Audit Report

OFFICE OF THE INSPECTOR GENERAL

CONTROLS OVER TOBACCO PRODUCTS AT SELECTED COMMISSARY STORES

Report No. 94-044

February 24, 1994

Department of Defense

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Acronyms

DeCA	Defense Commissary Agency
SAVES	Standard Automated Voucher Examination System

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

February 24, 1994

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY

SUBJECT: Audit Report on Controls Over Tobacco Products at Selected Commissary Stores (Report No. 94-044)

We are providing this report for your information and use. It discusses issues related to the accountability for tobacco products at 11 commissary stores. The audit was conducted as part of our audit of the Fiscal Year 1993 Financial Statements for Defense Commissary Agency Operations (Project No. 3LA-2002). Your comments on a draft of this report conformed to the requirements of DoD Directive 7650.3, and no additional comments are required; however, if you wish to provide further comments, please provide them by March 28, 1994.

The courtesies and cooperation extended to the audit staff are appreciated. If you have any questions on this report, please contact Mr. Robert J. Ryan at (703) 692-3457 (DSN 222-3457) or Mr. Walter R. Loder at (703) 692-3387 (DSN 222-3387). Copies of this report will be distributed to the organizations in Appendix C. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 94-044
Project No. 3LA-2002.04

February 24, 1994

CONTROLS OVER TOBACCO PRODUCTS AT SELECTED COMMISSARY STORES

EXECUTIVE SUMMARY

Introduction. This report is being issued as part of our audit of the Fiscal Year 1993 Financial Statements for Defense Commissary Agency Operations (Project No. 3LA-2002). The report discusses issues related to the accountability of tobacco products at 11 commissary resale stores.

Objective. The objective was to determine if the recording of the purchases and sales of tobacco products was accurate. We also determined if the inventory on hand at the time of our physical inventory counts matched the inventory amounts shown in the store inventory records.

Audit Results. Commissary managers were not exercising satisfactory management accountability and control over tobacco products. As a result, of the 11 stores we visited, 4 could not account for a $180,000 inventory variance (loss) of tobacco products over a 7-month period and 3 stores without beginning inventory balances had recorded receipts that exceeded tobacco product sales by $125,000. If inventory levels remained relatively stable, greater receipts than sales could indicate loss, theft, or pilferage of inventory (Finding A).

The commissaries were not entering receipt information on tobacco products into the bill paying system in accordance with the time requirements established in Defense Commissary Agency (DeCA) policy. The late entry of receipts could result in DeCA making late payments to vendors, including interest expense (Finding B).

Internal Controls. Internal controls were not effective to safeguard tobacco products against loss, theft, damage, and waste. See Part I for a description of the internal controls assessed and Part II, for details on the material weaknesses.

Potential Benefits of Audit. The audit identified no quantifiable monetary benefits. However, implementation of the recommendations in this report will improve DeCA's accounting and control over tobacco products (see Appendix A).

Summary of Recommendations. We recommended that DeCA implement specific directives to strengthen internal controls, calculate the allowable inventory tolerance separately for tobacco products, enforce security directives, and direct the monitoring and periodic reporting on the prompt input of receipts into the bill paying system.

Management Comments. The Director, DeCA, agreed to enforce security directives and direct the monitoring and periodic reporting of receipt input into the bill paying system. The Director partially agreed to strengthen internal controls and separately calculate the inventory tolerances for tobacco products. The Director proposed a

6-month test of alternative procedures for tobacco accountability, after which time, an evaluation would be made of the effectiveness of the new controls. A discussion of the DeCA comments is in Part II and the complete text of the comments is in Part IV.

Audit Response. The DeCA's response is acceptable and meets the intent of the recommendations. Therefore, no further response is required. We will review the results of the test proposed by the Director, DeCA, and determine whether additional recommendations are required.

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This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Introduction

Background

The Defense Commissary Agency (DeCA) purchases name brand grocery items and resells them to authorized patrons at prices approximating cost. The goal of the commissary store is to provide grocery, meat, and produce items to its authorized customers at a 25-percent savings over items available in the private sector. The grocery department accounts for about 79 percent of total commissary store sales dollars, while meat and produce account for about 21 percent. Included in grocery items are tobacco products that account for 9.2 percent of the total commissary store sales. Tobacco products include cigarettes, cigars, snuff, and chewing tobacco. The selling price for tobacco products does not include any state excise taxes. During FY 1992, tobacco product sales were an estimated $566 million.

