DEPARTMENT OF DEFENSE

AUDIT REPORT

PROCUREMENT OF CLOTHING AND TEXTILES

No. 90-095

July 5, 1990

Office of the
Inspector General

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on the Audit of Procurement of Clothing and Textiles (Report No. 90-095)

We are providing this final report on the Audit of Procurement of Clothing and Textiles for your information and use. Comments on a draft of this report were considered in preparing the final report. We made the audit from October 1988 through December 1989 at the direction of the Deputy Inspector General, DoD. The audit objectives were to determine whether procurements of clothing and textiles were in accordance with policies and procedures in the Federal Acquisition Regulation and the DoD Supplement to the Federal Acquisition Regulation and to evaluate the adequacy of internal controls over the procurement process. Our primary focus was on the adequacy of actions taken to correct weaknesses in the procurement process that were identified as a result of the clothing and textile fraud investigation at the Defense Personnel Support Center (the Center). The lack of checks and balances, and accountability and proper documentation for critical procurement decisions were identified by the Defense Logistics Agency (the Agency) as prime underlying factors in the criminal activity. We also reviewed procedures used to compute procurement quantities for selected contracts. Purchases of clothing and textiles in FY's 1988 and 1989 amounted to $1.2 billion and $1.1 billion, respectively.

The Secretary of Defense's Defense Management Report (DMR) provides a plan to improve the defense acquisition system and to more effectively manage DoD resources. Logistics initiatives in the DMR address the need for improvements in the supply system and the reduction of supply costs. For clothing and textiles, the DMR requires specific actions to significantly reduce inventory growth, to change procedures for the introduction of new clothing items, and to increase standardization and use of commercial specifications.

In response to the fraud investigation, the Agency and the Center took significant actions to improve the clothing and textile procurement process and to provide continued supply support for the Services' requirements. Procedures were changed to make the procurement process less susceptible to fraud by diversifying approval authorities for determining requirements and making procurement decisions. The Center established an automated acquisition planning system that required the

involvement of all functional disciplines in identifying and tracking major procurements. Efforts to broaden the Center's production base, which was weakened as a result of the fraudulent activity, resulted in contracts valued at approximately $130 million being awarded to new suppliers. As a result of these initiatives and other supply related actions, the Center raised its supply availability rate from a low of 86.8 percent in November 1987 to an average of 92.2 percent in FY 1990. Appendix A provides details on the significant actions taken.

Not withstanding the above significant improvement, the audit identified the need for further improvements in the Center's procurement practices and related internal controls. Procedures and internal controls used in soliciting, evaluating, and awarding procurement actions required strengthening to eliminate the conditions that contributed to the earlier fraud activity, and to ensure compliance with procurement regulations. The Center's acquisition planning process needed improvement to ensure that its annual acquisition plan was properly developed and that information available to assist in expanding its production base was fully used. Procedures used to forecast requirements needed improvement to ensure that requirements were accurately computed and adjustments to requirements were documented. The results of the audit are summarized in the following paragraphs, and the details, audit recommendations, and management comments are in Part II of this report.

The procurement procedures and internal controls that the Center used in soliciting, evaluating, and awarding procurement actions needed improvement. Required coordination and approval reviews were not made for all procurement actions. Bidders' lists were not properly maintained, and progress payments were inappropriately included in some contracts. Surveillance criticality designators were not properly assigned to contracts, and liquidated damages clauses were not used in all appropriate procurements. Internal control reviews to implement the Federal Managers' Financial Integrity Act were not properly performed. Procedures established to ensure that there was adequate documentation to support procurement decisions were not complied with. As a result, controls established in response to the past fraud activity were not completely effective and some aspects of the Center's procurement practices were not in compliance with procurement regulations. We recommended that procedures be revised to include appropriate coordination and approval levels and to require that postaward reviews of contracts be conducted to focus on known avenues of past fraud. We recommended that bidders' lists be properly maintained and that procedures be developed to assist procurement personnel in determining whether to include progress payments in contracts. We also recommended that internal control reviews be improved to ensure that procurement regulations are followed (page 7).

Procurements included in the Center's FY 1990 annual acquisition plan, which was developed to identify and track major procurements, were not selected in accordance with established procedures. In addition, the annual plan was not implemented until almost 3 months after the start of the fiscal year. Information such as the DD350, "Individual Contracting Action Report (over $25,000)," the contract data system, the General Services Administration's bidders' list, and the records that showed reasons why contractors did not bid on procurements were not used to assist in expanding and diversifying the Center's production base. Also, the Center did not provide Service specification preparing activities (SPA's) with information to prioritize the SPA's work effort on identifying military specifications that may have been overly restrictive or that had the potential for being replaced by commercial specifications. Improvements in identifying, planning and tracking significant procurements and broadening the production base could be achieved by more comprehensive procedures in acquisition planning. We recommended the development of more specific selection criteria and coordination within the Clothing and Textile Directorate. We also recommended that the Center provide additional data to SPA's so that the SPA's can prioritize their work effort on military specifications that were identified as possibly being too restrictive or candidates for being replaced by commercial specifications (page 21).

The Center's procedures for forecasting requirements for clothing and textile items needed improvement. Inventory managers adjusted demand and asset data from the Agency's Standard Automated Materiel Management System (SAMMS) in determining requirements forecasts without documenting their rationale for the changes or, if required, updating SAMMS to reflect the changes. Contractor production leadtime estimates that the Center used to compute procurement quantities were not obtained in advance of planned procurements. Documentation to support inventory managers' changes to prescribed safety level requirements was not maintained, and first article requirements were included in requirements forecasts without considering the impact of the first article on the cost or time of delivery. As a result, there was no assurance that the Center's requirements were accurately forecasted, and some requirements were inflated. We recommended that SAMMS data to support procurement decisions be retained, that changes to requirements data be justified and documented, and that procedures to compute lead times be revised. We also recommended that safety levels be computed in accordance with prescribed procedures and that the impact of first article requirements be evaluated before including the requirements in solicitations (page 31).

The audit identified internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Controls were either not

established or not effective to ensure that the Center's procurement procedures and practices were in accordance with applicable procurement regulations and that the Center properly forecasted requirements for clothing and textile items. Recommendations A.1., A.2., A.3., A.5., A.6., B.1., C.1., C.6., C.7., and C.8., if implemented, will correct the internal control weaknesses. The senior official responsible for internal controls within the Agency is being provided a copy of this report.

We provided a draft of this report to the Director, Defense Logistics Agency, on March 29, 1990, and comments were received on June 4, 1990. Management's comments and our responses are summarized in Part II of this report. The complete text of management's comments is in Appendix C.

The Agency concurred or partially concurred with Recommendations A.2.c., A.6., A.7., A.8., B.3.b., C.1., C.2., C.6., and C.8. Actions taken or planned are considered responsive to the recommendations and additional comments are not required.

The Agency comments concurred or partially concurred with Recommendations A.3., B.3.a., and C.3. The management comments are partially responsive. We have revised Recommendation A.3. to eliminate the reference to maintaining bidders' lists by procurement group category. For the reasons discussed in Part II of the report, we request that the Agency provide additional comments on these recommendations including proposed corrective actions and completion dates for planned actions.

The Agency nonconcurred with Recommendations A.1., A.2.a., A.2.b., A.2.d., A.4., A.5. and associated internal control weaknesses. These recommendations addressed proper completion of the contract review checklist, identification of production start dates to assess the need for progress payments, and enforcement of liquidated damages clauses. We have considered the management comments and believe our position is still valid for the reasons discussed in Part II of the report. We request that the Agency reconsider its position and provide additional comments including proposed corrective actions and completion dates for planned actions.

The Agency nonconcurred with Recommendations B.1., B.2., B.3.c., B.4. and associated internal control weaknesses. These recommendations addressed improvements to the Center's acquisition planning process. The Agency's comments focused more on initiatives taken to improve the acquisition planning process than on the specific issues addressed in the recommendations. We have reviewed the comments and have not changed our position. We request that the Agency reconsider its position and provide additional comments including proposed corrective actions and completion dates for planned actions.

We do not believe there is a basis for the Agency's comments to Findings A. and B. that the report does not provide recognition of actions taken to improve the clothing and textile acquisition process. Both the Transmittal Memorandum and Appendix A provided recognition of the significant management initiatives taken to improve the acquisition process.

The Agency nonconcurred with Recommendations C.4., C.5., and C.7., which recommended that the Agency revise its procedures for computing production lead time and develop instructions for evaluating first article requirements. The Agency stated that its procedures for computing production lead time are in accordance with DoD procedures and that the requirements to justify first article requirements in solicitations are clearly prescribed in procurement regulations. We have reviewed the Agency's comments and believe our position is still valid for reasons discussed in Part II of the report. We request that the Agency reconsider its position and provide additional comments on the recommendations including corrective actions and planned completion dates.

DoD Directive 7650.3 requires that all audit recommendations be resolved within 6 months of the date of the final report. Therefore, final comments on the unresolved issues in this report should be provided within 60 days of the date of this memorandum. This report does not claim any monetary benefits. Benefits that stem from the recommendations will improve the effectiveness of operations and compliance with regulations, and savings attributed to reduced procurement costs such as lower bid prices cannot be readily identified (Appendix D).

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Charles Hoeger or Mr. Terry Wing on (215) 737-3881 (AUTOVON 444-3881). A list of the audit team members is in Appendix F. Copies of this report are being provided to the activities listed in Appendix G.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosure

REPORT ON THE AUDIT OF PROCUREMENT OF CLOTHING AND TEXTILES

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Prepared by:
Logistics Support Directorate
Project No. 9SL-0006

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REPORT ON THE AUDIT OF PROCUREMENT OF CLOTHING AND TEXTILES

PART I - INTRODUCTION

Background

The Defense Personnel Support Center (the Center) is the DoD integrated materiel manager for clothing and textile items. The Center manages about 30,000 clothing and textile items, such as trousers, footwear, helmets, and combat boots. Purchases for FY's 1988 and 1989 totaled $1.2 billion and $1.1 billion, respectively. Ninety-six percent of the purchases for these 2 fiscal years was categorized as competitive awards and 74 percent of the purchases was awarded to small businesses.

In 1984, while investigating allegations of contractor fraud in clothing and textile procurements, the Federal Bureau of Investigation (FBI) and the Defense Criminal Investigative Service (DCIS) received information that implicated Government employees in procurement fraud at the Center. Based on the information, the FBI and DCIS initiated an investigation that produced evidence of corruption among Government employees, contractors, and consultants involved in the production and procurement of clothing and textiles. While relatively few Government employees were involved, the corruption extended from the then Deputy Director of the Center's Clothing and Textile Directorate, the Directorate's highest ranking civilian, to clerical employees processing payment requests. The investigation found that Government employees accepted bribes and gratuities from contractors, generally paid through former Government employees acting as consultants, in exchange for privileged information used in obtaining contracts and in influencing procurement decisions after contracts were awarded. The assistance provided included disclosing competitors' price information and preaward survey results, approving waivers for required tests, invoking contract options, approving delivery extensions, and expediting payments. As of December 1989, 18 individuals and 7 contractors had been convicted of procurement fraud. In addition, 28 individuals and 16 contractors were debarred from doing business with the Government.

In response to the investigation and subsequent prosecutions, the Defense Logistics Agency (the Agency) and the Center initiated actions to improve the integrity of the clothing and textile procurement process. One of the fundamental lessons learned was that the then Deputy Director's centralized authority permitted him to manipulate the procurement process by controlling routine

decisions that should have been made by lower level managers. Procedures were changed to make the procurement process more visible and to diversify approval authorities for requirements determination and procurement decisions to ensure that decisions were made by appropriate personnel and not vested in one person. Appendix A provides additional details on some of the major actions taken.

Objectives and Scope

The audit was directed by the Deputy Inspector General, DoD. The overall objectives were to determine whether procurements of clothing and textiles were in accordance with policies and procedures in the Federal Acquisition Regulation and the DoD Supplement to the Federal Acquisition Regulation and to evaluate the adequacy of internal controls over the procurement process. Specific objectives were to evaluate:

- acquisition management of clothing and textiles with emphasis on acquisition planning, contracting methods, and contract management; and

- the adequacy of actions taken to identify and correct weaknesses in the procurement process that surfaced as a result of the clothing and textile fraud investigation at the Center.

We reviewed the Center's procedures and controls for awarding and managing contracts for clothing and textile items. We used data reported in the DD350, "Individual Contracting Action Report (over $25,000)," contract reporting system to identify contracts for our tests, and procurement actions under $25,000 were not reviewed. From the data, we judgmentally selected 28 of the 197 FY 1989 contracts that were reported from October 1, 1988, through January 31, 1989. The 28 contracts accounted for $108 million of the $218 million of FY 1989 contract awards reported during the 4-month period. The contracts were selected based on the method of solicitation, the dollar value of the award, the types of clauses in the contracts, and the type of item procured. We evaluated acquisition planning, procurement methods, and contract management. We also evaluated internal controls used in the procurement process. In addition, we tested the requirements determination process for the clothing and textile items purchased under the 28 contracts.

This economy and efficiency audit was made from October 1988 through December 1989 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary. Activities visited or contacted during the audit are listed in Appendix E.

Internal Controls

To determine the adequacy of internal controls over the Center's clothing and textile procurement process, we evaluated procedures used in processing solicitations, evaluating bids and offers, awarding contracts, and forecasting requirements. We also evaluated the adequacy of internal control reviews conducted by the Center to implement the Federal Managers' Financial Integrity Act (FMFIA). The internal control objectives addressed in the audit were to determine if:

- procurement actions were documented, justified, authorized, and executed by persons acting within their authority;

- requirement quantities were computed in accordance with prescribed procedures; and

- internal control reviews were conducted in accordance with appropriate guidelines.

As discussed in Findings A. and C. of this report, additional or expanded controls were necessary to ensure that procurement decisions were documented, justified, and authorized and that requirements were properly forecasted. In addition, internal control reviews to implement the FMFIA were not conducted in accordance with Office of Management and Budget internal review guidelines.

Prior Audit Coverage

Inspector General, DoD, Report No. 85-086, "DoD Policies on the Use of Progress Payments," April 10, 1985, concluded, in part, that clothing and apparel contractors received progress payments for off-the-shelf items, which was contrary to the delivery and financial requirements contained in procurement regulations. Provisions for progress payments were inappropriately included in solicitations for clothing and textile items. The report recommended that contracting officers exclude progress payment clauses from solicitations that do not meet procurement regulation requirements for the use of progress payments. The Agency concurred and stated that detailed guidance was issued to implement the recommendation.

Inspector General, DoD, Report No. 86-061, "Inventory Management of Clothing and Textile Materiel," January 31, 1986, concluded, in part, that safety levels used to develop requirements for clothing and textile items were contrary to DoD guidance, and programs established to update production lead time were not functioning as intended. The report recommended that the Agency compute safety level requirements in accordance with DoD guidance or that it obtain approval for a deviation and direct that the

Center update procedures for computing production lead time. The Agency concurred and stated that actions would be taken to develop an alternate variable safety level model for clothing purchases and that leadtime procedures were updated.

