERTY WAS NOT ON LOCATION
RIFLE, 7.62 MILLIMETER	7	PROPERTY WAS NOT ON LOCATION - LOCATED AT TWO OTHER LEA'S
PISTOL, CALIBER .45, AUTOMATIC	3	PROPERTY WAS NOT ON LOCATION
PISTOL, CALIBER .45, AUTOMATIC	20	PROPERTY IS IN THE PROCESS OF BEING TRANSFERRED BUT HAS YET TO BE TRANSFERRED.
1995 CHEVROLET CORSICA	1	PROPERTY WAS SOLD AT AUCTION
TRACTOR, WHEELED, IND	1	LOCATION OF PROPERTY WAS ORIGINALLY UNKNOWN BY THE LEA AND STATE COORDINATOR; HAVE SINCE BEEN LOCATED
TRUCK, CARGO	1	LOCATION OF PROPERTY IS UNKNOWN BY THE LEA AND STATE COORDINATOR
VAN PANEL DODGE	1	LOCATION OF PROPERTY WAS ORIGINALLY UNKNOWN BY THE LEA AND STATE COORDINATOR; HAVE SINCE BEEN LOCATED
TRUCK, SERVICING PLA	1	LOCATION OF PROPERTY WAS ORIGINALLY UNKNOWN BY THE LEA AND STATE COORDINATOR; HAVE SINCE BEEN LOCATED
TRUCK	1	LOCATION OF PROPERTY IS UNKNOWN BY THE LEA AND STATE COORDINATOR
TRUCK, CARGO	1	LOCATION OF PROPERTY WAS ORIGINALLY UNKNOWN BY THE LEA AND STATE COORDINATOR; HAVE SINCE BEEN LOCATED
TRUCK, SERVICING PLA	1	LOCATION OF PROPERTY WAS ORIGINALLY UNKNOWN BY THE LEA AND STATE COORDINATOR; HAVE SINCE BEEN LOCATED
BUS, MOTOR	1	LOCATION OF PROPERTY WAS ORIGINALLY UNKNOWN BY THE LEA AND STATE COORDINATOR; HAVE SINCE BEEN LOCATED

## Appendix C

DA PHYSICAL VERIFICATION PROPERTY NOT ON HAND		
ITEM DESCRIPTION	QUANTITY	DA COMMENTS
TRUCK W/ CHERRY PICKER	1	LOCATION OF PROPERTY WAS ORIGINALLY UNKNOWN BY THE LEA AND STATE COORDINATOR; HAVE SINCE BEEN LOCATED
TRUCK, CARGO	1	LOCATION OF PROPERTY WAS ORIGINALLY UNKNOWN BY THE LEA AND STATE COORDINATOR; HAVE SINCE BEEN LOCATED
GOLF CART	3	LOCATION OF PROPERTY WAS ORIGINALLY UNKNOWN BY THE LEA AND STATE COORDINATOR; HAVE SINCE BEEN LOCATED
CARRY ALL II	2	LOCATION OF PROPERTY WAS ORIGINALLY UNKNOWN BY THE LEA AND STATE COORDINATOR; HAVE SINCE BEEN LOCATED
TRUCK, STAKE	1	LOCATION OF PROPERTY WAS ORIGINALLY UNKNOWN BY THE LEA AND STATE COORDINATOR; HAVE SINCE BEEN LOCATED
TRUCK, CARGO	1	LOCATION OF PROPERTY WAS ORIGINALLY UNKNOWN BY THE LEA AND STATE COORDINATOR; HAVE SINCE BEEN LOCATED
TRUCK VAN 15 PASSENGER	1	LOCATION OF PROPERTY WAS ORIGINALLY UNKNOWN BY THE LEA AND STATE COORDINATOR; HAVE SINCE BEEN LOCATED
TRUCK, CARGO	1	LOCATION OF PROPERTY WAS ORIGINALLY UNKNOWN BY THE LEA AND STATE COORDINATOR; HAVE SINCE BEEN LOCATED
TRUCK, CARGO	1	LOCATION OF PROPERTY WAS ORIGINALLY UNKNOWN BY THE LEA AND STATE COORDINATOR; HAVE SINCE BEEN LOCATED
TRUCK, DUMP	1	LOCATION OF PROPERTY WAS ORIGINALLY UNKNOWN BY THE LEA AND STATE COORDINATOR; HAVE SINCE BEEN LOCATED
RIFLE, 7.62 MILLIMETER	4	PROPERTY WAS TRANSFERRED OUTSIDE OF THE AUDIT SCOPE
RIFLE, 5.56 MILLIMETER	7	PROPERTY WAS TRANSFERRED OUTSIDE OF THE AUDIT SCOPE
PISTOL, CALIBER .45, AUTOMATIC	2	PROPERTY IS IN THE PROCESS OF BEING TRANSFERRED BUT HAS YET TO BE TRANSFERRED.
<b>TOTALS</b>	<b>108</b>	

## ABBREVIATIONS USED IN THIS REPORT

ATF	Alcohol, Tobacco and Firearms
CMIS	Counter-Narcotics Management Information System
DAISY	DRMS Automated Information System
DRMS	Defense Reutilization and Marketing Service
HMMWV	High-Mobility Multipurpose Wheeled Vehicle
LEA	Law Enforcement Agency
LEEDS	Law Enforcement Equipment Database System
LESO	Law Enforcement Support Office
MOA	Memorandum of Agreement
SOP	Standard Operating Procedure
VIN	Vehicle Identification Number



## MANAGEMENT COMMENTS



DEFENSE REUTILIZATION AND MARKETING SERVICE  
74 WASHINGTON AVENUE NORTH  
BATTLE CREEK, MICHIGAN 49037-3092

IN REPLY  
REFER TO DRMS-D

NOV 18 2009

MEMORANDUM FOR MR. FRED BAILLIE, SES  
DIRECTOR, DLA ACCOUNTABILITY OFFICE

SUBJECT: Response to Draft Audit of Law Enforcement Support Office, DAO-09-01

We have reviewed subject report and DRMS comments on the recommendations are included in the attachment. Corrective actions are ongoing or have been completed on many of the recommendations. The status of those actions and estimated completion dates are attached.

We appreciate the efforts of your staff related to this audit and thank them for bringing these matters to our attention.

(b)(6)

TWILA C. GONZALES, SES  
Director

Attachment

**DRMS Responses to DLA Audit Report DAO-09-01 Recommendations:**

**Recommendation 1 (LESO Program Office and DRMS)**

Document detailed instructions on how to issue, transfer, turn-in and dispose of all categories of property in the LESO SOP, including the correct operating system.

**DRMS Management Comments**

**Concur.** The DRMS LESO Staff Training Guide (dated May 2008) covered procedures on how to issue, transfer, turn-in and dispose of all categories of property. This Staff Training Guide was updated in July 2009 to reflect system and operational changes and is being incorporated into the DRMS LESO Standard Operation Procedures (SOP). The DRMS LESO SOP will be fielded March 31, 2010, reviewed and revised each Fiscal Year as required.

**Recommendation 2 (LESO Program Office)**

(b)(7)(E)

**DRMS Management Comments**

**Concur.** DRMS LESO issued a Policy Letter (October 30, 2009) detailing the steps, including supervisory review and approval, for documenting the rationale (when and why) for exceeding the established weapons limitation percentage (b)(7)(E). This Policy Letter will be incorporated into the DRMS LESO SOP, which will be fielded March 31, 2010.

**Recommendation 3 (LESO Program Office)**

(b)(7)(E)

(b)(7)(E)

**DRMS Management Comments**

**Concur.** (b)(7)(E)

(b)(7)(E)

**Recommendation 4 (LESO Program Office)**

Develop procedures to disbar LEAs and State Coordinators from the LESO program that do not comply with program conditions. The disbarment procedures should address both persistent failures to abide by the program conditions as well as significant isolated incidents of noncompliance.

**DRMS Management Comments**

**Partially concur.** New procedures do not need to be developed as they already exist. See Page 8 of the DLA/State Memorandum of Agreement (MOA) which provides detailed procedures for suspending and/or terminating States and/or Law Enforcement Agencies for non-compliance.

**Recommendation 5 (DRMS)**

Develop performance metric to hold individual employees accountable for the performance of all tasks in the SOP and MOA. Additionally, document employee performance and ensure individual employees are accountable for achieving specific performance metrics.

**DRMS Management Comments**

**Partially concur.** DRMS does not believe it is appropriate to hold individual employees accountable for all "tasks" listed in the DRMS LESO SOP and/or the MOA; however, individuals will be held accountable for the tasks assigned to them. The LESO staff, as a whole, is accountable and responsible for all "tasks" listed in the DRMS LESO SOP and/or the MOA. The LESO staff at HQ DRMS is fully qualified, staffed and continuously being trained to ensure performance standards are met and any deviations or issues that arise will be handled appropriately in accordance with Performance Management Regulations. DRMS LESO Job Ready Checklists were developed and implemented (November 15, 2009) for LESO Property Disposal Specialists, LESO Team Leads, and LESO Supervisory personnel.

**Recommendation 6 (LESO Program Office)**

Take immediate action to either recover the 48 rifles erroneously shipped between LEAs or approve the transaction and record it in LEEDS.

**DRMS Management Comments**

Concur. Recovery, proper transfer, or referral for investigative action is ongoing and will be completed not later than December 31, 2009.

**Recommendation 7 (DRMS)**

Modify the existing memorandum of agreements with State Coordinators (b)(7)(E)

(b)(7)(E)

**DRMS Management Comments**

Partially concur. (b)(7)(E)

(b)(7)(E)

To address compliance concerns, Page 8 of the DLA/State Memorandum of Agreement (MOA) provides detailed procedures for suspending and/or terminating States and/or Law Enforcement Agencies for non-compliance.

The DLA One Book (section 4.6.4) and Pages 7 and 11 of the DLA/State or Territory MOA provide a frequency of Program Compliance Reviews. In Fiscal Years 2010 and 2011 DRMS LESO has PCR's scheduled with every participating State or Territory. Since August 2009, DRMS LESO has been executing according to plan.

The Program Compliance Review process is being reviewed by DRMS LESO and revisions will be incorporated into the DRMS LESO SOP, which will be fielded March 31, 2010.

**Recommendation 8 (DRMS)**

Begin discussions with state governments to ensure that the LESO State Coordinator positions are permanent positions with an adequate budget to ensure physical verifications and usage of equipment. Disbar those state governments that refuse to comply with the terms of the MOA.

#### DRMS Management Comments

Partially Concur. DRMS does not believe that the first sentence of the recommendation is feasible and is actually outside of our authority: "ensure that the LESO State Coordinator positions are permanent positions with an adequate budget to ensure physical verifications and usage of equipment."

Regarding the recommendation that DRMS "Disbar those state governments that refuse to comply with the terms of the MOA", Page 8 of the DLA/State Memorandum of Agreement (MOA) provides detailed procedures for suspending and/or terminating States and/or Law Enforcement Agencies for non-compliance.

#### Recommendation 9 (LESO Program Office)

Require all law enforcement agencies to conduct a 100-percent inventory of all property they have received through the LESO program, and to report the results to their State Coordinator and the LESO Program Office. Also, require the State Coordinators to investigate all discrepancies between the actual on-hand and reported quantities to the LESO program office.

#### DRMS Management Comments

Partially concur. DRMS agrees that a 100% inventory should be conducted for all demil required and "controlled property" that has been issued to LEAs through the LESO program. This will be a massive undertaking and will take some time to complete not only the inventory but the reconciliation and investigation of any missing property.  
ECD 30 Sep 10

It should be noted that annual reconciliations are required for High Profile (Weapons, Night Vision Devices (NVDs), Aircraft/Watercraft, HMMWVs, APCs), High Value Property (Acquisition Cost of \$20,000 or more), and High Awareness (Demilitarization required, MLI, CCLI, FSCAP) property annually as well as after domestic disasters. See Page 7 and 11 of the DLA/State MOA.

#### Recommendation 10 (LESO Program Office)

Investigate each of the cases of unaccountable LESO property, including the property currently in the process of being transferred. For investigations, if any, where the property remains unaccounted for, determine if either the law enforcement agency or the State should be barred from the program.

**DRMS Management Comments**

Partially Concur. Property unaccounted for must be investigated by the LEA and/or the State or Territory Coordinator. Report of Investigation is forwarded to DRMS LESO for action. Page 8 of the DLA/State Memorandum of Agreement (MOA) provides detailed procedures for suspending and/or terminating States and/or Law Enforcement Agencies for non-compliance.

Suspected criminality involving non-compliance is forwarded to DA for action.

**Recommendation 11 (LESO Program Office)**

Provide training to current and new law enforcement agencies and State Coordinators involved with the LESO program on the proper procedures for issuing, transferring, turning-in and disposing of LESO equipment, as well as the appropriate uses of LESO property.

**DRMS Management Comments**

Concur. DRMS LESO has updated the State Coordinator Automation Guide (July 2009) and the Law Enforcement Agency Automation Guide (July 2009), which detail the proper procedures for issuing, transferring, turning-in, and disposing of LESO equipment. These guides were fielded August 1, 2009 and therefore recommend this recommendation be closed.

DRMS LESO will host an Annual 1033 Program National Conference December 15-18, 2009 for State Coordinators and Law Enforcement Agencies. Customer training is a large portion of this conference.

DRMS LESO Training and Assistance Visits are available upon request or as DRMS LESO determines are necessary (State of New York completed November 2-4, 2009).

DRMS LESO will develop and field Web-Based Training (WBT) for DRMS, State Coordinators, and individual LEAs, which will include issuing, transferring, turning-in, and disposing of LESO equipment (anticipated fielding date June 30, 2010).

Pages 1 and 2 of the DLA/State or Territory MOA clearly defines the appropriate use of LESO property.

