

November 7, 2003



# Logistics

## Defense Logistics Agency Processing of Other Nonrecurring Requirements (D-2004-018)

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### **Acronyms**

AIS	Aviation Investment Strategy
DLA	Defense Logistics Agency
DSC	Defense Supply Center
NSO	Numeric Stockage Objective
ONRR	Other Nonrecurring Requirements
SPR	Special Program Requirements
SAMMS	Standard Automated Materiel Management System



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

November 7, 2003

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on Defense Logistics Agency Processing of Other Nonrecurring Requirements (Report No. D-2004-018)

We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Logistics Agency comments were partially responsive. We request additional comments on Recommendation 2. be provided by January 6, 2004.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to [Audls@dodig.osd.mil](mailto:Audls@dodig.osd.mil). Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Tilghman A. Schraden at (703) 604-9186 (DSN 664-9186) or Mr. Richard Kotecki at (215) 737-3886 (DSN 444-3886). See Appendix B for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink that reads "Shelton Young".

Shelton R. Young  
Director, Readiness and  
Logistics Support Directorate

## Office of the Inspector General of the Department of Defense

Report No. D-2004-018  
(Project No. D2003LD-0018)

November 7, 2003

### Defense Logistics Agency Processing of Other Nonrecurring Requirements

#### Executive Summary

**Who Should Read This Report and Why?** Logistics personnel with the responsibility to manage nonrecurring materiel requirements for DoD should read this report. This report evaluates Defense Logistics Agency (DLA) policies and procedures for processing other nonrecurring requirements.

**Background.** Two of the methods that DLA uses to meet nonrecurring requirements for materiel supply support include special program requirement transactions and other nonrecurring requirement transactions. Special program requirement transactions are electronically generated by Military Department customers and relate to DLA supply support that will be needed at a specific date in the future. Other nonrecurring requirement transactions are manually input at the DLA supply centers. As of April 2003, there were 35,405 other nonrecurring requirement transactions, valued at \$263.6 million, which supply center personnel had entered into the DLA supply system.

**Results.** DLA policies and procedures for processing the 35,405 other nonrecurring requirement transactions, valued at \$263.6 million, were inadequate. Despite the lack of policies and procedures, DLA use of 34,312 other nonrecurring requirement transactions, valued at \$130.3 million, to enhance supply support for unique programs appeared to be reasonable. A review of a judgmental sample of 58 (valued at \$23.2 million) of the 1,093 remaining transactions, valued at \$133.3 million, indicated that 55 (95 percent), valued at \$22.2 million, either did not have sufficient documentation to support the validity of the other nonrecurring requirement or the requirement should have been processed as a special program requirement. As a result, DLA could miss opportunities to minimize investment dollars. DLA canceled six of the other nonrecurring requirement transactions in the sample, valued at \$6 million, because DLA supply center personnel could not validate the requirements. Revisions to DLA guidance identifying the specific conditions and requirements for processing other nonrecurring requirement transactions should correct the material weakness identified by this audit. Funds that could be put to better use can be calculated after DLA establishes a timeline to validate outstanding other nonrecurring requirement transactions in the DLA supply system and receives reports on the results of that validation. (See the Finding section of the report for the detailed recommendations.)

**Management Comments and Audit Response.** DLA partially concurred with the recommendations. DLA stated that existing guidance is being replaced by the Business Systems Modernization initiative and that DLA will issue policy guidance addressing other nonrecurring requirements under the new Business Systems Modernization procedures. The alternative actions proposed by DLA are responsive. DLA also stated that it would establish a timeline to validate outstanding other nonrecurring requirements

and provide a report of the quantity and dollar value of other nonrecurring requirements canceled. However, DLA further stated that because of the difficulty in quantifying the impact of other nonrecurring requirement cancellations on procurement actions in a dynamic environment, DLA would not report the dollar value of procurement actions canceled. The DLA comments are partially responsive. We request that DLA reconsider its position and provide additional comments explaining why the dollar value of procurement actions canceled will not be reported. Comments should be provided by January 6, 2004. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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## Background