Inspector General, DoD, Report No. 88-INS-03, "Final Inspection Report on the Defense Personnel Support Center," May 31, 1988, concluded, in part, that the Center had no identifiable program for conducting market research and analysis, inappropriately included progress payments in some contracts, and used overly restrictive military specifications in procuring clothing and textile items. The report recommended that the Agency revise existing procedures relating to the market research and analysis program and reemphasize policy on the proper use of progress payments. The Agency concurred with the findings and stated that actions were initiated to implement the recommendations.

Other Matters of Interest

The Secretary of Defense's Defense Management Report (DMR) provides a plan to fully implement the recommendations of the President's Blue Ribbon Commission on Defense Management (Packard Commission), to substantially improve the performance of the acquisition system, and to more effectively manage DoD resources. The logistics initiatives in the DMR address the need for improvements in the supply system and the reduction of costs.

For clothing and textiles, the DMR implementation plan requires actions to significantly reduce inventory growth, consolidate and centralize specification development, increase standardization, reduce the number of clothing sizes, and make greater use of commercial specifications. These initiatives are planned to reduce stock fund obligations by $940 million for the 5 years ending FY 1995. Customers' budget authority for the 4 years ending FY 1995 are targeted for reductions of $707 million because of these initiatives.

To reduce inventory growth, stock fund obligational authority will be limited to the value of sales less $80 million for FY's 1991 through 1993. Consolidation and centralization of specification development is expected to reduce obligational authority by $200 million for FY's 1992 through 1995. Increasing standardization and reducing the number of sizes of clothing items is expected to reduce obligations by $250 million over the 5-year period beginning in FY 1991. Savings of $250 million over the 5-year period are anticipated through greater use of commercial specifications.

Expanding the purchase of commercial products was addressed in the 1972 report of the Commission on Government Procurement, in the Acquisition and Development of Commercial Products Program

initiated by DoD in 1976, in the Competition and Contracting Act of 1984, in the Packard Commission report of June 1986, in the Defense Acquisition Improvement Act of 1986, and in the House Armed Services Authorization Bill report of FY 1990. The Center has a program to identify appropriate items and use commercial item descriptions in purchasing. However, under organizational arrangements and responsibilities in existence at the time of our audit, the coordination process was tedious and time consuming, and results were limited. The Center reported purchases of commercial items totaling $13 million in FY 1988 and $8 million in FY 1989. Purchases of commercial items for FY's 1990 and 1991 are targeted at $50 million each year.

PART II - FINDINGS AND RECOMMENDATIONS

A. Solicitation, Evaluation, and Award of Procurement Actions

FINDING

The procurement procedures and internal controls that the Defense Personnel Support Center (the Center) used in soliciting, evaluating, and awarding procurement actions required improvement. Required coordination or approval reviews for procurement actions were not made in 13 of 28 contracts reviewed. Bidders' lists were not properly maintained. Individual contract acquisition plans were not properly prepared, and progress payments were inappropriately included in contracts. Surveillance criticality designators were not properly assigned to all contracts, and liquidated damages provisions were not included in all appropriate contracts. Internal control reviews to implement the Federal Managers' Financial Integrity Act (FMFIA) were not properly performed. Controls established to ensure that procurement files contained adequate documentation to support procurement decisions were not implemented. These conditions occurred because internal controls were not established or were not properly implemented to ensure compliance with DoD, Defense Logistics Agency (the Agency), and Center regulations and procedures. As a result, some aspects of the Center's procurement practices were not in compliance with procurement regulations and controls that had been established in response to the past fraud activity.

DISCUSSION OF DETAILS

Background. The Federal Acquisition Regulation (FAR) and the Defense Supplement to the FAR (DFARS) direct DoD contracting personnel as to which contract provisions and clauses are authorized for DoD contracts and what other procedures and actions must be followed in awarding and administering the contracts. Defense Logistics Acquisition Regulation 4105.1 implements the FAR and DFARS and establishes the Agency's procedures for acquiring supplies and services. The Center Contracting Policy Manual (DPSCM) 4105.7 implements these regulations and establishes the policies and procedures governing the Center's acquisition of supplies.

To determine if the Center complied with applicable procurement regulations, we reviewed 28 of the 197 FY 1989 contracts that were reported in the DD350, "Individual Contract Action Report (over $25,000)," contract data system from October 1988 through January 1989. The 28 contracts accounted for $108 million of the $218 million FY 1989 contract awards reported during the 4-month period. We reviewed procurement files to determine if

procurement decisions were properly coordinated and approved and to determine if there was adequate documentation to support the decisions made. We also evaluated the Center's compliance with applicable procurement regulations and the adequacy of internal controls over the procurement process. We found that the Center's procedures and internal controls used in the procurement process required improvement, and in some areas, documentation needed to be maintained better to permit effective management. Details of the specific conditions are discussed below.

Coordination and Approval of Procurement Actions. The Agency's Clothing and Textile Functional Panel identified the Center's former Deputy Director of Clothing and Textiles' centralized control over all procurement functions as a major weakness that contributed to the procurement fraud. Because of the former Deputy Director's authority and active involvement in most matters, he was able to exercise excessive control over routine procurement processes and manipulate procurement decisions. To address the Panel's concerns, the Center, in September 1988, developed a matrix to show that it had established a coordination and approval policy, which realigned and definitized management responsibilities for procurement actions. Levels of action and responsibility were diversified. Some of the levels shown on the matrix required changes to procedures in DPSCM 4105.7, which the matrix noted would be revised to reflect the changes.

In May 1989, the Clothing and Textile Functional Panel, based on the data on the matrix, reported that "A system of checks and balances has been established that should alleviate the development of the situation that perpetuated the fraud and corruption evolution." We reviewed DPSCM 4105.7 to determine if the 15 revisions that the Center proposed in the September 1988 matrix provided to the Panel were made. DPSCM 4105.7 is the primary procurement regulation that is used in the Center's daily operations. The revisions included changes in coordination and approval levels for such actions as waiver of first article testing, contract terminations, and delivery extensions. As of December 1989, 12 of the 15 proposed revisions had not been made.

We also evaluated procurement actions made in the 28 sample contracts to determine if the coordination and approval reviews required by DPSCM 4105.7 were made. The contracting actions involved acquisition plans, justifications for soliciting on other than a full and open competition basis, and contract award approval. We found that required coordination or approval reviews were not made in 13 of the 28 contracts. Seven of the thirteen contracts did not have the required approval reviews.

Bidders' Mailing Lists. FAR, part 14, "Sealed Bidding," requires that procurement activities maintain bidders' lists to ensure access to adequate sources of supply when awarding contracts. The FAR also provides that bidders' lists should be

updated to add new responsive firms or delete those firms that have not responded to the last two consecutive solicitations. Of the 28 contracts reviewed, 16 used the Center's mechanized bidders' list to solicit bids. We reviewed these 16 contracts to determine if the bidders' lists were maintained and used, as required by the FAR. We found that as of December 1989 the bidders' lists for items involved in the 16 sample contracts were not purged.

An Agency procurement management review team reported in May 1989 that the Center was not purging bidders' mailing lists and recommended that solicitation mailing lists be purged to ensure the lists contain bona fide offerors. This condition was previously reported by the review team in 1985, and the Center had not taken corrective action. The Center concurred with the recommendation in the May 1989 report, and stated in June 1989 that a project was established to purge the mailing lists by December 31, 1989. However, we found that the bidders' lists had not been purged.

The primary reason why the bidders' lists were not purged was that the Center maintained bidders' lists by generic type of item, such as shirts, trousers, coats, etc. All sources on a specific list were sent solicitations each time the generic item was solicited. For example, in 1 procurement for Army trousers, solicitations were sent to 221 listed sources and only 6 bids were received. We discussed this with the buyer and were told that this was not unusual since not all contractors on the list were interested in supplying Army trousers. Some contractors supplied trousers to other Services and others supplied items used in manufacturing trousers. In order for a contractor to be purged from the list, the buyer would have to discuss the matter with other buyers to determine if the contractor responded to the last two solicitations for any type of trousers. These procedures are not economical since solicitations are mailed to contractors that have no interest in the solicitation, and they are also not conducive to identifying contractors that should be purged from the lists. In addition, we believe that soliciting a large number of contractors and not purging the bidders' list gives a false sense of the size of the Center's production base.

Individual Acquisition Plans. DPSCM 4105.7, part 7, "Acquisition Planning," requires that all acquisitions over $25,000, except those with mandatory sources, such as the Federal Prison Industries and those included in its advanced acquisition planning system (see Finding B.), have written acquisition plans. As a minimum, an acquisition plan should contain a statement of need, a plan of action, a delivery period, and a risk assessment. We reviewed the 28 sample contracts and found that the plans for 15 contracts did not adequately address the

rationale for including either progress payments or options in solicitations. In addition, progress payments were inappropriately included in 11 contracts.

Progress Payments. Progress payments are funds paid to contractors as work progresses on a contract. FAR, part 32, "Contract Financing," asserts that contracting officers may provide for progress payments if contractors may not be able to bill for the first delivery of products for a substantial time after work must begin and will make expenditures for contract performance during the predelivery period that have significant impact on the contractor's working capital. A substantial period of time is normally defined as 4 months or more for small businesses and 6 months or more for large businesses. Contracting officers should also not provide for progress payments in contracts of less than $1 million, unless the contractor is a small business and the contract value is $100,000 or more.

Center procedures, Procurement Contracting Officer (PCO) Memorandums 22, "Progress Payment Guidance," and 98, "Progress Payments," provide that acquisition plans must address the contracting officer's rationale for including progress payments in contracts. Twenty-one of the twenty-eight sample contracts contained provisions for progress payments and acquisitions plans were required for 18 of the 21 contracts. In 15 of the 18 contracts, contracting officers did not document their rationale as to how the FAR progress payment criteria applied to the proposed contract. In most plans, the contracting officers only cited the progress payment section in the FAR as the justification for including progress payments in contracts.

We also evaluated the appropriateness of including progress payments in the 21 contracts and found that progress payments should not have been included in 11 of the 21 contracts. In 3 of the 11 contracts, the contract either did not involve significant predelivery costs or the contractor could bill for first delivery before the 4-month threshold. For the other 8 contracts, we did not agree that it was appropriate to provide progress payments because PCO Memorandum Number 22 states that progress payments should be excluded from contracts where initiation of actual production (not the contract award date) to the first delivery will not exceed 4 months for small businesses and 6 months for large businesses.

Contracting personnel advised us that they were unclear as to what constituted initiation of actual production and PCO Memorandum Number 22 did not provide guidance for determining this date. The eight contracts involved first article requirements in the solicitations. Work on production items is not authorized until first article submissions are approved. We calculated the start of production to be the date of the first

scheduled delivery minus the date the first article was to be delivered. In all eight cases, the time between the initiation of production and the first delivery was below the applicable 4- or 6-month threshold. For example, the solicitation for contract DLA100-89-C-4082 provided for a first article to be submitted 105 days after the contract award date. The solicitation also provided that delivery was to start 165 days after contract award. We calculated that the period from the initiation of production to the first delivery was 60 days (165 days minus 105 days) and concluded that progress payments were not appropriate. This calculation also agreed with data provided in response to the solicitation by the contractor that received the award. The contract was awarded on January 10, 1989, and the first article requirement was waived. The first delivery was made on January 27, 1989, 17 days after the award.

Options. FAR, part 17, "Special Contracting Methods," defines an option as a unilateral right in a contract by which, for a specified time, the Government may elect to purchase additional supplies called for in the contract. PCO Memorandums 117, "Documentary Use of Options," and 160, "Comments from DPSC-P on Contracts Awarded in March 1988," provide that the need for an option shall be fully addressed during acquisition planning and adequate justification shall be included in the acquisition plan before including the option in the solicitation. Inappropriate use of options had been a condition identified as contributing to the past procurement fraud at the Center. Of the 28 sample contracts, 12 contained option clauses. The acquisition plans for 7 of the 12 contracts did not adequately address the reason for the use of the option. Only 3 of the 12 options were exercised. The three options were exercised in accordance with applicable procedures and contract terms.

Surveillance Criticality Designators. FAR, part 42, "Contract Administration," provides that the Government will maintain surveillance of contractor performance as necessary to protect its interests. Contracting officers are responsible for assigning a criticality designator to each contract to show the degree of importance of the supplies to the Government. The designators are "A" for critical and exigency contracts, "B" for contracts to preclude out-of-stock conditions, and "C" for routine contracts. Contract administration offices determine the extent of contractor surveillance based on the designator assigned by the contracting officer. Contracts assigned designator "A" receive intensive surveillance while contracts assigned designator "C" receive the least surveillance.

For 4 of the 28 sample contracts, the supplies contracted for were critically needed and, for 3 of the 4, contracts were awarded without full competition. The contracts were assigned surveillance criticality designator "C," or routine. This

assignment was inconsistent with the Center's determination that the supplies were urgently needed. These contracts should have been assigned a criticality designator of either "A" or "B" so that contract administration personnel would have provided increased surveillance to protect the Government's interests. Two other contracts in our sample were issued without a criticality designator.

Liquidated Damages. FAR, part 12, "Contract Delivery or Performance," provides that liquidated damages clauses should only be used in solicitations and contracts when the time of delivery or performance is such an important factor in the contract award that the Government may reasonably expect to suffer damage if the delivery or performance is delinquent and when the extent of such damage would be difficult to ascertain.

Three contracts in our sample met the FAR criteria for the use of the liquidated damages clauses. The three contracts were awarded without providing for full and open competition using the justification that the Center's need for the materiel was so urgent that any delay in awarding the contract would result in serious injury, financial or otherwise, to the Government. Time of delivery of the materiel was critical, and the amount of damages that the Government would have incurred for late delivery would have been difficult to determine. However, only one of the three contracts contained the liquidated damages clauses. Deliveries under this contract were four months late and no damages had been assessed against the contractor.

Internal Control Program. The Center had established an internal control program to ensure that the procurement process was effectively and efficiently managed. The system included internal control reviews of functional areas, development of a contract review checklist to ensure that procurement files were properly documented, and postaward review of contracts to ensure uniform application of procurement policies and procedures. These controls were not working as intended.

Internal Control Reviews. FMFIA requires Federal managers to implement a comprehensive internal control system to provide reasonable assurance that assets are properly used and programs are effectively and efficiently managed. To implement FMFIA, the Center identified 15 functional areas in its contracting and production division for internal control review by Directorate personnel. Personnel completed two reviews in FY 1988 and started six in FY 1989. We evaluated the two reviews completed in FY 1988 and found that improvements were needed in the documentation used to support the reviews' conclusions and in the implementation of recommendations for corrective action.

