Audit Report

OFFICE OF THE INSPECTOR GENERAL

INVENTORY CONTROLS OVER GROCERY ITEMS AND PREPACKAGED MEAT AT MOFFETT FIELD COMMISSARY STORE, SUNNYVALE, CALIFORNIA

Report No. 95-064

December 30, 1994

Department of Defense

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Acronyms

CDC	Central Distribution Center
DeCA	Defense Commissary Agency

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

December 30, 1994

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY

SUBJECT: Audit Report on Inventory Controls Over Grocery Items and Prepackaged Meat at Moffett Field Commissary Store, Sunnyvale, California (Report No. 95-064)

We are providing this report for your information and use. It discusses the need for improved controls over grocery and prepackaged meat items at the Moffett Field commissary. Your November 2, 1994, comments on the draft report were considered in preparing this final report.

Your comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and there are no unresolved issues. Therefore, no additional comments are required.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Robert J. Ryan, Audit Program Director, at (703) 604-9418 (DSN 664-9418), or Mr. Scott J. Grady, Acting Audit Project Manager at (804) 766-3604. The distribution of this report is in Appendix D. The audit team members are listed on the inside back cover.

David K. Steensma

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Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 95-064 **December 30, 1994**
(Project No. 4LA-0036)

INVENTORY CONTROLS OVER GROCERY ITEMS AND PREPACKAGED MEAT AT MOFFETT FIELD COMMISSARY STORE, SUNNYVALE, CALIFORNIA

EXECUTIVE SUMMARY

Introduction. During our audit of commissary construction projects (Project No. 3LA-0069), we noted that the commissaries at the Naval Air Station, Moffett Field, Sunnyvale, California, and Fort Bragg, North Carolina, appeared to have excessive inventory stored in adjacent warehouses or storage areas. As a result we initiated an audit of inventory controls over semiperishable and nonperishable goods stored at the Moffett Field and Fort Bragg commissaries.

Objective. The overall audit objective was to evaluate stockage levels and internal controls over semiperishable and nonperishable inventory stored in commissary warehouses at Moffett Field and Fort Bragg. We expanded our audit work at the Moffett Field commissary to cover prepackaged meat products because in Inspector General, DoD, Report No. 93-129, inventory controls in the meat department needed improvement.

Audit Results. The Moffett Field commissary had excessive inventory for 272 of 408 products reviewed, and had 40 additional products that were outdated and on the store shelves in the sales area. Consequently, the commissary unnecessarily increased the probability of inventory loss and sale of outdated merchandise (see Part II for details).

On March 31, 1994, we briefed personnel from the Defense Commissary Agency (DeCA) Headquarters on the results of our review at the Moffett Field commissary. Based on that briefing DeCA Headquarters, on April 20, 1994, issued a message directing the DeCA regions to take action to eliminate excess inventory at their respective commissary stores (see Appendix A). As a result, we did not include the Fort Bragg commissary in our review.

Internal Controls. The audit identified material internal control weaknesses. Specifically, internal controls over the ordering and stocking of grocery items were not in place to ensure that the Moffett Field commissary maintained only minimal inventory and sold only merchandise that was not outdated. Part I includes a description of the internal controls assessed and Part II contains details on the material weaknesses.

Potential Benefits of Audit. The report describes areas where DeCA could improve its inventory controls over grocery and prepackaged meat items stored and offered for sale at its commissaries. However, we could not quantify the potential monetary benefits.

Summary of Recommendations. We recommend that the Moffett Field Commissary Officer implement adequate internal controls over the ordering and stocking of grocery items and prepackaged meat products, and establish internal controls to ensure that outdated products are not offered for sale.

Management Comments. The Director, DeCA, concurred with the recommendations and stated that actions are being taken to correct the internal control weaknesses discussed in the report. Excessive saleable stock at the Moffett Field commissary was transferred to other stores for sale or was offered for sale at a reduced price at the Moffett Field commissary. Additionally, meat items have been placed on the frequent delivery system allowing for the quantities of meat ordered to be more easily controlled. Food inspectors assigned to Moffett Field and meat department personnel spot check items on display shelves and check shelves daily for outdated merchandise. A summary of the management comments is in Part II and the complete text of comments is in Part IV.

Audit Response. We consider DeCA comments and actions to be responsive to the recommendations. Therefore, no further comments 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, meat, produce, and household items and resells them to commissary patrons at prices approximating cost. Grocery items include semiperishable and nonperishable merchandise such as canned and dry goods. Prepackaged meat includes such items as bacon, processed hams, and other meat products that do not require additional preparation by the commissary store prior to selling the items. The goal of the commissary system is to provide grocery and household items to authorized customers at a 25-percent discount from similar items available in the private sector. The commissary purchases the groceries, meats, produce, and household items from private vendors, using a variety of contracting methods. The estimated FY 1994 annual sales for the Moffett Field commissary store are $20.5 million.

Objective

The audit objective was to evaluate stockage levels and internal controls over semiperishable and nonperishable inventory stored in commissary warehouses at the Naval Air Station, Moffett Field, Sunnyvale, California, and Fort Bragg, North Carolina. However, we modified the objective and limited our review to the Moffett Field commissary, because based on our Moffett Field audit results, DeCA Headquarters issued a message on April 20, 1994, to the regions requiring all commissaries to eliminate excess stock (see Appendix A). Additionally, we expanded the objective and included inventory controls over prepackaged meat because, as discussed in Inspector General, DoD, Report No. 93-129, inventory controls in the meat department needed improvement.

Scope and Methodology

Audit Coverage. We reviewed inventory levels of grocery items and prepackaged meat at the Moffett Field commissary. We did not count all the items stored in the commissary warehouse because much of the merchandise was stored haphazardly (see Appendix B). However, to document the days of supply on hand for some of the merchandise stored in the commissary warehouse, we judgmentally selected and counted the on-hand inventory for 408 products (28,092 items), valued at about $34,400, and compared those on-hand balances to the sales history of the products. Additionally, for 138 (34 percent) of the 408 products we checked the store to determine whether the warehoused items were on display in the sales area. We also examined grocery, dairy, and meat items on sale in the sales area to determine whether the

store was offering outdated products for sale. We did not use statistical sampling procedures to conduct this audit. Although we used computer-processed data showing the sales history for products sold at the Moffett Field commissary during March 1994, we did not verify the accuracy of the data base. Any errors in the accuracy of the sales history data base would not have affected our audit recommendations.

Audit Standards and Location. We performed this economy and efficiency audit from March through May 1994 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of internal controls as were considered necessary. Appendix C lists the organizations visited or contacted during the audit.

Internal Controls

Internal Controls Assessed. We evaluated the Moffett Field commissary's internal controls over inventory levels for grocery items and prepackaged meat. Specifically, we reviewed procedures for ordering and stocking, and for ensuring that outdated products were not offered for sale.

Internal Control Weaknesses Identified. The audit identified material internal control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Internal controls over the ordering and stocking of grocery items and prepackaged meat products did not ensure that inventory levels were kept to a minimum. Further, sufficient internal controls were not in place to prevent the sale of outdated grocery items and prepackaged meat. The material internal control weaknesses will be corrected if all recommendations contained in this report are implemented, and if the actions outlined in the April 20, 1994, DeCA message to the commissary regions are taken. We could not quantify the monetary benefits resulting from implementing the recommendations.

Internal Control Management Program. We did not evaluate the Moffett Field commissary's implementation of the DoD Internal Management Control Program because our audit was limited to only the inventory levels for selected grocery items. A copy of the final audit report will be provided to the senior officials responsible for internal controls in the Office of the Secretary of Defense and DeCA.

Prior Audits and Other Reviews

Inspector General, DoD, Report No. 94-083, "Central Distribution Center Operations at the Defense Commissary Agency," April 13, 1994, showed that Central Distribution Centers (CDCs) were not the most cost-effective method of

resupplying continental United States commissaries. The report recommended that DeCA close CDCs if commercial frequent delivery or direct store delivery services could satisfy customer requirements. The Director, DeCA, concurred with the recommendation stating that it would discontinue use of CDCs in favor of commercial frequent delivery. All continental United States CDCs will close by January 1995.

Inspector General, DoD, Report No. 93-129, "Inventory Controls at Moffett Field Commissary Store, Sunnyvale, California," June 25, 1993, stated that vendor merchandise receipt information was not entered into the bill paying system in a timely manner. Additionally, the meat department management did not have sales data available to properly manage the meat department. As a result, meat department management was overordering and maintaining excessive inventories. We recommended that the Moffett Field commissary store prioritize receipt processing and improve management control by loading uniform product codes into the scanning system to provide detailed sales data to meat department management. DeCA management concurred with the recommendations.

Part II - Finding and Recommendations

Inventory Controls Over Grocery Items and Prepackaged Meat

The Moffett Field commissary maintained excessive and outdated inventories of resale merchandise on hand. The conditions occurred because internal controls over grocery items and prepackaged meat were not adequate. Specifically,

o commissary personnel were not fully considering the existing on-hand stock before ordering additional quantities and stocking store shelves,

o the DeCA southwest region did not redistribute excess stock to other commissaries,

o the commissary officer was not promoting the sale of excess items,

o the commissary officer did not ensure that the commissary warehouse was used only as a staging area, and

o procedures were not in place to ensure that outdated merchandise was promptly identified and removed from store shelves.

Additionally, the meat department manager did not effectively monitor the inventory management practices used by prepackaged meat vendors, and the Veterinary Services representative, assigned to the commissary, did not take an active role in reviewing product expiration dates. As a result, the commissary unnecessarily increased the probability of inventory loss and the sale of outdated merchandise.

Background

The commissary is located on the Naval Air Station, Moffett Field, in Sunnyvale, California, and uses three separate buildings adjacent to one another. The three buildings are a commissary store, a warehouse, and an administrative building. The 43,400-square foot commissary store, constructed in 1933, provides about 19,000 square feet of sales floor area and about 3,100 square feet of receiving and storage space (staging area) for grocery items. The commissary warehouse provides about 14,500 square feet

for storing grocery items and some frozen items. The administrative building provides about 2,900 square feet for the administrative support and receiving personnel.

The three methods used to deliver items to the continental United States commissaries are frequent delivery system, direct store delivery, and CDCs. The frequent delivery system results in merchandise being electronically ordered from a vendor or distributor and periodically delivered directly to the commissaries. With direct store delivery, vendor representatives determine the order quantities and deliver the items to and stock them directly on the commissaries' shelves. Examples of this include the daily delivery of bread and milk, and the weekly delivery of prepackaged meat products. CDCs are DeCA-operated warehouses providing support to area commissaries. CDCs purchase semiperishable and nonperishable grocery items and consumable supplies from vendors, warehouse the items, and distribute them to commissaries. Frequent delivery system distributors and direct store delivery vendors directly deliver about 93 percent of the grocery items and prepackaged meat products sold in the continental United States commissaries, and CDCs deliver the remaining 7 percent. DeCA plans to close all continental United States CDCs by January 1995.

Criteria

DeCA Directive 40-5, "Grocery Department Operations," June 26, 1992, describes the procedures for ensuring that commissaries use existing stock before ordering or pulling from newer stock, a first-in-first-out inventory method. The directive also encourages commissaries to reduce prices on distressed products, such as those excess items that no longer have consumer demand. Further, the directive states that commissaries will sell only safe products in good condition. In general, outdated merchandise will not be sold. DeCA Directive 40-9, "The Defense Commissary Agency Frequent Delivery System," July 17, 1992, sets forth the policies and procedures that will be used for the operation of the frequent delivery system.

Army Regulation 40-657, "Veterinary/Medical Food Inspection and Laboratory Service," July 19, 1988, establishes the policy and requirements for food inspections for all military departments. The regulation requires Veterinary Services representatives to perform surveillance inspections to determine whether Government-owned foods are wholesome and suitable for further

storage, shipment, issue, sale, and consumption. Moreover, the regulation specifies that these inspections shall be made "... after receipt but before sale of food in commissary stores."

Grocery Inventory Controls

The Moffett Field commissary had excessive quantities of semiperishable and nonperishable inventory on hand. We visited the Moffett Field commissary in March 1994 to perform an unannounced inventory of resale merchandise. Because the merchandise was stored in such an unorganized manner, including cases with partial contents, a complete count was not economically feasible (see Appendix B). Instead, we counted 408 products involving 28,092 items, valued at about $34,400. We identified cases of different types of products stored together on the same pallets, and in some instances, with incompatible products such as cleaning fluids and packaged food products. We also noted, for 272 (67 percent) of the 408 products, the stock on hand exceeded what was needed based on commissary sales. Table 1. shows six of the products for which too much stock (about 5 to 39 months of inventory) was on hand.

Table 1. Examples of Overstocked Items in Warehouse

Product	Cases On Hand	Value	Days of Supply
Breath Savers Sugar-Free Mints, 5 pack	33	$664	610
Jiffy Buttermilk Biscuit Mix, 8 ounces	57	205	271
Playtex Ultimates, 6 pack	44	500	1,173
Reynolds Oven Cooking Bags, turkey	16	357	591
Suave Baby Shampoo, 16 ounces	27	379	405
Uncle Ben's Rice, chicken and vegetable, 5.2 ounces	21	209	136

All the products shown above were provided by either a frequent delivery system distributor or a CDC warehouse. DeCA Directive 40-9 cites reduced

on-hand inventory as one of the advantages of the frequent delivery system. Similarly, DeCA used CDCs to reduce inventory levels at individual commissary stores.

The excessive inventory of resale merchandise on hand at the Moffett Field commissary occurred because the commissary did not have adequate internal controls. Specifically,

o commissary personnel were not fully considering existing on-hand stock before ordering and stocking new items,

o the DeCA southwest region did not redistribute excess stock to other stores,

o the commissary officer did not effectively promote excess items for sale, and

o the commissary officer did not ensure that the commissary warehouse was used only as a staging area.

Ordering and Stocking Procedures. Commissary personnel were not fully considering on-hand stock before ordering and stocking new items. DeCA Directive 40-5 requires commissary personnel to check on the availability of on-hand stock before ordering or pulling newer stock. Moffett Field commissary personnel told us that they were not making an effort to use and locate existing stock before pulling or ordering new stock. The merchandise in the warehouse was stored in such a haphazard manner that even if workers wanted to pull from existing stock before ordering new merchandise, they would have had difficulty locating the stock. During our visit to the Moffett Field commissary, the commissary officer recognized and attempted to correct the problem by issuing a memorandum to the grocery department order writers requesting them to order only items for which they have little or no stock on the store shelves.

Stock Redistribution. The DeCA southwest region did not redistribute the excess stock in the Moffett Field commissary warehouse to other stores, even though the commissary officer had twice requested such a transfer. In March 1993, when the Golden Gate CDC was closing, in an effort to reduce excess stock, the CDC force issued many items to the Moffett Field commissary. While the commissary did not have a listing showing exactly what items the Golden Gate CDC force issued to it, based on shipping labels on the product cases, many of the excess items in the commissary warehouse were shipped to the Moffett Field commissary from the closing Golden Gate CDC. Table 2. shows seven of the CDC items we noted in the warehouse for which too much stock was on hand.

Table 2. Examples of Overstocked CDC Items

Product	Cases On Hand	Value	Days Of Supply
Diamond A Blackberries, canned, 17 ounces	43	$ 304	Undetermined
Kikkoman Soy Sauce, 20 ounces	84	1,381	Undetermined
Knotts Berry Jelly Gifts, 8 ounces	18	147	Undetermined
McIlhenney Tabasco Sauce, 2 ounces	78	1,310	480
National Peanut Butter, 40 ounces	40	208	Undetermined
Polaner All Fruit Preserves, 10 ounces	104	1,685	263
Triminic Nite Light Cough Medicine, 4 ounces	8	609	Undetermined

Based on a Moffett Field commissary operations report showing sales for each product from March 1 through March 23, 1994, no sales occurred for five of the seven products shown in Table 2., and for the remaining two products, a 263- and a 480-day supply was on hand, respectively.

The commissary officer requested in April and May 1993, that the DeCA southwest region redistribute the excess stock to other stores. Six of the seven products shown in Table 2. were on the requested redistribution lists. According to the commissary officer, as of our visit to the Moffett Field commissary in March 1994, the region had not taken action to redistribute the products. Some of the undistributed products had exceeded their expiration dates. For example, 8 cases of cough medicine and 19 cases of peanut butter had exceeded their sell-by dates.

Outdated Stock Sales Promotion. The commissary officer was not effectively promoting the sale of overstocked merchandise. DeCA Directive 40-5 provides that distressed items may be sold at a reduced price to prevent a total loss to the Government. The directive defines distressed merchandise as those items that have lost their demand because of noncompetitive price, change of season, age, or other reasons. The directive permits the commissary officer to reduce prices of distressed items by up to 50 percent and the region can make price reductions up to 75 percent. Our review of the warehoused inventory showed that it contained seasonal items and merchandise that were no longer on display in the store. For 138 (34 percent) of the 408 products we counted in the warehouse, we determined whether the products were on the shelf in the sales

area. Of the 138 products checked, 37 (27 percent) were not displayed for sale in the store. Only 1 of the 37 products was a seasonal item. The remaining 101 products were offered for sale in the commissary store without promotional sales discounts.

Use of Existing Warehouse. The Moffett Field commissary officer did not ensure that the warehouse was used only as a staging area. Frequent delivery system deliveries should be frequent enough so that merchandise does not need to be placed in storage before it is stocked on the sales floor. Direct store delivery items go directly to the preassigned display or shelf space with minimal residual backup stock. Yet as stated previously, the Moffett Field commissary stored grocery items in the existing commissary warehouse far exceeding what its sales would have supported.

Recognizing the availability and use of frequent merchandise delivery and the resulting decreased need for warehouse stock, DeCA's space criteria for design of new stores includes limited space for the staging and receiving of merchandise. For example, a DeCA standard 40,000-square foot store is provided only 4,437 square feet, for staging and receiving. The existing warehouse at the Moffett Field commissary provides about 14,500 square feet. Additionally, between 1,500 to 2,000 square feet of receiving and storage space are included in the existing 43,400-square foot commissary sales store.

Outdated Merchandise

The Moffett Field commissary had outdated merchandise on the sales floor because procedures were not in place to ensure that outdated items were promptly identified and removed from store shelves. Additionally, the meat department manager needed to more effectively monitor vendors stocking prepackaged meat products and the Veterinary Services representative needed to take a more active role. The outdated merchandise included items such as baby juice, over-the-counter drugs, and prepackaged meat items.

On March 23, 1994, we randomly checked products on the Moffett Field commissary store shelves and determined that 40 products, totaling 446 individual units, had exceeded their sell-by dates. None of the 40 products had been reviewed by a Veterinary Services representative to have their shelf life extended. Table 3. shows examples of the products that had exceeded their sell-by dates.

Table 3. Examples of Outdated Merchandise

Item Description	Units	Expiration Date
Baby juice, 4 ounces	6	Nov. 1, 1993
Chicken and beef franks, 16 ounces	32	Jan. 14, 1994
Children's cough medicine, 4 ounces	15	Mar. 1, 1994
Imitation bacon strips, 12 ounces	58	Sep. 14, 1993
Imitation bacon strips, 12 ounces	24	Mar. 14, 1994
Pregnancy test	30	Nov. 1, 1993
Summer sausages, 3 pounds	6	No dates*

* Although not dated, the product was considered by both the auditors and the meat department manager as not saleable because, based on its physical appearance, the product had spoiled.

DeCA Directive 40-5 requires that "sensitive items such as baby food, baby formula, vitamins, and over-the-counter drugs will not, repeat, will not have the shelf life extended." We removed from the store shelf the 446 outdated items we identified and notified the appropriate commissary personnel.

Prepackaged Meat Vendors. The meat department manager at the Moffett Field commissary did not effectively monitor vendors stocking prepackaged meat on commissary shelves; some were stocking outdated products. Prepackaged meat products, such as hams, sausages, packaged sandwich meats, and hot dogs, are items for which the vendors suggest the ordered quantities and stock the shelves. Of the 446 outdated items we noted on the Moffett Field commissary shelves, 230 items (52 percent) involved prepackaged meat products that were vendor stocked. This could have occurred because the vendors were either overordering or they were delivering products that were outdated or nearing expiration.

We noted one instance that indicated vendors may have been knowingly supplying outdated merchandise to the commissary. On March 23, 1994, we observed a vendor stocking 24 outdated packages of imitation bacon strips on the shelf after we had removed 58 outdated packages of the same product earlier that day.

We also believe that the prepackaged meat vendors may have been ordering too much merchandise because the commissary had a large quantity of back-up stock haphazardly stored. For example, we identified about 700 pounds of

Fletcher pitted hams (whole and half) in the Moffett Field commissary chill storage area. The Moffett Field commissary sold only about 57 pounds of Fletcher pitted hams from March 1 through March 22, 1994.

Veterinary Services. The Veterinary Services representative did not take an active role in identifying and removing outdated products from the sales area. The Bay Branch of the Northern Division, Veterinary Services, Army Medical Department Activity, has one full-time representative assigned to the Moffett Field commissary store. The Standing Operating Procedure for the Installation Section for the Bay Branch, Veterinary Services, May 1, 1993, stated that food inspectors should be constantly on the alert for outdated, damaged, or deteriorated subsistence on display for sale. The Veterinary Services representative assigned to the Moffett Field commissary said he primarily reviewed the commissary for sanitary conditions and inspected fresh meat deliveries. We reviewed the inspection reports from January 1994 through March 23, 1994, and noted that none of the reports included reviews of the shelf life of merchandise on display in the store. Further, the Veterinary Services representative did not have the date code information required for determining whether some products had exceeded their sell-by dates. According to the DeCA chief veterinarian, the staff at DeCA agrees that the commissary officer and the Veterinary Services representative share in the responsibility for identifying and disposing of outdated products.

Conclusion

Excessive and outdated inventory could result in unnecessary additional costs and risk exposure for the Moffett Field commissary. Specifically, maintaining more inventory than is needed to meet the commissary patrons' immediate needs increases the possibility of employee theft, product expiration, and damage (manmade or through acts of nature). Displaying outdated merchandise on the store shelves could also result in customers purchasing products that have exceeded their sell-by dates.

Recommendations and Management Comments

We recommend that the Moffett Field Commissary Officer:

1. Implement the necessary internal controls over grocery items. At a minimum the commissary officer should:

a. Enforce the requirement in Defense Commissary Agency Directive 40-5 that commissary personnel check existing stock before ordering and stocking merchandise.

b. Request the southwest region to redistribute any remaining overstocked inventory to other stores and follow up with them if timely action is not taken.

c. Promote overstocked items for sale and reduce prices of items that are not selling.

d. Discontinue storing back-up stock in the existing commissary warehouse and use the warehouse only as a frequent delivery system and direct store delivery staging area.

Management Comments. DeCA concurred with the recommendation and stated that actions are being taken to correct the internal control weaknesses identified in this report. It stated that commissary stock order writers are required to check the commissary storage areas for overstocked items if the store shelf label of the excess item is marked as a not-to-order item. Further, saleable excess stock at the Moffett Field commissary was cross-leveled to other stores in April 1994. Any remaining excess stock was offered for sale at the Moffett Field commissary at a reduced price. Finally, DeCA stated that the backup storage area that is part of the commissary is used for frequent delivery items. The separate warehouse will still be used to stock direct store delivery backstock and seasonal displays; however, the quantities of stored stock have been significantly reduced. The complete text of the DeCA comments is in Part IV.

2. Establish internal control procedures to:

a. Monitor prepackaged meat vendors to verify that they are not ordering too much stock, storing products haphazardly, and delivering and stocking products that are outdated or nearing expiration.

b. Require the Veterinary Services representative to randomly check merchandise on the store shelves to help ensure that outdated merchandise is not offered for sale in the store. Provide the representative with date code information required for determining sell-by dates on some products.

Management Comments. DeCA concurred with the recommendation and stated that prepackaged meat items are now on a frequent delivery system, which allows more control over quantities ordered and stocked. Further, backstock items are code dated to ensure the proper rotation of merchandise. DeCA also stated that food inspectors will spot check meat items on stock display shelves to ensure product freshness. Additionally, meat department personnel are required to check shelves daily for outdated merchandise and to randomly check incoming shipments.

Part III - Additional Information

Appendix A. Defense Commissary Agency's April 20, 1994, Message to the Commissary Regions

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DIR DECA FT LEE VA//DECA-CE//

DECA SOUTHERN RGN MAXWELL AFB AL

DECA SOUTHWEST RGN EL TORO CA

DECA CENTRAL RGN LITTLE CREEK VA

DECA NORTHEAST RGN FT GEORGE G. MEADE MD

DECA EUROPEAN RGN RAMSTEIN AB GE

DECA NORTHWEST PACIFIC RGN FORT LEWIS WA

DECA MIDWEST RGN KELLY AFB TX

ACCT 734-8399

UNCLAS

SUBJECT: INVENTORY AND STOCK CONTROL

1. DURING A RECENT DODIG REVIEW OF OPERATIONS AT ONE OF OUR COMMISSARIES AT WHICH ACCOUNTABILITY HAD GENERALLY BEEN SUSPECT, THEY FOUND A LARGE QUANTITY AND VARIETY OF OUT OF DATE MERCHANDISE AND "EXCESS" STOCK; MANY ITEMS WHICH WERE STORED "HAPHAZARDLY"; MANY ITEMS WHICH WERE IN STAGING/STORAGE AREAS, BUT NOT ON SALES FLOOR; AND MANY INSTANCES OF STOCK BEING LEFT IMPROPERLY SECURED AND UNATTENDED EITHER DURING THE RECEIVING PROCESS OR BETWEEN RECEIPT AND STAGING/STORAGE. ALL OF THESE ARE VIOLATIONS OF THE MOST FUNDAMENTAL PRINCIPLES OF INVENTORY STOCK CONTROL AND SECURITY, AND ARE ALMOST

BILL RITZ, COMSY MGT SPEC
DOOP 48399

CHARLES M. WIKER, CEO, CE, 48720

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CERTAIN TO RESULT IN DEFICIENCIES BOTH IN ACCOUNTABILITY AND PATRON SERVICE. WE CANNOT ALLOW SUCH CONDITIONS TO EXIST IN OUR FACILITIES.

2. IMMEDIATELY UPON RECEIPT, REGION DIRS/CMDRS WILL FORWARD A COPY OF THIS MESSAGE TO EACH CDC MANAGER AND COMMISSARY OFFICER. CDC MANAGERS AND COMMISSARY OFFICERS MUST CAREFULLY REVIEW OPERATIONS IN ALL DEPARTMENTS TO DETERMINE IF ANY CONDITIONS DESCRIBED ABOVE EXIST; IDENTIFY CAUSES OF THESE CONDITIONS; TAKE IMMEDIATE ACTION TO ELIMINATE BOTH CONDITIONS AND CAUSES; AND REPORT CONDITIONS/CAUSES DISCOVERED AND DETAILS OF CDC/COMMISSARY ACTIONS PLANNED TO ELIMINATE BOTH PROBLEMS FOUND AND RECURRENCE. REPORTS WILL INCLUDE DETAILS OF ITEMS/DOLLARS IDENTIFIED. ACTION PLANS WILL SHOW ACTIONS TO BE TAKEN, DATES OF ACTUAL OR PROPOSED ACTION, AND DETAIL ACTION FROM INITIATION TO THE POINT AT WHICH EACH SITUATION IDENTIFIED HAS EITHER BEEN ELIMINATED OR REDUCED TO ACCEPTABLE LEVELS.

3. TOGETHER WITH A COPY OF THIS MESSAGE, REGIONS DIRS/CDRS WILL FORWARD ADDITIONAL GUIDANCE REGARDING REGION SUSPENSE AND REQUIREMENTS, AND THE NAME OF A REGION POC TO WHOM CDCS/COMMISSARIES CAN REFER/RESPOND. REGIONS WILL ALSO SUBMIT A CONSOLIDATED REPORT INDICATING STATUS (DETAILS OF CONDITIONS FOUND OR "NO PROBLEMS") AND FOLLOWUP ACTIONS AT EACH REGION CDC/COMMISSARY TO ARRIVE AT HQ,

BILL RITZ, COMSY MGT SPEC
DOOP 48399

CHARLES M. WIKER, CEO, CE, 48720

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Appendix A. DeCA's April 20, 1994, Message to the Commissary Regions

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NO

DECA/DOOP, ATTN: LINDA LEWIS, NLT MAY 31, 1994. PLEASE ALSO CONTACT THIS POC IF YOU HAVE ANY QUESTIONS, OR NEED ADDITIONAL INFORMATION ABOUT ANY ASPECT OF THIS ACTION.

4. THE ULTIMATE FOLLOW-UP TO ANY DEFICIENCIES DISCOVERED IS TO CONSISTENTLY MANAGE AND OPERATE OUR FACILITIES IAW SOUND PRINCIPLES OF INVENTORY AND STOCK CONTROL. I STRONGLY URGE ALL OF YOU TO MAKE A FULL COMMITMENT BOTH TO SHORT TERM FOLLOW-UP, AS INDICATED BY REVIEW OF OPERATIONS, AND TO CONTINUING MAINTENANCE OF RATIONAL AND EFFECTIVE INVENTORY AND STOCK CONTROLS. WE CANNOT AFFORD TO DO LESS. THANK YOU FOR YOUR PROMPT ATTENTION TO THIS MATTER.

BILL RITZ, COMSY MGT SPEC
DOOP 48399

CHARLES M. WIKER, CEO, CE, 48720

UNCLASSIFIED

Appendix B. Photograph of Commissary Storage Area

Appendix C. Organizations Visited or Contacted

Headquarters, Defense Commissary Agency, Ft. Lee, VA
Defense Commissary Agency, Southwest Region, Marine Corps Air Station, El Toro, CA.
Moffett Field, Commissary Resale Store, CA

Appendix D. Report Distribution

Office of the Secretary of Defense

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

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Auditor General, Department of Navy
Commander, Naval Facilities Engineering Command

Department of the Air Force

Auditor General, Department of the Air Force

Defense Agencies

Director, Defense Commissary Agency
Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, Central Imagery Office
Inspector General, Defense Intelligence Agency
Inspector General, National Security Agency
Director, Defense Logistics Studies Information Exchange

Non-Defense Federal Organizations

Office of Management and Budget
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 Issues

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 Panel on Morale, Welfare and Recreation, 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

NOV 2 1994

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

SUBJECT: Audit Report on Inventory Controls Over Grocery Items and Prepackaged Meat at Moffett Field Commissary Store, Sunnyvale, California (Project No. 4LA-0036)

Reference: DoDIG Memorandum, September 6, 1994, 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. Of special concern is the fact that outdated stock was being offered for sale without the benefit of the Veterinary Service inspecting and extending the shelf life of the product. In April, all regions were notified of the importance of proper ordering, stocking, and stock rotation. By November 15, 1994, a reminder will be resent to the regions for dissemination to all commissaries reemphasizing the importance of the Veterinary Service inspecting and extending the shelf life as necessary for merchandise which reaches its expiration date as well as the importance of proper ordering and stock rotation. This will continue to be an area of interest when region and Headquarters personnel visit the commissaries.

RONALD P. McCOY
Colonel, USAF
Chief of Staff

Attachment:
As Stated

DEFENSE COMMISSARY AGENCY REPLY

SUBJECT: Audit Report on Inventory Controls Over Grocery Items and Prepackaged Meat at Moffett Field Commissary Store, Sunnyvale, California (Project No. 4LA-0036)

Recommendation 1. Implement the necessary internal controls over grocery items. At a minimum the commissary officer should:

a. Enforce the requirement in DeCA Directive 40-5 that commissary personnel check existing stock before ordering and stocking merchandise.

b. Request the Southwest Region to redistribute any remaining overstocked inventory to other stores and follow up with them if timely action is not taken.

c. Promote overstocked items for sale and reduce prices of items that are not selling.

d. Discontinue storing back-up stock in the existing commissary warehouse and use the warehouse only as a frequent delivery system and direct store staging area.

Action Taken. Concur.

a. Any overstock is arranged by store/aisle location. Order writers check these items before transmitting reorder quantities to suppliers. In addition, a red code is placed on the shelf label of excess items. This is a signal not to order item. Excess item is pulled from warehouse and given to contractor to stock. When there is no longer an excess, the red code is removed and the item is reordered.

b. Saleable excess items were cross-leveled to other stores in April 1994.

c. Remaining overstocked items were promoted for sale after price reduction by vendors. Additionally, the Southwest Region authorized price reduction on discontinued items. Items were sold in-store to patrons.

d. There are two storage areas at the Moffett Field Commissary. A backup storage area that is part of the commissary, and a separate warehouse across the parking lot in back of the store. The area contiguous to the store is used for Frequent Delivery Items and is efficient and convenient for contract stockers. Although the Stock levels in the warehouse have been significantly reduced from what the DoDIG saw last spring, the remote warehouse must still be used to stock direct store delivery backstock as well as seasonal displays.

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Recommendation 2. Establish internal control procedures to:

a. Monitor prepackaged meat vendors to verify that they are not ordering to much stock, storing products haphazardly, and delivering and stocking products that are outdated or nearing expiration.

b. Require the Veterinary Services representative to randomly check merchandise on the store shelves to help ensure that outdated merchandise is not offered for sale in the store. Provide the representative with date code information required for determining sell-by dates on some products.

Action Taken. Concur.

a. Meat items are now on Frequent Delivery System and quantities are more easily controlled. Backstock items are code dated by commissary personnel to easily identify receipt date of items and assure proper rotation.

b. Food Inspectors assigned to Moffett, spot check items on meat department display shelves to assure product freshness. In addition, commissary meat department personnel check shelves daily for outdated merchandise as well as randomly checking incoming shipments. Vendor stockers, especially those in which English is a second language, have been instructed on proper stocking techniques to include reading code dates.

Internal Control Weaknesses. We concur that internal control weaknesses existed in the areas addressed in the report and actions are being taken to correct these areas.

Audit Team Members

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