According to the Deputy Under Secretary of Defense (Logistics and Materiel Readiness), a major objective of the DoD logistics mission is to provide responsive, cost-effective support to ensure readiness and sustainability for the total force across the spectrum of military operations. Accomplishing that mission depends on the ability of the DoD wholesale inventory management organizations to accurately forecast future requirements. The forecasts are based on recurring demand data that the inventory management organizations have accumulated and advance planning data that the Military Departments have submitted concerning future operating plans, including special programs and projects. The advance planning data relate to nonrecurring requirements that an inventory management organization could not anticipate and provide for if it based forecasts for future inventory requirements solely on historical demand data. Two of the methods that the Defense Logistics Agency (DLA) uses to meet nonrecurring requirements for materiel supply support are special program requirement (SPR) transactions and other nonrecurring requirement (ONRR) transactions.

**DoD Guidance on Nonrecurring Requirements.** DoD Regulation 4140.1-R, “DoD Supply Chain Materiel Management Regulation,” May 23, 2003, prescribes procedures for the uniform management of DoD materiel. Regarding nonrecurring requirements, the Regulation states that the DoD Components may submit SPRs to materiel managers to forecast special program or project requirements that are non-repetitive in nature and cannot be forecast based on historical demand data.

DoD Manual 4000.25-2-M, “Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP),” September 2001, provides procedures for submitting requests to the DoD sources of supply for SPRs that are of a nonrecurring nature and cannot be forecast based on historical demand data. The DoD Manual identifies specific circumstances under which SPR requests can and cannot be submitted. For example, SPR requests can be submitted for materiel needed for repair or rebuild programs that are either nonrecurring or are seldom or irregularly programmed; SPR requests cannot be submitted for requirements for which there are recurring demands. The DoD Manual also states that SPR requests will be submitted to the supply centers between 90 days and 5 years prior to the date that the materiel will be needed (the support date). The procurement lead time for most items is greater than 90 days, so delivery for an early support date may not be possible.

**DLA Guidance on Nonrecurring Requirements.** DLA Manual 4140.2, Volume II, “Defense Operations Manual, Defense Supply Center, Supply Operating Procedures,” April 2002, provides policy and procedures for DLA processing of nonrecurring requirements. The DLA Manual categorizes nonrecurring requirements as SPRs and ONRRs. SPR requests are submitted by the Military Departments to the Defense supply centers (DSCs) in accordance with DoD Manual 4000.25-2-M. SPR transactions constitute the most important category of nonrecurring requirements and warrant special management emphasis. The DLA Manual states that all nonrecurring requirements that are not

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SPRs are ONRRs and that supply center personnel should verify forecast quantities that appear excessive prior to entering the transaction into the DLA supply system. DLA Manual 4140.2 also categorizes centrally managed assets as either replenishment demand or numeric stockage objective (NSO) items.

A DLA headquarters memorandum, "Forecasts," April 17, 1998, establishes a common basis of understanding for DLA materiel forecasts. The memorandum states that when Military Department customers have nonrecurring, one-time requirements, or recurring requirements for which historical demands do not adequately reflect future requirements, customers should submit SPR requests. According to the memorandum, the SPR process is the only nondemand-based forecasting process approved by DoD Regulation 4140.1-R. Regarding ONRR transactions, the memorandum states that item managers will document the methodology and rationale for initiating the ONRR transaction in the item file.

**DLA Initiatives.** DLA provided data showing a significant increase in the forecast value of nonrecurring requirements over the last 4 years. Historical data for ONRRs were not available; however, the forecast value of SPRs increased from \$395 million for all of FY 1999 to \$872 million open SPRs as of December 2002. In response to the increase, DLA streamlined the process to validate SPR requirements submitted by the Military Departments in an attempt to improve controls and avoid over-investment in stock. DLA personnel stated that, as of December 2002, SPR validation resulted in canceling requirements valued at about \$30 million.

The significant increase in SPRs also raised concerns within DLA about the accuracy of the Services' SPR forecasts. In an effort to improve forecasts, DLA began a program in FY 2000 that tracks the rate at which the Military Departments requisition items related to the SPR transactions (commonly referred to as the "buy-back" rate). The purpose of the buy-back program is to minimize investment dollars by providing feedback on the accuracy of forecasts so that submitters can improve forecasting methods, if necessary. To limit procurement quantities, DSC Philadelphia started a pilot program in May 2002 using buy-back percentages based on the rate that the Military Departments were buying back SPRs.