The two FY 1988 internal control reviews evaluated the safeguarding of sealed bids and proposals and the review of price negotiation memorandums. In both reviews, the evaluators

concluded that internal controls were adequate and functioning; however, the evaluators recommended that Directorate personnel perform follow-up tests in the two areas to ensure continued compliance with existing procedures. There was no documentation to support the analyses and conclusions reached in the review of the safeguarding of sealed bids and proposals. Office of Management and Budget (OMB) internal control guidelines for conducting internal control reviews provide that adequate documentation should be maintained to provide a permanent record of the methods used, the key factors considered, and the conclusions reached.

The OMB guidelines also provide that a formal follow-up system should be established to track internal control review recommendations to ensure that the recommendations were implemented. The Center had procedures that required implementation of recommendations, but had no follow-up system to ensure that the recommendations were properly implemented on a timely basis. As a result of the review of the safeguarding of bids and proposals, the Center evaluator recommended that a disinterested party perform a periodic review of procedures to prevent unauthorized access to bids and proposals. The periodic review of safeguarding proposals was done by a disinterested party, but the review of safeguarding bids was conducted by the individual responsible for safeguarding the bids. In the review of price negotiation memorandums, the Center evaluator, in August 1988, recommended that periodic follow-up reviews of price negotiation memorandums be done to ensure continued compliance with procurement procedures. A schedule for the periodic reviews was made; however, no reviews had been conducted as of November 1989.

Contract Review Checklist. The Agency's Clothing and Textile Functional Panel identified inadequate documentation in procurement files as a weakness in the Center's procurement process. The Panel report stated that procurement files did not show who made decisions and did not contain justifications for making a particular decision. To correct the condition, the Center developed Center Form 5077, "Contract Review Checklist," for contracting officers to use to preclude the omission of documentation required to support and justify procurement actions. PCO Memorandum No. 177, "Contract Review Checklist, DPSC Form 5077," directs that every contract file must contain the contract review checklist. Only 2 of the 28 contracts that we reviewed contained the required checklist. In May 1989, an Agency procurement management review team also reported that procurement files did not contain the required contract checklist. In response to the review team's report, the Center issued a memorandum in June 1989 to procurement personnel stating that personnel should ensure that the checklist is completed as required. As of December 1989, no controls were established to verify compliance with the PCO Memorandum.

Postaward Contract Reviews. The Agency's Fraud Remedies Unit (Appendix A) suggested in a December 1987 report to the Panel that the Center conduct annual audits of contract files to determine if procurement procedures and regulations were being followed. The Unit stated that the audits could be done by the Directorate of Contracting, which is independent of the Clothing and Textile Directorate where the contract files are maintained. The Unit also suggested that a checklist of specific contracting actions be developed to focus on known areas of past fraud, such as the use of options, waivers, and deviations, and suggested that DoD Handbook 4075.1-H, "Indicators of Fraud," be used in developing such a checklist.

The Center conducted postaward reviews of a few contracts, but we found that the Unit's suggestions for selecting contracts and developing a checklist to focus on past fraud areas were not implemented. In FY 1989, only six contracts valued at $4.1 million were reviewed, and Center personnel involved in the reviews informed us that they were not aware of the Unit's report.

The solicitation phase of two of the sampled contracts involved a fraud indicator described in DoD 4075.1-H. In both contracts, the low bidder, for various reasons, did not receive the award, but later became a subcontractor to the contractor that was awarded the contract. This condition was not identified by Center personnel to determine if additional actions were necessary. We provided the specifics to Center personnel. We believe that the Unit's suggestion to conduct annual audits of contracts, with emphasis on known areas of past fraud, is worthwhile and should be implemented by the Center. Fraud indicators are not an absolute identification of fraud, but should cause DoD procurement personnel to ask questions regarding contractors and, if warranted, refer the matter to an appropriate investigative organization.

Conclusion. Although the Agency and the Center have taken actions to improve the procurement process, controls need to be strengthened to ensure that procurement practices comply with applicable regulations, including the Center's own regulations. DPSC Form 5077 provides an excellent mechanism to determine if procedures are being followed. The Center should ensure that the checklist addresses the problems raised in the audit, and it should establish controls to ensure that the checklist is completed as required.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to:

1. Require that Defense Personnel Support Center Form 5077, "Contract Review Checklist," is properly completed for clothing and textile contracts.

2. Revise Defense Personnel Support Center Form 5077, "Contract Review Checklist," to ensure that:

a. Required coordination and approval reviews are made for procurement actions.

b. The need and rationale for including progress payments and options in solicitations, as required by Procurement Contracting Officer Memorandums 22, 98, 117, and 160 is fully addressed in individual contract acquisition plans.

c. Surveillance criticality designators are properly assigned to contracts.

d. Liquidated damages clauses are included in all appropriate contracts.

3. Purge inactive bidders from bidders' mailing lists.

4. Establish procedures to provide procurement personnel with planned production start dates so that the need for progress payments can be determined.

5. Establish controls to ensure that liquidated damages clauses are properly enforced.

6. Establish controls to ensure that documentation to support conclusions reached in internal control reviews of functional areas is maintained and establish procedures for a follow-up system to ensure that accepted recommendations are promptly and properly implemented.

7. Establish procedures to implement the Defense Logistics Agency's Fraud Remedies Unit's suggestion to conduct annual audits of contracts using a checklist developed from DoD 4075.1-H, "Indicators of Fraud," to focus on known areas of fraud.

8. Revise Defense Personnel Support Center Contracting Policy Manual 4105.7 to include the proposed revisions to the Contracting Policy Manual that were noted on the September 1988 coordination and approval matrix developed by the Defense Personnel Support Center for the Clothing and Textile Functional Panel.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

Management Comments on Recommendation A.1. The Agency nonconcurred with Recommendation A.1. and stated that DPSC Form 5077 is an internal form for use as an administrative guide to facilitate the contract review process. The Form was never intended as a means of indicating internal control weaknesses and should not be used for that purpose.

Audit Response. We disagree with the Agency's comments. The Center's Procurement Contracting Officer (PCO) Memorandum 177, June 21, 1988, "Contract Review Checklist, DPSC Form 5077," requires that a contract review checklist (the Checklist) be completed for all contracts. The Checklist was not completed for 26 of the 28 contracts reviewed. We also disagree with the Agency's comment that the checklist was never intended as a means of indicating internal control weaknesses. The Agency's Clothing and Textile Functional Panel report identified the checklist as a corrective action taken by the Center to preclude the omission of required file documentation that was needed to show the justification for making a particular decision and who made or authorized the decision. We request that the Agency reconsider its position and provide additional comments and completion dates for planned actions when responding to the final report.

Management Comments on Recommendations A.2.a., A.2.b., and A.2.d. The Agency nonconcurred with Recommendations A.2.a., A.2.b., and A.2.d. Regarding Recommendation A.2.a., the Agency stated that "In each case reviewed, intermediate level reviews were excluded in their absence (leave, travel, etc.) but the ultimate approval authority was present on the coordination sheet." Concerning Recommendation A.2.b., the Agency stated that the documentation for including progress payments and options in a solicitation is a function of acquisition planning, and the current acquisition planning procedures effectively address the inclusion of these clauses in solicitations. The contract review checklist is not a procurement planning document and was never intended to be used for that purpose. Regarding Recommendation A.2.d., the Agency stated that the determination to include liquidated damages in contracts is addressed in the acquisition planning process and in Justification and Approval (J&A) documentation, if a J&A is required. The contract review checklist is an administrative guide and is not to be construed as a required form in the acquisition planning process.

Audit Response. We disagree with the Agency's comments. We recognized in the finding that procurement regulations adequately addressed the requirements for coordination and approval reviews, the need and rationale for including progress payments and options in solicitations, and the use of liquidated damages clauses in contracts. However, our audit tests showed that these procedures were not being followed. The intent of our

recommendations was to use the checklist as a control to ensure that these contracting actions were made in accordance with prescribed procedures, not as a procurement planning document. If appropriate, the Agency may propose alternative methods for ensuring that procurement regulations are followed. Regarding the Agency's comments about required coordination and approval reviews, we agree that in certain circumstances personnel will not be available for all required reviews. However, we found that approval signatures were not present for procurement actions in 7 of the 28 contracts reviewed, and there was no documentation in the procurement files to indicate the reason (leave, travel, etc.) why the approvals were not obtained. In addition, the Center did not have a procedure to address situations where personnel were not available for required reviews. We request that the Agency reconsider its position and provide additional comments and completion dates for planned actions when responding to the final report.

Management Comments on Recommendation A.2.c. The Agency partially concurred with Recommendation A.2.c. and stated that the Center will add the surveillance criticality designator to the contract review checklist as a means of ascertaining that this requirement has been considered in the procurement process. Estimated completion date is May 31, 1991.

Audit Response. The Agency's comments and actions are responsive.

Management Response on Recommendation A.3. The Agency partially concurred with Recommendation A.3. and stated that it recognizes the need to purge existing bidders' lists of firms that have no interest in Government contracts. However, the Agency nonconcurred with the concept of specific lists for each Procurement Group Category (PGC) or specification. The Agency stated that the Center switched to generic lists several years ago because the large number of lists for specific items was too restrictive. In addition, generic lists promote access to a broader production base and permit a wide range of firms to consider the Center's solicitations. However, the Agency agreed that those firms who are no longer active bidders will be purged from the bidders' lists. Action was implemented in June 1989 to purge bidders' lists of inactive bidders.

Audit Response. The Agency's comments are partially responsive. We have revised the recommendation to address the Agency's concerns about purging nonresponsive bidders. In addition, since the Agency agreed to purge bidders' lists of inactive bidders, we also deleted the portion of the recommendation that related to maintaining more specific bidders' mailing lists. However, we disagree with the Agency's statement that action was implemented in June 1989 to purge bidders' lists of inactive bidders. An undated Center memorandum, "Purging of

Bidders Lists," states that the project to purge bidders' lists was not started until January 1990. We request that the Agency provide a completion date for the project and also provide details on how the purging will be coordinated among the various procurement branches, when responding to the final report.

Management Comments on Recommendation A.4. The Agency nonconcurred with Recommendation A.4. and stated that production lead times, which are based on industry screening performed by industrial specialists, are already developed as part of the solicitation strategy. At the point that a production lead time is prescribed for a solicitation, it is impossible to know who the successful offeror will be. Production lead time is only one of many considerations when deciding whether to include progress payments in solicitations. Contracting officers must also consider such other factors as personal knowledge of the item and industry, any acute problems associated with past performance, and the impact of small business participation. As a result, contracting officers are making an educated decision whether progress payments are appropriate on a case-by-case basis.

Audit Response. We disagree with the Agency's comments. The comments did not address the issue that procurement personnel were not complying with Center progress payment procedures because they were unclear as to what constituted initiation of actual production. The intent of the recommendation was to establish procedures to provide procurement personnel with information needed to assist them in determining the need for progress payments in solicitations. We agree that production data is only one of the considerations used to evaluate the need for progress payments. However, since the Center has been criticized over the years for the inappropriate use of progress payments, we believe that procurement personnel should be provided sufficient guidance to consider all required information in their evaluation of progress payments. We request that the Agency reconsider its position and provide additional comments and completion dates for planned actions when responding to the final report.

Management Comments on Recommendation A.5. The Agency nonconcurred with Recommendation A.5. and stated that if, for some reason, a late delivery should occur, the appropriate Defense Contract Management Command office is automatically empowered to deduct the damages from payment. No further control is deemed necessary.

Audit Response. We disagree that the appropriate Defense Contract Management Command (DCMC) office is automatically empowered to deduct liquidated damages from payment. Agency Manual 8105.1 "Contract Administration Manual for Contract Administration Services," states that PCO's may delegate the authority for the DCMC to make the determination regarding the

assessment of liquidated damages. Our review of the contract in question noted no specific delegation. In addition, we discussed the contract's liquidated damages clause with the DCMC Administrative Contracting Officer who stated that the PCO was responsible for assessing damages. The procurement file clearly indicated that the contract was delinquent and damages were not assessed. We request that the Agency reconsider its position and provide additional comments and completion dates for planned actions when responding to the final report.

Management Comments on Recommendations A.6., A.7., and A.8. The Agency concurred with Recommendation A.6. and stated that a focal point within the Clothing and Textiles Contracting and Production Division has been established to ensure that internal control reviews and documentation are maintained. Also, a data base has been developed to track internal control reviews, weaknesses, and corrective actions. These actions were completed in March 1990. The Agency concurred with Recommendation A.7. and stated that a checklist of contracting actions that were known avenues of past fraud will be used in annual audits of the Center's contracting elements. Upon approval for, and completion of, fraud awareness training of Center personnel, the initial reviews will commence in October 1990. The Agency concurred with Recommendation A.8. and stated that Center Contracting Policy Manual 4105.7 will be revised in July 1990 to formalize contract action review and approval requirements that were already in effect to ensure that the decision making authority is decentralized.

Audit Response. The Agency's comments and actions are responsive.

B. Acquisition Planning

FINDING

Although the Center had taken significant actions to improve its acquisition planning process, more improvements could have been made. The process that the Center used to select procurements for its annual acquisition plan did not provide assurance that the plan included all major procurements and that the plan was developed early in the fiscal year. The Center was not using information that was available to assist in expanding and diversifying its production base. In addition, the Center needed to provide the Services' specification preparing activities (SPA's) with additional data for the SPA's to prioritize their effort on reviewing military specifications that might have been overly restrictive or that had the potential for being replaced by commercial specifications. These conditions occurred because the Center either did not comply with established procedures or did not establish the needed procedures. Improvements in identifying, planning, and tracking significant procurements and broadening the production base could be achieved with more comprehensive procedures in acquisition planning.

DISCUSSION OF DETAILS

Background. FAR, part 7, "Acquisition Planning," defines acquisition planning as the process by which the efforts of all personnel responsible for acquisition are coordinated and integrated through a comprehensive plan. The purpose of this planning is to ensure that the Government meets its needs in the most effective, economical, and timely manner and to promote and provide for full and open competition. Acquisition planning should begin well in advance of the fiscal year in which contract awards are proposed and should address all the technical, business, management, and other significant considerations that control acquisitions.

The Center had taken a number of significant actions to improve its acquisition planning process. These actions included developing an advanced planning system for proposed contracting actions, establishing a source development office to expand and diversify its production base, and identifying military specifications for review to determine if competition was being impeded because the specifications were overly restrictive or were unnecessary.

Annual Procurement Plan. In July 1988, the Center established Center Manual (DAPM) 88-2, "DPSC Acquisition Planning System (DPAPS)," for an advanced acquisition system for procurement actions executed by the Center. These procedures were applicable to the three commodities managed by the Center, clothing and textiles, medical, and subsistence. DAPM 88-2 was

superseded by Center Manual 4105.8 in August 1989, which provided additional instructions for implementing the system. DPAPS consists of three separate plans: annual, socio-economic, and manufacturing production. Center personnel used the plans to identify, plan, and track Center acquisitions. The annual plan covers major procurement actions proposed by the Center. The socio-economic plan includes all proposed awards identified by the type of business that will be solicited. The manufacturing production plan shows work to be performed by the Center's clothing factory. Specific procurements to be included in DPAPS are to be determined early each fiscal year in order to provide effective planning for the next fiscal year's requirements. Due to the newness of DPAPS, we concentrated our review on the development of the FY 1990 clothing and textile annual plan.