**Recommendation 12 (LESO Program Office)**

(b)(7)(E)

**DRMS Management Comments**

**Concur.** (b)(7)(E)

(b)(7)(E)

DRMS will engage the State Coordinators on this issue during the Annual LESO Conference (December 15-18, 2009). Decision brief will be conducted on January 31, 2010 to determine the way ahead.

**Recommendation 13 (LESO Program Office)**

Investigate whether the Bureau of Alcohol, Tobacco and Firearms can flag automatic weapon transfers to preclude the unauthorized sale and transfer of these items.

**DRMS Management Comments**

**Concur.** DRMS has engaged the Bureau of Alcohol, Tobacco, and Firearms, expected completion date of DRMS inquiry is December 31, 2009.

**Recommendation 14 (LESO Program Office)**

(b)(7)(E)

**DRMS Management Comments**

**Concur.** (b)(7)(E)

(b)(7)(E)

**Recommendation 15 (LESO Program Office)**

(b)(7)(E)

(b)(7)(E)

**DRMS Management Comments**

**Concur.** DRMS LESO is working on a Systems Change Request with DLIS J6B to effect this change for LESO Automation and LEEDS, estimated completion date March 31, 2010. These changes will also be incorporated into the DRMS LESO SOP as well as the DRMS LESO, State Coordinator, and LEA Automation Guides.



## ACKNOWLEDGMENTS

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The audit, specifically the site visits, was completed by a joint team of DA auditors and investigators from across DLA. However, auditors were always responsible for ensuring that fieldwork complied with Yellow Book requirements. The following people contributed to this audit:

**Auditors:**

Steven L. Hite, Audit Director, Operational Audit Division, DLA Accountability Office

(b)(6) Auditor, DLA Accountability Office

(b)(6) Auditor, DDC Internal Audit Office

(b)(6) Auditor, DSCC Internal Audit Office

(b)(6) Auditor, DRMS Internal Audit Office

(b)(6) Auditor, DSCC Internal Audit Office

(b)(6) Auditor, DESC Internal Audit Office

(b)(6) Auditor, DSCC Internal Audit Office

(b)(6) Auditor, DAPS Internal Audit Office

**Investigators:**

(b)(6), Special Agent, DLA Accountability Office

(b)(6), Special Agent, DLA Accountability Office

(b)(6) Special Agent, DLA Accountability Office

(b)(6), Special Agent, DLA Accountability Office

(b)(6), Special Agent, DLA Accountability Office

(b)(6) Special Agent, DLA Accountability Office

(b)(6), Special Agent, DLA Accountability Office

(b)(6), Special Agent, DLA Accountability Office

(b)(6), Special Agent, DLA Accountability Office





**DEFENSE LOGISTICS AGENCY**  
DEFENSE DISTRIBUTION CENTER  
2001 MISSION DRIVE  
NEW CUMBERLAND, PA 17070-5000

JAN 23 2009

REF ID: A66666 DDC-J3

MEMORANDUM FOR DLA-DA

SUBJECT: Draft DRMS Vulnerability Assessment

DDC has reviewed the draft DRMS Vulnerability Assessment report and provides the following comments in response to the report recommendation for DDC J-3.

DLA DA Recommendation: DDC J-3 determines the root cause of the misidentified and mis-shipped property originating from the depots to DRMS activities.

DDC Comments: Concur with the recommendation to determine root cause of misidentified and mis-shipped property to DRMS activities. Request supporting documentation related to this finding/recommendation be provided to DDC to assist in the root cause research. DDC will also work with DRMS to educate the Distribution Centers on proper procedures for turn-in of classified materiel for disposal.

If you have any questions or need further clarification, my POC is (b)(6)

(b)(6) or via email at (b)(6)

(b)(6)

PAUL D. PETERS, SES  
Deputy Commander





DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
8725 JOHN J. KINGMAN ROAD, SUITE 2533  
FORT BELVOIR, VIRGINIA 22060-6221

IN REPLY  
REFER TO DA

MAY 15 2009

MEMORANDUM FOR DIRECTOR, FINANCIAL OPERATIONS  
EXECUTIVE DIRECTOR, MATERIEL POLICY, PROCESS AND  
ASSESSMENT

SUBJECT: Final Audit Report: Validation of Enterprise Business System (EBS) Dunning Procedures

Attached is a copy of our final report to document the results of our validation related to corrective actions taken to address EBS Dunning Procedures. This validation was requested by the Director of Financial Operations. In accordance with the Defense Logistics Agency (DLA) One Book: Internal Audit Process, the DLA Accountability Office Audit Division supports DLA management in achieving improvements in the efficiency and effectiveness of DLA activities by conducting audits and providing advisory services. This is a memorandum to document the results of our validation.

The original audit objective was revised due to systems issues. The updated objective states 'To verify that Standard Operating Procedures (SOP) for EBS Dunning Procedures are being followed and that error correction processes for incorrect Dunning Codes are established and working properly'. It is our opinion that this objective was met during the period we tested and we further conclude through our validation that the documented procedures agree to the processes performed. We provided some suggestions for areas where the policies and procedures could be strengthened to improve internal controls and make processes more efficient and effective while increasing accountability. Additionally the edit checks over the customer dunning codes for the interface OF-78 will need to be validated once the automated systems are ready for validation for the original deficiency to be fully addressed.

Management provided comments and concurred with the three suggestions. Management comments are included in this report. No further comments are required.

We appreciate the courtesies and cooperation extended to us by staff involved in this review. Please direct any questions to (b)(6); or via e-mail at (b)(6).

(b)(6)

KATIE SCHIRANO  
Audit Director, Financial Accountability  
DLA Accountability Office

Attachment

Federal Recycling Program



Printed on Recycled Paper

**Defense Logistics Agency  
Office of Internal Audits**

**Final Audit Report**

**EBS Dunning Procedures Validation**



April 23, 2009  
DSCC-DI 08-41

**DEFENSE LOGISTICS AGENCY**  
**DSCC Internal Review**

Report #08-41

April 23, 2009

**FINAL AUDIT REPORT**

**EBS Dunning Procedures Validation**

**A. Results in Brief**

The purpose of our validation was to verify that (1) Standard Operating Procedures (SOP) for EBS Dunning Procedures are adequate and being followed and (2) error correction processes for incorrect Dunning Codes are established and working properly. While error correction processes have been established and SOPs are being followed, we noted areas where the policies and procedures could be strengthened to improve internal control and make processes more efficient and effective while increasing accountability.

**B. Background**

The DLA Accounts Receivable Office (ARO) at the Defense Finance and Accounting Service (DFAS) in Columbus, Ohio currently has over \$680 million in accounts receivable compared to \$837 million last year. 22% of the current debt is public debt for which interest can be charged. The ARO office mails out approximately 2,500 dunning letters each month.

The original announcement letter for this validation stated that our audit objective was "to determine if DFAS were collecting DLA accounts receivable timely and the subsequent reduction of bad debts was occurring". The related Corrective Action Plan (CAP) identified the following weakness: "There was an insufficient level of detail in the available interface documentation, which addresses the edit checks over the customer dunning codes for the interface OF-78". The CAP was to "Develop, implement and validate SOP's to be followed for correcting BSM dunning codes and test the functionality of existing and newly developed controls". DSCC Internal Audit requested clarification of the objective stated in the announcement letter. Due to systems issues and limitations the scope was revised to "The Validation of the Dunning Procedures and Error Correction Processes". When the automated systems are ready for validation the original deficiency regarding the insufficient level of detail in the available interface documentation, which address the edit checks over the customer dunning codes for the interface OF-78 will need to be validated.

**C. Objectives, Scope, and Methodology**

This validation was performed to verify that DFAS was properly following the EBS Dunning Procedures SOP and internal controls relating to the SOP were in place and operating effectively. Our methodology involved reviewing applicable SOPs, interviewing DFAS personnel, direct observation, and performing tests on samples obtained.

We obtained a sample from a listing of all aged receivables to verify that dunning letters were being mailed timely and the correct type of letter (public versus non-public) was being sent to the customer. We also tested the dunning letters to determine that all of the proper elements were in the letter according to the DoD FMR vol 10, chapter 18, paragraph 180402. We pulled another sample from the population of blocked bills to determine that the dunning block was in place and that proper authorization for the block had been obtained.

The DSCC Internal Audit Office conducted the audit validation in accordance with the Generally Accepted Government Auditing Standards for performance audits issued by the United States Government Accountability Office with the exception of meeting the peer review requirement. The DLA Internal 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. Those 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

#### **D. Results**

Based on the results of our tests, inquiries, and observations we believe that DFAS is correctly following the EBS Dunning Procedures SOP. Dunning letters are being sent out in a timely manner and, if an error occurs, procedures are in place to block or unblock the dunning in accordance with the EBS Dunning Procedures SOP. We recommend that this validation be closed.

#### **E. Other Suggestions**

During the course of our validation we noted areas where Dunning Procedures policies and procedures could be strengthened and processes improved. Our suggestions are listed below:

1. The EBS Dunning Procedures SOP states that to block a customer from dunning, either an approval from DLA/DFAS management or a customer waiver request is required. To strengthen internal controls the SOP should include a requirement for a written approval from DLA management be obtained and kept on file by the accountants. Currently this process is more informal with verbal approvals given for the majority of the dunning block requests.
2. The DFAS ARO accountants should have the authority to block individual bills. Currently the accountants can only block by entire DoDAAC and must send an Exclusion Listing to Finance Sustainment to block individual bills. We believe this is an unnecessary extra step which should be eliminated to make the process more effective and increase accountability by holding one department accountable for the blocking process. In addition a management report showing blocked bills and DoDAACS should be created and analyzed monthly to ensure dunning letters are blocked correctly.
3. The ARO accountants should be responsible for initiating the Dunning Run file which is also currently being run by Finance Sustainment. This can be coordinated with Finance

Sustainment to prevent system drains, but will allow the accountants responsible for the dunning run to initiate the run and possibly eliminate any waiting time. This improvement is currently in process as the ARO office has applied for the accesses necessary to take over initiating the dunning run.

**F. Conclusion**

The original audit objective involving the edit checks over the customer dunning codes for the interface OF-78 was not validated due to systems limitations. This validation will need to be performed in order for the original deficiency to be addressed. The updated objective stated "To verify that Standard Operating Procedures (SOP) for EBS Dunning Procedures are being followed and that error correction processes for incorrect Dunning Codes are established and working properly". We were able to conclude that this objective was met during the period we tested and that the documented procedures agree to the processes performed.

**G. Management Comments**

Management concurs with the three suggestions and will perform the follow-up actions as indicated.

We appreciate the courtesies and cooperation extended to us by all staff involved in this review. Please direct any question to (b)(6) DLA-DSCC at (b)(6) or via e-mail at (b)(6)

(b)(6)

JAMES D. KREIMER, CPA  
DSCC Internal Audit Director





DEFENSE LOGISTICS AGENCY  
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FORT BELVOIR, VIRGINIA 22060-6221

STANDARD FORM NO. 64  
J-891

APR 21 2009

MEMORANDUM FOR AUDIT DIRECTOR, FINANCIAL AUDITABILITY

SUBJECT: Draft Audit Report: Validation of Enterprise Business System (EBS) Dunning Procedures

This memorandum provides comments to the draft report on the EBS Dunning Procedures issued April 2, 2009. Responses to the suggested improvements are as follows:

1. To strengthen internal controls the Standard Operating Procedures (SOP) should include a requirement for a written approval from DLA/DFAS management be obtained and kept on file by the accountants.

CONCUR – DFAS Columbus will be responsible for updating the SOP in coordination with DLA to include the requirement of a written approval on dunning block requests.

2. The DFAS Accounts Receivable Office (ARO) accountants should have the authority to block individual bills.

CONCUR – DFAS Columbus will be responsible for updating the SOP in coordination with DLA to accommodate the ARO accountants having authority to block individual bills in a timely manner.

3. The ARO accountants should be responsible for initiating the Dunning Run file which is currently run by Finance Sustainment.

CONCUR – DFAS Columbus will be responsible for updating the SOP in coordination with DLA. The ARO office is in the process of applying for the accesses necessary to take over initiating the dunning run.

Point of contact for this action is (b)(6) or  
email: (b)(6)

(b)(6)

J. ANTHONY POLEO  
Director, Financial Operations  
Chief Financial Officer







IN REPLY  
REFER TO

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

September 9, 2010

DAB

MEMORANDUM FOR DIRECTOR, DLA DISPOSITION SERVICES  
DEPUTY DIRECTOR, DLA DISTRIBUTION

SUBJECT: Small Arms Enterprise Audit – DLA Disposition Services Results

We completed our Enterprise Audit of the DLA Disposition Services portion of Small Arms Accountability within the DLA Central Registry. The audit was included in the FY 2009 DA Enterprise Annual Audit. The DLA Distribution portion of the audit has also been issued in an official draft report separately. The overall objective of the audit was to determine whether internal controls are in place and operating effectively within DLA Disposition Services to ensure accurate inventory and proper security of small arms for the DLA Central Registry. Specifically, we determined whether:

- DLA Central Registry, managed by the DLA Disposition Services J-351 Program Office, performs small arms inventories and annual reconciliations.
- DLA Disposition Services performs receiving, issues and DEMIL processes as required.
- DLA Disposition Services provides proper warehousing and physical security measures for small arms under the DLA's Central Registry possession.

The attached report includes 19 recommendations intended to correct the deficiencies cited in the audit report. Management provided comments on the official draft report.

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

(b)(6) of the DLA Disposition Services Internal Audit Office.