**ONRR Transactions.** As of April 2003, DLA supply center personnel had entered 35,405 ONRR transactions, valued at \$263.6 million, into the DLA supply system. Table 1 shows ONRR transactions by DSC as of April 2003.

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**Table 1. DLA ONRR Transactions as of April 2003**

<u>Defense Supply Center</u>	<u>Number of Transactions</u>	<u>Value (in millions)</u>
DSC Columbus	29,968	\$109.3
DSC Philadelphia	1,035	10.0
DSC Richmond	4,402	144.3
<b>Total</b>	<b>35,405</b>	<b>\$263.6</b>

## **Objectives**

Our overall objective was to evaluate the process used by DoD Components for determining and supporting SPRs. This report evaluates DLA policies and procedures for processing ONRR transactions. We also reviewed the management control programs as they applied to the audit objective. A subsequent report will evaluate the adequacy of the DLA process for validating SPR transactions and the use of buy-back rates of SPRs to minimize investment in inventory. See Appendix A for a discussion of the scope and methodology, the management control program, and prior coverage.

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## **DLA Other Nonrecurring Requirements Transactions**

DLA policies and procedures for processing ONRR transactions, valued at \$263.6 million, were inadequate. Despite the lack of policies and procedures, DLA use of 34,312 ONRR transactions, valued at \$130.3 million, to enhance supply support for unique programs appeared to be reasonable. A review of a judgmental sample of 58 (valued at \$23.2 million) of the 1,093 remaining ONRR transactions, valued at \$133.3 million, indicated that 55 transactions (95 percent<sup>1</sup>), valued at \$22.2 million, either did not have sufficient documentation to support the validity of the ONRRs or the requirement should have been processed as an SPR. Those problems occurred because DLA had not developed detailed procedures that ensured ONRR transactions were properly authorized and processed. Additionally, the DLA DSCs did not comply with DLA policy guidance requiring item managers to document in the item records the rationale for using ONRR transactions. Further, DLA DSCs bypassed controls for SPR transactions by using ONRR transactions to process forecasts from the Military Departments. As a result, DLA could miss opportunities to minimize investment dollars. DLA canceled six of the ONRR transactions in the sample, valued at \$6 million, because DLA supply center personnel could not validate the requirements.

### **DLA Use of ONRR Transactions**

The DSCs manually input all ONRR transactions into the DLA supply system. Management at the DSCs approved the use of ONRRs to enhance supply support for two unique programs that were not conducive to SPR-defined procedures. The programs required DSC managers to increase requirements for supply items to meet customer demands, to reduce supply backlogs, and to enhance the readiness of weapon systems. The two unique programs were Operation Iraqi Freedom and the Aviation Investment Strategy (AIS). DSC supply personnel sometimes manually entered ONRR transactions into the DLA automated processing system when they received requests from Service organizations by telephone or electronic mail. Table 2 shows the purpose and value of ONRR transactions in the DLA supply system as of April 2003.

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<sup>1</sup> Judgment sampling percentage does not generalize to the universe.

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**Table 2. Purpose and Value of ONRR Transactions**

<u>Purpose</u>	<u>Number of Transactions</u>	<u>Value (in millions)</u>
Enhanced Supply Support for Operation Iraqi Freedom	28,421	\$ 77.3
Enhanced Supply Support for Aviation Investment Strategy	5,891	53.0
<b>Subtotal</b>	<b>34,312</b>	<b>130.3</b>
Other	1,093	133.3
<b>Total</b>	<b>35,405</b>	<b>\$263.6</b>

## Criteria for ONRR Transactions

DLA policies and procedures for processing ONRR transactions, valued at \$263.6 million, were inadequate. Despite the lack of policies and procedures, DLA use of 34,312 ONRR transactions, valued at \$130.3 million, to enhance supply support for unique programs appeared to be reasonable.