Selection of Items. DAPM 88-2 and Center Manual 4105.8 provide that the Director of the Clothing and Textile Directorate is responsible for ensuring that the annual plan is complete, accurate, and timely and that the plan is fully coordinated with the contracting, supply, technical, and quality divisions. These procedures also provide general guidance for determining the procurements that should normally be included in the plan. The guidance states that procurements for items such as combat boots, chemical suits, certain items issued to recruits, items adversely affected by the clothing and textile fraud investigation, and other items for which the command had expressed interest were candidates for the annual plan. The FY 1990 annual plan was approved by the Center's Executive Director for Acquisition on December 29, 1989, and contained proposed procurements for 66 item groups. Clothing items are managed as procurement group categories (PGC's), combining the various sizes of individual clothing items into a single group.

We evaluated the criteria used to select these 66 PGC's from the approximately 500 PGC's that the Center proposed to procure in FY 1990. We found that the Clothing and Textile Directorate did not have any formal procedures, other than the general guidance in DAPM 88-2, to select PGC's for the plan. The selection was made primarily by the contracting personnel, generally based on their judgment, without formal coordination with, or input from, other clothing and textile divisions. This process was contrary to the provisions of DAPM 88-2 and did not provide the information required to properly select PGC's for the plan or ensure that procurement data in the DPAPS were consistent. We compared the annual plan with the socio-economic plan and found 11 PGC's that were in the annual plan, but not in the socio-economic plan. All PGC's in the annual plan should be in the socio-economic plan.

Deciding which PGC's to include or exclude from the annual plan is subjective and should be made after considering input from the various clothing and textile operating divisions. To provide

greater assurance that the plan is properly developed, the Clothing and Textile Directorate should develop procedures for determining the PGC's that should be in the annual plan. The procedures should provide for a process that integrates inventory, financial, contracting, and technical data in the selection process. Examples of data that we believe should be used in the selection process are shown in Appendix B.

Timeliness of the Plan. The FY 1990 annual plan was not approved until December 29, 1989, 3 months after the start of the fiscal year. For DPAPS to be effective, the annual plan should be approved as far in advance of the procurement year as possible to provide visibility and tracking of major procurements. The Director of Clothing and Textile's initial plan was proposed in June 1989 and included 42 PGC's. The Center's Directorate of Contracting, which is responsible for the development and application of the Center's contracting policy, directed that the plan be reworked because it did not contain all appropriate procurements. As a result, additional time was needed to rework the plan. If the Directorate of Clothing and Textile had more definitive procedures to select PGC's for inclusion in the plan, the planning process would be less time-consuming and more effective.

Expanding the Production Base. In the 5 years preceding the indictments for procurement fraud, the production base supporting clothing and textile procurements was declining. The decline was partially due to restrictive specifications that discouraged potential suppliers from competing for contracts and to contracting award methods that relied almost entirely on price competition. The production base was such that only 10 firms received more than 25 percent of the annual award dollars. The indictments announced in February 1987 and the ensuing contractor debarments and suspensions served to accelerate the decline.

The Center had taken several steps to expand its production base. It developed a source development office to seek out and encourage potential new contractors to compete for contracts. The source development office also monitored the progress of new firms to ensure that producers were not lost due to frustration over procurement procedures. The Center also had a competition advocate office to help broaden the competitive base of items the Center procured. As a result of these efforts, the Center reported that contracts valued at over $130 million were awarded to 30 new contractors. In spite of these efforts, 10 firms received more than 33 percent of the Center's FY 1989 annual award dollars. Twenty-five firms accounted for more than 50 percent of the Center's FY 1989 annual award dollars. We believe additional actions could be taken to further diversify the production base and to increase competition to the maximum extent practical.

Reasons Why Bids Were Not Submitted. Solicitations for sealed bid procurements contain a form for contractors to return to the Center to show why they did not submit a bid. However, the Center had no procedures to analyze the reasons provided on the form to determine if there were problems that could contribute to a limited production base. We reviewed the 241 responses for the 16 contracts in our review that contained forms showing the reasons why bids were not submitted. The categorization of the reasons follows.

Reason	Number of Forms	Percent
Cannot comply with specification	40	17
Cannot meet delivery requirement	36	15
No open production capacity	92	38
Do not regularly make or sell item	73	30
Total	241	

We believe that the Center should accumulate and analyze this type of data to determine if procurement practices should be revised so that more contractors may bid. For example, 38 percent of the contractors responded that their reason for not bidding was that they had no open capacity at that time to produce the items solicited. Further analyses may indicate that the timing of planned acquisitions should be revised.

General Services Administration's Bidders' List. The General Services Administration (GSA) and the Center share procurement responsibility for the same 21 federal supply classes. Similar types of items such as shirts, trousers, etc., are procured. GSA procures these items under various types of specifications, while the Center, for the most part, procures them under military specifications. The Center had no procedures to contact GSA to determine if the GSA bidders' list could be used as a source of data to expand the Center's production base. The Deputy Assistant Secretary of Defense for Procurement, in an April 1989 memorandum, recommended that other Government agencies that acquire comparable goods be contacted to identify additional sources.

GSA had 169 different bidders' lists for the 21 supply classes managed by the Center. The Center solicited some of the vendors on the GSA lists. For example, in a 1988 procurement of a fire resistant trouser, GSA solicited 212 contractors. The Center also procured fire resistant items for the Services. We compared the 212 contractors on the GSA bidders' list to the bidder's list the Center used to procure the trousers and found that only 8 of the 212 GSA contractors were on the Center's list. Procedures to obtain and use the GSA bidders' lists for comparable items would assist in expanding the Center's production base.

Identifying Items Lacking Competition. In April 1989, the Center published a guide listing 87 items that were historically acquired from a single supplier or from a limited number of suppliers. The purpose of the guide was to seek additional sources for these items. The competition advocate's office developed the guide by issuing a data call to the various divisions within the Clothing and Textile Directorate. There was no standardized method or criteria for selecting items for the guide, and 35 of the 87 items were not listed in the socio-economic acquisition plan as having expected procurements in FY 1990. The guide could be enhanced by supplementing the data call with additional information that is available to show items procured with little or no competition. Examples of additional data that were available follow.

DD350 Contract Data. DD350 contract data show items procured with limited competition. For the period October 1988 through April 1989, DD350 data showed that there were 20 contracts awarded where more than 1 contractor was solicited yet only 1 response was received. Only 1 of these 20 items was listed in the guide.

Clothing and Textile Testing Laboratory Records. Records available at the Center's Clothing and Textile Testing Laboratory identified contractor furnished materiel (CFM) that was procured by end item manufacturers from a single supplier. Center standardization reports and backorder analyses identified manufacturer single source procurements of CFM as a cause of backorders. From Laboratory records, we identified cloth for 18 CFM specifications that was purchased by end item manufacturers from a single supplier. None of the 18 cloth items was listed in the guide. Cloth items could be included in the guide to expand manufacturers' sources of CFM.

Specification Management. The Services prepare and maintain military specifications, and changes in the specifications must be approved by the Service responsible for managing the specification. Various review studies have raised concerns over the use of military specifications to procure clothing and textile items and have concluded that some military specifications have impeded competition because the specifications were overly restrictive or should have been replaced by commercial specifications.

The Center had taken initiatives to address the concerns by identifying 55 military specifications that could have been too restrictive and 217 that had the potential for being replaced by commercial specifications. The Center provided the specifications in question to the Service SPA's for their review. However, the Center did not provide the SPA's with the

dollar value of anticipated annual procurements. This information would help the SPA's prioritize their work effort so as to first review the specifications that have the highest payoff.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to:

1. Fully coordinate the annual procurement plan within the Clothing and Textile Directorate, and complete the plan as far in advance of the procurement year as possible, in accordance with Defense Personnel Support Center Manual 4105.8.

2. Establish procedures to provide more specific criteria for selecting procurements for the annual plan.

3. Establish additional procedures to expand the Defense Personnel Support Center's production base to include:

a. Analyzing data provided by contractors in response to solicitations that show why they did not submit a bid.

b. Obtaining the General Services Administration's bidders' lists for comparable items procured by the Defense Personnel Support Center.

c. Enhancing the Defense Personnel Support Center's guide of items lacking competition by including items that have planned procurements, items identified in the DD350 contract data system that were procured with limited competition, and contractor furnished materiel that is provided to end item manufacturers from single source suppliers.

4. Provide the Services' specification preparing activities with the dollar value of expected annual procurements for military specifications that are identified as being possibly overly restrictive or as candidates for replacement by commercial specifications.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

Management Comments on Recommendation B.1. The Agency nonconcurred with Recommendation B.1. and stated that it does not understand the basis for this recommendation. In 1989, the Center implemented an Acquisition Planning System (DPAPS) to provide an innovative corporate effort for effective acquisition planning. Since DPAPS is a new and complicated system, there are still details to be refined and one of the details is to have DPAPS prepared far enough in advance so that it becomes a more effective planning system. Adequate coverage already exists in

the Federal Acquisition Regulation (FAR), the DoD FAR Supplement, and the Defense Logistics Acquisition Regulation 4105.1, which requires advance acquisition planning to include appropriate coordinations. Additional coverage is considered unnecessary and redundant.

Audit Response. We disagree with the Agency's comments. We agree that procurement regulations adequately address the coordination process in acquisition planning. However, we found that the process used to coordinate the selection of items to be included in the annual procurement plan was not in accordance with the regulations. Items were primarily selected by procurement personnel with little, if any, input from supply, quality, or technical personnel. Center personnel outside of the procurement arena generally became involved with the annual plan after items were selected for the plan. The Agency also stated that since the annual plan is a new system, details such as the timeliness of the plan still have to be refined. We recognized the newness of the system in the finding, but we also concluded that one reason why the plan was untimely was because of the lack of coordination in selecting procurements to include in the plan. We request that the Agency reconsider its position and provide additional comments along with completion dates for planned actions when responding to the final report.

Management Comments on Recommendation B.2. The Agency nonconcurred with Recommendation B.2. and stated that DPAPS requires the direct involvement of all functional elements within the Center in the planning process to ensure proper coordination and selection of planned procurements. Specific criteria are stated in the DPAPS planning manual and selection criteria were expanded for the FY 1990 acquisition plan. A system of this magnitude was designed to expand and evolve with experience. This recommendation failed to recognize the effort put forth by the Center in phasing in such an innovative planning initiative.

Audit Response. We disagree with the Agency comments. All appropriate functional elements were not involved in the selection process for the FY 1989 plan. Also, we compared the criteria in the Center's Acquisition Planning System (DPAPS) Manual for the FY 1990 plan with DPAPS Manual criteria used for the FY 1989 plan and found only minor changes from the FY 1989 selection criteria. We agree with the Agency that DPAPS is a significant undertaking. The point of our recommendation was to suggest an action that we feel would enhance the interfunctional undertaking by expanding selection criteria to assist clothing and textile personnel in determining the items to include in the plan. We request that the Agency reconsider its position and provide additional comments along with completion dates for planned actions when responding to the final report.

Management Response on Recommendation B.3.a. The Agency partially concurred with Recommendation B.3.a. and stated that the Center has an aggressive and successful production base expansion program in place that anticipates the Center's needs rather than react to the comments of those who have decided not to participate in a specific acquisition. The purpose of the response form on solicitations is for a prospective bidder to notify the Center that it will not offer at that time, but would like to remain on the mailing list. Comments regarding specifications are referred to the Center's Technical and Quality Divisions for consideration and appropriate action.

Audit Response. The Agency's comments are partially responsive. The Agency stated that the purpose of the solicitation response form is for a bidder to notify the Center that it will not bid on a specific procurement. We found no procedures to describe the purpose or use of the form, however, we see no reason why the Center should ignore data on the form that identify possible problems (specification, delivery schedule, etc.) that might restrict the expansion effort. We agree that the Center has a significant production base expansion program. The intent of our recommendation was to enhance the program by using information provided by prospective bidders that shows why they did not bid on the procurement. We request that the Agency reconsider its position and provide additional comments along with completion dates for planned actions when responding to the final report.

Management Comments on Recommendation B.3.b. The Agency concurred with Recommendation B.3.b. and stated that the Center contacted the General Services Administration (GSA) in April 1990 and requested that GSA include the Directorate of Clothing and Textile in the distribution for its bidders' list for items comparable to those the Center purchases.

Audit Response. The Agency's comments and actions are responsive.

Management Comments on Recommendation B.3.c. The Agency nonconcurred with Recommendation B.3.c. and stated that the Center uses several methods of screening candidates for inclusion in the Center's guide of items lacking competition. The DD350 data base has been used for market research candidates and will be used in the future for the guide of items lacking competition. The Center has gone beyond the traditional techniques presented by this recommendation and has made an aggressive and effective effort to expand and diversify its production base.

Audit Response. Although the Agency nonconcurred, it stated that the Center has used, and will continue to use, the DD350 contract data system to identify items for inclusion in the Center's guide

of items lacking competition. We found no procedures describing how the Center used, or plans to use, the contract data system for this process. The point of our recommendation was to establish procedures for selecting items for the guide. The procedures should enhance the guide and ensure that items with expected procurements are included in the guide. The Agency also did not address the portion of the recommendation that related to including in the guide CFM that is provided to end item manufacturers from single source suppliers. We request that the Agency reconsider its position and provide additional comments along with completion dates for planned actions when responding to the final report.

Management Comments on Recommendation B.4. The Agency nonconcurred with Recommendation B.4. and stated that the Center engages in a continuous dialogue with the SPA's concerning restrictive specifications. Furnishing the dollar values of annual procurements to the SPA's might assist them in prioritizing their efforts; however, supply availability, backorder status, and command priorities of items are equally important considerations. Specification development responsibility of clothing and textile items is being transitioned from the Services to the Center and is expected to result in more effective elimination of restrictive specifications and increased development of commercial product descriptions to satisfy Service requirements.

Audit Response. We agree that supply availability, backorder status and command priorities of items are important considerations. However, we found that the Center did not provide any of these data to the SPA's when the Center initiated a comprehensive project to identify specifications that might be too restrictive or that had the potential for being replaced by commercial specifications. We are also aware of the Defense Management Initiative to transfer responsibility for developing clothing and textile specifications to the Agency. However, we see no reason why the data that the Agency agreed were important to SPAs' work effort along with the planned procurement data should not be provided by the Center. We request that the Agency reconsider its position and provide additional comments along with completion dates for planned actions when responding to the final report.