Objective

The objective was to determine if the recording of the purchases and sales of tobacco products was accurate. We also determined if the inventory on hand at the time of our physical inventory counts matched the inventory amounts shown in store inventory records.

Scope and Methodology

We performed this financial related audit from March 15 through April 15, 1993, in accordance with financial 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. On March 15 and 16, 1993, we conducted unannounced inventory counts of tobacco products at 11 commissary stores. The organizations visited or contacted are listed in Appendix B. The 11 stores visited were judgmentally selected from DeCA's northeast, southern, and central region commissary stores based on reported tobacco product sales volume. We reviewed DeCA's purchase (receipt) and sales data for tobacco products in the commissary accountability records from the date of their physical inventories conducted in the summer of 1992 or from October 1, 1992, if a physical inventory was not conducted in the summer of 1992. We reconciled our inventory counts to the

receipts and sales data for each store to determine the amount of inventory gains or losses. The data obtained at the stores was compared to the Standard Automated Voucher Examination System (SAVES) receiving report data obtained from DeCA's East Service Center in March 1993. Our limited testing of the SAVES processing system as it pertained to tobacco products accountability, suggested that the SAVES data were less than reliable as discussed in Other Matters of Interest on page 4.

Our audit scope at four commissary stores, Langley Air Force Base, Hampton, Virginia; Fort George S. Meade, Odenton, Maryland; United States Military Academy, West Point, New York; and Fort Belvoir, Alexandria, Virginia, was limited because an accountable inventory of tobacco products had not been taken within the preceding year. We could not quantify inventory gains and losses for the four stores.

Internal Controls

Controls Assessed. We evaluated internal controls applicable to compliance with laws, regulations, and procedures for controlling inventories. Specifically, we reviewed the ordering, receiving, sales, and accounting procedures practiced by DeCA for tobacco products resale stocks. We also reviewed physical security controls and controls for entering receiving information at the stores into the bill paying system.

Internal Control Weaknesses. The audit disclosed material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Internal controls were not effective to ensure the safeguarding of tobacco products as required by DeCA directives and to ensure that merchandise receipts were input into the bill paying system within established time limits (see Findings A. and B. for details). The audit identified no quantifiable monetary benefits. All recommendations, if implemented, will correct the identified material internal control weaknesses. A copy of the final report will be provided to the senior official responsible for internal controls within the Office of the Secretary of Defense and DeCA.

The internal control weaknesses discussed in this report were not identified by DeCA's Federal Managers' Financial Integrity Act program because DeCA had just begun to implement the Federal Managers' Financial Integrity Act at the commissary level at the completion of our field work on April 15, 1993. DeCA has directed that the commissaries complete the Federal Managers' Financial Integrity Act checklists by October 1, 1994.

Prior Audits and Other Reviews

This is the first audit on DeCA's management of tobacco products.

Other Matters of Interest

Receiving reports for tobacco products, totaling $23,746.77, were entered into computer systems at the store level but were not posted into the SAVES bill paying system at the DeCA East Service Center. We compared the receiving documents and computer printouts obtained from the stores with the information in SAVES and determined that the eight receipts were not entered into SAVES. Procedures and records reviewed at the stores indicated that the stores input the merchandise receipt data into their computer system properly; however, the data were not automatically transmitted and entered into SAVES. We could not determine why the receipts were not entered into SAVES. If a receiving report is not entered into SAVES, payment of a vendor's invoice will be delayed until action is taken to confirm the receipt of the merchandise.

Part II - Findings and Recommendations

Finding A. Controls Over Tobacco Products

Commissary store managers were not exercising satisfactory management accountability and control over tobacco products. The condition occurred because of inadequate guidance for controlling tobacco products, the inclusion of tobacco product losses in the total grocery department inventory loss tolerance calculation, and incomplete implemention of the DeCA loss prevention and security program. As a result of 11 stores reviewed, 4 could not account for a $180,000 inventory variance (loss) of tobacco products over a 7-month period, and 3 stores without beginning inventory balances had recorded receipts that exceeded tobacco product sales by $125,000. If inventory levels remained relatively stable, greater receipts than sales could indicate loss, theft, or pilferage of inventory.