(b)(6)

BRIDGET A. SKJOLDAL  
Staff Director, Audit Division  
DLA Accountability Office

Attachment





*DLA Accountability Office*  
*Internal Audit Office*

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**DLA Disposition Services**

**Enterprise Audit  
of Small Arms Accountability**

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**Audit Report: DAO-09-11**

**September 9, 2010**

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## Executive Summary

### Interim Audit Report DAO-09-11<sup>1</sup> Enterprise Audit of Small Arms Accountability

The overall objective of the audit was to determine whether internal controls are in place and operating effectively within DLA Disposition Services<sup>2</sup> to ensure accurate inventory and proper security of small arms for the DLA Central Registry. Specifically, we determined whether the:

- DLA Central Registry, managed by the DLA Disposition Services J-351 Program Office, performs small arms inventories and annual reconciliations.
- DLA Disposition Services performs receiving, issues and DEMIL processes as required.
- DLA Disposition Services provides proper warehousing and physical security measures for small arms under the DLA's Central Registry possession.

We determined that DLA Disposition Services performed the following accountability functions well:

- All inventories reviewed were accurate and DLA Disposition Services accounts for small arms by the Small Arms Serialization Program (SASP) serial number;
- Both the Anniston and Crane Centralized DEMIL Centers (CDCs) personnel obtained and maintain the appropriate security clearance for the work performed; and

#### Why the DLA Accountability Office Did This Review

The DLA Accountability Office identified Small Arms Accountability within DLA as a high-risk area. Accordingly, the DLA Accountability Office included an audit of the DLA Small Arms Accountability in the FY 09 DLA Accountability Office Enterprise Annual Audit Plan.

Both DLA Disposition Services and DLA Distribution issue, receive, store, and maintain accountability of small arms within DLA.

#### What the DLA Accountability Office Did

We conducted fieldwork at DLA Disposition Services Headquarters and eight field locations based on the locations with small arms accountability responsibilities.

In addition to evaluating internal controls, we observed various functional processes (i.e. receiving), inventoried small arms on a sampling basis, reviewed relevant records, interviewed appropriate staff, tested data based on DoD and DLA Disposition Services requirements, and evaluated other information necessary to meet our audit objectives.

<sup>1</sup> DLA Distribution (formerly Defense Distribution Center) will issue a separate report on the DLA Small Arms Program.

<sup>2</sup> On 19 July 2010, the Defense Reutilization Marketing Services (DRMS) named changed to DLA Disposition Services.

- DLA Installation Support<sup>3</sup> Public Safety locations met the DOD physical security standards for small arms.

However, we also determined that DLA Disposition Services could improve some processes and internal controls. Specifically, DLA Disposition Services did not:

- Ensure that non-DLA DODAACs were not included in SASP the active inventory;
- Complete all DLA Central Registry Annual Reconciliations;
- Reject all property from DLA Distribution Center Anniston that did not meet DoD packaging requirements;
- Comply with all DoD and DLA small arms transportation regulations and requirements;
- Implement the necessary additional security measures at the Crane CDC storage area;
- Perform adequate follow-up on all outstanding pending receipts (incoming small arms) and deliveries (outgoing small arms);
- Follow-up and correct all instances in which SASP to DAISY transaction coding caused the system to report a false loss;
- Ensure that DLA Disposition Services-I 4160.14 and DLA One Book record retention requirements agree; and
- Properly investigate, report, and resolve an instance of missing small arms (2) using appropriate Financial Liability Investigation of Property Loss (FLIPL) procedures.

Although DLA Disposition Services has improved its oversight and management of the small arms program, the program continues to face the significant risk associated with property accountability. We believe that our recommendations will help to mitigate that risk.

#### **What we Recommend**

The audit report lists 19 recommendations that will improve the management and administration of small arms accountability.

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<sup>3</sup> The new naming convention for DLA Enterprise Security (DES) is DLA Installation Support.

## Enterprise Audit of Small Arms Accountability – DLA Disposition Services

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## Enterprise Audit of Small Arms Accountability – DLA Disposition Services

### INTRODUCTION

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#### WHAT WE AUDITED

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The approved FY 09 DLA Accountability Office Enterprise Annual Audit Plan included an audit of the DLA Central Registry for Small Arms under the control and management of DLA Disposition Services. Accordingly, the DLA Disposition Services Internal Audit Office (DI)<sup>4</sup> audited DLA Disposition Services small arms accountability by:

- Performing small arms inventories (sampling);
- Evaluating physical security;
- Reviewing documents supporting the general management, administration and DLA Disposition Services performance within the DLA Central Registry;
- Matching data from the Small Arms Serialization Program (SASP) with data from the DLA Disposition Services Automated Information System (DAISY).

Our audit covered all phases of the small arms program from the initial receipt to the demilitarization and disposal of small arms.

#### BACKGROUND

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Both DLA Distribution and DLA Disposition Services are responsible for the shipment, receipt, re-issue, demilitarization, and disposal of small arms within DLA. DoD regulations<sup>5</sup> define small arms as:

- Handguns;
- Shoulder-fired small arms;
- Light automatic small arms (up to and including .50 caliber machine guns);
- Recoilless rifles (up to and including 106mm);
- Mortars (up to and including 81mm);
- Rocket launchers (man-portable);
- Grenade launchers (rifle and shoulder fired); and
- Individually operated small arms which are portable and/or can be fired without special mounts or firing devices and which have potential use in civil disturbances and are vulnerable to theft

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<sup>4</sup> We obtained assistance from other DLA activities if the required level of effort did not justify necessary travel costs.

<sup>5</sup> DoD 4000.25-2-M



## **Enterprise Audit of Small Arms Accountability – DLA Disposition Services**

### **INTRODUCTION**

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The DLA Central Registry is the repository for the Small Arms Serialization Program (SASP) information and, DLA Disposition Services J-351 is the program manager for the DLA Central Registry. All small arms must be registered in SASP and, the data reported to the DoD Component Registry<sup>6</sup>. DLA uses the SASP data to track the shipment, receipt, re-issue, demilitarization, and disposal of small arms for which DLA has accountability. Personnel at DLA Disposition Services Headquarters, Crane, IN CDC, and the Anniston, AL CDC are responsible for inputting data in SASP. The inventories reported through the DLA Central Registry include the CDCs (Anniston, AL and Crane, IN) and the DLA Installation Support Security Forces (Mechanicsburg, PA; Richmond, VA; Columbus, OH; DLA Europe; San Joaquin, CA; Philadelphia, PA; and DLA Fort Belvoir, VA).

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<sup>6</sup> The Army Materiel Command Logistics Support Activity, Redstone Arsenal, Huntsville, Alabama, operates and maintains the DoD Registry as well as the Army Component Registry. Warner-Robins Air Logistics Center, Robins Air Force Base, Georgia, maintains the Air Force Component Registry. The Naval Surface Warfare Center, Crane, Indiana, maintains the Navy Small Arms Registry. DLA is the only DoD Component that has its own registry, which is maintained by DLA Disposition Services, Battle Creek, MI.

**Enterprise Audit of Small Arms Accountability – DLA Disposition Services**  
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**Finding 1: Accountability and Accuracy of DLA Central Registry Active Inventory**

**Criteria:** DoD 4140.1-R, *Supply Chain Materiel Management Regulations*, requires that sufficient emphasis be placed on materiel accountability and inventory accuracy to promote improved performance of individuals directly responsible for the care, security, and management of DoD supply system materiel, as well as those responsible for reporting on the status of that inventory.

**Scope:** We inventoried small arms serial numbers from SASP records and compared them to the actual serial numbers on the small arms at the selected location that are under the control of the DLA Central Registry to verify active inventory.

**Condition:** The SASP active inventory controlled by the DLA Central Registry requires improvement. All inventories reviewed were accurate and physically accounted for by the serial number listed in SASP. We reviewed 3,634 of 6,543 (56%) small arms at the locations evaluated. Our audit disclosed a high degree of accuracy and accountability (100%) of the small arms active inventory by serial number, item identification, and on-hand quantities.

Table 1: Physical Inventory Reviewed by Site				
Location	Inventory			
	Reviewed	Total	Errors	% Reviewed
Amniston CDC	3,571	5,878	0	61%
DLA Installation Support:				
Mechanicsburg	12	171	0	7%
Richmond	14	89	0	16%
Columbus	9	100	0	9%
DLA Europe	3	23	0	13%
San Joaquin	11	106	0	10%
Ft Belvoir	14	176	0	8%
Totals	3,634	6,543	0	56%

However, the audit team identified two non-DLA Department of Defense Activity Address Codes (DODAACs) included in the DLA Central Registry that were reporting six serialized small arms in SASP. The DLA Central Registry should only include and report on DLA DODAACs.

**Cause:** We determined that non-DLA DODAACs were included in the SASP active inventory because the previous DLA Disposition Services Program Manager (PM) did not properly run the active inventory during the annual reconciliation for all DODAACs. The previous PM selected only specific DODAACs with active inventory status in SASP. As a result, these non-DLA small arms were not reconciled and not correctly identified as belonging to another DoD Component Registry.

**Impact:** The failure to identify non-DLA small arms on the SASP active inventory increases the risk of loss or theft. Furthermore, DLA Disposition Services personnel will have increased workload because these non-DLA items are included on the SASP active inventory.

**Corrective Action Taken:** During the audit, the new DLA Disposition Services PM reviewed and researched the two non-DLA DODAACs in order to reconcile and correct the entries in SASP. The audit team verified that the six serialized small arms are now currently accounted for correctly in SASP and receipted to the correct DoD Component Registry. In addition, the PM is retaining all the supporting documentation.

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**Recommendation 1:** The DLA Disposition Services J-351 Office should include all DODAACs in the active inventory listing used to perform annual reconciliations.

**DLA Disposition Services Comments:** CONCUR. The reconciliation procedures will be updated in the DLA Disposition Services HQ Small Arms Program Manager (SASP PM) SOP, to state ALL DODAACs in the active inventory listing will have a reconciliation performed.

**Audit Comment:** Management provided comments on May 5, 2010. Due to delays in issuing the final report, the estimated completion date for some corrective actions has already passed. Accordingly, we discussed the status of corrective actions with program staff. All agreed to corrective actions under DLA Disposition Services control have been completed or, they have been started with an estimated additional 60 days to complete. We have not verified corrective action implementation. We consider management's comments responsive and consider the proposed corrective action to be adequate.

**Finding 2: DLA Central Registry Annual Reconciliations**

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**Criteria:** DoD 4000.25-2-M, *Military Standard Transaction Reporting and Accountability Procedures (MILSTRAP) Manual*, requires an annual reconciliation between activities having physical custody/accountability of small arms and the DLA Central Registry. The purpose of the annual reconciliation is to ensure that the records agree by identifying, researching, and correcting any discrepancies.

**Scope:** We reviewed CDC and DLA Installation Support records to determine if DLA Disposition Services locations reconcile the serial numbers for the small arms in their physical custody with the serial numbers of small arms listed in SASP.

**Condition:** DLA Central Registry annual reconciliation procedures require improvement to ensure the DLA Disposition Services instructions adequately address the actual annual reconciliation procedures being currently practiced, and that all locations perform the required annual reconciliation. During FY 2009, eight of nine CDC and DLA Installation Support locations satisfactorily completed the annual reconciliation requirements. DLA Installation Support Philadelphia was the only location that did not complete an annual reconciliation.

**Cause:** The DLA Disposition Services-I 4160.14, *Operating Instructions for Disposition Management*, does not address the current physical inventory verification procedures being practiced for the annual reconciliation of the serial numbers listed in SASP at the different storage locations. In addition, the previous DLA Disposition Services PM did not prepare and provide an active inventory to DLA Installation Support Philadelphia for its FY 2009 annual reconciliation because the owning DODAAC of small arms changed from DLA Installation Support Columbus to DLA Installation Support Philadelphia during 2008. In addition, in May 2008, DLA Installation Support Philadelphia requested the DLA Disposition Services PM to correct a serial number on their annual reconciliation, which was never completed in 2008.

**Impact:** The failure to complete the required annual reconciliation properly increases the risk of poor small arms accountability and undisclosed losses.

**Recommendation 2:** The DLA Disposition Services J-351 Office should update the DLA Disposition Services Instruction 4160.14 to include physical inventory procedures that

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specifically address the requirement for an annual reconciliation between SASP item serial numbers and the small arms serial numbers for which DLA Disposition Services has accountability responsibilities. In addition, the DLA Disposition Services J-351 Office should confirm that the required reconciliations were performed.

**DLA Disposition Services Comments:** NON-CONCUR on incorporating detailed procedures into DLA Disposition Services Instruction 4160.14. Concur with updating the DLA Disposition Services HQ SASP PM SOP with procedures and add the reference to DLA Disposition Services 14160.14, DOD Directive 5105.22, DLAR 7510.3 and DOD 4000.25-2-M. Further detail with specific steps and instructions to be added to the DLA Disposition Services Small Arms Serialization SOP.

**Recommendation 3:** The DLA Disposition Services J-351 Office should correct the DLA Installation Support small arm serial number for DLA Installation Support Philadelphia in the SASP and direct DLA Installation Support Philadelphia to complete reconciliation after the corrections are made.

**DLA Disposition Services Comments:** CONCUR with a. and b. DLA Disposition Services ACTION CLOSED. Corrective action taken December 14, 2009. Signed DLA Installation Support Philadelphia SASP reconciliation documentation furnished to DLA Disposition Services Internal Audit on January 15, 2010.

**Audit Comment:** Management provided comments on May 5, 2010. Management officials provided an alternative corrective action for Recommendation 2, which we believe meets the intent of the recommendation and the proposed corrective action is considered acceptable. With regards to Recommendation 3, we verified that the corrective action has been completed. We consider management's comments responsive, the proposed corrective action to be adequate, and the issue closed.

**Finding 3: Incoming Shipments into the Centralized DEMIL Center**

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**Criteria:** The DoD 5100.76-M, *Physical Security of Sensitive Conventional Arms, Ammunition, and Explosives*, requires that an approved seal be installed on all small arms conveyances that have had the original shipping seal removed. Seal and twist checks for evidence of breakage or tampering should be included in regular surveillance procedures when transporting and receiving small arms.