C. Forecasting Requirements

FINDING

Procedures that the Center used to forecast requirements for clothing and textile items required improvement. Inventory managers adjusted demand and asset data in the Agency's Standard Automated Materiel Management System (SAMMS) in determining requirements forecasts without documenting their rationale for the changes or, if required, updating SAMMS to reflect the changes. Contractor production leadtime estimates that the Center used to compute procurement quantities were not obtained in advance of planned procurements, and Agency actions to improve supply availability unnecessarily increased production leadtime forecasts for some items. Documentation to support inventory managers' changes to prescribed safety level requirements was not maintained, and requirements for first article tests and approvals were included in requirements forecasts without considering the impact on cost or the time of delivery. These conditions occurred because the Center did not comply with existing procedures or did not have the necessary procedures to ensure that requirements were properly forecasted. As a result, there was no assurance that the Center's requirements were forecasted accurately, and some requirements were inflated.

DISCUSSION OF DETAILS

Background. The Center uses SAMMS to manage the clothing and textile commodity and to forecast materiel requirements. SAMMS maintains inventory records and calculates demand forecasts, safety levels, and procurement lead time. Demand and procurement leadtime computations are based on historical data. Inventory managers, because of the number of items managed and the volume of data involved in managing items, need to rely on SAMMS data when determining requirements and making buy decisions. Maintaining the highest possible degree of accuracy in SAMMS data is essential to ensuring requirements forecasts provide for continuity of supply on an orderly and preplanned basis. For the items included in our evaluation of contracting processes, we reviewed procedures used to determine the quantities needed to be procured.

Use of SAMMS Data. SAMMS automatically produces a supply control study when an item's supply status reaches its reorder point. The supply control study shows data used to forecast requirements. Center Staff Memorandum 4140.20, "Supply Control Review," requires that inventory managers review supply control studies, and, if a procurement is required, prepare a demand forecast analysis. The demand forecast analysis is prepared to explain the rationale used to compute the buy quantity and document other pertinent information affecting the inventory managers' action. The completed analysis enables reviewing

officials to determine the adequacy of the proposed procurement. We reviewed the 28 sample contracts to determine if inventory managers used SAMMS data when determining requirements forecasts, and if not, if the inventory managers' rationale was adequate. For 19 of the 28 contracts, the inventory managers who prepared the demand forecast analyses did not retain a copy of the supply control studies, so we could not determine whether the SAMMS data were used or evaluate any changes made. Staff Memorandum 4140.20 requires that the SAMMS studies be retained. Also, General Accounting Office Publication, "Standards for Internal Controls in the Federal Government," requires that transactions be clearly documented and documentation be readily available for examination. These studies should be retained and used as a basis to support individual inventory manager decisions.

For the remaining nine contracts, we could compare the SAMMS studies to the demand forecast analysis. Our comparison found that inventory managers adjusted demand and asset data in SAMMS in determining requirements forecasts without documenting their rationale for the changes or, if required, updating SAMMS to reflect the changes.

Demand Forecast. The Center used two separate SAMMS systems to compute demand forecasts for clothing and textile items: the demand oriented item system and the program oriented item system. The demand oriented item system is used to forecast requirements for issues other than those to recruits. Items issued to recruits as they enter military duty are forecasted under the program oriented item system. Inventory managers did not use the SAMMS demand forecasts in any of nine contracts reviewed, nor did they document their rationale for not using the SAMMS forecasts. In seven of the nine contracts, the demand forecasts used by inventory managers were $3.8 million higher than the SAMMS forecasts, and in the remaining two contracts, the forecasts used were $157,000 lower than the SAMMS forecast. The main reason for the differences was that inventory managers manually computed a straight line average monthly demand while SAMMS provided for a smoothing technique based on a weighted moving average for demand forecasting. Agency Manual 4140.3, "Materiel Management Manual," states that the smoothing technique provides advantages over using averages because smoothing enables the forecast to react to trends in demand. An example of one of the item managers' computations follows.

An item manager computed the requirements for hats by computing a straight line monthly average of the prior years' demands. The monthly demand computed was 112,209 hats. The item manager then added a 10-percent variance to project a monthly forecast of 123,430 hats. SAMMS computed the monthly forecast to be 106,157 hats. The difference between the inventory manager's demand forecast and the SAMMS forecast was 17,273 hats a month or a total of 500,917 hats when applied to the hats' peacetime

acquisition objective of 29 months. The inventory manager's adjustment to the SAMMS forecast increased requirements by $1.5 million. The demand forecast analysis did not provide any rationale to explain why the straight line average and the 10-percent variance were used instead of the SAMMS data.

Assets Due In and On Hand. SAMMS maintains inventory data on assets due in and on hand. Agency Manual 4140.2, Volume II, "Supply Operations Manual," states, in part, that since inventory data influence requirements computations and financial management decisions, it is essential that the data be both accurate and current. We compared SAMMS asset data to asset data used to forecast requirements and found that in some cases, the SAMMS data were inaccurate and in other cases the SAMMS data were not used to forecast requirements.

Three of the nine contracts had assets due in from contracts that were dated as early as 1984. The inventory managers did not consider these due-in quantities, valued at about $600,000, as assets because the due-ins were invalid. We agreed with the decision, but the invalid due-ins should be purged from the SAMMS files. Invalid due-ins overstate assets and result in supply studies not being generated as required. Three contracts had due-ins shown as memorandum entries on the SAMMS supply control studies. The memorandum entries represented previous SAMMS recommended buys that were not acted upon. The value of the memorandum entries was approximately $3.7 million, and the dates of the SAMMS studies that recommended the buys ranged from 14 to 54 days before the studies used in the procurements for the sampled contracts. The demand forecast analyses for the three contracts did not provide any rationale as to why procurement actions were not initiated when the items' reorder points were breached.

Inventory managers did not use SAMMS on-hand asset data to forecast requirements on seven of the nine contracts. On four contracts, assets used in the forecast were $650,000 less than in the SAMMS, and in three contracts the assets used were $177,000 more. Inventory personnel advised us that they updated the SAMMS on-hand asset data subsequent to the SAMMS supply control study to get a more current asset position. This practice could help identify situations where buy quantities should be increased or cut back because of significant unanticipated changes in demands, customer returns, or other factors that were not considered in the forecasts. However, changes to on-hand asset data should not be made because of normal demand issues or due-in receipts because these factors are included in the SAMMS procurement leadtime factors used in developing the SAMMS requirements forecast.

Procurement Lead Time. Procurement lead time is comprised of administrative lead time (ALT) and production lead time

(PDLT). ALT is the interval between the date of the supply control study indicating a need for procurement and the award of a contract to a vendor. PDLT is the interval between the placement of a contract and the receipt of the materiel purchased. ALT and PDLT requirements forecasts represent the amount of materiel needed to support demands during the total procurement lead time. SAMMS maintains a leadtime history file to accumulate data on representative procurements to forecast ALT and PDLT requirements.

Administrative Lead Time. In October 1987, the Center issued an instruction to create a 60-day operating level for clothing and textile items. The purpose of the operating level was to meet Agency mandated goals of 100-percent supply availability and 100-percent safety level on hand for recruit issues. The operating level was added to established administrative leadtime levels used in the requirements computation. From available documentation, we determined that the operating level was used to forecast requirements for 8 of the 28 contract items reviewed. The operating levels ranged from 30 to 60 days and improperly inflated requirements by about $10.8 million for the eight items. In August 1989, the Agency directed that the Center rescind the operating level instruction because the level arbitrarily added time to the SAMMS administrative leadtime forecast and resulted in a premature breach of the reorder points. We confirmed that the Center took corrective action.

Production Lead Time. Agency Manual 4140.2, volume II, provides that PDLT will be mechanically computed in SAMMS. PDLT is computed on a procurement group category and National Stock Number basis. Procurement group category PDLT is used to forecast war reserve requirements. National Stock Number PDLT is used in the SAMMS requirements and recommended buy processes. Inventory managers did not use the SAMMS PDLT to forecast requirements, and procedures for determining PDLT needed improvement.

Center procedures provide that inventory management personnel contact the clothing and textile contracting and production division after it has determined the need for a procurement action to assist in determining PDLT. Contracting and production personnel advised us that they contacted various contractors to find out the number of days it would take the contractors to make initial deliveries. There were no written procedures for contracting and production personnel to follow or that described how the process worked. For our sample contracts, inventory managers generally used the current contractor estimates, not SAMMS data, to forecast PDLT requirements and to determine the contract date for the first scheduled delivery. This practice resulted in SAMMS forecasting requirements and recommending procurement actions based on historical PDLT data while inventory

managers determined requirements and computed procurement quantities based on contractor PDLT estimates. Significant time differences between SAMMS PDLT data and contractor PDLT estimates used to determine PDLT requirements and schedule deliveries can lead to backorders or premature procurements. For example, in one of our sample contracts, the SAMMS PDLT was 225 days, and the PDLT recommended by production personnel and used by the inventory manager to forecast requirements and schedule the initial delivery was 330 days. The 105-day difference represented a period when on-hand assets could be depleted and backorders could occur.

DoD Instruction 4140.55, "Procurement Leadtime for Secondary Items," provides that for secondary items experiencing large annual demands or long PDLT's, DoD Components are encouraged to regularly survey known suppliers for PDLT estimates. The Instruction also provides that the surveys be conducted sufficiently in advance to allow the information to be used in the next buy. The Center should survey contractors in advance of planned procurements and not wait until after SAMMS has determined the need for a procurement action to obtain PDLT estimates. The Center should compare the estimates with SAMMS historical PDLT data, and if significant differences exist, update SAMMS so that future PDLT requirements forecasts and corresponding SAMMS recommended procurement actions would be more timely.

In October 1986, to increase supply availability, the Agency initiated a change in the computation of PDLT. Before October 1986, PDLT was computed to end when 10 percent of the total contract quantity was delivered. The basis for the change was a revised DoD Instruction on procurement lead time. DoD Instruction 4140.55 provides several options for computing PDLT, and the Agency determined that the most appropriate method would be to raise the percentage of contract quantity delivered from 10 to 51 percent. This increase was permitted by the Instruction, but was the maximum lead time that it permitted. Since the new PDLT computation methodology had to be programmed into SAMMS, inventory managers were required to make manual computations to determine requirements. From available documentation, we observed that inventory managers applied the 51-percent guideline in 9 of our 28 sample contracts and, as a result, PDLT requirements increased by $3.9 million.

In November 1988, Agency Manual 4140.2, volume II, was changed to show the revised SAMMS procedures for computing PDLT for individual National Stock Numbers. The computation was based on the SAMMS recommended buy quantity, the date of first delivery, and the delivery schedule, and it did not use the 51-percent guideline. However, the computations for some items still resulted in the maximum lead time permitted by the DoD Instruction. We believe that the Agency should be more selective

in increasing PDLT requirements and only apply the revised leadtime policy to items that are in poor supply position. This type of selective application would be in line with DoD Instruction 4140.55, which states DoD Components shall develop policy and procedural guidelines to achieve the objective of minimizing PDLT. Also, in conjunction with the Defense Management Report initiatives, DoD has targeted procurement leadtime reduction as an area for major improvements, recognizing potential for significant savings if procurement lead times are reduced.

Safety Levels. Center procedures for the establishment and maintenance of safety levels are contained in Staff Memorandum 4140.26, "Safety Level." The safety level is the quantity of materiel required to be available to satisfy requirements in the event of minor interruptions of normal replenishment or unpredictable fluctuations in demand. The Staff Memorandum provides for the use of fixed safety levels that range from 1 month for Government-furnished materiel to 6 months for weapon system items. The Staff Memorandum also provides procedures for item managers to initiate increases or decreases in established safety levels for items having a history of backorders and those in higher procurement value categories. In June 1988, the Center, in an effort to conserve procurement dollars, issued guidelines to reduce safety levels by applying mobilization stocks against safety level requirements. All increases and decreases in the safety levels were required to be justified and documented on a safety level adjustment register. Inspector General, DoD, Report No. 86-061, "Inventory Management of Clothing and Textile Materiel," January 31, 1986, reported that documentation to support variances from prescribed safety level requirements was inadequate.

To determine if safety levels were properly computed, we compared the safety levels used to forecast requirements for the 28 sample contracts to the levels prescribed in the Center's procedures. We found variances on 15 contracts. To determine if the variances were justified, we attempted to analyze the safety level adjustment register, but could not because the register was not maintained. We then reviewed inventory manager files and found documentation to justify variances for 5 of the 15 contracts. Safety level requirements for the remaining 10 contracts were $23.5 million higher than the levels prescribed in Center Staff Memorandum 4140.26. Requirements for all 10 contracts were higher than those in the procedures, and 1 contract accounted for $19.1 million of the $23.5 million. For this contract, the Center had 16 months of mobilization stock on hand, but it did not apply the mobilization stock against the 6-month safety level requirement to reduce the safety level requirements forecast.

First Article Requirements. FAR, part 3, "Contractor Qualifications," provides that first article testing and approval ensures that contractors can furnish a product that conforms to all contract requirements. Testing and approval is appropriate when contractors have not previously furnished the product to the Government. The FAR further provides that before requiring the first article, contracting officers should consider the article's impact on cost or time of delivery and the risk to the Government of foregoing the requirement.

Twenty-one of the twenty-eight sample contracts had first article requirements in the solicitations. The first article requirements were included in the solicitations for all 21 contracts without considering the impact on the procurement leadtime forecast. First article requirements generally increased the solicitation delivery schedule and procurement leadtime forecast because additional time was allotted to produce, test, evaluate, and approve first articles. The additional time increased the procurement leadtime requirements forecasts for the 21 contracts by $24 million. Center personnel advised us that first article requirements were generally included in solicitations because the Center did not know who would receive the awards and it wanted a safeguard to ensure that awardees could furnish an acceptable product. The concern was valid. However, the Center should comply with the FAR and evaluate the impact of first article testing and approval on cost and time of delivery. The necessity of this evaluation is highlighted by the fact that first article requirements were waived in 13 of the 21 contracts and leadtime requirements were not reduced. One example of a first article requirement that was not warranted follows.

The Center awarded a contract to the Federal Prison Industries on January 6, 1989, for 156,000 combat trousers. There was no solicitation because Federal Prison Industries was a mandatory source for the trousers. In evaluating the buy, the inventory manager noted that Federal Prison Industries had a prior contract for the trousers and was delivering them 1 month ahead of schedule. This acceptable performance should have indicated that a first article requirement was not necessary. However, when computing the PDLT requirements, the inventory manager added 60 days, the equivalent of $3.5 million of requirements, for first article submission and testing. The first article submission and testing was waived when the contract was awarded, but the $3.5 million of requirements was not reduced.

PCO Memorandum No. 74, "Waiver of First Article Guidance," provides that contracting officers should attempt to negotiate a price reduction if the Center decides to waive the first article and the bidder fails to include a price reduction for not having to make the first article. Three of the thirteen contracts in which the Government waived first article requirements were

negotiated. None of the three contracts had a reduced bid price for not making the first article, and there was no documentation to indicate that price reductions were negotiated.