**ONRR Transactions to Support Operation Iraqi Freedom.** Management at DSC Columbus initiated 28,421 ONRR transactions, valued at \$77.3 million, to enhance supply support to Operation Iraqi Freedom. In April 2003, DSC Columbus management processed the 28,421 transactions in response to temporary increases in customer demands and resulting backorders to support military operations in Iraq. In anticipation of the increased demand, the DSC Columbus Corporate Investment Board<sup>2</sup> decided to increase requirements by an additional 45 days for items with high recurring demand. By using the ONRR method to process the requirements through the DLA supply system, DSC Columbus supply personnel temporarily increased stock levels without adjusting other system-computed requirements factors. Under the circumstances, use of the SPR method was not an option because the requirements were not generated by Military Department organizations and DSC Columbus did not have the capability to input SPR transactions. DSC Columbus personnel stated that the ONRR approach had been successfully used in support of Operation Desert Storm. Consequently, management at DSC Columbus approved the use of ONRR transactions to support Operation Iraqi Freedom.

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<sup>2</sup> The Corporate Investment Board is composed of management personnel from DSC Columbus directorates chartered to recommend, coordinate, implement, oversee, and evaluate corporate investment strategies.

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**ONRR Transactions to Support the AIS Program.** Of the 34,312 ONRR transactions processed for unique programs, 5,891 transactions, valued at about \$53 million, had been entered into the DLA supply system for selected items in the AIS program. The requirements for an increase in selected items were established in response to the FY 1999 Defense Resources Board approval of \$500 million for additional support of DLA-managed aviation investment items over a 4-year period beginning in FY 2001. According to DLA personnel, the additional funding was necessary because existing inventory optimization models did not always assign adequate “safety level quantities” to aviation-related weapon system items. A safety level quantity is an additional number of items included in requirements that provides protection against backorders for items not in stock. The DoD standard is to fill customer requisitions at an aggregate supply availability rate of 85 percent by weapon system and Military Department. Although DLA had met the DoD standard in overall terms, requisitions for many individual and groups of aviation repair parts had historically been filled at a much lower rate. Consequently, the safety level quantities for targeted groups of AIS program items needed augmenting to meet the 85 percent supply availability rate. Because of its focus on aviation weapons support, DSC Richmond was designated the lead center for implementing the AIS program.

The additional \$500 million in funding was designated for aviation replenishment and NSO items. Item demand forecasts are essential management tools used to determine levels of stock and safety level quantities for replenishment items. Accordingly, to determine the safety level quantities for targeted aviation replenishment items, DSC Richmond used inventory simulation models. In contrast to replenishment items, NSO items have insufficient demands to establish stock safety levels based on previous demand history. However, prudent judgment indicates it is cost-effective to stock a nominal quantity of the item. To increase quantities stocked for NSO items, management at DSC Richmond decided to use ONRR transactions.

**Policy and Procedures for ONRR Transactions.** DLA policies and procedures for processing the 35,405 ONRR transactions, valued at \$263.6 million, were inadequate. DoD Regulation 4140.1-R and DoD Manual 4000.25-2-M provide policy and procedures for SPR requests but do not address ONRR transactions. DLA had detailed procedures on processing and controlling SPR requests, but had only minimal guidance on ONRR transactions. DLA Manual 4140.2 merely states that all nonrecurring requirements that are not SPRs are ONRRs. DLA policies and procedures did not provide sufficient management controls over ONRR transactions. In its 1998 memorandum on forecasts, DLA actually emphasized the use of SPR requests and discouraged the use of ONRR transactions. The 1998 memorandum stated that when Military Department customers have nonrecurring, one-time requirements, or recurring requirements that historical demand could not forecast, the customers should submit the requirements as SPRs. According to the memorandum, the SPR process is the only nondemand-based forecasting process approved by the DoD Supply Chain Materiel Management Regulation.