**Scope:** While on-site at both Anniston CDC and Crane CDC locations, the audit team observed incoming shipments to determine compliance with established internal controls.

**Condition:** The process for handling incoming small arms receipts requires improvement in the area of physical security controls. The team observed some incoming shipments from DLA

(b)(7)(E)

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Distribution Anniston that did not meet the DoD 5100.76-M packaging requirements. The packaging deficiencies are shown in these pictures.

**Cause:** The audit team was unable to determine why the issuing function did not properly secure the packaging or if someone tampered with the packaging while in transit. Finally, we could not determine why the receiving function did not reject the shipments.

**Impact:** The small arms inert certification becomes invalid when small arms are shipped in open or improperly sealed containers. The generator inert certification warrants that the small arms do not contain live ammunition or hazardous material. Without a valid inert certification, DLA Disposition Services receiving personnel risk improperly receiving hazardous material. In addition, shipments that are not sealed are vulnerable to loss or theft.

**Recommendation 4:** The DLA Disposition Services J-351 Office should direct CDCs to reject all nonconforming shipments (i.e. broken or no seals on containers). In accordance with DLA Disposition Services-1.4160.14, CDCs should use DLA Disposition Services Form 917 Form and complete the SITREP through DLA Disposition Services HQ to complete the rejection transaction.

**Management Comments:**

**DLA Disposition Services Comments:** CONCUR. The property remains under constant Government control in the Small Arms weapons buildings. DLA Disposition Services will expand section covering 917 Return/Rejects in Small Arms SOP to clearly address nonconforming shipments and broken seals on containers. Additional instructions will address completing the SITREP action and responsibility on how to handle the property.

**DLA Distribution Comments:** Although Recommendation 4 was not addressed to the DLA Distribution, they stated that the planned DLA Disposition Services actions will be a violation of DoD 5100-76M, paragraph C6.3.4, which states:

AA&E<sup>7</sup> shipments shall be locked/sealed and inspected in transit as specified in Chapter 205, DTR<sup>8</sup> (reference (h)). Shipments shall be checked upon receipt by the receiving activity (consignee) to ensure that seals are intact and for any signs of theft, tampering, or damage. If there are such signs, an immediate inventory shall be performed to determine the extent of theft/loss, tampering, or damage.

**Recommendation 5:** DLA Distribution should notify DLA Distribution Anniston to comply with DoD 5100.76-M when shipping small arms to the CDCs.

**Management Comments:**

**DLA Distribution Comments:** CONCUR. DLA Distribution will provide visual inert certification training to DLA Distribution Anniston. In addition, DLA Distribution Anniston will be reminded that shipping containers (to include tri-walls, pallets, etc.) must be visually certified and sealed prior to shipment and all shipping containers (to include trailers, box vans, etc.) containing AA&E must be sealed prior to movement to the Central DEMIL Center (CDC).

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<sup>7</sup> Arms, Ammunition and Explosives

<sup>8</sup> DoD 4500.9-R, "Defense Transportation Regulation, Part II, Cargo Movement," April 7, 2010

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**DLA Disposition Services Comments:** CONCUR. Although DLA Distribution is identified as the Addressee, DLA Disposition Services as the handler of incoming shipments will send a letter to DLA Distribution Anniston as a follow-up to this finding outlining the procedures that DLA Disposition Services will take when a shipment is received that cannot be accepted. The two-man rule will also be added to the DLA Disposition Services SASP SOP to include reference to DOD 5100.76-M.

**Audit Comment:** With regards to Recommendation 4, we discussed the DLA Distribution comments with the DLA Disposition Services PM. The two organizations have an established process to handle shipments with broken seals or nonconforming shipments that originate from the DLA Distribution Anniston site. DLA Disposition Services will immediately notify DLA Distribution of any nonconforming shipment generated from the depot; the non-conforming shipment will be removed to a protected area; and the organizations will do a joint inventory. We consider management's comments responsive for both Recommendations 4 and 5. However, we have not verified that proposed corrective actions have been implemented.

**Finding 4: Demilitarization Transportation Security Procedures**

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**Criteria:** DoD 5100.76-M, Chapter 6, requires that small arms transported between physically separated areas be under constant employee surveillance, with at least two government personnel for each conveyance. In addition, DLA Disposition Services-I 4160.14, Section 1, Chapter 4, requires compliance with DoD 5100.76-M.

**Scope:** While on-site at both Anniston CDC and Crane CDC locations, the audit team observed incoming shipments to determine compliance with established internal controls.

**Condition:** The transportation of small arms at the Crane CDC requires improvement. The required procedures used to transport small arms from the storage area located in warehouse (b)(6) to the CDC Crane at warehouse 3249 were not followed. The audit team observed some incoming shipments at the Crane CDC that did not meet these requirements. The demilitarization security procedures listed in DLA Disposition Services-I 4160.14, Section 1, Chapter 4, states that transportation of small arms and subparts will be in accordance with DoD 5100.76-M, transportation. Similarly, the CDC Chief is responsible for assuring that small arms parts removed from the CDC security cage are under constant surveillance until DEMILLED and any UNDEMILLED parts are returned to the CDC security cage at the close of the business day.

**Cause:** The Crane CDC secured small arms storage warehouse (number 2522) is located four miles from the small arms demilitarization-processing site. Transporters were unaware of the two-man rule.

**Impact:** The failure to properly transport small arms using the two-man rule increases the risk of loss or theft of small arms.

**Recommendation 6:** The DLA Disposition Services J-351 update the DLA Disposition Services Instructions, Section 1, Chapter 4 with information from DoD 5100.76-M, Chapter 6 & Appendix 3.5.1. for cargo movements instead of Chapter 7, that involves incident reports for losses of small arms. In addition, the DLA Disposition Services J-351 Office and the CDC Chief at Crane, IN should ensure that all small arms transportation movements between buildings or facilities comply with DoD 5100.76-M, and utilize the two-man rule.

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**DLA Disposition Services Comments:** CONCUR. Will update DLA Disposition Services Instructions with reference to Section 1, Chapter 4 with 5100.76-M, Chapter 6 & Appendix 3.5.1. for cargo movements. In addition, the DLA Disposition Services SASP SOP will be updated to ensure all small arms transportation movements between buildings or facilities comply with DoD 5100.76-M. and utilize the two-man rule.

**Audit Comment:** Management provided comments on May 5, 2010. Due to delays in issuing the final report, the estimated completion date for some corrective actions has already passed. Accordingly, we discussed the status of corrective actions with program staff. All agreed to corrective actions under DLA Disposition Services control have been completed or, they have been started with an estimated additional 60 days to complete. We have not verified corrective action implementation. We consider management's comments responsive and consider the proposed corrective action to be adequate.

**Finding 5: Small Arms Serialization Program Access**

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**Criteria:** DoD 4000.25-M, *Defense Logistics Management System Manual*, requires that SASP data be protected and safeguarded against unauthorized access because the data may contain classified information.

**Scope:** We requested a SASP user listing from the DLA Disposition Services PM and reviewed the user list to determine if all employees who had access to the SASP were required to have access to the system and data.

**Condition:** The internal controls covering SASP system access require improvement. DLA Disposition Services did not adequately restrict user privileges in SASP to employees working in the small arm area who need the access to perform job-related duties. Our review identified some employees who still had access to SASP after they obtained other positions that no longer required SASP system access.

**Cause:** The DLA Disposition Services PM did not follow the established procedures for terminating system access for employees who no longer needed access to SASP.

**Impact:** When terminated users are not removed from SASP system access timely, DLA Disposition Services has increased risk of unauthorized users utilizing the SASP accounts to access, modify or delete classified or sensitive system small arms data.

**Corrective Action Taken:** The DLA Disposition Services PM updated the SASP user list and deleted SASP system access for the unauthorized users.

**Recommendation 7:** DLA Disposition Services J-351 Office should immediately terminate SASP system access for any personnel that no longer require access. In addition, DLA Disposition Services J-351 should update DLA Disposition Services 4160.14 Instruction, and include a monthly requirement to review the SASP user list and eliminate any unauthorized users.

**DLA Disposition Services Comments:** CONCUR. Corrective action taken November 3, 2009. User access will be removed from SASP upon notification to DLA Disposition Services HQ Small Arms PM, that personnel no longer require access. HQ DLA Disposition Services SASP PM SOP, DLA Disposition Services SASP SOP will be updated. However, user access

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procedure will not be published in DLA Disposition Services I 4160.14, as it is not guidance or applicable to DLA Disposition Services field activities. Review of User Access will be conducted annually AND updated to the DLA Disposition Services HQ SASP PM SOP.

**Audit Comment:** Management provided comments on May 5, 2010. Due to delays in issuing the final report, the estimated completion date for some corrective actions has already passed. Accordingly, we discussed the status of corrective actions with program staff. DLA Disposition Services has agreed to implement corrective action in response to the first part of the recommendation (user access removal). The auditee proposed an alternative corrective action for the second part of the recommendation, which we consider acceptable. Rather than publishing the direction in the 4160.14, the change will be updated in the SASP SOP. We have not verified corrective action implementation. We consider management's comments responsive and consider the proposed corrective action to be adequate.

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**Finding 6: Small Arms Transaction Codes**

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**Criteria:** DoD 4000.25-2-M requires that small arms status be reported through SASP to the DoD Component Registries using small arms serial numbers. DoD publishes a list of authorized transaction codes that should be used to help ensure consistency amongst the various component registries when reporting on the status and accountability of small arms.

**Scope:** We tested some randomly selected transactions affecting the DLA Central Registry to determine if proper transaction codes were used and the system interface between SASP and DAISY provided consistent reporting.

**Condition:** The transaction coding used to report small arms transactions from SASP into DAISY needs improvement. Thirty-two of the forty-five sample items reviewed contained an "X" transaction code. Transaction code "X" is not a documented code in either DoD 4000.25-2-M or DLA Disposition Services Instruction 4160.14. In addition, we determined that inputting an "X" transaction into SASP will result in an "XAL" transaction code in DAISY's accountable property records. DLA Disposition Services-I 4160.14 indicates that an "XAL" transaction refers to a property loss, and in these cases, a loss of small arms. We conducted further testing to ensure that these small arms were not lost and determined that the use of an "X" transaction code is causing a false loss reading in DAISY.

**Cause:** During an interview conducted, the SASP users utilize an "X" transaction to kill an action that was input incorrectly in SASP. However, the interface into DAISY results in a false loss transaction.

**Impact:** The false loss reporting increases DLA Disposition Services costs because resources are used to research and document the false losses. In addition, the deficient reporting increases the risk that a true loss will go undetected or it will take longer to identify a true loss.

**Recommendation 8:** The DLA Disposition Services J-351 Office should update the use of the "X" Transaction code procedures in the DLA Disposition Services-I 4160.14 and the Small Arms SOP, and issue guidance on who is authorized to use and when.

**DLA Disposition Services Comments:** CONCUR. DLA Disposition Services has validated this process and is presently working with systems (DLIS-LAR) to correct SASP records using



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the normal transaction code to issue property for special missions. The SASP and DAISY records will reflect accurate and authorized use of transactions within the established SASP systems.

**Recommendation 9:** The DLA Disposition Services J-351 Office should work with J-6 to correct DAISY transaction code deficiencies that result in false loss reporting.

**DLA Disposition Services Comments:** CONCUR. Same response as #8, above.

**Recommendation 10:** The DLA Disposition Services J-351 Office should research and correct the "X" transaction coded items that result in an "XAL" transaction (loss) in DAISY. The documentation supporting transaction corrections should be kept on file.

**DLA Disposition Services Comments:** CONCUR. Same response as #8, above. DLA Disposition Services J-351 Office is working with J-6 and DUS-LAR to maintain adequate transaction in SASP and DAISY (future system) in conjunction with RBI. Transaction code in electronic property accounting records will reflect "TRUE" status of property and match physical inventory with system processing.

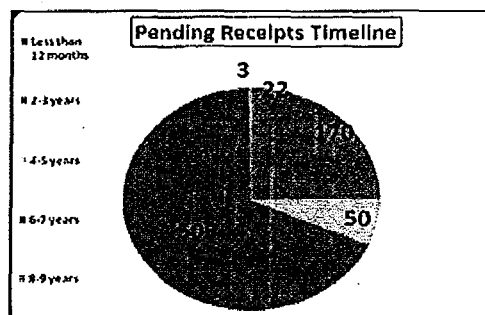
**Audit Comment:** Management provided comments on May 5, 2010. Due to delays in issuing the final report, the estimated completion date for some corrective actions has already passed. Accordingly, we discussed the status of corrective actions with program staff. All agreed to corrective actions under DLA Disposition Services control have been completed or, they have been started with an estimated additional 60 days to complete. We have not verified corrective action implementation. We consider management's comments responsive and consider the proposed corrective action to be adequate.

**Finding 7: Pending In-Transit Receipts**

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**Criteria:** DoD 4140.1-R requires that in-transit asset visibility be timely and accurate. In-transit asset visibility should be available and maintained as part of an integrated capability that allows line items to be tracked by a standard method throughout the entire transportation pipeline.

**Scope:** We reviewed pending receipt transactions and documentation to determine if the CDCs were monitoring and responding appropriately to outstanding small arm pending receipts.



**Condition:** The visibility of and oversight of small arms pending receipts requires improvement. We identified 750 small arms outstanding in-transit pending receipts to Anniston CDC with generator shipping transaction dates ranging from February 2000 through May 2009.

**Cause:** Neither DLA nor DLA Disposition Services policies or regulations require the DLA Disposition Services PM or CDC's to conduct a periodic review of pending receipts. Current regulations (see Finding 8) require the generator to follow-up on unconfirmed deliveries after 30-days, which also does not always occur. In addition, DLA Distribution Anniston

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received some small arm shipments that should have gone to the Anniston CDC and the shipments remain in the DLA Distribution Anniston backlog waiting processing. As of June 2009, DLA Distribution Anniston reported a backlog of 124,661 small arms.