Background

DoD Manual 7220.9-M, "DoD Accounting Manual," requires that physical counts of inventory be designed to provide a reasonable assurance that property records accurately reflect on-hand quantities. DeCA Directive 40-5, "Grocery Department Operations," describes DeCA policies and procedures for controlling grocery department inventories. DeCA Directive 40-1, "Commissary Operating Policies," chapter 12, paragraph 12-8 describes the method to be used for calculating allowable inventory losses. The Directive states, "The authorized variance for grocery accountability for CONUS stores is sixty-five hundredths of one percent (.0065). . . . gain or loss for total department sales for accountable inventory periods or any period between formal accountability inventories." The dollar amount is calculated by multiplying the gain or loss factor (.0065) by the total grocery department sales since the last official inventory count. Tobacco products are considered part of the grocery department.

DeCA Directive 40-19, "Operations Security Program," states, ". . . the DeCA loss prevention and security program is to ensure adequate security requirements for safeguarding resources are established and maintained at all facilities." The overall objective of the program is to reduce loss, theft, damage, and waste of DeCA resources. The Directive requires that commissary officers designate in writing a primary and alternate key custodian to monitor the issuance and control of accountable keys, locks, and seals and unescorted access into sensitive storage areas, such as the tobacco products storeroom. The unescorted personnel are to receive specifically numbered accountable keys, locks,

and seals on a temporary or permanent basis as determined by need. The Directive requires the DeCA Director of Operations and regional management to monitor the security program.

For any extended period, the total value of receipts should be about the same as the total value of sales for any given product since DeCA sells items at prices approximating cost. The dollar value of any differences can usually be explained by an increase or decrease between beginning and ending inventory balances for any given product. DeCA financial records, however, did not separately record and report inventory values for individual products; rather, the total dollar value of inventory was separately recorded for the grocery, meat, and produce departments.

Significant variances existed between the physical inventory count and accountable records at 9 of the 11 commissary stores we visited. We attributed this variance to inadequate guidance, inappropriate inventory loss tolerance calculations, and inadequate implementation of the loss prevention and security program, as discussed below.

Guidance for Tobacco Products

DeCA issued inadequate guidance for controlling tobacco products. DeCA Directive 40-5 does not provide specific guidance for store managers to follow in accounting for and controlling tobacco products. Chapter 6, "Tobacco Products" is less than one page long and is not detailed. Paragraph 6.4. of the Directive states, ". . . region directors/store managers may require a tobacco inventory when grocery losses in the previous accountability inventory exceeded 0.65 of one percent and tobacco products are suspected of having contributed to the loss, or when tobacco accountability is suspect." The Directive does not require specific control procedures for tobacco products, such as the taking of physical inventories at specified intervals and the reconciling of results to the accountability records.

Of the 11 stores we visited, 7 performed daily, weekly, or monthly counts of the cartons of cigarettes on hand. The remaining four stores had not documented physical inventories taken, including the counting of tobacco products, since DeCA's establishment in October 1991. None of the stores we visited had reconciled the physical counts of cigarette inventories with the store records of receipts, inventory of tobacco products on hand, and sales to determine whether a reportable gain or loss had occurred. A reconciliation of the observed inventory to the formal accountability records is the only way to

determine the actual gains or losses. Gains mean that the physical inventory counts exceeded the calculated or book values and losses mean that physical counts were less than the calculated book values.

Gain or Loss Tolerance Factor

The gain or loss of tobacco products was not given adequate management visibility. The gains or losses for tobacco products were not required to be separately calculated or reported; but were included in the allowable gain or loss tolerance calculation for the total grocery department. The allowable gain or loss was calculated whenever a formal physical inventory was taken. The allowable gain or loss tolerance is the amount a physical inventory count may differ from actual store accountability records without the performance of additional research to identify the reason for the variance.

Tobacco product items account for about 125 (1 percent) of the 12,000 grocery line items sold in a typical commissary store. However, tobacco products are a high dollar value item, are highly pilferable, and account for an average of 9.2 percent of DeCA's $6.2 billion in store sales in FY 1992. For one commissary store in our review, tobacco products accounted for about 20 percent of the store's total sales. Including tobacco products in grocery department sales for allowable gain or loss calculations does not provide adequate visibility of tobacco product gains or losses. Since tobacco products typically account for 9.2 percent of sales, gains and losses on tobacco products can be masked by the thousands of lower dollar grocery items bought and sold.