DoD guidance on SPRs identifies specific circumstances under which SPR requests can and cannot be submitted. The guidance includes criteria for establishing and accepting SPR requests. For example, SPR requests can be

submitted for repair or rebuild programs that either are nonrecurring or are seldom or irregularly programmed. DoD Manual 4000.25-2-M lists 10 specific conditions for the use of SPR requests. The DoD Manual further states that SPR requests cannot be submitted for requirements for which there are recurring demands. The same DoD guidance does not mention ONRR transactions and DLA guidance does not include criteria for using ONRR transactions or procedures for processing them. Without criteria and specific procedures, DLA risks inappropriate processing of unsupported requirements and lost opportunities to minimize investment dollars.

## ONRR Sample Transactions

We selected a judgmental sample of ONRR transactions that were initiated at the DSCs, but which were not included in Operation Iraqi Freedom or the AIS program, to evaluate the validity of the transactions. The judgmental sample consisted of 58 (valued at \$23.2 million) of the 1,093 ONRR transactions, valued at \$133.3 million, remaining from the 35,405 ONRR transactions open as of April 2003. The evaluation indicated that 55 transactions (95 percent<sup>1</sup>), valued at \$22.2 million, either did not have sufficient documentation to support the validity of the ONRRs or the requirement should have been processed as an SPR. Table 3 shows the disposition of the 58 sample ONRR transactions.

**Table 3. ONRR Sample Transactions**

<u>Audit Categorization</u>	<u>Defense Supply Center</u>	<u>Number of Transactions</u>	<u>Value (in millions)</u>
Reasonable	DSC Richmond	3	\$ 0.99
<b>Subtotal</b>		<b>3</b>	<b>0.99</b>
Insufficient documentation	DSC Philadelphia	8	1.24
	DSC Richmond	35	15.62
<b>Subtotal</b>		<b>43</b>	<b>16.86</b>
SPRs	DSC Philadelphia	1	0.03
	DSC Richmond	11	5.28
<b>Subtotal</b>		<b>12</b>	<b>5.31</b>
<b>Total</b>		<b>58</b>	<b>\$23.16</b>

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**Reasonable Use.** We determined that DSC Richmond processed 3 of the 58 selected ONRR transactions to establish requirements for Halon 1301 fire suppressant products. Halon 1301 is an ozone-depleting substance that is no longer manufactured for environmental reasons, per the 1987 Montreal Protocol international agreement. According to DSC Richmond personnel, the product is critical to fire safety aboard Navy vessels, which cannot deploy without sufficient supplies on board. Because Navy demand for the product is erratic, DSC Richmond personnel used ONRR transactions to stockpile sufficient on-hand quantities to meet expected demands. In the absence of defined criteria in DLA policy, we considered the use of ONRR transactions in anticipation of requirements for fire suppressant products critical for Navy readiness to be a reasonable application.

**Documentation.** For 43 (valued at \$16.9 million) of the 58 ONRR transactions, DSC supply personnel at Philadelphia and Richmond did not have sufficient documentation to determine the validity of or to justify the ONRRs. For 27 ONRR transactions, DSC supply personnel did not sufficiently document the methodology and rationale for using ONRR transactions. Because insufficient documentation was created or retained for the 27 transactions, neither the Philadelphia nor Richmond DSC supply personnel could identify how many of the transactions were generated in response to customer forecasts. Additionally, the DLA database does not identify the supply personnel who enter ONRR requirements into the DLA data system, nor does it retain ONRR records after the support dates have passed.

Supply personnel used the remaining 16 ONRR transactions to bypass the DLA controls to prevent over-procurements. DSC Richmond personnel stated that ONRR transactions had been processed to clear over-procurement notifications generated by the DLA supply system. Over-procurement notifications are generated when item on-hand and due-in balances exceed requirements for those items. To properly clear the notification, supply personnel should perform the necessary research to confirm whether an over-procurement condition actually exists and, if so, take necessary corrective action to cancel those over-procurements within 30 days. DSC Richmond personnel explained that supply personnel might have processed ONRR transactions to clear current and prevent future over-procurement notifications with the intent to research the notifications at a later date. Rather than resolve potential problems, bypassing system controls introduces risks that potential over-procurement conditions will not be identified and remedied.