Conclusion. We could not evaluate the total impact of the changes made to SAMMS developed requirements because of the lack of complete data for the items reviewed. However, where the information was available, the changes generally increased the quantities being bought. We recognize that the requirements process is complex and that, in many cases, inventory manager adjustments are necessary and appropriate. However, controls are needed to ensure that supporting data are retained, that SAMMS is appropriately updated, and that changes to assets and other elements of the requirements computations are justified and completely documented.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to:

1. Maintain copies of the Standard Automated Materiel Management System supply control studies that recommend procurement actions or that were used by inventory managers in determining buy quantities to provide support for their decisions and enable supervisors to review the adequacy of the decisions.

2. Use Standard Automated Materiel Management System data elements in determining requirements and calculating buy quantities or document the rationale for adjusting the data.

3. Update Standard Automated Materiel Management System requirements data to reflect significant adjustments made when determining requirements and calculating buy quantities, and purge invalid data.

4. Revise procedures for forecasting production lead time to require that industry surveys be conducted prior to planned procurements to estimate production lead time. Standard Automated Materiel Management System historical data should be compared to industry estimates and adjusted, if significant differences exist.

5. Develop procedures to limit the application of the revised production leadtime policy in Defense Logistics Agency Manual 4140.2 to items in a poor supply position.

6. Establish controls to ensure that safety level requirements are computed in accordance with Defense Personnel Support Center Staff Memorandum 4140.26 and that the rationale for any variation from prescribed procedures is properly documented.

7. Develop instructions to consider the impact on cost or time of delivery and the risk to the Government of foregoing first article requirements in solicitations. At a minimum, the procedures should require that inventory managers document their rationale for including the requirements in solicitations.

8. Establish controls to ensure that contracting officers comply with Defense Personnel Support Center Procurement Contracting Officer Memorandum No. 74 and attempt to negotiate a price reduction if the Defense Personnel Support Center waives first article requirements and bidders fail to include a price reduction in their bid for not having to make the first article.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

Management Comments on Recommendation C.1. The Agency concurred with Recommendation C.1. and stated that a policy letter will be issued to the Center requiring that copies of SAMMS supply control studies used in determining buy quantities be maintained for 12 months. Estimated completion date is July 1990.

Audit Response. The Agency's comments and actions are responsive.

Management Comments on Recommendation C.2. The Agency concurred with Recommendation C.2. and stated that of the 18 cases presented to the Center, only 1 case was lacking specific support for the buy decision. The Agency will reiterate to the Center the need to use SAMMS data elements in determining requirements and calculating buy quantities or document the rationale for adjusting the data. Estimated completion date is July 1990.

Audit Response. The Agency's actions are responsive. However, the Agency's comment that only 1 of 18 cases lacked specific support for the buy decision is not germane. The recommendation addresses the 9 contracts reviewed where we were able to compare SAMMS data elements to the Center's demand forecast analysis. We found that Center personnel did not use SAMMS data elements in all 9 contracts, and they did not document their rationale for adjusting the SAMMS data.

Management Comments on Recommendation C.3. The Agency concurred with Recommendation C.3. and stated that the majority of adjustments are due to "dreg-end balances" remaining in the due-in records. This has been a concern since the implementation of SAMMS for clothing and textile items and a system change request was developed in 1984 to correct this problem. However, the change request is in a large backlog of SAMMS system change requests. Estimated completion date is September 1993.

Audit Response. The Agency's comments are partially responsive. The Agency did not address that portion of the recommendation that related to updating SAMMS requirements data to reflect significant adjustments made when determining requirements and calculating buy quantities. We request that the Agency provide additional comments and planned completion dates when responding to the final report.

Management Comments on Recommendation C.4. The Agency nonconcurred with Recommendation C.4. and stated that the Center conducts industry surveys to forecast production lead time as standard procedure. The data gathered are compared to SAMMS historical data, and if there are substantial differences, the lead time for a particular solicitation is adjusted to meet current industry data. Production leadtime studies performed too far in advance of procurements often furnish data that have changed significantly by the time of award. The Center performs leadtime studies within a time frame that is appropriate to properly reflect the conditions and pressures that come to bear upon industry.

Audit Response. We disagree with the Agency's comments. The Center does conduct industry surveys to forecast production lead time (PDLT), but the surveys are generally done after SAMMS has recommended a procurement action. If there are significant differences between historical SAMMS PDLT data and the PDLT estimate, premature procurements or backorders can result because SAMMS recommended procurement actions are based on historical PDLT data while inventory managers determine requirements and compute procurement quantities based on contractor estimates obtained after SAMMS recommended procurement actions. The intent of our recommendation was for the Center to use the PDLT estimation technique that is encouraged in DoD Instruction 4140.55, "Production Lead Time Estimates for Secondary Items." We believe that the technique, which is to survey known suppliers sufficiently in advance of projected procurements so as to allow this information to be used in the next buy, would result in more realistic SAMMS requirements forecasts. This technique does not have to be done for all expected procurements, but should be done for items experiencing large annual demands or those procurements that are identified in the Center's annual procurement plan. We request that the Agency provide additional comments and planned completion dates when responding to the final report.

Management Comments on Recommendation C.5. The Agency nonconcurred with Recommendation C.5. and stated that the calculation of production lead time for clothing and textiles is performed in accordance with DoD Instruction 4140.55. The Agency also stated that the current practice is necessary to prevent items from falling into a poor supply position.

Audit Response. We disagree with the Agency's comments. We recognized in the report that the Center's revised PDLT calculation procedure was in accordance with DoD Instruction 4140.55. However, since the calculation can result in the maximum PDLT permitted by the Instruction, we believe that this policy is contrary to recent Defense Management Report initiatives that have targeted procurement leadtime reduction as an area for major improvement. We believe that the Agency should be more selective in applying the revised PDLT calculation to ensure that PDLT requirements are reduced to the maximum extent practical. We request that the Agency provide additional comments and planned completion dates when responding to the final report.

Management Comments on Recommendation C.6. The Agency partially concurred with Recommendation C.6. and stated that Center Staff Memorandum 4140.26, "Safety Level," is no longer applicable since the Center is undergoing a phased implementation of variable safety level. The variable safety level will eliminate the need for manual safety level adjustments. The first phase will be evaluated by July 1990.

Audit Response. The Agency's comments and actions are responsive.

Management Comments on Recommendation C.7. The Agency nonconcurred with Recommendation C.7. and stated that there is no clear indication prior to the solicitation who will offer or the identity of the ultimate awardee. Thus it would not be possible for the inventory manager to include or delete first article requirements. The requirement to justify the use of first article provisions is prescribed in the Center Contracting Policy Manual and it is specifically identified as a required information element in the Center's Acquisition Planning System. As an alternative to first article testing, the Center is considering the use of product demonstration models to be used as an evaluation factor to determine an offeror's capability to produce an acceptable quality product.

Audit Response. We disagree with the Agency's comments. We agree that the requirement to justify use of first article provisions in solicitations is prescribed in the Center's Contracting Policy Manual. However, we found that Center personnel were not complying with the FAR requirement to evaluate the impact of first article testing and approval on cost or time of delivery. Inappropriate inclusion of first article provisions has a significant financial impact on lead time requirements. We believe that if the Center performs the required evaluations of first article requirements, use of first article requirements in solicitations will decrease. We request that the Agency provide additional comments and planned completion dates when responding to the final report.

Management Comments on Recommendation C.8. The Agency partially concurred with Recommendation C.8. and stated that the Center has revised its procedures to alert contracting officers that a price reduction should be negotiated when such a reduction is in the Government's best interest. Existing review levels will provide controls to ensure that contracting officers negotiate these price reductions as appropriate. Added controls beyond existing reviews are unnecessary. The revised procedures were issued on April 26, 1990.

Audit Response. The Agency's comments and actions are responsive.

MANAGEMENT INITIATIVES TO IMPROVE THE CLOTHING AND TEXTILE PROCUREMENT PROCESS

In response to the procurement fraud investigation at the Defense Personnel Support Center (the Center), the Defense Logistics Agency (the Agency) and the Center implemented several initiatives to improve the management of clothing and textiles and the integrity of the procurement process. Examples of these initiatives follow.

The Agency established a Fraud Remedies Unit (the Unit) at the Center in March 1987. The Unit's primary function was to serve as a central point to receive and review information relating to the fraud investigation, and to recommend remedial actions. The Unit was also tasked to recommend improvements when weaknesses in programs, procedures, or organizations were identified. The Unit issued an interim report to the Agency's General Counsel in December 1987 that identified 16 weaknesses in the procurement process. As of the time of this audit, the final report had not been issued.

The Agency established a Clothing and Textile Functional Panel (the Panel) in September 1987 to consider matters concerning vulnerabilities to fraud in the acquisition of clothing and textiles. The Panel used the Unit's December 1987 report and the input of various Panel members to identify issues and weaknesses that required consideration for possible corrective action. A final report was issued in May 1989, which concluded that "the vulnerabilities that existed which led to the incidents of fraud have been rectified." The conclusion was based, in part, on the following.

- Coordination and approval procedures were in place to ensure that there was no centralized control over contracting actions and decisions.

- A contract review checklist was developed to ensure that contract files contain documentation required to support procurement decisions. In addition, postaward reviews of large purchases are made to ensure uniform application of policies and procedures.

- Education programs have been implemented to ensure that all employees are trained in standards of conduct and fraud awareness, and pertinent information on these subjects was provided to contractors.

A senior executive position, the Executive Director for Acquisition Management, was established to monitor the acquisition process. The Executive Director reports directly to the Center's Commander and has no line authority.

MANAGEMENT INITIATIVES TO IMPROVE THE CLOTHING AND TEXTILE PROCUREMENT PROCESS (Continued)

The Center implemented an acquisition planning system that requires the involvement of key line and staff offices in planning major procurements in a visible and corporate fashion. The system provides for early identification of fiscal, technical, and procurement resources needed and for milestone tracking of specific procurements from inception to contract award.

The Center established a Source Development Office (SDO) to seek out and encourage potential contractors to compete for contracts. Since its inception in February 1988, the SDO has contacted approximately 600 new suppliers of clothing and textile items and the Center has awarded over 40 contracts valued at $130 million to 30 new suppliers.

Organizational and procedural changes were made by the Center to provide for separation of duties and to ensure that personnel are acting within their assigned responsibilities. These responsibilities include contract approval authority, selection of procurement methods, and approval authority for waivers, deviations, and extensions of delivery schedules.

EXAMPLES OF DATA THAT SHOULD BE CONSIDERED IN SELECTING ITEMS FOR THE CLOTHING AND TEXTILE ANNUAL ACQUISITION PLAN

In our opinion, the following data should be considered when identifying and selecting acquisitions to be included in the Directorate of Clothing and Textiles' annual acquisition plan.

The Selective Materiel Management Program. The Selective Materiel Management Program is used in inventory management to identify and group items in order of their importance. This allows for varying management techniques to ensure the most effective and economical use of available manpower and materiel resources. Items are grouped according to their importance to the Defense Logistics Agency and the Services as related to dollar investment, application to vital weapon systems, critical supply status, or other circumstances that require a selective method of management attention. The Program groups items into five categories that range from very important items, which are given the highest degree of management attention possible to ensure optimum results in terms of efficiency, economy, and supply effectiveness, to low value items that can be managed on an exception basis. Of 106 very important items with FY 1990 planned procurements individually exceeding $1 million and collectively totaling $742 million, 69 procurement group categories (PGC's) with planned procurements of $293 million were not included in the annual plan. This Program is an integral part of the Defense Logistics Agency's inventory management program and should be used in selecting items for inclusion in the annual plan.

Budget Data for New Items. The FY 1990 clothing and textile budget showed that $584 million was budgeted for the procurement of 75 new or recently introduced PGC's. Of these, 56 items budgeted for $229 million were not included in the annual acquisition plan. These data should be used in selecting items for the plan since one purpose of the acquisition system is to provide for the early identification and definition of requirements to be filled through procurement. Problems with procurements related to the phase out and introduction of new items were reported in Inspector General, DoD, Report No. 89-083, "Introduction and Phaseout of Clothing Items," June 28, 1989.

Backorder Data. Backorders have a direct effect on supply availability, and supply availability is the most important indicator of the Defense Personnel Support Center's support to the Services. PGC's with the most requisitions on backorder are reviewed weekly to determine the causes for the delays and the potential cures. We analyzed the causes for backorders for 40 PGC's that had been identified in the third quarter of FY 1989 as having the most backorders. Backorders for 32 of the 40 PGC's

were caused by contractor delinquencies, lack of a production base, or quality problems, but only 2 PCG's were included in the plan. These data would help identify acquisitions involving problem items that should be considered for inclusion and tracking in the plan.

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100

IN REPLY REFER TO DLA-CI

01 JUN 1990

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the Audit of Procurement of Clothing and Textiles (Project No. 9SL-0006)

This is in response to your 30 Mar 90 memorandum requesting our comments on the Draft Report on the Audit of Procurement of Clothing and Textiles. The attached positions have been approved by Helen T. McCoy, Deputy Comptroller, Defense Logistics Agency.

23 Encl

for REATHEA E. HOLMES
Chief, Internal Review Division
Office of Comptroller

cc:
OASD(P&L)
DLA-G

FORMAT 1 OF 23

TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

FINDING A: Solicitation, Evaluation, and Award of Procurement Actions
The procurement procedures and internal controls that the Defense Personnel Support Center (the Center) used in soliciting, evaluating, and awarding procurement actions required improvement. Required coordination and approval reviews for procurement actions were not made in 13 of 28 contracts reviewed. Bidder's lists were not properly maintained. Individual contract acquisition plans were not properly prepared, and progress payments were inappropriately included in contracts. Surveillance criticality designators were not properly assigned to all contracts, and liquidated damages provisions were not included in all appropriate contracts. Internal control reviews to implement the Federal Managers' Financial Integrity Act (FMFIA) were not properly performed. Controls established to ensure that procurement files contained adequate documentation to support procurement decisions were not implemented. These conditions occurred because internal controls were not established or were not properly implemented to ensure compliance with DoD, Defense Logistics Agency (the Agency), and Center regulations and procedures. As a result, the Center's procurement practices were not in compliance with established procurement regulations.

DLA COMMENTS: PARTIALLY CONCUR. This finding is a composite of recommendations A 1 thru A 8 which are addressed individually. We agree that some of the recommendations are valid and corrective actions have been initiated as noted. We do not concur, however, with the overall conclusion that clothing and textile acquisition practices are not in compliance with procurement regulations. Concur with the internal control weakness cited, however we do not consider this an Agency material weakness.

DPSC has made a committed total management effort towards the implementation of effective management controls over the acquisition of clothing and textiles and to rebuild an otherwise devastated industrial base for this commodity. We do not believe the draft report adequately reflects these efforts. We further believe, despite discussions with the DoD auditors during the course of this review, that the report recommendations place undue significance on peripheral administrative processes, such as revision of the DPSC Contract Review Checklist, while failing to give comparable recognition to DPSC's achievements in implementing improved acquisition planning procedures, development of improved contracting techniques, and commitment of personnel and resources resulting in significant improvement in the availability of C&T items.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Major Terry A. Love, DLA-PPP, x47936.