**Impact:** The failure to identify, research, report, and correct outstanding pending receipts reduces small arms visibility and accountability, which could delay the investigation of any lost or stolen small arms.

**Recommendation 11:** The DLA Disposition Services J-351 Office should make the necessary corrective actions to maintain adequate oversight by reconciling the outstanding pending receipts, and retain support documentation for all SASP adjusting entries.

**DLA Disposition Services Comments:** CONCUR. Conducted corrective action on 1,400 + transactions. Remaining 734 transactions to be reviewed and action taken by SASP PM. DLA Disposition Services J-35 will make the necessary corrective actions to maintain adequate oversight by reconciling the outstanding pending receipts and will retain supporting documentation for all SASP adjusting entries.

**Recommendation 12:** The DLA Disposition Services J-351 Office should update the DLA Disposition Services Instructions 4160.14 and the Small Arms SOP to include a requirement to perform a monthly review of pending receipt transactions.

**DLA Disposition Services Comments:** CONCUR. Corrective action will be taken with incorporation into the DLA Disposition Services Small Arms SOP, with a reference in DLA Disposition Services-I 4160.14.

**Audit Comment:** DLA Disposition Services management provided comments on May 5, 2010. Due to delays in issuing the final report, the estimated completion date for some corrective actions has already passed. Accordingly, we discussed the status of corrective actions with program staff. All agreed to corrective actions under DLA Disposition Services control have been completed or, they have been started with an estimated additional 60 days to complete. We have not verified corrective action implementation. We consider management's comments responsive and consider the proposed corrective action to be adequate.

**Recommendation 13:** DLA Distribution Commander should work with the issuing activity and the DLA Distribution Anniston to identify mis-shipments to the DLA Distribution Anniston. Mis-shipped inventory should be transported to the CDC timely, received properly, and the receipt confirmed in SASP.

**DLA Distribution Comments:** Mis-shipments to DLA Distribution Anniston will be identified by the receiving personnel and the material will be sent to the CDC.

**Audit Comment:** DLA Disposition Services management provided comments on May 5, 2010. Due to delays in issuing the final report, the estimated completion date for some corrective actions has already passed. Accordingly, we discussed the status of corrective actions with program staff. All agreed to corrective actions under DLA Disposition Services control have been completed or, they have been started with an estimated additional 60 days to complete. We have not verified corrective action implementation. We consider DLS Disposition Services management's comments responsive and consider the proposed corrective action to be adequate.

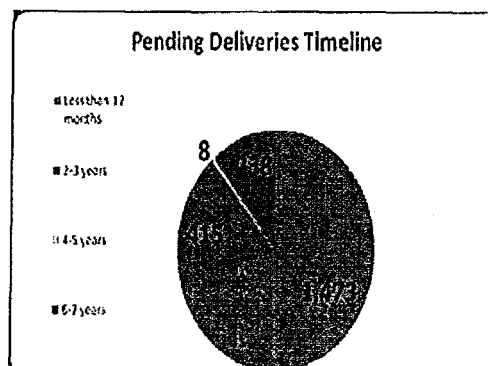
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In addition, we consider the DLA Distribution management's comments responsive and consider the proposed corrective action to be adequate.

**Finding 8: Pending In-Transit Deliveries**

**Criteria:** DoD 4000.25-2-M requires generators to follow-up on unconfirmed deliveries 30-days after the small arms are shipped. If the DLA Central Registry does not receive a response from the requisitioning DoD Component Registry, the DLA Central Registry should initiate a possible lost, missing, or stolen transaction with a "Q" transaction code in SASP.

**Scope:** We reviewed pending delivery transactions and documentation to determine if the CDCs were monitoring and responding appropriately to outstanding small arm pending deliveries.



**Condition:** We determined that the internal controls over small arms in-transit pending deliveries require improvement. As of August 2009, we identified delinquent deliveries at the Crane CDC (13) and the Anniston CDC (2,134) ranging from September 2002 through February 2009. These shipments were considered delinquent because there was no update to the status of shipment reported for more than 30 days in the DLA Central Registry. In addition, our sample disclosed that 38 of the 45 SASP transactions reviewed did not have a "Q" transaction code recorded or reported in SASP.

**Cause:** The previous DLA Disposition Services PM did not perform adequate oversight of and follow-up on the pending deliveries.

**Impact:** The government's failure to follow-up, investigate, report on, and correct outstanding delivery transactions increases the risk of loss or theft. Furthermore, government inventories may be misstated at the local or agency level.

**Recommendation 14:** The DLA Disposition Services J-351 Office must maintain adequate oversight, reconcile transactions, and make any necessary adjustments to SASP for small arms deliveries. Supporting documentation must be retained for all SASP entries.

**DLA Disposition Services Comments:** CONCUR. DLA Disposition Services SASP PM implementing steps to adequately follow-up, investigate, report, and correct outstanding delivery transactions. Specific steps will be incorporated into the DLA Disposition Services HQ SASP SOP.

**Recommendation 15:** The DLA Disposition Services J-351 Office must follow-up with the generator to help ensure that proper codes are entered into SASP, which will assist in clearing SASP.

**DLA Disposition Services Comments:** CONCUR. The DLA Disposition Services guidance will be updated to include specific steps to be followed including references, timeframes, and

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instructions in accordance with DOD 4000.2S-2-M covering discrepancy reporting system processing, and policy to ensure operational personnel know and follow procedures.

**Recommendation 16:** The DLA Disposition Services-J-351 Office should ensure that the CDCs are provided the Small Arms Serialization Program Overage Report on a monthly basis for pending deliveries (DoD 4000.2S-2-M) to assist in reconciling these records.

**DLA Disposition Services Comments:** CONCUR. DLA Disposition Services HQ SASP PM SOP will be updated to include process to monitor and track Demil Weapons actions. Implementation of tracking and monitoring performance of reporting requirements will be added to all DLA Disposition Services Small Arms guidance, SOPs, and instructions.

**Audit Comment:** Management provided comments on May 5, 2010. Due to delays in issuing the final report, the estimated completion date for some corrective actions has already passed. Accordingly, we discussed the status of corrective actions with program staff. All agreed to corrective actions under DLA Disposition Services control have been completed or, they have been started with an estimated additional 60 days to complete. We have not verified corrective action implementation. We consider management's comments responsive and consider the proposed corrective action to be adequate.

**Finding 9: Physical Security and Record Retention**

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**Criteria:** DoD 5100.76-M security standards for restricted areas and access include electronic security systems and lock/key controls, and other small arms accountability controls. In addition, DLA Disposition Services-I 4160.14 record retention policy requires that the most recent monthly or annual inventory reconciliation be maintained by the DLA Disposition Services field activity for a minimum of 2 years. The DLA One Book for "Records Retention for Small Arms Serialization Program" states that the records for DLA Disposition Services be retained for 3 years and that other offices should destroy the old records upon receipt of a new listing from DLA Disposition Services PM.

**Scope:** We conducted physical security vulnerability assessments at the Anniston CDC, Crane CDC, and seven of the DLA Installation Support locations to determine compliance with small arms security requirements. For some locations, we requested and received assistance with the physical security assessments from the local internal audit or DLA Disposition Services staff because the volume of work did not justify the estimated travel costs.

**Condition:** Although the Anniston CDC, Crane CDC, and the seven DLA Installation Support locations met the DoD security standards, the internal controls over the Crane CDC physical security could be improved. In 2008, the Crane CDC lost its dedicated small arms storage area within the Naval Fleet Industrial Supply small arms Warehouse 2522<sup>9</sup>. The current small arms storage area is in the center of the Warehouse 2522; the inventory is not stored in a security cage; and the storage area is only 600 square feet. Naval personnel and other non-DLA Disposition Services personnel, that have access to Warehouse (b)(7)(E) have physical access to this sensitive DLA Disposition Services inventory. In addition, our evaluation disclosed some inconsistency

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between the DLA Disposition Services-I 4160.14 record retention policy and the DLA One Book requirement.

**Cause:** The Naval Fleet Industrial Supply Center controls the Crane facility and directed the change in inventory location and physical security.

**Impact:** Although the Crane CDC small arms meets the DoD physical security requirements, the DLA Disposition Services small arms inventory has an increased risk of theft or damage because DLA Disposition Services does not store small arms in a dedicated and secure area.

**Recommendation 17:** The Crane CDC should limit the number of incoming receipts due to limited storage space. In addition, CDC staff should perform and document frequent physical observations of closed containers to ensure seals have not been broken or tampered with in Warehouse (b)(7)

**DLA Disposition Services Comments:** CONCUR. DLA Disposition Services will work more closely with generators in scheduling and shipping incoming receipts. Updates to all DLA Disposition Services Small Arms guidance, SOPs, and instructions will be completed with instructions on how to handle non-scheduled turn-ins and steps to handle containers.

**Recommendation 18:** The DLA Disposition Services J-351 Office should update DLA Disposition Services-I 4160.14 to reflect the "Records Retention" requirement found in the DLA One Book under the Small Arms Serialization Inventory Listing. The DLA Disposition Services PM and CDC locations should meet the requirement.

**DLA Disposition Services Comments:** CONCUR. DLA Disposition Services Small Arm PM has submitted a revised file and disposition (records retention) in conjunction with RBI effort to the DLA Records Manager. March 2010. ECD to be determined under DLA purview.

**Audit Comment:** Management provided comments on May 5, 2010. Due to delays in issuing the final report, the estimated completion date for some corrective actions has already passed. Accordingly, we discussed the status of corrective actions with program staff. All agreed to corrective actions under DLA Disposition Services control have been completed or, they have been started with an estimated additional 60 days to complete. We have not verified corrective action implementation. We consider management's comments responsive and consider the proposed corrective action to be adequate.

**Finding 10: Customer Service Issue**

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**Criteria:** DoD Directive 7200.11, *Liability for Government Property Lost, Damaged, or Destroyed*, directs how DoD agencies and departments should account for the loss, damage, or destruction of Government property; should determine the amount of financial liability of those found to be responsible for such financial losses; should provide relief from accountability; and should establish debts resulting from the assessment of financial liability. The directive requires that an inquiry be initiated immediately after discovery of the loss, damage, or destruction. DD Form 200, *Financial Liability Investigation of Property Loss (FLIPL)*, should be used to conduct and document the inquiry.

**Enterprise Audit of Small Arms Accountability – DLA Disposition Services  
RESULTS, RECOMMENDATIONS, AND CONCLUSIONS  
DLA Central Registry Small Arms Accountability**

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**Scope:** As part of the audit, we reviewed and evaluated receiving documents to determine if items received are properly accounted for within the DLA Central Registry and items received are subject to a physical inventory.

**Condition:** The internal controls over disputed receiving transactions could be improved. The audit team identified two small arms that had been received at the Crane CDC, but the transaction receipt had not been properly input into SASP and reflected on the DLA Central Registry SASP. The Naval Fleet Industrial Small Arms shipped the small arms and had a copy of the signed receiving documents. Accordingly, since the Crane CDC signed for the small arms, the Naval program manager requires the receipt transaction to be cleared through SASP or a copy of the DD Form 200 (FLIPL). We were unable to locate any records documenting the transfer, demilitarization or destruction of these small arms. In addition, DLA Accountability Office investigators were unable to determine the disposition of the small arms.

**Cause:** Crane CDC personnel did not retain a copy of the signed, receiving document and copies were obtained from the Navy. In addition, the issuing and receiving organizations disagreed over which organization should complete the DD Form 200 (FLIPL).

**Impact:** The failure to retain copies of receiving documents and enter receipt into SASP indicates poor asset accountability and increases the risk that small arms will be lost or stolen.

**Recommendation 19:** The DLA Disposition Services J-351 Office should initiate and complete a DD Form 200 (FLIPL), make a final determination on the status of the small arms, and provide the Navy program manager with the final disposition (DD Form 200).

**DLA Disposition Services Comments:** CONCUR. The DLA Disposition Services J-3/4 Property Accounting office and DLA Disposition Services SASP PM developing complete FLIPL instructions, which will be incorporated into all DLA Disposition Services Small Arms guidance, SOPs, and instructions. Property that is on DLA Disposition Services accountable records will be managed in accordance with FLIPL procedures and requirements.

**Audit Comment:** Management provided comments on May 5, 2010. Due to delays in issuing the final report, the estimated completion date for some corrective actions has already passed. Accordingly, we discussed the status of corrective actions with program staff. All agreed to corrective actions under DLA Disposition Services control have been completed or, they have been started with an estimated additional 60 days to complete. We have not verified corrective action implementation. We consider management's comments responsive and consider the proposed corrective action to be adequate.

## Scope, Methodology and Criteria

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### **SCOPE AND METHODOLOGY:**

DLA Disposition Services Internal Review audited the DLA Central Registry's program management of inventory, annual reconciliations, receiving, demilitarization transactions, warehousing and physical security for small arms from August 2009 through December 2009. Based on the adequacy and compliance with existing internal controls (i.e. annual physical inventory), we judgmentally selected samples (45 items) of data obtained from SASP and DAISY. To determine whether physical inventory and operational processes of the program were effective, we:

- Conducted interviews with DLA Disposition Services and DLA Installation Support staff to gain an understanding of administrative procedures used to manage, administer and execute cooperative agreements.
- Reviewed and analyzed the current DoD, DLA Disposition Services and DLA One Book Chapter, and various other policy and regulations concerning standards of control and degree of protection, inventory management, and other processes as they related to receipts, demilitarization and shipment of small arms.
- Conducted site visits at the CDC and DLA Installation Support sites to:
  - Interview the small arms personnel and staff to determine if they complied with their responsibilities outlined in the regulations:
  - Conduct walkthrough around the facility during the physical security assessments and observed various processes; and
  - Complete a physical inventory and testing of random samples by validating and obtaining supporting documentation against the data reported in SASP and DAISY.