**SPRs.** Another 12 ONRR transactions, valued at \$5.3 million, should have been processed as SPR requests from the Military Departments. For all 12 transactions, personnel at DSC Philadelphia or Richmond retained documentation identifying the Military Department organization that generated the requirement; however, the documentation did not provide adequate justification as to why ONRR transactions were used, as required by the DLA 1998 memorandum on forecasts. For example, on September 27, 2002, supply personnel at DSC Richmond received an electronic mail request from the Warner Robins Air Logistics Center for 306 items with a procurement cost of \$678,096. An ONRR transaction was manually entered into the DLA supply system on November 16, 2002, indicating a support date of May 1, 2003. That entry

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generated a contract for the items that was awarded January 13, 2003. However, the ONRR transaction was unnecessary because an SPR request had already been submitted on September 23, 2002, potentially resulting in two procurement actions for a single requirement.

The customers with the requirements should have submitted SPR requests for those 12 ONRR transactions. Review of supporting documentation and discussions with supply personnel at DSC Richmond disclosed that they accepted requests by means other than the automated system and processed them as ONRRs to expedite the procurement process, generally expecting the Military Department organizations to follow through with SPR requests. By bypassing the automated system for processing SPRs, the supply center personnel introduce the potential for inefficiencies. For example, in an effort to improve forecasts, DLA began a program in FY 2000 that tracks the rate at which Military Departments requisition or buy back SPRs. The purpose of the program is to minimize investment dollars by providing feedback on the accuracy of forecasts to submitters, who can then improve forecasting methods, if necessary. When nonrecurring requirements forecast by Military Department organizations are not processed as SPRs, opportunities to minimize investment dollars through the revalidating of forecast requirements and the monitoring of buy-back rates are reduced.

## **Management Action**

During our audit, supply center personnel researched 6 of the 43 ONRR transactions with insufficient documentation. All six transactions, valued at \$6 million, were canceled.

## **Recommendations, Management Comments, and Audit Response**

**We recommend that the Director, Defense Logistics Agency:**

**1. Revise Defense Logistics Agency Manual 4140.2, Volume II, "Defense Operations Manual, Defense Supply Center, Supply Operating Procedures," April 2002, to specifically:**

- a. Identify the circumstances or conditions under which other nonrecurring requirements are authorized for processing.**
- b. Identify the requirements for documenting the methodology and rationale for using other nonrecurring requirement transactions.**
- c. Establish requirements for identifying the supply center personnel who enter other nonrecurring requirements in the Defense Logistics Agency supply system and retaining other nonrecurring requirement records after the support dates have passed.**

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**Management Comments.** DLA partially concurred, stating that existing guidance is being replaced by the Business Systems Modernization initiative and that DLA will issue policy guidance addressing ONRRs under the new Business Systems Modernization procedures. DLA will issue the new policy guidance within 120 days, with an expected completion date of February 1, 2004.

**Audit Response.** The DLA alternative actions are responsive.

**2. Establish a timeline for the Defense supply centers to validate outstanding other nonrecurring requirement transactions in the Defense Logistics Agency supply system. Other nonrecurring requirement transactions that do not have sufficient supporting documentation or that cannot be validated should be canceled or reduced and reported to the Defense Logistics Agency. The report should include the total number of other nonrecurring requirement transactions that were deleted and the dollar value of procurement actions that were canceled as a result.**

**Management Comments.** DLA partially concurred, stating that it will establish a timeline to validate outstanding ONRR transactions and provide a report of the quantity and dollar value of canceled ONRR transactions. DLA also stated that in a dynamic environment it is difficult to quantify the impact of ONRR cancellations on procurement actions; therefore, the dollar value of procurement actions canceled would not be a reporting requirement. DLA will establish a timeline and provide guidance to DSCs within 120 days, with an expected completion date for the validation of February 1, 2004.

**Audit Response.** The DLA comments were partially responsive. DLA did not provide sufficient details explaining why the dollar value of procurement actions canceled will not be reported. Reporting the dollar value of procurement actions canceled would provide DLA managers with a management tool to monitor the effectiveness of the ONRR process and the investment dollars that could be put to better use as a result of canceling ONRR transactions. We request that DLA reconsider its position and provide additional comments explaining why the dollar value of procurement actions canceled will not be reported in response to the final report.

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## Appendix A. Scope and Methodology

We performed the audit at DLA headquarters and the DSCs at Columbus, Philadelphia, and Richmond. We reviewed DoD and DLA guidance regarding policies, responsibilities, and procedures for managing forecast requirements dated from April 1998 through May 2003. We judgmentally selected and reviewed ONRR transactions from among the 35,405 transactions, valued at \$263.6 million, that were open as of April 2003.

To determine whether ONRR transactions were being adequately controlled and managed by the DSCs, we selected a judgmental sample of national stock number items for which ONRR transactions were processed. We interviewed item managers and customer support personnel and reviewed supply management records in order to review DLA processing of the sample items. For the sample items, we evaluated the validity of processing the requirements as ONRRs. We reviewed actions taken by DLA management pertaining to items in unique programs for which ONRR transactions were used. The audit was performed from November 2002 through August 2003 in accordance with generally accepted government auditing standards.

We selected a judgmental sample of 80 ONRR transactions involving hardware items, valued at \$23.9 million, from DSC Philadelphia and DSC Richmond. We excluded 21 of the transactions from the sample because we determined they were for the AIS program, which we evaluated separately. One other ONRR transaction was excluded from the sample because it was identified as a non-stocked subsistence item. We then reviewed the remaining 58 sample transactions, valued at \$23.2 million.

**Use of Computer-Processed Data.** We used queries of the Standard Automated Materiel Management System (SAMMS) that were developed by DLA to determine the number of open ONRR transactions as of April 9, 2003. To determine the value of those transactions, we matched the queries against a database showing all items and their acquisition costs in SAMMS as of April 16, 2003. We did not perform a formal reliability assessment of the computer-processed data; however, we determined through discussions with item managers and review of other data extracted from SAMMS that quantities and acquisition costs of ONRRs agreed with the information in the computer-processed data we used. Further, although we used SAMMS to determine the number of open ONRR transactions, we did not rely on the computer-based data to form our conclusions about the use of ONRR transactions.

**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the DoD Inventory Management high-risk area.

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## Management Control Program Review

DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of the Review of the Management Control Program.** We reviewed the adequacy of DLA management controls over ONRR transactions. We also reviewed management’s self-evaluation applicable to those controls.

**Adequacy of Management Controls.** As defined by DoD Instruction 5010.40, we identified a material management control weakness in the oversight, control, and validation of ONRR transactions. Guidance dated from April 1998 through May 2003 on the use of ONRR transactions does not address the authority for using ONRR transactions nor the documentation and management oversight required. Recommendation 1. in this report, if implemented, will correct the material weakness. Funds that could be put to better use are undeterminable until management takes the actions in Recommendation 2. A copy of the report will be provided to the senior official responsible for management controls in DLA.

**Adequacy of Management’s Self-Evaluation.** DLA did not identify reviewing ONRR transactions as an assessable unit and, therefore, did not identify or report the material management control weakness identified by the audit.

## Prior Coverage

During the last 5 years, the Inspector General of the Department of Defense (IG DoD) has issued one report discussing the AIS program. Unrestricted IG DoD reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

## IG DoD

IG DoD Report No. D-2002-136, “Defense Logistics Agency Aviation Investment Strategy Program,” July 31, 2002

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## **Appendix B. Report Distribution**

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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 Reform  
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform  
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform  
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

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# Defense Logistics Agency Comments



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

IN REPLY  
REFER TO

J-33

MEMORANDUM FOR DoDIG

SUBJECT: Draft DoDIG Audit Report on the, "Defense Logistics Agency Processing of Other Nonrecurring Requirements". Project No. D20031.D-0018, dated August 15, 2003

The Defense Logistics Agency (DLA) partially concurred with Recommendations 1 and 2 in the subject draft report, and propose to take corrective measures as stated in Attachment 1.

We appreciate the opportunity to comment on the draft report. Questions may be referred to Mr. John Alphin, (703) 767-1522; or Mr. Melvin Nicholson, Internal Review Office, 703-767-6216

  
CLAUDIA S. KNOTT  
Acting Director  
Logistics Operations

Attachment  
DLA Comments

Attachment (1)

Subject: DLA Response to Draft DoDIG Audit Report, "Defense Logistics Agency Processing Of Other Nonrecurring Requirements", (D2003LD-0018)

Finding: DLA Other Nonrecurring Requirements Transactions

DLA policies and procedures for processing ONRR transactions, valued at \$263.6 million, were inadequate. Despite the lack of policies and procedures, DLA use of 34,312 ONRR transactions, valued at \$130.3 million, to enhance supply support for unique programs appeared to be reasonable. A review of a judgmental sample of 58 (valued at \$23.2 million) of the 1,093 remaining ONRR transactions, valued at \$133.3 million, indicated that 55 transactions (95 percent), valued at \$22.2 million, either did not have sufficient documentation to support the validity of the ONRRs or the requirement should have been processed as an SPR. Those problems occurred because DLA had not developed detailed procedures that ensured ONRR transactions were properly authorized and processed. Additionally, the DLA DSCs did not document in the item records the rationale for using ONRR transactions. Further, DLA DSCs bypassed controls for SPR transactions by using ONRR transactions to process forecasts from the Military Departments. As a result, DLA could miss opportunities to minimize investment dollars. DLA canceled six of the ONRR transactions in the sample, valued at \$6 million, because DLA supply center personnel could not validate the requirements.

DLA Comments:

We agree with the need for more comprehensive corporate level policy governing the use of Other Nonrecurring Requirements (ONRRs). The report identified a materiel control weakness in the oversight, control, and validation of ONRR transactions. The implementation of recommendation 1 will correct the materiel weakness.

Recommendations: DoDIG recommends that the Director, DLA:

1. Revise Defense Logistics Agency Manual 4140.2, Volume II, "Defense Operations Manual, Defense Supply Center, Supply Operating Procedures," April 2002, to specifically:

- a. Identify the circumstances or conditions under which other nonrecurring requirements are authorized for processing.
- b. Identify the requirements for documenting the methodology and rationale for using other nonrecurring requirement transactions.
- c. Establish requirements for identifying the supply center personnel who enter ONRR requirements in the DLA supply system and retaining ONRR records after the support dates have passed.

2. Establish a timeline for the Defense supply centers to validate outstanding other nonrecurring requirement transactions in the Defense Logistics Agency supply system. Other nonrecurring requirement transactions that do not have sufficient supporting documentation or that cannot be validated should be canceled or reduced and reported to the Defense Logistics Agency. The report should include the total number of other nonrecurring requirement transactions that were deleted and the dollar value of procurement actions that were canceled as a result.

DLA Comments:

Recommendation 1.

**(Partial Concur.** DLA concurs with the intent of recommendation 1. DIAM 4140.2, Volume II provides policy and procedures that are specific to the legacy DLA Standard Automated Materiel Management System (SAMMS) that is currently being replaced by the DLA Business Systems Modernization initiative. Revisions to the legacy manual are not warranted. HQ DLA will issue policy guidance that addresses the issues cited in finding 1. The guidance will address other nonrecurring requirements in SAMMS and comparable business processes under the new Business Systems Modernization procedures. HQ DLA will issue the policy guidance within 120 days.

Recommendation 2.

**(Partial Concur:** DLA concurs with the intent of recommendation 2. HQ DLA will establish a timeline for the Defense Supply Centers (DSCs) to validate outstanding ONRRs and provide a report of the quantity and dollar value of ONRRs cancelled. In a dynamic environment it is difficult to quantify the impact of ONRR cancellations on procurement actions. Therefore, the impact on procurement actions will not be a reporting requirement. HQ DLA will establish the timeline and provide guidance to the DSCs. The timeline for completion of the validation is 120 days.

Disposition:

Recommendation 1.

- Action is ongoing ECD: 1 Feb 2004
- Action is considered complete

Recommendation 2.

- Action is ongoing ECD: 1 Feb 2004
- Action is considered complete

Action Officer: John Alphin, J-332, (703) 767-1522

Review/Approval:

## **Team Members**

The Readiness and Logistics Support Directorate, Office of the Deputy Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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