DLA APPROVAL: Helen T. McCoy

FORMAT 2 OF 23

TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

RECOMMENDATION A.1.: We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to require that Defense Personnel Support Center Form 5077, "Contract Review Checklist," is properly completed for clothing and textile contracts.

DLA COMMENTS: NONCONCUR. DPSC Form 5077 is an internal form which was recommended by the DPSC Office of Contracting for use as an administrative guide to facilitate the contract review process. It was never intended as a means to indicate internal weaknesses or to detect fraud, waste, and abuse, and should not be used for that purpose.

Nonconcur with the internal control weakness cited for reasons stated above.

DISPOSITION:
[ ] Action is ongoing; Final Estimated Completion Date:
[X] Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Major Terry A. Love, DLA-PPP, x47936.

DLA APPROVAL: Helen T. McCoy

FORMAT 3 OF 23

TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

RECOMMENDATION A.2.: We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to revise Defense Personnel Support Center Form 5077, "Contract Review Checklist," to ensure that:

a. Required coordination and reviews are made for procurement actions.

b. The need and rationale for including progress payments and options in solicitations, as required by Procurement Contracting Officer Memoranda Numbers 22, 98, 117, and 160 is fully addressed in individual contract acquisition plans.

c. Surveillance criticality designators are properly assigned to contracts.

d. Liquidated damages clauses are included in all appropriate contracts.

DLA COMMENTS:

a. NONCONCUR. In each case reviewed, the intermediate review levels were excluded in their absence (leave, TDY, etc.) but the ultimate approval authority was present on the coordination sheet. In one instance, a branch chief signed for the division chief when both the division chief and his deputy were absent.

Nonconcur with the internal control weakness cited for reasons stated above.

b. NONCONCUR. The documentation and rationale for including progress payments and options in a solicitation is a function of the acquisition planning process. The Contract Review Checklist is not a procurement planning document and was never intended to be used for that purpose. DPSC has implemented an Acquisition Planning System (DPAPS) for major procurements and uses Individual Acquisition Plans (IAP) for all contract actions which are not included in DPAPS. The current acquisition planning procedures effectively address the inclusion of Progress Payments and Options in solicitations.

Nonconcur with the internal control weakness cited for reasons stated above.

c. PARTIALLY CONCUR. The Contract Review Checklist is an administrative guide and would not identify the rationale for the proper Criticality Designator applicable to the specific requirement. However, DPSC will add the surveillance criticality designator to the checklist as a means to ascertain that this requirement has been considered in the process.

Concur with the internal control weakness cited, however, we do not consider this an Agency material weakness.

d. NONCONCUR. The checklist is an administrative guide developed to facilitate the contract review process and is not to be construed as a required form in the acquisition planning process. The determination to include "Liquidated Damages" is properly identified as a required informational element in the DPSC Acquisition Planning System (DPAPS). DPAPS requires the Contracting Officer to address the rationale for including Liquidated Damages, the amount of Liquidated Damages, and the basis for such amount. For those items not included in the DPAPS, DPSC addresses Liquidated Damages in the Individual Acquisition Plans and further addresses the issue in the Justification and Approval Documentation if a J&A is required.

Nonconcur with the internal control weakness cited for reasons stated above.

DISPOSITION:
(X) Action is ongoing; Final Estimated Completion Date: 31 May 91
( ) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Major Terry A. Love, DLA-PPP, x47936.

DLA APPROVAL: Helen T. McCoy

FORMAT 4 OF 23

TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

RECOMMENDATION A.3.: We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to develop and maintain more specific bidder's mailing lists (for example, by procurement group category or specification), and purge nonresponsive bidders.

DLA COMMENTS: PARTIALLY CONCUR. We recognize the need to purge existing bidders lists of firms that have no interest in Government contracts. We do not concur however, with the concept of specific lists for each PGC or specification. DPSC switched to generic lists several years ago because the large number of lists for specific items was too restrictive. Capable firms were not solicited because they were on the wrong listing. Business conditions among apparel firms are subject to trends in the fashion market and change rapidly. Generic lists permit a wide range of firms to consider DPSC's solicitations and determine whether current buys fit into their production capacity. Generic lists effectively promote access to a broader base for DPSC.

We nonconcur on purging "nonresponsive" bidders. Since a nonresponsive bid is in fact a response, bidders submitting nonresponsive bids would not be removed. However, those firms who are no longer active bidders will be purged from the bidders lists. Action was implemented in June 1989 to purge bidders lists of inactive bidders.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Major Terry A. Love, DLA-PPP, x47936.

DLA APPROVAL: Helen T. McCoy

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TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

RECOMMENDATION A.4.: We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to establish procedures to provide procurement personnel with planned production start dates so that the need for progress payments can be determined.

DLA COMMENTS: NONCONCUR. Production leadtimes are already developed as part of the solicitation strategy. They are derived from an industry screening performed by industrial specialists. Each firm has its own unique capabilities and learning curve requirements for the specific item being discussed. At the point that a production leadtime is prescribed for a solicitation, it is impossible to know who the successful offeror will be; therefore, an appropriate production leadtime is computed based on all of the responses received as a result of the industry screening. Production leadtime is only one of many considerations in deciding whether to include progress payments in a solicitation. The contracting officer must also consider personal knowledge of the item and industry, any acute problem associated with past performance, the effect on expansion of competition, the impact on small business participation, and the commercial industry business practices. As a result, the contracting officer is making an educated decision whether progress payments are appropriate on a case by case basis.

Nonconcur with the internal control weakness cited for reasons stated above.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Major Terry A. Love, DLA-PPP, x47936.

DLA APPROVAL: Helen T. McCoy

FORMAT 6 OF 23

TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

RECOMMENDATION A.5.: We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to establish controls to ensure that liquidated damages clauses are properly enforced.

DLA COMMENTS: NONCONCUR. Liquidated damages apply to clothing and textile contracts primarily when a premium price has been paid to assure expedited deliveries of supplies. If, for some reason, a late delivery should occur, the appropriate Defense Contract Management Command office is automatically empowered to deduct the damages from payment. No further control is deemed necessary.

Nonconcur with the internal control weakness cited for reasons stated above.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Major Terry A. Love, DLA-PPP, x47936.

DLA APPROVAL: Helen T. McCoy

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TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

RECOMMENDATION A.6.: We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to establish controls to ensure that documentation to support conclusions reached in internal control reviews of functional areas is maintained and establish procedures for a follow-up system to ensure that accepted recommendations are promptly and properly implemented.

DLA COMMENTS: CONCUR. Concur with the recommendation, but nonconcur that this is a material weakness. Independent verification by the DPSC Internal Review Office, which is required for completed internal control reviews, will continue. DLA Regulation 5010.4, Internal Management Control Program, 29 June 1987, has been supplemented by DPSC Sup 1 to DLAR 5010.4, 20 March 1989. In addition to the already established directorate focal point, a focal point within the Clothing and Textiles Contracting and Production Division has been established to ensure that internal control reviews and documentation are maintained. A directorate database has been developed to track internal control reviews, weaknesses, and corrective actions. These actions were completed in March 1990.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Major Terry A. Love, DLA-PPP, x47936.

DLA APPROVAL: Helen T. McCoy

FORMAT 8 OF 23

TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

RECOMMENDATION A.7.: We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to establish procedures to implement the Agency's Fraud Remedies Unit's suggestion to conduct annual audits of contracts using a checklist developed from DoD 4075.1H, "Indicators of Fraud," to focus on known areas of fraud.

DLA COMMENTS: CONCUR. Annual audits of DPSC's contracting elements will be conducted by the DPSC Directorate of Contracting's Review and Compliance Branch. In order to effectively implement annual audits, specific fraud awareness training must be provided to the branch personnel. A checklist of contracting actions that were known avenues of past fraud such as acceptance of waivers, deviations of specifications, options, preaward surveys, etc. will be utilized and follow guidance contained in DoD 4075.1-H, Indicators of Fraud. Upon approval and completion of recommended training, the initial reviews will commence in October 1990.

Concur with the internal control weakness cited, however, we do not consider this an Agency material weakness.

DISPOSITION:
(X) Action is ongoing; Final Estimated Completion Date: 30 Oct 90
( ) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Major Terry A. Love, DLA-PPP, x47936.

DLA APPROVAL: Helen T. McCoy

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TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

RECOMMENDATION A.8.: We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to revise Defense Personnel Support Center Contracting Policy Manual 4105.7 to include the proposed revisions to the Contracting Policy Manual that were noted on the September 1988 coordination and approval matrix developed by the Defense Personnel Support Center for the Clothing and Textile Functional Panel.

DLA COMMENTS: CONCUR. As a result of the DPSC clothing and fraud investigation, the review and approval levels of several supply management and virtually all contracting actions previously retained by the C&T Deputy Director were transferred to other organizational components within the directorate to ensure decentralization of decision making authority. Subsequently, DPSC determined that certain contract actions would be even more effectively monitored by even further diversification. In addition, DPSC decided to implement these actions for all commodity contracting operations within DPSC. Publication in the Contracting Policy Manual formalizes these contract action review and approval requirements already in effect. The formal change, change #23, will be issued in Jul 1990.

Concur with the internal control weakness cited, however, we do not consider this an Agency material weakness.

DISPOSITION:
(X) Action is ongoing; Final Estimated Completion Date: 30 Jul 90
( ) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Major Terry A. Love, DLA-PPP, x47936.

DLA APPROVAL: Helen T. McCoy

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TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

FINDING B: Acquisition Planning. Although the Center had taken significant actions to improve its acquisition planning process, more improvements could have been made. The process that the Center used to select procurements for its annual acquisition plan did not provide assurance that the plan included all major procurements and that the plan was developed early in the fiscal year. The Center was not using information that was available to assist in expanding and diversifying its production base. In addition, the Center needed to provide the Services' specification preparing activities (SPA's) with additional data for the SPA's to prioritize their effort on reviewing military specifications that might have been overly restrictive or that had the potential for being replaced by commercial specifications. These conditions occurred because the Center either did not comply with established procedures or did not establish the needed procedures. Improvements in the procurement of clothing and textiles could be achieved by more comprehensive procedures in acquisition planning.

DLA COMMENTS: PARTIALLY CONCUR. This finding is a composite of recommendations B 1 thru B 4 which are addressed individually. We believe that some of these recommendations are valid and have initiated corrective actions as noted. We cannot concur, however, with the overall conclusion that DPSC has not established comprehensive procedures for acquisition planning. We believe that just the opposite is true and that DPSC's efforts in this area have been extremely well thought out in detail and successfully implemented as the results demonstrate.

Nonconcur with the internal control weakness cited for reasons stated above.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Major Terry A. Love, DLA-PPP, x47936.

DLA APPROVAL: Helen T. McCoy

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TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles
(Project No. 9SL-0006)

RECOMMENDATION NUMBER B.1.: We recommend that the Director, Defense Logistics Agency require the Defense Personnel Support Center to fully coordinate the annual procurement plan within the Clothing and Textile Directorate, and complete the plan as far in advance of the procurement year as possible, in accordance with Defense Personnel Support Center Manual 4105.8.

DLA COMMENTS: NONCONCUR. We do not understand the basis for this recommendation. DPSC embarked on an innovative corporate effort to implement an effective center-wide acquisition planning system in 1989. The DPSC Acquisition Planning System (DPAPS) achieved the desired results and has been under continuous improvement since its inception. Since it is a new system, there are still some details to be refined. One of these is to have it prepared far enough in advance so that it becomes a more effective planning system. This Agency considers that adequate coverage already exists in part 7 of the Federal Acquisition Regulation (FAR), the DoD FAR Supplement and the Defense Logistics Acquisition Regulation (DLAR) 4105.1, which requires advance acquisition planning to include appropriate coordinations. Additional coverage is considered unnecessary and totally redundant. It is a complicated system and still needs refinement. However, this was told up front to the auditors. This plan is provided to the Specification Preparing Activities and a modified version is even made available to Industry. The enclosed charts reflect the intensified planning efforts undertaken by DPSC through DPAPS. The two charts reflect FY 89/FY 90 DPSC planning by total dollars for all contracting elements.

Nonconcur with the internal control weakness cited for reasons stated above.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Major Terry A. Love, DLA-PPP, x47936.

DLA APPROVAL: Helen T. McCoy

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TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-006)

RECOMMENDATION B.2.: We recommend that the Director, Defense Logistics Agency require the Defense Personnel Support Center to establish procedures to provide more specific criteria for selecting procurements for the annual plan.

DLA COMMENTS: NONCONCUR. The DPSC Acquisition Planning System (DPAPS) requires the direct involvement of all functional elements within DPSC in the planning process to ensure proper coordination and selection of planned procurements. Specific criteria are stated in the DPAPS planning manual. In the first year, FY 1989, the criteria were intentionally limited to facilitate a reasonable opportunity to implement such a significant center-wide, interfunctional undertaking. A system of this magnitude, which is a substantial enhancement to the prior individual acquisition plans, was designed to expand and evolve with experience. In FY 1990 the selection criteria was expanded. Ultimately, the DPAPS goal is to plan DPSC's entire large purchase workload. The DPAPS system is effective for its intended purpose and is consistent with DPSC's commitment to continuous improvement of the acquisition planning process. This recommendation failed to recognize the challenge and the effort put forth by DPSC in phasing in such an innovative planning initiative utilizing automation.

Nonconcur with the internal control weakness cited for reasons stated above.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Major Terry A. Love, DLA-PPP, x47936.

DLA APPROVAL: Helen T. McCoy

FORMAT 13 OF 23

TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

RECOMMENDATION B.3.: We recommend that the Director, Defense Logistics Agency require the Defense Personnel Support Center to establish additional procedures to expand the Defense Personnel Support Center's production base to include:

a. Analyzing data provided by contractors in response to solicitations that show why did not submit a bid.

b. Obtaining the General Services Administration's bidder's lists for comparable items procured by the Defense Personnel Support Center.

c. Enhancing the Defense Personnel Support Center's guide of items lacking competition by including items that have planned procurements, items identified in the DD350 contract data system that were procured with limited competition, and contractor furnished materiel that is provided to end item manufacturers from single source suppliers.

DLA COMMENTS:

a. PARTIALLY CONCUR. DPSC has an aggressive and successful production base expansion program in place that anticipates their needs rather than one which reacts to comments of those who have decided not to participate in a specific acquisition. The purpose of the response form on solicitations is for a prospective bidder to notify DPSC that it will not offer at that time, but would like to remain on the mailing list. This is a business decision made at a specific time. It is essential to understand that many circumstances governing negative responses to solicitations are subject to change. They are determined by instability within the retail market and the necessity to provide up to four fashion lines annually. As conditions change, these firms have the potential to become viable offerors. The fact that a firm desires to remain on the DPSC bidder's mailing list is an indication of the depth of the base. DPSC should not adjust planned acquisitions to fit the instability of the commercial marketplace. As some firms fill their open production capacity, others have schedule openings. Comments regarding specifications are referred to the DPSC Technical and Quality Divisions for consideration and appropriate action. They are already working on improving all specifications through commercial practices.