We conducted our audit from August 2009 through December 2009 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. The DLA Accountability Office has not been subject to an external peer review in over three years due to a lack of a Quality Assurance Review Team. The government auditing standards require that we plan and perform the audit to meet our audit objectives by obtaining sufficient, competent evidential matter that provides a reasonable basis for our findings, conclusions, and recommendations. The lack of a timely peer review has no effect on the quality or independence of this report.

### **CRITERIA:**

To answer our audit objectives and evaluate DLA Central Registry management of the Small Arms Accountability, we reviewed and analyzed:

- DoD 4140.1-R, *Supply Chain Materiel Management Regulations*, May 2003.
- DoD 4000.25-2-M, *Military Standard Transaction Reporting and Accountability Procedures (MILSTRAP) Manual*, January 2006.

## Appendix A

### Scope, Methodology and Criteria

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- DoD 5100.76-M, *Physical Security of Sensitive Conventional Arms, Ammunition, and Explosives*, August 2000.
- DoD 4160.21-M-1, *Defense Demilitarization Manual*, October 1991; Incorporating Change 1 – 14 February 1995.
- DLA Disposition Services-I 4160.14, *Operating Instructions for Disposition Management*, September 2009.
- DoD 4500.9-R, *Defense Transportation Regulation (DTR)*, Part II, August 2008.
- DoD 5200.8-R, *Physical Security Program*, May 2009.
- DLA One Book Chapters on Small Arms
- DoD Directive 7200.11, *Liability for Government Property Lost, Damaged, or Destroyed*, March 2007



## Appendix B

### Summary of Recommendations

#	Recommendation Text	Addressee
1.	Include all DODAACs in the active inventory listing used to perform annual reconciliations.	DLA Disposition Services J- 351
2.	Update the DLA Disposition Services Instruction 4160.14 to include physical inventory procedures that specifically address the requirement for an annual reconciliation between SASP item serial numbers and the small arms serial numbers for which DLA Disposition Services has accountability responsibilities.	DLA Disposition Services J- 351
3.	<p>a. Correct the DLA Installation Support small arm serial number for DLA Installation Support Philadelphia in the SASP.</p> <p>b. Direct DLA Installation Support Philadelphia to complete a reconciliation after the corrections are made.</p>	DLA Disposition Services J- 351
4.	<p>a. Direct CDCs to reject all nonconforming shipments (i.e. broken or no seals on containers).</p> <p>b. In accordance with DLA Disposition Services-1.4160.14, CDCs should use DLA Disposition Services Form 917 Form and complete the SITREP through DLA Disposition Services HQ to complete the rejection transaction.</p>	DLA Disposition Services J- 351
5.	Notify the DLA Distribution Anniston to comply with DoD 5100.76-M when shipping small arms to the CDCs.	DLA Distribution
6.	a. The DLA Disposition Services J-351 update the DLA Disposition	DLA Disposition

## Appendix B

### Summary of Recommendations

#	Recommendation Text	Addressee
	<p>Services Instructions, Section 1, Chapter 4 with 5100.76-M, Chapter 6 &amp; Appendix 3.5.1. for Cargo Movements instead of Chapter 7, that involves incident reports for losses of small arms.</p> <p>b. In addition, the DLA Disposition Services J-351 Office and the CDC Chief at Crane, IN should ensure that all small arms transportation movements between buildings or facilities comply with DoD 5100.76-M, and utilize the two-man rule.</p>	Services J-351 and CDC Chief at Crane, IN
7.	<p>a. Terminate SASP system access for any personnel that no longer require access.</p> <p>b. Update DLA Disposition Services 4160.14, Section 4, Supplemental 2 and include a monthly requirement to scrub the SASP user list and eliminate any unauthorized users.</p>	DLA Disposition Services J-351
8.	<p>a. Update the use of the "X" Transaction code procedures in the DLA Disposition Services-I 4160.14 and the Small Arms SOP.</p> <p>b. Issue guidance on who is authorized to use and when.</p>	DLA Disposition Services J-351
9.	Work with J-6 to correct DAISY transaction code deficiencies that result in false loss reporting.	DLA Disposition Services J-351
10.	a. Research and correct the "X" transaction coded items that result in an "XAL" transaction (loss) in DAISY.	DLA Disposition Services J-351

## Appendix B

### Summary of Recommendations

#	Recommendation Text	Addressee
	b. Keep supporting documentation supporting on file.	
11.	a. Make the necessary corrective actions to maintain adequate oversight by reconciling the outstanding pending receipts. b. Keep supporting documentation supporting on file.	DLA Disposition Services J- 351
12.	Update the DLA Disposition Services Instructions 4160.14 and the Small Arms SOP to include a requirement to perform a monthly review of pending receipt transactions.	DLA Disposition Services J- 351
13.	a. Work with the issuing activity and the DLA Distribution Anniston to identify mis-shipments to the DLA Distribution Anniston. b. Transport mis-shipped inventory to the CDC timely, received properly, and the receipt confirmed in SASP.	DLA Distribution
14.	a. Maintain adequate oversight, reconcile transactions, and make any necessary adjustments to SASP for small arms deliveries. b. Keep supporting documentation supporting on file.	DLA Disposition Services J- 351
15.	Follow-up with the generator to help ensure that proper codes are entered into SASP, which will assist in clearing SASP.	DLA Disposition Services J- 351
16.	Ensure that the CDCs are provided the Small Arms Serialization	DLA Disposition Services J-

## Appendix B

### Summary of Recommendations

#	Recommendation Text	Addressee
	Program Overage Report on a monthly basis for pending deliveries (DoD 4000.25-2-M) to assist in reconciling these records.	351
17.	<p>a. Limit the number of incoming receipts due to limited storage space.</p> <p>b. Perform and document frequent physical observations of closed containers to ensure seals have not been broken or tampered with in Warehouse (b)(7)(C)</p>	CDC Chief Crane and DSD Central
18.	<p>a. Update DLA Disposition Services-I 4160.14 to reflect the "Records Retention" requirement found in the DLA One Book under the Small Arms Serialization Inventory Listing.</p> <p>b. Meet the requirement.</p>	DLA Disposition Services J-351
19.	Initiate and complete a DD Form 200 (FLIP), make a final determination on the status of the small arms, and provide the Navy program manager with the final disposition (DD Form 200).	DLA Disposition Services J-351

### Supplemental Information

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During this audit, we conducted fieldwork at nine locations. The purpose was to determine the level of physical security oversight provided for small arms; assess the effectiveness of small arms inventory operations; and determine the compliance with related internal controls. We interviewed personnel and reviewed supporting documentation at the following locations:

***Locations Visited:***

- DLA Installation Support
  - Mechanicsburg, PA
  - San Joaquin, CA
  - DLA Europe
  - Columbus, OH
  - Richmond, VA
  - Fort Belvoir, VA
- Crane Centralized DEMIL Center, Crane, IN
- Anniston Centralized DEMIL Center, Anniston, AL
- DLA Disposition Services Headquarters, Battle Creek, MI

**Abbreviations Used in This Report**

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CDC	Centralized DEMIL Centers
DEMIL	Demilitarization
DoD	Department of Defense
DODAAC	Department of Defense Activity Address Code
DLA	Defense Logistics Agency
FLIPL	Financial Liability Investigation of Property Loss
MILSTRAP	Military Standard Transaction Reporting and Accounting Procedures
NSN	National Stock Number
PM	Program Manager
SASP	Small Arms Serialization Program

## Appendix E

### DLA Disposition Services Management Comments



DEFENSE REUTILIZATION AND MARKETING SERVICE  
74 WASHINGTON AVENUE NORTH  
BATTLE CREEK, MICHIGAN 49037-3092

IN REPLY  
REFER TO DRMS-D

MAY 05 2010

MEMORANDUM FOR DA AUDIT DIVISION, MS. BRIDGET A. SKJOLDAL

SUBJECT: DRMS Response to Draft Small Arms Enterprise Audit Report, Audit of the Defense Reutilization and Marketing Service (DRMS) portion of Small Arms Accountability within the DLA Central Registry, April 14, 2010

My staff has reviewed the draft audit report and below is our responses:

Page 18, Recommendation #1: The DRMS J-351 Office should include all DODAACs in the active inventory listing used to perform annual reconciliations.

DRMS RESPONSE: CONCUR. The reconciliation procedure will be updated in the DRMS HQ Small Arms Program Manager (SASP PM) SOP, to state ALL DODAACs in the active inventory listing will have a reconciliation performed. ECD June 15, 2010.

Page 18, Recommendation #2: The DRMS J-351 Office should update the DRMS Instruction 4160.14 to include physical inventory procedures that specifically address the requirement for an annual reconciliation between SASP item serial numbers and the small arms serial numbers for which DRMS has accountability responsibilities. In addition, the DRMS J-351 Office should confirm that the required reconciliations were performed.

DRMS RESPONSE: NON-CONCUR on incorporating detailed procedures into DRMS Instruction 4160.14. Concur with updating the DRMS HQ SASP PM SOP with procedures and add the reference to DRMS I 4160.14, DOD Directive 5105.22, DLAR 7510.3 and DOD 4000.25-2-M. Further detail with specific steps and instructions to be added to the DRMS Small Arms Serialization SOP. ECD June 15, 2010.

Page 18, Recommendation #3: The DRMS J-351 Office should correct the DES small arm serial number for DES Philadelphia in the SASP and direct DES Philadelphia to complete reconciliation after the corrections are made.

DRMS RESPONSE: CONCUR with a. and b. DRMS ACTION CLOSED. Corrective action taken December 14, 2009. Signed DES Philadelphia SASP reconciliation documentation furnished to Kelly Donahue January 15, 2010.

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## DLA Disposition Services Management Comments

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**Page 18, Recommendation #4:** DRMS J-351 Office should direct CDCs to reject all nonconforming shipments (i.e. broken or no seals on containers). In accordance with DRMS-1.4160.14, CDCs should use DRMS Form 917 and complete the SITREP through DRMS HQ to complete the rejection transaction.

**DRMS RESPONSE:** CONCUR with a. and b. The property remains under constant Government control in Small Arms weapons buildings. DRMS will expand section covering 917 Return/Rejects in Small Arms SOP to clearly address nonconforming shipments and broken seals on containers. Additional instructions will address completing the SITREP action and responsibility on how to handle the property. ECD June 15, 2010.

**Page 18, Recommendation #5:** DDC should notify the Defense Depot Anniston, AL, to comply with DOD 5100.76-M when shipping small arms to the CDCs.

**DRMS RESPONSE:** CONCUR. Although DDC identified as Addressee, DRMS as the handler of incoming shipments will send a letter to DDAA as a follow-up to this finding outlining the procedures that DRMS will take when a shipment is received that cannot be accepted. The two-man rule will also be added to the DRMS SASP SOP to include reference to DOD 5100.76-M. ECD June 15, 2010.

**Page 18, Recommendation #6:** The DRMS J-351 Office update the DRMS Instructions, Section 1, Chapter 4 with 5100.76-M, Chapter 6 & Appendix 3.5.1. for cargo movements instead of Chapter 7, that involves incident reports for losses of small arms. In addition, the DRMS J-351 Office and the CDC Chief at Crane, IN, should ensure that all small arms transportation movements between buildings or facilities comply with DOD 5100.76-M, and utilize the two-man rule.

**DRMS RESPONSE:** CONCUR with a. and b. Will update DRMS Instructions with reference to Section 1, Chapter 4 with 5100.76-M, Chapter 6 & Appendix 3.5.1. for cargo movements. In addition, the DRMS SASP SOP will be updated to ensure all small arms transportation movements between buildings or facilities comply with DoD 5100.76-M, and utilize the two-man rule. ECD June 15, 2010.

**Page 19, Recommendation #7:** The DRMS J-351 Office should immediately terminate SASP system access for any personnel that no longer require access. In addition, DRMS J-351 should update DRMS 4160.14 Instruction and include a monthly requirement to review the SASP user list and eliminate any unauthorized users.

**DRMS RESPONSE:** CONCUR with a. Corrective action taken November 3, 2009. User access will be removed from SASP upon notification to DRMS HQ Small Arms PM, that personnel no longer require access. HQ DRMS SASP PM SOP, DRMS SASP SOP will be updated. ECD June 15, 2010. NON-CONCUR with b. User access procedure will not be published in DRMS I 4160.14, as it is not guidance or applicable to DRMS field activities. Review of User Access will be conducted annually AND updated to the DRMS HQ SASP PM SOP. ECD June 15, 2010.



**DLA Disposition Services Management Comments**

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**Page 19, Recommendation #8:** The DRMS J-351 Office should update the use of the "X" Transaction code procedures in the DRMS-I 4160.14 and the Small Arms SOP, and issue guidance on who is authorized to use and when.

**DRMS RESPONSE:** CONCUR. DRMS has validated this process and is presently working with systems (DLIS-LAR) to correct SASP records using the normal transaction code to issue property for special missions. The SASP and DAISY records will reflect accurate and authorized use of transactions within the established SASP systems. ECD June 15, 2010.

**Page 19, Recommendation #9:** The DRMS J-351 Office should work with J-6 to correct DAISY transaction code deficiencies that result in false loss reporting.

**DRMS RESPONSE:** CONCUR. Same response as #8, above. ECD June 15, 2010.

**Page 19, Recommendation #10:** The DRMS J-351 Office should research and correct the "X" transaction coded items that result in an "XAL" transaction (loss) in DAISY. The documentation supporting transaction corrections should be kept on file.

**DRMS RESPONSE:** CONCUR. Same response as #8, above. DRMS J-351 Office is working with J-6 and DLIS-LAR to maintain adequate transaction in SASP and DAISY (future system) in conjunction with RBI. Transaction code in electronic property accounting records will reflect "TRUE" status of property and match physical inventory with system processing. ECD June 15, 2010.

**Page 19, Recommendation #11:** The DRMS J-351 Office should make the necessary corrective actions to maintain adequate oversight by reconciling the outstanding pending receipts and retaining support documentation for all SASP adjusting entries.

**DRMS RESPONSE:** CONCUR. Conducted corrective action on 1,400+ transactions. Remaining 734 transactions to be reviewed and action taken by SASP PM. DRMS J-35 will make the necessary corrective actions to maintain adequate oversight by reconciling the outstanding pending receipts and will retain supporting documentation for all SASP adjusting entries. ECD June 15, 2010.

**Page 20, Recommendation #12:** The DRMS J-351 Office should update the DRMS Instructions 4160.14 and the Small Arms SOP to include a requirement to perform a monthly review of pending receipt transactions.

**DRMS RESPONSE:** CONCUR. Corrective action will be taken with incorporation into the DRMS Small Arms SOP, with a reference in DRMS-I 4160.14.

**Page 20, Recommendation #13:** Addressed to DDC.

## DLA Disposition Services Management Comments

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**Page 20, Recommendation #14:** The DRMS J-351 Office must maintain adequate oversight, reconcile transactions, and make any necessary adjustments to SASP for small arms deliveries. Supporting documentation must be retained for all SASP entries.

**DRMS RESPONSE:** CONCUR. DRMS SASP PM implementing steps to adequately follow-up, investigate, report, and correct outstanding delivery transactions. Specific steps will be incorporated into the DRMS HQ SASP SOP. ECD June 15, 2010.

**Page 20, Recommendation #15:** The DRMS J-351 Office must follow-up with the generator to help ensure that proper codes are entered into SASP, which will assist in clearing SASP.

**DRMS RESPONSE:** CONCUR. The DRMS guidance will be updated to include specific steps to be followed including references, timeframes, and instructions in accordance with DOD 4000.25-2-M covering discrepancy reporting, system processing, and policy to ensure operational personnel know and follow procedures. ECD June 15, 2010.

**Page 20, Recommendation #16:** The DRMS-J-351 Office should ensure that the CDCs are provided the Small Arms Serialization Program Overage Report on a monthly basis for pending deliveries (DOD 4000.25-2-M) to assist in reconciling these records.

**DRMS RESPONSE:** CONCUR. DRMS HQ SASP PM SOP will be updated to include process to monitor and track Demil Weapons actions. Implementation of tracking and monitoring performance of reporting requirements will be added to all DRMS Small Arms guidance, SOPs, and instructions. ECD June 15, 2010.

**Page 20, Recommendation #17:** The Crane CDC should limit the number of incoming receipts due to limited storage space. In addition, CDC staff should perform and document frequent physical observations of closed containers to ensure seals have not been broken or tampered with in Warehouse (b)(7)(C)

**DRMS RESPONSE:** CONCUR. DRMS will work more closely with generators in scheduling and shipping incoming receipts. Updates to all DRMS Small Arms guidance, SOPs, and instructions will be completed with instructions on how to handle non-scheduled turn-ins and steps to handle containers. ECD June 15, 2010.

**Page 20, Recommendation #18:** The DRMS J-351 Office should update DRMS-I 4160.14 to reflect the "Records Retention" requirement found in the DLA One Book, under the Small Arms Serialization Inventory Listing. The DRMS PM and CDC locations should meet the requirement.

**DRMS RESPONSE:** CONCUR. DRMS Small Arms PM has submitted a revised file and disposition (records retention) in conjunction with RBI effort to the DLA Records Manager. March 2010. ECD to be determined under DLA purview.

## Appendix E

### DLA Disposition Services Management Comments

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Page 20, Recommendation #19: The DRMS J-351 Office should initiate and complete a DD Form 200 (FLIPL), make a final determination on the status of the small arms, and provide the Navy program manager with the final disposition (DD Form 200).

**DRMS RESPONSE:** CONCUR. The DRMS J-3/4 Property Accounting office and DRMS SASP PM developing complete FLIPL instructions, which will be incorporated into all DRMS Small Arms guidance, SOPs, and instructions. Property that is on DRMS accountable records will be managed in accordance with FLIPL procedures and requirements.  
ECD June 15, 2010.

If you have any questions or comments regarding our responses, please contact  
(b)(6) DRMS J-35. at DSN (b)(6) or my Chief, Internal Audit Division,  
(b)(6)

(b)(6)

TWILA C. GONZALES, SES  
Director

## Appendix F

### DLA Distribution Management Comments



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

IN REPLY  
REFER TO DLA-D-J4

JUL 21 2010

#### MEMORANDUM FOR DLA-DA

SUBJECT: DRMA enterprise Audit of Small Arms Accountability – DAO-0911

We have reviewed subject report dated 14 April 2010 and offer the following management comments:

We concur with recommendation 5 and will provide visual inert certification training to DDAA. Additionally, DDAA will be reminded that shipping containers (to include tri-walls, pallets, etc.) must be visually certified and sealed prior to shipment and all shipping containers (to include trailers, box vans, etc.) containing AA&E must be sealed prior to movement to the Central DEMIL Center (CDC).

We concur with recommendation 13; mis-shipments to DDAA will be identified by the receiving personnel and the materiel will be sent to the CDC.

Although recommendation 4 was not addressed to DDC, we believe it is in violation of DoD 5100.76-M, paragraph C6.3.4 which states that AA&E shipments shall be locked/sealed and inspected in-transit as identified in the Defense Transportation Regulation (DTR) Chapter 205, reference h (Shipments shall be checked upon receipt by the receiving activity (consignee) to ensure that seals are intact and for any signs of theft, tampering, or damage. If there are such signs, an immediate inventory shall be performed to determine the extent of theft/loss, tampering, or damage.) If the materiel is rejected and returned to the shipper, an immediate inventory will not be conducted as required by the DTR.

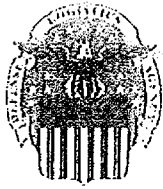
My POC is (b)(6) @dla.mil if you have any further questions.

(b)(6)

L. SCOTT ROSBAUGH  
Director, Distribution Process and Planning

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## *DLA Accountability Office*

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# **DLA Disposition Services Planning for the Responsible Drawdown and Reset in Iraq**

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Audit Report: DAO-10-09

December 29, 2010

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

December 29, 2010

MEMORANDUM FOR Director, Defense Logistics Agency Disposition Services

This is our report on the audit of the DLA Disposition Services Planning for the Responsible Drawdown and Reset in Iraq. It includes the results of our audit and conclusions on the DLA Disposition Services plans to handle the expected surge in property turn-in as a result of the drawdown of U.S. Forces in Iraq.

We conducted this audit from January 2010 to July 2010 in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Government Accountability Office (GAO), with the exception of meeting the peer review requirement. The DLA Accountability Office, Audit Division is undergoing an external peer review and the preliminary results identified an organizational impairment to our independence. However, this has no effect on the quality of this report as those standards require that we plan and perform the audit or attestation engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit or engagement objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit or engagement objectives. In addition, we are developing corrective actions to correct the organizational independence in consideration of future or ongoing audits, evaluations or attestation engagements of the subject.

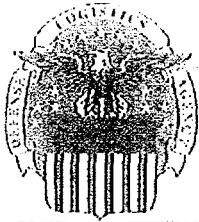
This report contains two recommendations addressed to the Director of the Defense Logistics Agency Disposition Services to improve the processes and procedures to establish and implement contingency operations plans and train planners.

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

(b)(6)

(b)(6)

Tamonie Denegall  
Director, Operational Audits  
DLA Accountability Office



# Executive Summary

Audit Report DAO-10-09  
December 29, 2010

## DLA Disposition Services Planning for the Responsible Drawdown and Reset in Iraq

### Results

The DLA Disposition Services<sup>1</sup> Contingency Operations Directorate (J-9) provides deployable disposition support to the warfighter. J-9 deploys operational field offices with personnel and related equipment to locations in support of Combatant Commanders Operation Plan requirements. Requirements are driven by the plans developed by DLA Disposition Services and DLA. DLA Disposition Services provides on-site disposal support to the warfighter in Iraq at four operational field locations<sup>2</sup> and through site visits to Forward Operating Bases.

The United States and the Government of Iraq signed a security agreement calling for a drawdown of U.S. Forces from Iraq. Established timelines call for a reduction in forces to 50,000 troops by August 31, 2010, and a complete withdrawal of forces from Iraq by December 31, 2011. The withdrawal of personnel and equipment will result in a natural surge in property disposal receipts at the DLA Disposition Services operations in Iraq. In December 2009, DLA issued Execute Order (EXORD) 10-01, Responsible Drawdown and Reset (RDR). Within the EXORD, key DLA Disposition Services tasks related to the RDR in Iraq were identified.

As a result of our audit, we determined that DLA Disposition Services identified and implemented a strategy to support its operational planning for the expected surge in property receipts during the RDR in Iraq<sup>3</sup>. However, DLA Disposition Services did not have a formalized operational planning document that incorporated the surge strategy as well as actions necessary to execute the RDR key tasks stated in DLA EXORD 10-01.

A formalized operational plan provides clear guidance to the field and senior leadership on key tasks and mission execution. In addition, a well-documented and supported plan prepared by trained planners would provide assurance that significant functions related to the mission were identified, adequately resourced, and could be analyzed for application to future contingency operations. Detailed planning at all levels is important to ensure time line withdrawals are met safely, effectively, and efficiently.

### Why DA Did this Review

As approved by the DLA fiscal year 2010 Annual Audit Plan, we conducted an audit of the DLA Disposition Services planning for the drawdown in Iraq to provide an assessment of the organizations planning related to the expected surge in property receipts and provide recommendations to DLA senior leadership. Additionally, while developing the risk based audit plan, DLA categorized this topic as an almost certain, major risk area. An audit of the DLA Disposition Services planning process could mitigate some of that risk.

### What DA Did

Our objectives were to evaluate DLA Disposition Services plans to handle the expected surge in property turn-in as a result of the drawdown of U.S. Forces in Iraq. Specifically, we determined whether the organizations surge plan is documented and supported. The second objective of the audit was to determine whether adequate controls were established and operating effectively at Iraq locations to ensure proper item receipt. We were not able to complete the second audit objective because travel restrictions to Iraq prevented the audit team from conducting necessary on-site fieldwork to answer the objective. Therefore, we reduced our audit scope to a review of the Headquarters DLA Disposition Services planning efforts only.

### What DA Recommends

This report contains two recommendations addressed to the Director, DLA Disposition Services. Our recommendations provide an opportunity for the organization to improve the processes and procedures to establish and implement contingency operations plans and train planners.

<sup>1</sup> DLA Disposition Services was previously called the Defense Reutilization and Marketing Service.

<sup>2</sup> Operational field locations are located at Camp Victory, Spelcher, Al Asad, and Joint Base Balad.

<sup>3</sup> Our audit did not evaluate DLA Disposition Services strategy to execute the key tasks stated in DLA EXORD 10-01 and therefore we do not express an opinion on the strategy or execution of the key tasks stated in DLA EXORD 10-01.



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# INTRODUCTION

## OBJECTIVES, SCOPE, AND METHODOLOGY

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The overall objective of the audit was to evaluate DLA Disposition Services plans to handle the expected surge in property turn-in as a result of the drawdown of U.S. Forces in Iraq. Specifically, we determined whether the surge plan is documented and supported. The second objective of the audit was to determine whether adequate controls were established and operating effectively at Iraq locations to ensure proper item receipt. We were not able to complete the second objective because travel restrictions to Iraq limited travel to mission critical only. The DLA Accountability Office determined the travel to Iraq was not mission critical and, therefore the travel restrictions resulted in denial of the audit team's country clearance, which prevented us from conducting necessary on-site field work to answer the second audit objective. Therefore, we limited the scope of the audit to Headquarters DLA Disposition Services<sup>4</sup> planning efforts only.

To answer our objective, we conducted interviews with DLA Disposition Services Contingency Operations Directorate (J-9), Acquisition Directorate (J-7), and Headquarters DLA Joint Logistics Operations Center (J-311) subject matter experts. We conducted telephone interviews with DLA Disposition Services' Iraq Officer in Charge and Iraq field location Chiefs. We reviewed DLA Execute Order 10-01<sup>5</sup>, attended weekly Southwest Asia Area of Responsibility In-Process Reviews, Common Operational Picture-Warfighter and reviewed subject charts. We obtained support documentation and analyzed DLA Disposition Services actions taken and planned to support the expected surge in property receipts and RDR in Iraq.

We conducted our audit from January 2010 through July 2010 in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Government Accountability Office (GAO), with the exception of meeting the peer review requirement. The DLA Accountability Office, Audit Division is undergoing an external peer review and the preliminary results identified an organizational impairment to our independence. However, this has no effect on the quality of this report as those standards require that we plan and perform the audit or attestation engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit or engagement objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit or engagement objectives. In addition, we are developing corrective actions to correct the organizational independence in consideration of future or ongoing audits, evaluations or attestation engagements of the subject. We believe that the

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<sup>4</sup> Headquarters DLA Disposition Services is located in Battle Creek, MI.

<sup>5</sup> The DLA EXORD 10-01 is a classified document and was not retained by DA audit personnel. The DLA Disposition Services key tasks are classified as FOUO.

evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## BACKGROUND

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**DLA Disposition Services Contingency Operations Directorate (J-9).** The J-9 provides deployable disposition support to the warfighter. J-9 deploys operational field offices with personnel<sup>6</sup> and related equipment to locations in support of Combatant Commanders Operation Plan requirements. Requirements are driven by the plans developed by DLA Disposition Services and DLA. Within DLA Disposition Services, the J-9 Directorate develops contingency operation plans. DLA Disposition Services provides on-site disposal support to the warfighter in Iraq at four operational field locations and through site visits to Forward Operating Bases.

**DLA Disposition Services Contract Support.** Task orders for the contract support for the Iraq, Kuwait, and Afghanistan field locations ended on 30 June 2010. J-7 initially awarded a new Excess Property Management contract for Kuwait<sup>7</sup> on 6 August 2010. However, there were multiple protests on the contract award and subsequently, J-7 terminated the award. J-7 issued a new solicitation which closed 5 November 2010 and anticipates the contract for Kuwait will be awarded on 17 December 2010. Collectively, J-9 and J-7 established draft milestones for the future Iraq DRMO contract support.

**Drawdown and DLA Execute Order 10-01.** The United States and the Government of Iraq signed a security agreement calling for a drawdown of U.S. Forces from Iraq. Established timelines call for a reduction in forces to 50,000 troops by August 31, 2010, and a complete withdrawal of forces from Iraq by December 31, 2011. In December 2009, DLA issued EXORD 10-01, Responsible Drawdown and Reset. Within the EXORD, the following key DLA Disposition Services tasks related to the RDR were identified:

- Provide disposal reutilization services in support of the responsible drawdown and reset;
- Support the demilitarization of all DEMIL required property in Iraq;
- Assist with the disposition for all Hazardous Material and Waste in Iraq; and
- Provide on-site disposal support for the closure/return of bases in Iraq.

**Property Surge.** The withdrawal of personnel and equipment will result in a natural surge in property disposal receipts at the DLA Disposition Services operations in Iraq. The amount of property that will be processed by DLA Disposal Services is dependent upon the military services property disposition determination. Our audit did not identify a valid and supported

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<sup>6</sup> Personnel include emergency essential civilians and military.

<sup>7</sup> The DLA Disposition Services field location in Kuwait is located at Camp Arifjan.

quantity of property that DLA Disposition Services plans to receive<sup>8</sup>. The weaknesses related to disposition of property was identified by the Government Accountability Office Audit Report 10-179, Operation Iraqi Freedom, *Preliminary Observations on DoD Planning for the Drawdown of U.S. Forces from Iraq*, released November 2009 and GAO report 10-376, Operation Iraqi Freedom, *Actions Needed to Facilitate the Efficient Drawdown of U.S. forces and Equipment from Iraq* dated April 2010. The GAO concluded in both reports that key decision about the disposition of some equipment have yet to be made and that Department of Defense lacks precise visibility over its inventory of some equipment.

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<sup>8</sup> The DLA Disposition Services Officers in Charge, Iraq, stated he attends Drawdown Planning meetings and is aware of troop withdrawal movement and timelines for DLA Disposition planning purposes.

# RESULTS, RECOMMENDATIONS AND CONCLUSIONS

## RESULTS AND RECOMMENDATIONS

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DLA Disposition Services identified and implemented a strategy to support its operational planning for the expected surge in property receipts during the RDR in Iraq. However, DLA Disposition Services did not have a formalized operational planning document that incorporated the surge strategy as well as actions necessary to execute the RDR key tasks stated in DLA EXORD 10-01. This occurred because of a guidance and training deficiency. A formalized operational plan provides clear guidance to the field and senior leadership on key tasks and mission execution. In addition, a well-documented and supported plan prepared by trained planners would provide assurance that significant functions related to the mission were identified, adequately resourced, and could be analyzed for application to future contingency operations. Detailed planning at all levels is important to ensure time line withdrawals are met safely, effectively, and efficiently.

**Strategy for Property Surge Receipts.** DLA Disposition Services identified and implemented a strategy to respond to the expected surge in property receipts from the RDR in Iraq. The strategy was to leverage scrap contracts in place and award additional scrap contracts for anticipated increase in property turn-ins; and increasing staffing through civilian volunteers and increasing the number of military personnel at the forward operating bases. According to J-9 personnel, DLA Disposition Services began implementing the strategy prior to the issuance of DLA EXORD 10-01 in December 2009. J-9 personnel took the following actions to prepare for the anticipated surge in property turn-ins:

- Monitored and maintained low yard utilization rates at Iraq field locations. As of 20 May 2010, four locations reported scrap and hazardous waste yard usage rates ranging from 3-25%, which will provide much needed storage space as the organization manages the surge in property
- Purchased required demilitarization, scrap handling, and material handling equipment for Iraq field locations. We reviewed the equipment requirements approved for purchase in May 2009 and compared it to the equipment status as of 5 May 2010. All items originally programmed have been delivered to the field locations or are planned for purchase in FY 2010.
- Utilized a contract clause to increase the number of contract personnel at the four field locations in Iraq. The task orders were signed in July 2009. We did not pursue additional audit work in this area since the task orders for the contract for the Iraq, Kuwait, and Afghanistan locations expired on 30 June 2010 and, the contract was terminated.

- Developed training materials and standard operating procedures for deployed personnel. DLA Disposition Services personnel and military customers will use the training materials.
- Awarded six additional Iraq scrap sales contracts in June and July 2009 to handle the surge in property receipts.
- Requested DLA Disposition Services volunteers to deploy on a surge team to supplement the emergency essential civilians.
- Increased the number of military personnel performing duties at Forward Operating Bases by 10 between December 2009 and May 2010.

With the expiration of the task order for the field operations contract in Kuwait and Iraq on 30 June 2010 and the subsequent termination of the contract, DLA Disposition Services plans to increase the emergency essential civilians in Iraq by 10 and in Kuwait by 63 through June 2010. Once the Excess Property Management contract is operating in Kuwait<sup>9</sup>, those emergency essential employees in Kuwait will relocate to Iraq or redeploy. The organization plans to utilize the available yard space at the Iraq field locations to store property and will continue to process property and conduct scrap removals using current scrap sales contracts. Operating in this manner is similar to how the Iraq locations operated prior to the recently terminated contract, which was awarded November 29, 2007. DLA Disposition Services stated the current strategy of increased civilians, military, and scrap sales contractors, along with the military services exercising supply chain discipline principles, would enable the organization to maintain its capacity for processing property.

**Operational Planning Document and Support.** DLA Disposition Services did not have a formalized operational planning document that incorporated the surge strategy as well as actions necessary to execute the RDR key tasks stated in DLA EXORD 10-01. Specifically, during the audit planning and fieldwork process we requested J-9 provide a planning document for DLA Disposition Services plan to handle the expected surge in property receipts as a result of the RDR in Iraq<sup>10</sup>. According to J-9 personnel, the strategy and action plans to respond to the expected surge in property receipts and the RDR were discussed during various meetings such as the weekly Southwest Asia Area of Responsibility In-Process Reviews, Common Operational Picture-Warfighter, RDR meetings, and J-9 internal discussions. However, plans and decisions made during those meetings were not formalized into an operational planning document and the support and methodology used to arrive at those decisions was not maintained. For example, we requested the specific methodology and

<sup>9</sup> DLA Disposition Services Acquisition Directorate (J-7) initially awarded the Camp Arifjan, Kuwait Excess Property Management contract on 6 August 2010. However, there were multiple protests on the contract award and subsequently, J-7 terminated the award. J-7 issued a new solicitation which closed 5 November 2010 and anticipates the contract for Kuwait will be awarded on 17 December 2010. The J-9 and J-7 have developed draft milestones for solicitation and award of the Iraq Excess Property Management Contract; however, we did not include those milestone dates in this report since the document is in draft form.

<sup>10</sup> While soliciting comments to the discussion draft report, on July 28, 2010, J-9 provided two draft planning documents that were not referenced by J-9 staff during the audit. The documents provide support that DLA Disposition Services conducted planning efforts in calendar year 2007 to prepare for the RDR; however, the documents were never finalized or approved by the DLA Disposition Services Director.

analysis used to support the number of current and planned civilian and military personnel required to perform the mission in Iraq and determined there was no documented support. Discussion with HQ DLA Joint Logistics Operations Center determined that standard business practice would dictate the Field Activity would analyze the mission, tasks, and objectives and develop a detailed operational support plan as appropriate. Other than the key task assigned to DLA Disposition Services in DLA EXORD 10-01, we did not identify any specific guidance applicable to the DLA Disposition Services to develop an operational planning document.

DLA Disposition Services did not have a formalized operational plan because of a program guidance and training deficiency. There were no specific policies, procedures, or guidance established for developing a comprehensive planning document or formalizing the strategy and actions needed to execute the key tasks outlined in EXORD 10-01. Further, we determined that none of the three identified DLA Disposition Services J-9 personnel performing operational planning duties have received formal training to complete their duties as planners. Our discussion with the HQ DLA Joint Logistics Operations Center (J-311) determined there is no formal training plan or Agency wide position standard for DLA Planners. The HQ DLA Joint Logistics Operations Center is in the process of developing a formal training plan and position standards for the DLA community of planners and estimates this process will be complete by 30 September 2010.

A formalized operational plan provides clear guidance to the field and senior leadership on key tasks and mission execution. In addition, a well-documented and supported plan prepared by trained planners would provide assurance that significant functions related to the mission were identified, adequately resourced, and could be analyzed for application to future contingency operations. Detailed planning at all levels is important to ensure time line withdrawals are met safely, effectively, and efficiently.

**Recommendation 1** *(Director, DLA Disposition Services)*

Direct J-9 to establish and implement guidance that requires development of a comprehensive, timely and supported contingency operations plan encompassing all efforts related to DLA Disposal Services business processes and tasks.

**Recommendation 2** *(Director, DLA Disposition Services)*

Direct J-9, in coordination with the training plans and position standards developed by the HQ DLA Joint Logistics Operations Center (J-311), ensure DLA Disposition Services planners receive necessary job training.

## Management Comments

In response to the management comments to the draft report, we added footnote 3 to clarify we did not evaluate DLA Disposition Services strategy to execute the key tasks stated in DLA EXORD 10-01. Further, we updated the report to reflect the status of the Camp Arifjan, Kuwait contract. Management comments are responsive and no additional comments are required. Please see the recommendation table at Appendix A and management comments at Appendix C for details.

## CONCLUSION

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DLA Disposition Services identified and implemented a strategy to support its operational planning for the expected surge in property receipts during the RDR in Iraq. However, DLA Disposition Services did not have a formalized operational planning document that incorporated the surge strategy as well as actions necessary to execute the RDR key tasks stated in DLA EXORD 10-01. A detailed, comprehensive and formalized operational plan provides clear guidance to the field and senior leadership on key tasks and mission execution. In addition, a well-documented and supported plan prepared by trained planners would provide assurance that significant functions related to the mission were identified, adequately resourced, and could be analyzed for application to future contingency operations. Detailed planning at all levels is important to ensure time line withdrawals are met safely, effectively, and efficiently.



## SUMMARY OF RECOMMENDATIONS

	Recommendation	Addressee	Status of Corrective Action	Estimated Completion Date
1	Establish and implement guidance that requires development of a comprehensive, timely and supported contingency operations plan encompassing all efforts related to DLA Disposal Services business processes and tasks.	Director, DLA Disposition	On-going	January 2011
2	In coordination with the training plans and position standards developed by the HQ DLA Joint Logistics Operations Center (J-311), ensure DLA Disposition Services planners receive necessary job training	Director, DLA Disposition Services	On-going	April 2011

## ABBREVIATIONS USED IN THIS REPORT

EXORD	Execute Order
GAO	Government Accountability Office
RDR	Responsible Drawdown and Reset

## MANAGEMENT COMMENTS



DEFENSE REUTILIZATION AND MARKETING SERVICE  
74 WASHINGTON AVENUE NORTH  
BATTLE CREEK, MICHIGAN 49837-3022

IN REPLY  
REFER TO D

NOV 22 2010

MEMORANDUM FOR DLA DA ATTN: TAMONIE DENEGALL

SUBJECT: DLA Accountability Office Draft Report

DLA Disposition Services concurs with the finding that there was no formal plan developed in support of Iraqi Disposition Services and Recommendation 1, that DLA Disposition Services develop an Operations Plan.

To address this recommendation, DLA Disposition Services has developed a comprehensive mission analysis using the Military Decision Making Process (MDMP) for support of Operation New Dawn and the reduction of U.S. forces. This analysis resulted in the creation of four viable courses of action. DLA Disposition Services is awaiting the outcome of a USF-I planning effort currently underway to select a course of action (COA) and develop an operations plan (OPLAN) to support the USF-I requirements identified in the resultant USF-I OPLAN 11.01. Given the current USF-I schedule, the intent is to have the DLA Disposition Services OPLAN completed in Jan 2011. All future planning efforts will follow the MDMP process.

DLA Disposition Services concurs with Recommendation 2 that DLA Disposition Services operational planners receive job training. Headquarters DLA J-311 recently created a recommended training program for contingency planners; DLA Disposition Services is creating a training program based on the new guidance. Creating this training program is an ongoing process and formal training is dependent on course schedules. One individual is currently scheduled to attend the Joint Enabling Capabilities Planners Course (JECPC) in April 2011.

We note that while the report indicates DLA Disposition Services failed to develop a formalized operational planning document that incorporated actions necessary to execute the responsible drawdown key tasks delineated in DLA Executive Order 10-01, the report does not address the strategies and actions DLA Disposition Services did implement in support of these key tasks. The report is silent regarding the review, analysis, and evaluation performed during the audit and does not assess whether or not DLA Disposition Services implemented strategies supporting key tasks identified in the report. This leaves the impression that DLA Disposition Services not only failed to develop a formal plan, but also failed to identify or accomplish any of the key tasks identified in the report such as reutilization, supply reset, demilitarization, hazardous waste disposal, and on-site disposition support for forward operating base (FOB) closures. This clearly is not the case. Therefore, DLA Disposition

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Services recommends the report be re-drafted to address this omission by stating the fact that the strategies DLA Disposition Services implemented were very successful in supporting operational planning for the expected surge of property receipts during the responsible drawdown in Iraq.

(b)(6)

TWILA C. GONZALES, SES  
Director

## ACKNOWLEDGMENTS

The following auditors contributed to this project:

(b)(6)	Audit Director, Operational Audit Division
(b)(6)	Audit Director, DLA Disposition Services
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