Loss Prevention and Security Program

DeCA's commissary managers were not fully implementing the DeCA loss prevention and security program. Tobacco product inventories at some commissary stores were, at times, unattended and unsecured. Unescorted and unauthorized personnel were allowed to go into secured areas including the tobacco products storeroom, and key issuance logs were not controlled or maintained. Of the 11 commissary stores we visited, none were complying with all provisions of the security program.

The Director of Operations and Regional Directors are required to ensure that the security program is working. The Director of Operations' responsibilities include conducting periodic staff assistance visits. The regional directors are required to monitor the development and implementation of the loss prevention

program at commissary stores. The DeCA Inspector General and the Safety, Security and Administration office under the Chief of Staff are responsible for periodically informing the Director on the effectiveness of the DeCA loss prevention program at the commissary stores. At the stores we visited, there was no evidence to show that the region or the DeCA headquarters personnel were monitoring the loss prevention and security program.

Unsecured Products. During our 1-week visit to each store, we noted that individual commissary stores were allowing tobacco products to be left unattended or unsecured from 2 hours to 3 days. For example, at one commissary store, 11 cases of tobacco products were delivered and left unsecured outside the tobacco storeroom for 3 days. At another store, loose cigarette packs were kept in the commissary store manager's desk for an undetermined length of time. We also noted broken locks on a cigarette carousel and the absence of anti-shoplifting devices, such as mirrors, in the stores we visited.

Unescorted and Unauthorized Personnel. Unescorted and unauthorized personnel were allowed access to sensitive storage areas. According to DeCA Directive 40-19, access to sensitive storage areas is to be limited to authorized individuals or visitors with appropriate escort. At three commissary stores, vendors were allowed into the tobacco products storeroom unescorted and in one case, the vendor did not relock the storage room door. At another commissary store, unauthorized commissary personnel were allowed in the tobacco storeroom unescorted.

Key Issue Log. DeCA Directive 40-19 requires commissary stores to maintain key issue logs. However, the Directive was not followed. One commissary store did not maintain a key issue log, and other commissary stores issued keys to individuals whose names did not appear on the authorized personnel list. One commissary store allowed at least 17 people from the administration and control section of the commissary store to access the tobacco storeroom without maintaining a key issue log for them.

Pilferage and Damage. Of the 11 commissary stores we visited, 2 acknowledged that a pilferage problem existed. One commissary store had approximately 15 boxes of broken and damaged cigarette cartons in the tobacco storeroom at the time of our visit. Another commissary store had approximately 81 cartons of cigarettes with packages missing. Cigarette cartons with packages missing indicate pilferage.

Tobacco Products Losses

About $180,000 of tobacco products at four stores over a 7-month period could not be accounted for, yet the commissary stores had not reported any inventory losses during this period. DeCA stores did not separately record the inventory book values for tobacco products. Accordingly, we calculated the expected inventory book values based on the beginning inventory, receipts, and sales for the period of our audit, and compared the calculated value to the results of our physical inventories. Table 1. shows the tobacco products inventory variance (gain or loss) we identified at 7 of the 11 commissary stores.

Table 1. Inventory Variance

Store	Gain	Loss
Seymour-Johnson AFB*	$ 2,821	-
McGuire AFB*	30,634	-
Hanscom AFB*	34,985	-
Fort Bragg	-	$ 32,912
Cameron Station	-	44,916
Fort Jackson	-	45,344
Walter Reed Army Medical Center		56,788
Total Gain or Loss	$68,440	$179,960

* AFB = Air Force Base

Three of the commissary stores had tobacco products gains totaling $68,440 and four commissary stores had tobacco products losses totaling $179,960. Had procedures been in place, DeCA management would have been alerted to the gain or loss for tobacco products at the seven commissary stores. The stores with tobacco product losses did not have reportable inventory losses because guidance did not require a separate calculation and reporting of tobacco product losses. For example, at one commissary store, the allowable loss for the grocery department would be about $173,000 for the period we reviewed. If tobacco products were separately calculated and reported the allowable loss would have been $22,900.

Receipts Versus Sales

Four commissary stores did not record beginning inventory balances for tobacco products. Additionally, physical inventories had not been taken within 2 years.

At three of the four stores, receipts of tobacco products exceeded tobacco product sales by over $125,000 for the 5-month period we reviewed. Table 2. shows the variance between receipts and sales at the four commissary stores.

Table 2. Tobacco Products

Store	Receipts	Sales	Difference
Langley AFB*	$2,875,174	$2,844,080	$ 31,094
Fort Meade	2,645,174	2,571,937	73,237
Fort Belvoir	1,839,573	1,818,434	21,139
Subtotal			125,470
United States Military Academy	1,012,878	1,019,720	(6,842)
Total			$118,628

*AFB = Air Force Base

Greater receipts of inventory than sales should have resulted in increased ending inventory, while greater sales than receipts should have resulted in a decreased ending inventory. Although we inventoried the tobacco products on hand at the time of our visit to the four commissary stores, we did not have a beginning inventory balance to use in calculating the expected ending inventory book value or whether the inventory level of tobacco products had remained the same, decreased, or increased. The beginning and ending inventory levels at five of the other seven commissary stores did not increase or decrease significantly. Because the inventory levels have remained relatively stable, we believe that over $125,000 of inventory could not be adequately accounted for. Greater receipts than sales could indicate loss, theft, or pilferage of inventory.

Although the results of our test suggest the existence of tobacco product inventory variances, commissary personnel could not provide documentation explaining the differences.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, Defense Commissary Agency, write and implement specific policies and procedures for the control of tobacco products inventories. The procedures should require at least quarterly physical inventories of tobacco products, the reconciliation of the physical inventory counts to receipt and sales data, and provide for a separate

allowable inventory gain or loss tolerance for tobacco products at each store, against which actual gains and losses would be measured and reported.

Management Comments. The Director, DeCA, partially concurred with the recommendation, stating that specific policies and procedures are already in existence for control of tobacco products. DeCA is establishing additional guidelines and procedures to test a monthly tobacco accountability for a 6-month period starting in February 1994. The test results will be reviewed upon completion and DeCA will decide by October 1, 1994, whether to continue the program.

Audit Response. DeCA's response is acceptable. We plan to review the test results at the end of the test period.

2. We recommend that the Director, Defense Commissary Agency, require all commissary officers to adhere to Defense Commissary Agency Directive 40-19, "Operations Security Program," and to properly secure tobacco products at all times, and require regional directors to periodically monitor security for tobacco products at commissary stores.

Management Comments. The Director, DeCA, concurred with the recommendation, stating that DeCA Directive 40-19 requires commissary officers to adhere to the directive and be responsible for the protection of resources within their area of responsibility. Region personnel will monitor commissary operations to ensure that DeCA security requirements are being followed.

3. We recommend that the Director, Defense Commissary Agency, require the Inspector General and the Safety, Security and Administration Office to periodically review and report on the commissary stores' compliance with Defense Commisary Agency Directive 40-19.

Management Comments. The Director, DeCA, concurred with the recommendation, stating that the DeCA Inspector General and the Safety, Security, and Administrative office will continue their reviews. During future quality assessment visits, added emphasis will be placed on the commissary stores' compliance with controls for sensitive items, per DeCA Directive 40-19.

Finding B. Receipt Input Into SAVES

The commissary stores were not entering receipt information on tobacco products into the Standard Automated Voucher Examination System (SAVES) in accordance with the time requirements established in DeCA policy. The condition occurred because commissary store managers were not making the input of merchandise receipts into SAVES a priority. Late entry of receipts could result in DeCA making late payments, thus incurring interest expense.

Background

SAVES is DeCA's automated bill paying system. Receiving clerks at the commissary stores enter receipts of merchandise into the stores' computer systems for transmission to the SAVES. The service centers enter vendors' invoices into SAVES. SAVES is used to authorize payments to vendors based on the matching of an invoice with a receipt. The commissary stores must input the receipt information into SAVES within a required time period in order for a payment to be made in accordance with the Prompt Payment Act of 1982.

DeCA's general categories of merchandise receipts are daily and biweekly roll-ups. Tobacco product deliveries are considered daily receipts. A July 15, 1992, memorandum from the Deputy Director of DeCA requires daily receipts to be input into SAVES within 24 hours after receipt of the merchandise. Commissary store officers or their designated representatives must ensure that receipts are processed as required.

Receipt Processing

From July 1992 to March 1993, the average time to input a tobacco products receipt exceeded the required 24 hours at the 11 stores we visited. The average number of days it took commissary stores to input receipts of tobacco products into the commissary store computer system for transmission to SAVES are in Table 3.

Table 3. Inputting Receipts

Store	Average Days
Langley AFB*	4.85
Cameron Station	4.37
Fort Bragg	3.53
Fort Belvoir	3.09
United States Military Academy	2.30
Hanscom AFB*	2.30
McGuire AFB*	1.98
Fort Meade	1.98
Seymour-Johnson AFB*	1.96
Walter Reed Army Medical Center	1.56
Fort Jackson	1.15

*AFB = Air Force Base

One commissary store input 50 percent of its tobacco products receipts and a second commissary store input 45 percent of its receipts 4 or more days after the receipt of merchandise. Some stores took over 50 days to enter some receipts. For example, a commissary store did not enter three receipts into the computer system for over 50 days and another commissary store did not enter four receipts into the computer system for over 50 days.

We did not track the late input of receipt data back to the DeCA service centers to determine whether interest was paid for late vendor payments. That was not within the scope of this audit. However, late input of receipt data reduces the available payment processing days available before interest payment penalties are required to be paid. In accordance with the Prompt Payment Act of 1982, interest payment penalties will start to accrue on the later of either the date on which the payment is due under the terms of a contract or 30 days after receipt of a proper invoice.

We believe that the commissary stores we visited were not adequately emphasizing the timely input of merchandise receipt data into the commissary store computer systems for transmission to the SAVES. Additionally, responsible DeCA regional personnel were not using readily available SAVES data to compare the date of merchandise receipt and the date each commissary store input the receipt and transmitted it to SAVES. The Director, Resource Management at DeCA Headquarters, also had access to the SAVES data and possessed greater staff analytical capability than the DeCA regional offices.

Recommendation, Management Comments, and Audit Response

We recommend that the Director, Defense Commissary Agency, require his staff to periodically monitor each commissary store's input of receipt data by comparing the dates of merchandise receipt at the commissary store with the dates that receipts are input into the Standard Automated Voucher Examination System. Periodic reports of each commissary store's performance should be made to regional directors until improved compliance with Defense Commissary Agency's policy is achieved.

Management Comments. The Director, DeCA, concurred and stated that its Resource Management Directorate will monitor each commissary store's input of receipt data on a monthly basis beginning in February 1994. The data generated will be reviewed monthly at the DeCA Headquarters, and Region Directors will be advised of their region's performance so that corrective action can be taken as required.

Part III - Additional Information

Appendix A. Summary of Potential Benefits Resulting from Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1. and A.2.	Internal Control. Will provide increased control over highly pilferable assets and increase awareness of security weaknesses.	Nonmonetary*
A.3.	Internal Control. Will provide increased surveillance over store security procedures.	Nonmonetary*
B.	Internal Control and Economy and Efficiency. DeCA will improve the timeliness for processing vendor payment authorizations.	Nonmonetary

* Monetary benefits could not be quantified based on available records or were quantifiable but not within the scope of this report.

Appendix B. Organizations Visited or Contacted

Defense Agencies

Defense Commissary Agency, Headquarters, Fort Lee, Petersburg, VA
Defense Commissary Agency, East Service Center, Fort Lee, Petersburg, VA

Commissary Resale Stores

Cameron Station, Alexandria, VA
Fort Belvoir, Alexandria, VA
Fort Bragg, Fayetteville, NC
Fort Jackson, Columbia, SC
Fort George S. Meade, Odenton, MD
Hanscom Air Force Base, Boston, MA
Langley Air Force Base, Hampton, VA
McGuire Air Force Base, Burlington, NJ
Seymour-Johnson Air Force Base, Goldsboro, NC
Walter Reed Army Medical Center, Washington, DC
United States Military Academy, West Point, NY

Appendix C. Report Distribution

Office of the Secretary of Defense

Assistant Secretary of Defense (Personnel and Readiness)
Assistant to the Secretary of Defense for Public Affairs
Comptroller of the Department of Defense

Department of the Navy

Naval Audit Service

Department of the Air Force

Air Force Audit Agency

Defense Agencies

Director, Defense Commissary Agency
Director, Defense Intelligence Agency
Director, Defense Logistics Agency
Director, Defense Logistics Studies Information Exchange
Director, National Security Agency

Non-Defense Federal Agencies

Office of Management and Budget
  National Security Division Special Projects Branch
Office of Federal Procurement Policy
U.S. General Accounting Office
  National Security and International Affairs Division, Technical Information Center
  National Security and International Affairs Division, Defense and National Aeronautics and Space Administration Management Issues
National Security and International Affairs Division, Military Operations and Capabilities Issue

Non-Defense Federal Agencies (cont'd)

Chairman and Ranking Minority Member of each of the following Congressional Committees and Subcommittees:

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

Part IV - Management Comments

Defense Commissary Agency Comments

DEFENSE COMMISSARY AGENCY
HEADQUARTERS
FORT LEE, VIRGINIA 23801-6300

REPLY TO ATTENTION OF

IR

DEC 2 0 1993

MEMORANDUM FOR INSPECTOR GENERAL, LOGISTICS SUPPORT DIRECTORATE,
400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-2884

SUBJECT: Draft Audit Report on Controls Over Tobacco Products at Selected Commissary Stores (Project No. 3LA-2002.04)

Reference: DoDIG Memorandum, dtd October 26, 1993, SAB.

Per your request in referenced memorandum, attached are our comments to the recommendations and the internal control weaknesses addressed in Part I of subject report.

RICHARD E. BEALE, JR.
Major General, USA
Director

Attachment:
As Stated

DEFENSE COMMISSARY AGENCY REPLY

SUBJECT: Draft Audit Report on Controls Over Tobacco Products at Selected Commissary Stores (Project No. 3LA-2002.04)

Finding A

Recommendation 1. Write and implement specific policies and procedures for the control of tobacco products inventories. The procedures should require at least quarterly physical inventories of tobacco products, the reconciliation of the physical inventory counts to receipt and sales data, and provide for a separate allowable inventory gain or loss tolerance for tobacco products at each store, against which actual gains and losses would be measured and reported.

Action Taken. Partially concur. Specific policies and procedures are already in existence for control of tobacco products. DeCA is currently establishing additional guidelines and procedures to test a monthly tobacco accountability for a six month period starting in February 1994. Test results will be reviewed upon completion and an Agency decision made by October 1, 1994 on need for continuation of the program.

Recommendation 2. Require all commissary officers to adhere to DeCA Directive 40-19 and to properly secure tobacco products at all times, and require regional directors to periodically monitor security for tobacco products at commissary stores.

Action Taken. Concur. DeCA Directive 40-19 requires commissary officers to be responsible for the protection of resources within their area of responsibility. As a continuing effort, region personnel will monitor commissary operations to ensure that DeCA security requirements are being followed.

Recommendation 3. Require the Inspector General and the Safety, Security, and Administrative office to periodically review and report on the commissary stores' compliance with DeCA Directive 40-19.

Action Taken. Concur. The Inspector General currently reviews and reports on commissary compliance with DeCA Directive 40-19 during Quality Assessments visits. The Inspector General and the Safety, Security, and Administrative office will continue to review with added emphasis on commissary's compliance with sensitive items controls per DeCA Directive 40-19 during future Quality Assessments visits.

Finding B

Recommendation 1. We recommend that the Director, DeCA, require his staff to periodically monitor each commissary store's input of receipt data by comparing the dates of merchandise receipt at the commissary store with the dates that receipts are input into SAVES. Periodical reports of each commissary store's performance should be made to regional directors until improved compliance with DeCA's policy is achieved.

Action Taken. Concur. Resource Management will monitor each commissary store's input of receipt data on a monthly basis beginning in February, 1994 by comparing the dates of merchandise receipt with the dates that receipts are input into SAVES. The data generated will be reviewed monthly at the DeCA Headquarters. Region Directors will be advised of their region's performance so that corrective action can be taken as required.

Internal Control Weaknesses. Partially concur. We agree that established controls may not have been followed for safeguarding tobacco products which indicates an increased need for monitoring compliance with the policies. This monitoring will be increased by both the commissary, region, and Headquarters personnel. DeCA concurs that there are internal control weaknesses which allowed for circumstances where receipts were not input into SAVES in a timely manner. Implementing the procedures described for recommendation B-1 will put internal controls in place whereby a recurrence of this situation would not go undetected. To ensure that these procedures are effective and any weaknesses are corrected, for a time DeCA's Chief Executive Officer will be updated monthly on each region's performance and what corrective action has been implemented.

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