Concur with the internal control weakness cited, however, we do not consider this an Agency material weakness.

b. CONCUR. DPSC has contacted the GSA and requested that it include the Directorate of Clothing and Textiles in the distribution for its bidder's list for items comparable to those DPSC purchases. DPSC will use this data to supplement their mailing list for future solicitations. Contact was made with GSA in April 1990.

Concur with the internal control weakness cited, however, we do not consider this an Agency material weakness.

c. NONCONCUR. Several methods are currently being used to screen candidates for inclusion in the "Hit List." These methods include analysis of DPAPS, Contracting Officer input and the J&A review process. We have used the DD 350 data base for market research candidates and will use it in the future for the "Hit Lists." DPSC has distributed copies of their acquisition plan to industry and to specification preparing activities. Additionally, COMPAD has made intensive research into management of those items requiring competition. Source Development Office, COMPAD, and DPAPS provide DPSC unique, innovative, and effective management tools to execute its acquisition mission, including use of DD 350 data. We understand the issue of this recommendation to be expansion of the C&T production base. To this end, DPSC has gone beyond the traditional techniques presented by this recommendation. In 1988, DPSC established an Office of Source Development within the C&T Directorate's outreach efforts involved contact with more than 2000 firms through industry trade associations and direct contact with more than 600 potential suppliers. This initiative achieved substantial success as evidenced by over 40 new firms, including such industry leaders as Hart, Schafner and Marx, Londontown, Target Sportswear, and Van Huesen on contracts for more than $120 million in C&T items. Without this aggressive and eminently effective effort to redevelop, expand and diversify its production base, DPSC could not have achieved such a remarkable recovery from the devastation of its production base subsequent to the fraud scandal as evidenced by current extraordinarily high supply availability.

Nonconcur with the internal control weakness cited for reasons stated above.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Major Terry A. Love, DLA-PPP, x47936.

DLA APPROVAL: Helen T. McCoy

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TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

RECOMMENDATION B.4.: We recommend that the Director, Defense Logistics Agency require the Defense Personnel Support Center to provide the Services' specification preparing activities with the dollar value of expected annual procurements for military specifications that are identified as being possibly overly restrictive or as candidates for replacement by commercial specifications.

DLA COMMENTS: NONCONCUR. The contracting officers, buyers and technical specialists engage in a continuous dialogue with the Specification Preparing Activities (SPA) concerning restrictive specifications. They also submit items that have potential to be purchased commercially to the SPAs. Furnishing the dollar values of annual procurements to the SPAs might assist them in prioritizing their efforts on these changes; however, we believe that supply availability, backorder status, and command priorities of the items are equally important considerations in decisions to revise specifications. Specification development responsibility for C&T items is currently being transitioned from the Services to DPSC as directed by the Defense Management Review Decision #903. This functional transfer is expected to result in more effective elimination of restrictive specifications and increased development of commercial product descriptions to satisfy Service requirements. Until the transition is completed, DPSC will continue to provide copies of the DPAPS to the SPAs.

Nonconcur with the internal control weakness cited for reasons stated above.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Major Terry A. Love, DLA-PPP, x47936.

DLA APPROVAL: Helen T. McCoy

FORMAT 15 OF 23

TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

FINDING C: Forecasting Requirements. Procedures that the Center used to forecast requirements for clothing and textile items required improvement. Inventory managers adjusted demand and asset data in the Agency's Standard Automated Materiel Management System (SAMMS) in determining requirements forecasts without documenting their rationale for the changes or, if required, updating SAMMS to reflect the changes. Contractor production leadtime estimates that the Center used to compute procurement quantities were not obtained in advance of planned procurements, and Agency actions to improve supply availability unnecessarily increased production leadtime forecasts for some items. Documentation to support inventory managers' changes to prescribed safety level requirements was not maintained, and requirements for first article tests and approvals were included in requirements forecasts without considering the impact on cost or the time of delivery. These conditions occurred because the Center did not comply with existing procedures or did not have the necessary procedures to ensure that requirements were properly forecasted. As a result, there was no assurance that the Center's requirements were forecasted accurately, and some requirements were inflated.

DLA COMMENTS: PARTIALLY CONCUR. We agree that accurate data is essential for SAMMS to function properly. When the inventory manager determines that such data is invalid, judgment must be applied to arrive at a decision that will protect supply support and embody principles of fiscal integrity. The rationale supporting these judgments is documented. In 18 cases cited by the audit, all but one had backup for the buy decision. DPSC procedures do require that decisions made at the team management meetings affecting proposed buys be included in the supply review package. It is at such team meetings that all factors influencing the proposed buy are discussed and considered. The DPSC production element performs leadtime studies within a timeframe appropriate to properly reflect the conditions that bear upon the industry. Studies performed too far in advance of procurements produce data which can change significantly by the time of award. Actions taken which increased production leadtime were done in consonance with Agency guidance for a comprehensive management improvement plan for C&T. Safety level investment is managed on a macro basis through the stratification report in lieu of a detailed safety level adjustment register. We concur that file corrections should always be processed and that documentation to support decisions should be available in the file.

Concur with the internal control weakness cited, however, we do not consider this an Agency material weakness.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: TERRY LOVE, MAJOR, USA, 47936

DLA APPROVAL: Helen T. McCoy

FORMAT 16 OF 23

TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

RECOMMENDATION C.1.: We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to maintain copies of the Standard Automated Materiel Management System supply control studies that recommend procurement actions or that were used by inventory managers in determining buy quantities to provide support for their decisions and enable supervisors to review the adequacy of the decisions.

DLA COMMENTS: CONCUR. HQ DLA will issue a policy letter to DPSC requiring that copies of SAMMS supply control studies used in determining buy quantities be maintained for a period of 12 months.

Concur with the internal control weakness cited, however, we do not consider this an Agency material weakness.

DISPOSITION:
(X) Action is ongoing; Final Estimated Completion Date: 01 Jul 90
( ) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Matt Brussock, DLA-OSA, 46467

DLA APPROVAL: Helen T. McCoy

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TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

RECOMMENDATION C.2.: We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to use Standard Automated Materiel Management System data elements in determining requirements and calculating buy quantities or document the rationale for adjusting the data.

DLA COMMENTS: CONCUR. Our understanding is that 18 cases were presented by the DoD IG auditors at DPSC and that only one case was lacking specific backup for the buy decision. That item was an exigency buy for the Navy man's blue sweater. HQ DLA will reiterate to DPSC the need to use SAMMS data elements in determining requirements and calculating buy quantities or document the rationale for adjusting the data.

Concur with the internal control weakness cited, however, we do not consider this an Agency material weakness.

DISPOSITION:
(X) Action is ongoing; Final Estimated Completion Date: 1 Jul 90
( ) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Matt Brussock, DLA-OSR, 46467

DLA APPROVAL: Helen T. McCoy

FORMAT 18 OF 23

TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

RECOMMENDATION C.3.: We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to update Standard Automated Materiel Management System requirements data to reflect significant adjustments made when determining requirements and calculating buy quantities, and purge invalid data.

DLA COMMENTS: CONCUR. The majority of adjustments are due to dreg-end balances remaining in the due-in records. This has been a major concern since implementation of SAMMS for C&T. Systems Change Request USROH4-022 was developed in 1984 to correct this problem. The systems change has not been afforded a high enough priority to compete for limited systems resources and remains in the large backlog of DLA SAMMS systems changes.

Concur with the internal control weakness cited, however, we do not consider this an Agency material weakness.

DISPOSITION:
(X) Action is ongoing; Final Estimated Completion Date: 01 Sep 93
( ) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Matt Brussock, DLA-OSR, 46467

DLA APPROVAL: Helen T. McCoy

FORMAT 19 OF 23

TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

RECOMMENDATION C.4.: We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to revise procedures for forecasting production leadtime to require that industry surveys be conducted prior to planned procurements to estimate production leadtime. Standard Automated Materiel Management System historical data should be compared to industry estimates and adjusted, if significant differences exist.

DLA COMMENTS: NONCONCUR. The DPSC C&T production element does conduct industry surveys to forecast production leadtime as standard procedure. Current and former manufacturers of the item are screened. If this does not appear to be a significant sample, unsuccessful offerors and firms that make similar products are contacted. The data gathered is presented to the DPSC Supply Operations Division and compared against SAMMS historical data. If there are substantial differences, the production leadtime for a particular solicitation is adjusted to meet current industry data. Production leadtime studies performed too far in advance of procurements often furnish data which has changed significantly by the time of award. The industry that services clothing and textile procurements loads production facilities based on demand from the commercial market. This demand is driven for the most part by retail sales and is subject to a high level of volatility. DPSC performs leadtime studies within a time frame which is appropriate to properly reflect the conditions and pressures that come to bear upon industry.

Nonconcur with the internal control weakness cited for reasons stated above.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Major Terry A. Love, DLA-PPP, x47936.

DLA APPROVAL: Helen T. McCoy

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TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

RECOMMENDATION C.5.: We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to develop procedures to limit the application of the revised production leadtime policy in Defense Logistics Agency Manual 4140.2 to items in a poor supply position.

DLA COMMENTS: NONCONCUR. The calculation of production leadtime for C&T is performed in accordance with DoDI 4140.55. The current practice is necessary to prevent items from falling into a poor supply position.

Nonconcur with the internal control weakness cited for reasons stated above.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Matt Brussock, DLA-OSR, 46467

DLA APPROVAL: Helen T. McCoy

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TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

RECOMMENDATION C.6.: We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to establish controls to ensure that safety level requirements are computed in accordance with Defense Personnel Support Center Staff Memorandum 4140.26 and that the rationale for any variation from prescribed procedures is properly documented.

DLA COMMENTS: PARTIALLY CONCUR. DPSC Staff Memo 4140.26 is no longer applicable since DPSC is currently undergoing a phased implementation of variable safety level (VSL). The new VSL will be mechanically computed and this will eliminate the need for manual safety level adjustments. Evaluation of the first phase and completion of milestone schedule will be accomplished by DLA no later than 01 Jul 90.

Nonconcur with the internal control weakness cited for reasons stated above.

DISPOSITION:
(X) Action is ongoing; Final Estimated Completion Date: 01 Jul 90
( ) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Matt Brussock, DLA-OSR, 46467.

DLA APPROVAL: Helen T. McCoy

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TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

RECOMMENDATION C.7.: We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to develop instructions to consider the impact on cost or time of delivery and the risk to the Government of foregoing first article requirements in solicitations. At a minimum, the procedures should require that inventory managers document their rationale for including the requirements in solicitations.

DLA COMMENTS: NONCONCUR. There is no clear indication prior to solicitation who will offer or the identity of the ultimate awardee, thus it would not be possible for the inventory manager to make an appropriate decision whether to include or delete first article requirements. Waiver of first article is a determination which must be retained by the contracting officer with the advice of quality specialists. Further, the requirement to justify the first article is clearly prescribed in the DPSC Contracting Policy Manual and it is specifically identified as a required information element in the DPAPS. As an alternative to first article testing, DPSC is presently exploring the use of product demonstration models. The product demonstration model will be used as an evaluation factor to determine an offeror's capabilities to produce an acceptable quality product as well as to ensure the offeror's understanding of the product being procured.

Nonconcur with the internal control weakness cited for reasons stated above.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Major Terry A. Love, DLA-PPP, x47936.

DLA APPROVAL: Helen T. McCoy

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TYPE OF REPORT: AUDIT DATE OF POSITION: 01 Jun 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Procurement of Clothing and Textiles (Project No. 9SL-0006)

RECOMMENDATION C.8.: We recommend that the Director, Defense Logistics Agency, require the Defense Personnel Support Center to establish controls to ensure that contracting officers comply with Defense Personnel Support Center Procurement Contracting Officer Memorandum No. 74 and attempt to negotiate a price reduction if the Center waives first article requirements and bidders fail to include a price reduction in their bid for not having to make the first article.

DLA COMMENTS: PARTIALLY CONCUR. DPSC has reviewed PCO Memorandum No. 74. DPSC has revised this memo to alert the contracting officer that a price reduction should be negotiated when such reduction is in the best interest of the Government. Each contracting officer must make this independent determination and annotate the files accordingly. Recommendation is to "Establish Controls." Existing levels of review will provide these controls to assure that contracting officers negotiate these price reductions as appropriate. Added controls beyond existing reviews are unnecessary. Contracting officers are aware of the need to make the decision. See attached copy. The revised memorandum was issued 26 April 1990.

Concur with the internal control weakness cited, however we do not consider this an Agency material weakness.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None.
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

ACTION OFFICER: Major Terry A. Love, DLA-PPP, x47936.

DLA APPROVAL: Helen T. McCoy

SUMMARY OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1. through A.8.	Program Results and Internal Control. Implementing these recommendations will improve procurement practices and provide controls to ensure compliance with procurement regulations.	Undeterminable monetary benefits. Benefits associated with compliance to regulations are not readily measurable.
B.1. through B.4.	Program Results and Internal Control. Implementing these recommendations will enhance the acquisition planning process and increase competition.	Monetary benefits not quantifiable. Improved management of acquisitions and diversification of production base.
C.1. through C.8.	Economy and Efficiency and Internal Control. Implementing these recommendations will improve the accuracy of requirements forecasts and compliance with regulations.	Monetary benefits not quantifiable. More realistic and accurate requirements forecasts.

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Office of the Assistant Secretary of Defense (Production and Logistics), Washington, DC

Defense Logistics Agency

Headquarters, Defense Logistics Agency, Cameron Station, VA
Defense Personnel Support Center, Philadelphia, PA
Defense Contract Administration Services Region, Philadelphia, PA
Defense Contract Administration Services Management Area, Philadelphia, PA

Other

Defense Criminal Investigative Service, Chester, PA
Headquarters, U.S. Marine Corps, Quantico, VA
Army and Air Force Exchange Service, Dallas, TX
General Services Administration, Fort Worth, TX

AUDIT TEAM MEMBERS

Donald E. Reed, Director, Logistics Support Directorate
Charles F. Hoeger, Program Director
Terrance Wing, Project Manager
John McCue, Team Leader
John Patterson, Team Leader
Philomena Gentile, Auditor
Francis Mitros, Auditor

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Department of the Army

Auditor General, U.S. Army Audit Agency

Department of the Navy

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Auditor General, Air Force Audit Agency

Defense Logistics Agency

Director, Defense Logistics Agency
Director, Defense Contract Audit Agency
Director, Defense Logistics Studies Information Exchange
Commander, Defense Personnel Support Center

Non-DoD

Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Ranking Minority Member, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations