Audit Report

MANAGEMENT OF RESOURCES AT THE
DOD ELECTRONIC COMMERCE OFFICE

Report No. 98-138 May 27, 1998

Office of the Inspector General
Department of Defense

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Acronyms

DLA	Defense Logistics Agency
DSS-W	Defense Supply Service - Washington
GSA	General Services Administration
IMPAC	International Merchant Purchase Authorization Card
MIPR	Military Interdepartmental Purchase Request
OPM	Office of Personnel Management
WHS	Washington Headquarters Services

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May 27, 1998

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND TECHNOLOGY
DIRECTOR, DEFENSE LOGISTICS AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Management of Resources at the DoD Electronic Commerce Office (Report No. 98-138)

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. Management comments conformed to the requirements of DoD Directive 7650.3 except for the recommendation to terminate the interagency agreement for training services. Therefore, we request the Deputy Under Secretary of Defense (Logistics) provide additional comments on Recommendation 2.g. by July 27, 1998.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Joseph P. Doyle at (703) 604-9348 (DSN 664-9348) or Ms. Addie M. Beima at (703) 604-9231 (DSN 664-9231). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

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Report No. 98-138 **May 27, 1998**
(Project No. 7CK-5036)

Management of Resources at the DoD Electronic Commerce Office

Executive Summary

Introduction. The DoD Electronic Commerce Office was established within the Defense Logistics Agency but was functionally under the Deputy Under Secretary of Defense (Acquisition Reform). The Defense Logistics Agency provided personnel and administrative services, while the DoD Electronic Commerce Office reported to the Deputy Under Secretary of Defense (Acquisition Reform) for mission related issues. The mission of the DoD Electronic Commerce Office was to facilitate DoD-wide implementation of electronic commerce/electronic data interchange and to ensure DoD compliance with legislation directing the use of electronic commerce for Federal purchases.

Audit Objectives. The audit objective was to evaluate the adequacy of management practices and controls over resources at the DoD Electronic Commerce Office. Specifically, we determined whether management practices and controls over staffing, funding, contracting, and property complied with applicable regulatory and statutory guidance. We also reviewed the management control program as it applied to the audit objectives.

Audit Results. Management practices and controls in the DoD Electronic Commerce Office were not adequate to protect and conserve $1.4 million of Government resources (see Appendix B), preclude potential Antideficiency Act violations, or ensure that at least 810 hours of annual and sick leave taken were deducted from employee leave balances. The manager primarily responsible for management controls within the DoD Electronic Commerce Office was transferred to the Defense Logistics Agency in April 1997 and has since retired. See Part I for a discussion of the audit results and Appendix A for details on the management control program.

Summary of Recommendations. We recommend that the:

- Under Secretary of Defense for Acquisition and Technology realign the Electronic Commerce Division organizationally and functionally under a single entity, and investigate whether transactions with the Office of Personnel Management for training services and transactions associated with the document imaging and management system contract resulted in Antideficiency Act violations and failed to comply with DoD Directive 7200.1, "Administrative Control of Funds and Antideficiency Act Violation."

• Deputy Under Secretary of Defense (Logistics) establish and implement a management control program in the Electronic Commerce Division; adjust employee leave balances to reflect unreported leave taken; cancel existing International Merchant Purchase Authorization Cards and obtain new cards from the Defense Logistics Agency; implement procedures for using International Merchant Purchase Authorization Cards; monitor funds obligated on Military Interdepartmental Purchase Requests; terminate the interagency training agreement with the Office of Personnel Management; return excess property; reevaluate computer support services requirements and adjust as appropriate; and use excess workstations to furnish the Life Cycle Information Integration Office.

• Commander, Defense Supply Service-Washington, discontinue issuing delivery orders against General Service Administration total quality management contracts for services that are outside the scope of the contracts.

Management Comments. The Deputy Under Secretary of Defense (Logistics) responded for the Under Secretary of Defense for Acquisition and Technology and the Director, Life Cycle Information Integration Office, and concurred or partially concurred with all recommendations. The Deputy Under Secretary agreed to realign the Electronic Commerce Division under a single entity, the Joint Electronic Commerce Program Office; investigate two potential Antideficiency Act violations; establish and implement a management control program; review unrecorded leave; cancel existing International Merchant Purchase Authorization Cards; comply with Military Interdepartmental Purchase Request guidance; return excess property; terminate an automated data processing support services agreement; and redistribute office workstations. The Deputy Under Secretary partially concurred with the recommendation to terminate the interagency agreement for training services, stating that no action will be taken until after the Antideficiency Act violation determination. The Army, as executive agent for the Defense Supply Service-Washington, concurred with the recommendation to cease issuing delivery orders outside the scope of the General Services Administration total quality management contracts. See Part I for a summary of management comments and Part III for the complete text of management comments.

Audit Response. Management comments were fully responsive to all draft recommendations except the recommendation to terminate the interagency agreement for training services. We do not agree with management's position to delay termination of the interagency agreement until completion of the potential Antideficiency Act violation review. The potential Antideficiency Act violation is a separate issue unrelated to the provisions of the Economy Act and should not impact the decision to terminate the interagency agreement for training services. Therefore, we request that the Deputy Under Secretary of Defense (Logistics) reconsider the position on this recommendation and provide additional comments on this recommendation by July 27, 1998.

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Part I - Audit Results

Audit Background

History of the DoD Electronic Commerce Office. Executive Memorandum, "Streamlining Procurement through Electronic Commerce," October 26, 1993, required the implementation of electronic commerce for Federal purchases. The Secretary of Defense established the DoD Electronic Commerce Office (EC Office) within the Defense Logistics Agency (DLA) to facilitate DoD-wide implementation of electronic commerce/electronic data interchange. DLA General Order No. 07-94, February 28, 1994, established the EC Office as a DLA field operating activity under the Deputy Director (Acquisition), DLA. In January 1995, the EC Office was reorganized and began reporting to the Deputy Under Secretary of Defense (Acquisition Reform) for mission related issues. DLA continued to provide personnel and administrative services to the EC Office. In February 1997, functional oversight of the EC Office was realigned to the Deputy Under Secretary of Defense (Logistics) and in April 1997, the former Director of the EC Office was transferred to DLA and subsequently retired. In July 1997, the EC Office became the Electronic Commerce Division within the Life Cycle Information Integration Office. As a result of the Defense Reform Initiative, functions and resources of the Life Cycle Information Integration Office were incorporated into the Joint Electronic Commerce Program Office in February 1998.

Funding and Resources. Washington Headquarters Service (WHS) provided financial, accounting, budget, and travel support to the EC Office. Table 1 shows the EC Office resources as reflected in the FY 1998 President's Budget.[1]

Table 1. EC Office Resources Reflected in the FY 1998 President's Budget

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Manpower:								
Military	1	1	1	1	1	1	1	1
Civilian	14	16	16	16	16	16	16	16
Funding ($M):								
Operations & Maintenance	13	13	17	15	15	14	14	15
Procurement	2	3	3	2	1	1	1	1
Total	**15**	**16**	**20**	**17**	**16**	**15**	**15**	**16**

[1] From the March 1997 Electronic Commerce/Electronic Data Interchange Baseline Report prepared by the Acquisition Program Integration Office.

EC Office Management. The Director of the EC Office was responsible for managing the EC Office including establishing and implementing management controls to protect and conserve its resources. Neither DLA, the Deputy Under Secretary of Defense (Acquisition Reform), nor the Deputy Under Secretary of Defense (Logistics) ever assumed responsibility for the efficient and effective execution of EC Office operations or its use of resources.

Audit Objectives

The audit objective was to evaluate the adequacy of management practices and controls over resources at the EC Office. Specifically, we determined whether management practices and controls over staffing, funding, contracting, and property complied with applicable regulatory and statutory guidance. We also reviewed the management control program as it applied to the audit objectives. See Appendix A for a discussion of the audit process and summary of prior coverage related to the audit objectives. See the finding for a discussion of the material weaknesses identified, and Appendix A for the details of our review of the management control program.

Management Controls Over EC Office Resources

The Director of the DoD Electronic Commerce Office (the Director) failed to adhere to established management controls over staffing, the use of funds, contracting, and property and did not implement a management control program within the EC Office between February 1994 and April 1997. This condition occurred because the Director used poor judgment and did not receive adequate management oversight. As a result, the Director failed to protect and conserve $1.4 million of Government resources (see Appendix B), may have violated the Antideficiency Act, and did not ensure that 810 hours of annual and sick leave taken were deducted from employee leave balances.

Staffing

The EC Office did not adhere to management controls established to ensure that employees worked appropriate schedules and that time and attendance was properly recorded. As a result, employees worked excessive overtime hours without compensation, and at least 810 hours of annual and sick leave taken were not charged against employee leave balances.

Working Without Compensation. EC Office employees worked excessive overtime hours without compensation. According to EC Office staff we interviewed, the Director told the staff not to work overtime. However, the Director routinely convened late meetings and gave lengthy assignments at the end of the day stating that the work had to be completed by the start of the next day. While the office policy was that there was no overtime compensation, the perception of staff members was that they had to work uncompensated overtime to accomplish the Director's assignments. According to a senior EC Office official, the Director was unforgiving if assignments were not completed within deadlines. For example, a GS-14 procurement analyst who had been working excessive hours asked the Director for compensation of overtime worked and was told by the Director that it was office policy that there was no overtime compensation. Yet, pressure from the Director and the urgency of the work caused this employee to continue to work excessive hours until she eventually collapsed on the job three times. The employee was diagnosed as suffering from exhaustion. Although the Director did not order EC Office employees to work overtime, the Director's actions and temperament coerced some into working uncompensated overtime. This included a nonexempt employee subject to provision of the Fair Labor Standards Act. Neither the EC Office nor the affected employees maintained records of overtime worked. As a result, we could not quantify the uncompensated overtime hours.

Time and Attendance. The Director did not adhere to controls provided in DoD 7000.14-R, "DoD Financial Management Regulation," Volume 8, "Civilian Pay Policy and Procedures," January 1995, to ensure that leave taken by EC Office employees was properly reflected in official records. A review of EC Office, DLA, and Defense Finance and Accounting Service time and attendance documents showed that the Director did not ensure timely and accurate preparation, certification, and submission of time and attendance documents, or ensure that necessary corrections to time and attendance were appropriately recorded. As a result, EC Office employees took 810.25 leave hours (587.5 hours annual leave and 222.75 hours sick leave) between October 1995 and September 1996 that were not deducted from official leave balances. This leave was not reported because the EC Office did not have a management control program in place to ensure that established controls over recording and certifying time and attendance were functioning as intended. In addition, a review of travel vouchers indicated that EC Office employees took 104 of the 587.5 hours of unreported annual leave in conjunction with temporary duty travel. The leave, taken by the Director (24 hours) and two analysts (80 hours), was documented on travel claims, but was not reported to the Defense Finance and Accounting Service. On December 9, 1997, we provided the Director, Life Cycle Information Integration Office, details of the unreported leave so that the office could take appropriate corrective action.

Use of Funds

The Director failed to adhere to established management controls over Military Interdepartmental Purchase Requests (MIPRs) and International Merchant Purchase Authorization Cards (IMPAC cards). As a result, the EC Office did not protect and conserve funds totaling $278,771 entrusted to its use as shown in the chart on page 8.

Military Interdepartmental Purchase Requests. The Director did not implement management controls established by the Office of the Secretary of Defense to monitor funds provided to Defense agencies on 42 MIPRs which allowed $237,918 of funds to expire that should have been reprogrammed for other use. In addition, the EC Office did not ensure that another $32,319 in MIPR funds was used as intended.

Established Controls. The Under Secretary of Defense (Comptroller) Memorandum, "Quarterly Reviews of Commitments and Obligations," May 14, 1996, required the EC Office to review obligations a minimum of three times a year to ensure the accuracy, completeness, and timeliness of financial transactions. Office of the Deputy Under Secretary of Defense (Acquisition Reform/Electronic Commerce)-002, "Military Interdepartmental Purchase Request Standard Operating Procedure," March 11, 1996, provided standard operating procedures for the use of MIPRs. The operating procedures required the EC Office to monitor funds obligated on MIPRs.

Expired Funds. The EC Office allowed funds issued on MIPRs to expire without attempting to reallocate them for other use. The EC Office issued 42 MIPRs totaling about $11.9 million between December 1995 and April 1997 to fund electronic commerce projects and obtain support services. Contrary to the cited Under Secretary of Defense (Comptroller) memorandum and standard operating procedures, the EC Office did not review funds obligated on MIPRs at least three times a year. In fact, according to EC Office program managers, they rarely reviewed or adjusted obligations associated with MIPRs. A review of expenditure documents provided by the MIPR recipients showed that the EC Office allowed $237,918 issued on 19 of those MIPRs to expire without attempting to get the funds back or put them to other use. As a result of this audit, MIPR recipients returned $186,824 of the expired $237,918 to the EC Office before the audit field work ended. The EC Office should request the return of the remaining $51,094 of expired funds, monitor future MIPR funds, and request that unobligated amounts be returned and reallocated in a timely manner.

Funds Used For Purposes Other Than Intended. A DLA project manager, now deceased, alleged that DLA did not use $32,319 provided by the EC Office for its intended purpose. The EC Office provided the funds to DLA to support the Automated Bidset Interface project. According to the DLA project manager, DLA diverted the funds from the approved project to purchase the Architect project management tool and two laptop computers for the general support of the DLA project office. Our review concluded that the funds were spent to purchase the Architect project management tool and the laptop computers without EC Office approval or knowledge. We confirmed that neither the management tool nor the computers were used for the Automated Bidset Interface project, which subsequently was canceled. Because the EC Office did not monitor the project, they were unaware that DLA used the funds improperly.

International Merchant Purchase Authorization Cards. The Director failed to adhere to management controls for obtaining and using IMPAC cards.

Established Controls. Management controls over IMPAC cards used by the EC Office are established in the Defense Supply Service-Washington (DSS-W) User's Guide for the Commercial Credit Card Program (the IMPAC Guide). The IMPAC Guide provides policy and procedures for cards issued by DSS-W including how to obtain a card, who is authorized to use the card, what can be purchased with the card, and where purchases can be made.

Obtaining IMPAC Cards. The EC Office inappropriately obtained IMPAC cards for the EC Office and the Deputy Under Secretary of Defense (Acquisition Reform). The then Deputy Director inappropriately directed a junior budget analyst to sign three IMPAC card applications (DD Form 1262, "Administrative Service Request") as the "Fiscal Officer." The procedures for obtaining IMPAC cards require the organization's Fiscal Officer to sign the DD Form 1262 to certify that funds are available to pay for IMPAC purchases. The Chief, Installation Accounting Division, WHS, was the Fiscal Officer for the EC Office and Deputy Under Secretary of Defense (Acquisition Reform). The IMPAC Guide prohibited DSS-W from issuing the IMPAC cards without

the appropriate signature. DSS-W employees later questioned processing the applications because they were not signed by the proper authorizing official. However, they were instructed by their supervisor, the then Commander, DSS-W, to process the applications anyway. In obtaining the IMPAC cards, the EC Office and DSS-W ignored controls established to ensure that cards are issued only to appropriately authorized individuals. Having ignored controls over obtaining the cards, the EC Office further ignored established controls over their use.

Using IMPAC Cards. The Director, under the premise of acquisition reform, did not adhere to controls established over the use of the IMPAC cards. The Director permitted unauthorized users to make purchases using the IMPAC cards and did not use the required precedence of sources when acquiring supplies and services. The acquisition reform emphasis on expanding the use of IMPAC cards was never intended to encourage poorly controlled purchasing practices.

Authorized Users. EC Office officials routinely permitted unauthorized users to use IMPAC cards to make purchases. According to the Guide, only trained IMPAC cardholders whose names are embossed on the cards may use those cards to purchase goods and services from appropriate sources. The EC Office cardholders were the most junior clerical staff members whose power to limit such abuses was greatly diminished. For example, an authorized cardholder was directed to provide the IMPAC card number to enable an unauthorized user to make purchases. The junior employee notified EC Office management, per the Guide, that unauthorized users were not allowed to make purchases with the IMPAC card. EC Office management continued its unauthorized use of the card over the objections of the cardholder. That cardholder resigned from Federal service in October 1996, yet records indicated that the EC Office continued its unauthorized use of that IMPAC card until December 1996.

Required Sources. The EC Office obtained supplies and services from commercial sources with IMPAC cards rather than from the required sources identified in the Federal Acquisition Regulation, Part 8.001, "Priorities for Use of Government Supply Sources." The required sources list was provided to help management protect and conserve resources when acquiring supplies and services. Source precedence is as follows: existing agency inventory; excess from other agencies; Federal Prison Industries, Inc.; National Industries for the Blind/National Industries for the Severely Handicapped; General Services Administration (GSA); mandatory Federal Supply Schedules; optional use Federal Supply Schedules; and commercial sources. Contrary to this guidance, the EC Office routinely used IMPAC cards to satisfy its requirements from commercial sources. Between February 1996 and March 1997, the EC Office used IMPAC cards to purchase $8,534 of supplies and services from commercial sources. Some examples of purchases made from inappropriate sources follow.

Office Supplies. The EC Office improperly used IMPAC cards to purchase $5,804 of ordinary office supplies from commercial sources when the supplies were available from the DSS-W Self Service Supply Center or from other required sources such as GSA.

Printing Services. The EC Office used IMPAC cards to improperly purchase $2,320 of printing services from a commercial source. The Guide specifically prohibits the use of the IMPAC card for purchasing printing or copying services from commercial sources. The Federal Acquisition Regulation, Part 8.802, "Policy" for acquisition of printing and related supplies requires that government printing be done by or through the Government Printing Office unless that office cannot provide the printing service or the printing is done in field printing plants operated by an executive agency, such as the Defense Automated Printing Service.

Courier Services. The EC Office imprudently used IMPAC cards to purchase courier services costing about $410 to transport materials to Fort Belvoir, Virginia, even though the EC Office was paying for mail service between the two points through its interagency support agreement with the DLA Administrative Support Center.

Table 2. Mismanagement of MIPR and IMPAC Card Funds

Expired MIPR Funds		$237,918
MIPR Funds Used for Purposes Other Than Intended		32,319
IMPAC Card Purchases From Inappropriate Sources		8,534
Office Supplies	$5,804	
Printing Services	2,320	
Courier Services	410	
Total		**$278,771**

Contracting

The EC Office did not implement management controls over contracting actions. Consequently, there was no assurance that contracting actions totaling $714,998 were performed in accordance with provisions of the Economy Act, Antideficiency Act, and Federal Acquisition Regulation. The EC Office:

- allowed the Office of Personnel Management (OPM) to continue to obligate funds under an Economy Act order even though the obligation period had expired,

- contractually obligated funds without a bona fide need for the services in the year in which the contract was awarded, and

- entered into an unauthorized commitment with a contractor.

In addition, DSS-W inappropriately used two GSA total quality management contracts[2] to acquire services that were not within the scope of the contracts.

Economy Act Obligations. The EC Office disregarded controls over the use of Economy Act orders and may have violated the Antideficiency Act. In 1994, the EC Office entered into an interagency agreement with OPM for electronic commerce/electronic data interchange training services. The agreement was governed by Title 31, United States Code, Section 1535, (known as the "Economy Act"). Contrary to the Economy Act, the EC Office did not request OPM to return unobligated funds at year-end. Section (d) of the Economy Act states that the ordering agency obligates an appropriation when it establishes an interagency agreement. When the agency filling the order has not obligated funds before the end of the appropriation's period of availability, those funds should be deobligated by the ordering agency. In the case of the Operations and Maintenance appropriation, funds are available for obligation only in the year in which they are appropriated.

Based on the interagency agreement, the EC Office transferred $800,000 of FY 1994 Operations and Maintenance funds to OPM. OPM deposited the funds in a revolving fund. OPM obligated only $494,743 of the $800,000 before the period of funds availability expired and retained the remaining $305,257 in its revolving fund. During FYs 1995 and 1996, the EC Office amended the interagency agreement to add Operations and Maintenance funds totaling $714,746. Contrary to guidance contained in the Economy Act, the EC Office did not request that OPM return unobligated funds totaling $601,742 between FYs 1994 and 1996. Instead, the funds remained comingled in the OPM revolving fund and were used by the EC Office to acquire training services in subsequent fiscal years. The EC Office did not provide FY 1997 funds to OPM. Instead, it used prior year OPM funds totaling $5,836 to acquire training services in FY 1997. As a result, the EC Office may have violated the timing element of the Antideficiency Act. Table 3 shows that as of May 1997, $595,906 remains unobligated in the OPM revolving fund, thereby precluding funds being put to better use.

[2] Contracts for training Government employees to take independent actions to improve their organizations.

Table 3. Status of Funds Paid to Office of Personnel Management

FY	Funds Paid	Funds Obligated on Work Orders	Unobligated Funds
1994	$ 800,000.00	$494,743.32	$305,256.68
1995	296,746.00	259,280.22	37,465.78
1996	418,000.00	158,980.45	259,019.55
Subtotal	$1,514,746.00	$913,003.99	$601,742.01
1997[3]	0.00	5,836.25	(5,836.25)
Total	**$1,514,746.00**	**$918,840.24**	**$595,905.76**

The EC Office should terminate the interagency agreement and request that OPM perform a final accounting of project costs and return unobligated funds. Also, the Office of the Under Secretary of Defense for Acquisition and Technology needs to determine whether an Antideficiency Act violation occurred.

Bona Fide Need. EC Office officials disregarded the bona fide need rule when they obligated funds on a contract at the end of FY 1996, even though the work could not begin until the second quarter of FY 1997. The bona fide need rule prohibits the obligation of funds in one fiscal year for services required in a subsequent fiscal year. On September 20, 1996, the EC Office transferred $113,092 to DLA on a MIPR. On September 25, 1996, DLA obligated the funds on a contract for a document imaging and management system, but instructed the contractor not to begin work until further written notice. The EC Office staff had to catalog all office documents and identify documents to files before the contractor could begin scanning the documents into the system. The EC Office was not prepared to have the contractor begin performance on the contract until the second quarter of the next fiscal year. Therefore, the EC Office violated the bona fide need rule and, unless corrective FY 1997 funding is available, may have violated the timing element of the Antideficiency Act.

Unauthorized Commitment. The EC Office did not implement management controls established in the Federal Acquisition Regulation to preclude unauthorized financial commitments. As a result, an EC Office employee committed the EC Office to an unauthorized financial obligation totaling $6,000. The EC Office employee instructed a vendor to obtain and pay for an exhibit space at the 1996 "CALS Expo" exhibition. The EC Office did not have a contractual agreement with the vendor to acquire such services and the employee who made the commitment had no contracting authority. Based on preliminary audit recommendations, DSS-W took action to ratify the unauthorized commitment in accordance with Federal Acquisition Regulation, Part 1.602-3.

[3] This data covers the period October 1996 through May 1997 only.

Services Outside the Scope of the Contract. The DSS-W incorrectly used two GSA total quality management contracts to acquire services that were not within the scope of the contracts. According to GSA Federal Supply Service officials, use of the contracts was limited to acquiring services to train government employees to take independent actions to improve their organizations. Contrary to this guidance, the EC Office prepared two statements of work that did not promote organizational improvement. One statement of work required the contractor to perform a cost-benefits analysis to determine the return on investment for current EC Office projects. The other statement of work required the contractor to evaluate DoD contractor past performance systems to determine how best to use performance data when selecting contractors. DSS-W used the statements of work to issue two delivery orders against two total quality management contracts. According to GSA officials, the tasks identified in the statements of work did not lead to products that improved the overall performance of the organization as intended in the scope of the contracts. Also, both statements of work required the contractor to perform all of the work rather than teach government staff members to perform independently in the future. Since the required services did not adhere to the intent of the total quality management contracts, DSS-W should have used another contracting vehicle to acquire the services.

Table 4. Contracting Actions Not Performed in Accordance With Regulatory and Statutory Guidance

Economy Act Obligations	$595,906
Funds Obligated Without a Bona Fide Need	113,092
Unauthorized Commitment	6,000
Total	**$714,998**

Property

The Director did not adhere to management controls over property and services. Contrary to DoD 7000.14-R, "DoD Financial Management Regulation," Volume 4, "Accounting Policy and Procedures," January 1995, the Director failed to safeguard $404,146 of property from loss or theft, abuse, and waste or to manage property efficiently and effectively. As a result, the EC Office acquired unneeded, lavish office furnishings and equipment; purchased modular workstations without an apparent need; purchased unnecessary automated data processing support services; inappropriately leased two GSA vehicles; and, incurred excessive long distance cellular telephone charges.

Office Furnishings and Equipment. The EC Office obtained furnishings that far exceeded its requirements. The EC Office consisted of 25 individuals (15 Government employees and 10 on-site contractors). The EC Office failed to protect and conserve $131,189 of resources when acquiring desk chairs, executive desks, computer central processing units, and laptop computers.

Executive Desks. The EC Office obtained executive desks in excess of minimum office requirements. According to the Deputy for Space and Services, Office of the Under Secretary of Defense for Acquisition and Technology, the EC Office was not entitled to executive grade furniture for its entire staff, they were only entitled to two executive desks. Yet, the Director obtained 27 executive desks from the Defense Reutilization and Marketing Office and had the Defense Information Systems Agency refurbish them. This action resulted in the misuse of assets totaling about $14,380 that could have been put to better use (the difference between the 23 executive desks valued at $1,003 each and the cost of 23 regular desks at $465 each, plus the cost of 2 additional executive desks for which there was no apparent need).

Desk Chairs. The EC Office obtained 35 desk chairs that were in excess of its requirements. The EC Office obtained 60 desk chairs for 25 staff members, which resulted in the misuse of assets valued at $9,657 that could have been put to better use.

Computer Central Processing Units. The EC Office acquired 31 more computer central processing units (computers) than required at a cost of $65,565 (31 times $2,115). Property records showed that the EC Office had 56 computers for a staff of 25 Government and contractor employees. The Under Secretary of Defense for Acquisition and Technology, Acquisition Program Integration/Information Management Office, was aware of the excess computers but had not planned to remove them because the EC Office planned to distribute the computers to employees so they could work at home.

Laptop Computers. The EC Office acquired 11 more laptop computers than required (an additional 2 laptops were lost and will be discussed later) resulting in an unnecessary expenditure of approximately $35,189 (11 times $3,199). The EC Office acquired 19 laptop computers but, based on travel profiles, required only 6. The Director stated that the laptop computers were also used by employees to work at home but sign-out records did not support a need for the excess computers.

Safeguarding Laptop Computers. The EC Office failed to safeguard two laptop computers valued at $6,398 from loss or theft. Two executive model computers assigned to the EC Office were reported missing and no one was held accountable for the loss. One of the lost laptops was provided to the Deputy Under Secretary of Defense (Acquisition Reform). The EC Office was unable to substantiate whether they or the Deputy Under Secretary of Defense (Acquisition Reform) had lost that computer.

Modular Workstations. In response to an EC Office requisition, WHS ordered, without apparent need, 40 modular workstations in October 1996, to be designed, fabricated, and installed at the EC Office in Rosslyn, Virginia.

FY 1997 funds totaling $200,000 were obligated for the purchase. The EC Office justified the need for the workstations (subsequently definitized at 37 workstations) based on an increase in the number of EC Office staff, stating that available space would not accommodate the added staff without the workstations. In addition, the workstations would allow the EC Office to utilize all assigned space. However, including Federal employees and contractor support staff, the EC Office had only 25 people, and there was no provision in planning and budget documents for them to receive additional staff. Clearly, 12 (37 workstations minus 25 employees) of the workstations were excess to requirements and resulted in the unnecessary expenditure of $60,000 ($5,000 per workstation x 12). Given that the Director had acquired 27 executive desks and 60 chairs within the previous 2 years, and that there was no programmed increase in staff, we question whether the Director had a valid justification for buying any of the workstations and believe that the entire $200,000 could have been put to better use.

It is now the intent to use the workstations to furnish the Life Cycle Information Integration Office, including the Electronic Commerce Division. This new use for the workstations represents a cost avoidance of $200,000 to furnish the Life Cycle Information Integration Office.

Automated Data Processing Support Services. The EC Office purchased excess automated data processing support. Although there were only 25 assigned employees, the EC Office purchased computer support from the Under Secretary of Defense for Acquisition and Technology, Acquisition Program Integration/Information Management Office, for 39 users. The unnecessary support cost approximately $63,560 (14 times $4,540).

Leased GSA Vehicles. The Director failed to protect and conserve resources associated with leased GSA vehicles resulting in unnecessary costs of $8,381. Contrary to applicable guidance, the EC Office inappropriately leased two GSA vehicles (a Dodge Caravan and a Chevrolet Corsica) through the DLA Administrative Support Center in August 1996. According to DoD 4500.36-R, "Management, Acquisition, and Use of Motor Vehicles," March 1994, the Director, based on position, was not authorized to lease a minivan. The EC Office justified the request for the minivan by stating that operational requirements made it necessary for the staff to attend numerous meetings and conferences outside the office, and that a minivan was needed to transport a display booth to various convention sites in the Washington area. In addition, DoD Instruction 4515.7, "Use of Motor Transportation and Scheduled DoD Bus Service in the National Capital Region," July 31, 1985, states that DoD shall not provide transportation justified solely by rank, prestige, or personal convenience. The Director justified obtaining the sedan because of the "time and expense of filing and processing the travel vouchers," "inconvenience of using a personal car," and "time wasted waiting for the Metro."

The EC Office was located on a DoD shuttle bus route and next door to the Rosslyn Metro station. The Director also had access to various motor pools where vehicles could have been obtained on those occasions when needed to transport items to conventions. In addition, the Director had a contract taxi service. Failure to take full advantage of less costly transportation alternatives

needlessly cost the Government $8,381 ($2,881 to lease the vehicles between August 1996 and February 1997, and $5,500 in parking charges). The Director, Life Cycle Information Integration Office, took action to correct this condition by returning the vehicles to DLA in August 1997.

Long Distance Cellular Charges. The Director imprudently used a cellular telephone to make long distance calls totaling $1,480. In August 1995, the EC Office obtained two cellular telephones through DLA, one for the Director and the other for the Deputy Under Secretary of Defense (Acquisition Reform). The Deputy Under Secretary of Defense (Acquisition Reform) seldom used one of the cellular telephones. However, the Director used the other cellular telephone extensively. From October 1995 through April 1997, the Director used the cellular telephone to make 412 long distance calls even though less expensive alternatives were available. For example, AT&T had a Government calling card plan that provided Defense Components long distance telephone services at significantly reduced rates, which were tied to FTS-2000 contract rates. The calling card can be used from any noncellular telephone. By using the cellular telephone instead of an AT&T Government calling card, the Director failed to protect and conserve resources totaling $1,016.

Table 5. Property Resources Not Protected and Conserved

Office Furnishings and Equipment		$131,189
Executive Desks	$14,380	
Desk Chairs	9,657	
Computer Central Processing Units	65,565	
Laptop Computers	35,189	
Lost Laptop Computers	6,398	
Modular Workstations		200,000
Excess Automated Data Processing Support Services		63,560
Leased GSA Vehicles		8,381
Long Distance Cellular Telephones Charges		1,016
Total		**$404,146**

Oversight

The Director functioned autonomously in carrying out the fiduciary management responsibilities of the EC Office. This occurred because the EC Office was established under two separate organizations, neither of which assumed responsibility for ensuring the effective, efficient execution of its mission.

Oversight Responsibilities. Neither DLA nor the Deputy Under Secretary of Defense (Acquisition Reform) was clearly responsible for ensuring that the Director effectively and efficiently executed the mission of the EC Office. The EC Office was organizationally and administratively under DLA and the Deputy Director (Acquisition), DLA was responsible for evaluating the performance of the Director. However, the Deputy Director (Acquisition) had limited contact with the Director and did not have knowledge of EC Office activities. DLA provided no direction or oversight of EC Office operations or use of resources.

The EC Office was functionally under the Deputy Under Secretary of Defense (Acquisition Reform). Although the Deputy Under Secretary of Defense (Acquisition Reform) approved EC Office initiatives and tasked the office, the Deputy Under Secretary of Defense (Acquisition Reform) did not oversee day-to-day operations or the Director's use of resources.

The February 1997 realignment of the EC Office to the Deputy Under Secretary of Defense (Logistics) perpetuated the fragmented oversight. The realignment placed the EC Office functionally under the Deputy Under Secretary of Defense (Logistics) but left it organizationally and administratively under DLA. Ideally, the EC Office should be functionally and organizationally under a single organization. This would establish the clear line of authority and accountability absent in the current alignment. Since control of the EC Office was within the Office of the Secretary of Defense at the time of the audit, that office may be in the best position to ensure that the EC Office effectively and efficiently accomplishes its mission. However, the issue is to provide consistent oversight and minimize opportunities to mismanage resources by having the EC Office organizationally and functionally under one entity.

Corrective Actions Taken. The new EC Office management was taking steps to safeguard EC Office resources. After the office was realigned under the Deputy Under Secretary of Defense (Logistics), the Information Management Executive drafted a management control program for the EC Office. We commend this effort and encourage prompt implementation of the management control program. Also, the Defense Reform Initiative Report, November 1997, stated that the functions and resources of the Director, Life-Cycle Information Integration Office will be transferred to DLA and consolidated with DLA elements engaged in electronic commerce/electronic data interchange activities. The Director, DLA, and the Director, Defense Information Systems Agency,

will form a Joint Electronic Commerce Program Office. In our opinion, placing the direction of the EC Office under two organizations will not provide consistent oversight to the office and may perpetuate some of problems discussed in this report.

Summary

The former Director had the fiduciary responsibility to protect and conserve EC Office resources from extravagant, careless, or needless expenditure of funds and consumption or misuse resulting from deficient practices, systems, controls, or decisions. As evidenced by the examples discussed in the report, the former Director clearly mismanaged resources by repeatedly ignoring regulations and circumventing checks and balances provided to safeguard staffing, funding, contracting, and property resources. In addition, the former Director did not establish a management control program to ensure that the EC Office staff conserved and protected Government resources. The former Director:

- caused employees to work excessive overtime without compensation,
- did not ensure that 810 hours of annual and sick leave were properly recorded,
- improperly obtained and used IMPAC cards,
- did not ensure that funds provided to Defense agencies were used as intended,
- did not ensure that contracting actions adhered to provisions of the Economy Act and the Antideficiency Act,
- procured excess and lavish property, and
- did not ensure that $840,000 of obligated funds were used before they expired.

These conditions occurred because the former Director, EC Office used poor judgment and did not receive adequate oversight. The EC Office was organizationally established under one office and functionally under another, neither of which assumed responsibility for oversight of the effective, efficient execution of its mission. As a result, the former Director failed to protect and conserve Government resources totaling $1,397,915. The former Director was transferred to DLA in April 1997 and subsequently retired.

Recommendations, Management Comments, and Audit Response

Redirected Recommendation. Because the Life Cycle Information Integration Office and the Electronic Commerce Division were disestablished, the Deputy Under Secretary of Defense (Logistics) responded to recommendations to a draft of this report. As a result, Recommendations 2.a. through 2.j. were redirected to the Deputy Under Secretary of Defense (Logistics).

1. We recommend that the Under Secretary of Defense for Acquisition and Technology:

a. Assign administrative and functional responsibility for the Electronic Commerce Division to a single entity.

Management Comments. The Deputy Under Secretary concurred and stated that the Electronic Commerce Division had been incorporated into the newly created Joint Electronic Commerce Program Office.

b. Investigate the potential Antideficiency Act violation arising from the use of FY 1996 funds to procure training services in FY 1997 using the Electronic Commerce Office interagency agreement with the Office of Personnel Management, fix responsibility, and if any violation of the Antideficiency Act occurred comply with reporting requirements in DoD Directive 7200.1, "Administrative Control of Funds and Antideficiency Act Violations."[4]

c. Investigate the potential Antideficiency Act violation arising from the use of FY 1996 funds to acquire document imaging services and a management system using delivery order 0011 under contract number SP4700-95-D-0005, fix responsibility, and if any violation of the Antideficiency Act occurred comply with reporting requirements in DoD Directive 7200.1, "Administrative Control of Funds and Antideficiency Act Violations."

Management Comments. The Deputy Under Secretary concurred and stated that Washington Headquarters Services will conduct preliminary reviews of the potential Antideficiency Act violations. The reviews began on February 27, 1998, and will be finished by May 27, 1998.

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[4] Recommendations 1b. and 1c. are made to the Under Secretary of Defense for Acquisition and Technology pursuant to the DoD Financial Management Manual, Volume 14, Chapter 3, which states that it is a management responsibility to determine whether an Antideficiency Act violation occurred. Because the former Electronic Commerce Office was organizationally and functionally within elements of Office of the Under Secretary of Defense for Acquisition and Technology, the Under Secretary of Defense for Acquisition and Technology is responsible for determining if that office violated the Antideficiency Act.

2. We recommend that the Deputy Under Secretary of Defense (Logistics):

a. Establish a management control program for the Electronic Commerce Division to safeguard staffing, funding, contracting, and property resources.

Management Comments. The Deputy Under Secretary concurred and stated that the Joint Electronic Commerce Program Office had begun to draft a comprehensive management control plan that will be completed by July 31, 1998.

b. Implement a management control program for the Electronic Commerce Division that includes tests of management controls over staffing, funding, contracting, and property to ensure that management controls function as intended.

Management Comments. The Deputy Under Secretary concurred and stated that the management control plan under development will be implemented by the Joint Electronic Commerce Program Office.

c. Review unrecorded leave taken by DoD Electronic Commerce Office employees and process leave adjustments or collection actions through the Defense Logistics Agency as appropriate.

Management Comments. The Deputy Under Secretary concurred and stated that the Joint Electronic Commerce Program Office will complete a review of unrecorded leave by June 30, 1998.

d. Cancel any remaining International Merchant Purchase Authorization Cards obtained from the Defense Supply Service-Washington and obtain new cards from the Defense Logistics Agency.

e. Implement procedures for the use of International Merchant Purchase Authorization Cards set forth in Defense Logistics Agency commercial credit card user guidance.

Management Comments. The Deputy Under Secretary concurred and stated that the Joint Electronic Commerce Program Office will cancel the International Merchant Purchase Authorization Cards immediately and will include procedures for the use of the cards in the management control plan under development.

f. Require the Electronic Commerce Division to monitor and make adjustments to obligations associated with Military Interdepartmental Purchase Requests as required by Under Secretary of Defense (Comptroller) Memorandum, "Quarterly Reviews of Commitments and Obligations," and Office of the Deputy Under Secretary of Defense (Acquisition Reform/Electronic Commerce)-002, "Military Interdepartmental Purchase Request Standard Operating Procedures."

Management Comments. The Deputy Under Secretary concurred and stated that the Joint Electronic Commerce Program Office will include procedures for monitoring and making adjustments to Military Interdepartmental Purchase Requests in the management control plan under development.

g. Terminate the Electronic Commerce Division interagency agreement with the Office of Personnel Management for training services and request that the Office of Personnel Management perform a final accounting of project costs and return unobligated funds in accordance with provisions of Title 31, United States Code, Section 1535, "Economy Act."

Management Comments. The Deputy Under Secretary partially concurred stating that the Joint Electronic Commerce Program Office will take no action to terminate the interagency agreement for training services until the Washington Headquarters Services finishes the preliminary Antideficiency Act violation review.

Audit Response. The Deputy Under Secretary comments are not fully responsive. Termination of the interagency agreement under Economy Act provisions is a separate issue unrelated to the potential Antideficiency Act violation and should not impact the decision to terminate the agreement. We request that the Deputy Under Secretary reconsider this position and provide additional comments in response to the final report.

h. Review Electronic Commerce Division property requirements and return property in excess of minimum Electronic Commerce Division needs to Washington Headquarters Services and the Under Secretary of Defense for Acquisition and Technology, Acquisition Program Integration/Information Management Office.

Management Comments. The Deputy Under Secretary concurred and stated that an inventory of property was conducted when the Electronic Commerce Division was reassigned to the Joint Electronic Commerce Program Office. The Joint Electronic Commerce Program Office identified executive desks and desk chairs for disposition to Washington Headquarters Services, identified excess computers and accessories for disposition by the Under Secretary of Defense for Acquisition and Technology, Network Operations, and reassigned laptop computers and servers within the Joint Electronic Commerce Program Office.

i. Review and adjust the Electronic Commerce Division automated data processing support services agreement with the Under Secretary of Defense for Acquisition and Technology, Acquisition Program Integration/ Information Management Office, as appropriate to support the Electronic Commerce Division.

Management Comments. The Deputy Under Secretary concurred and stated that the Joint Electronic Commerce Program Office will include procedures for the use of automated data processing support services in the management control plan under development. On April 29, 1998, the Joint Electronic Commerce Program Office further clarified management's comments and stated that the

automated data processing support services agreement between the Electronic Commerce Division and the Under Secretary of Defense for Acquisition and Technology, Acquisition Program Integration/Information Management Office, was terminated on March 31, 1998.

j. Use workstations in excess of Electronic Commerce Division needs to furnish all of the divisions of the Life Cycle Information Integration Office.

Management Comments. The Deputy Under Secretary concurred and stated that since the Life Cycle Information Integration Office has been disestablished, a review is being conducted to determine how the workstations can be used by Office of the Deputy Under Secretary of Defense (Logistics) personnel.

3. We recommend that the Commander, Defense Supply Service-Washington cease issuing delivery orders against General Service Administration total quality management contracts for services that are outside the scope of the contracts.

Management Comments. The Army, as the executive agent for the Defense Supply Service-Washington, concurred with the recommendation. The Army stated that the Director of Contracting will issue a letter advising that requirements for future delivery orders be carefully scrutinized, particularly regarding scope issues, before determining the appropriate method of procurement.

Part II - Additional Information

Appendix A. Audit Process

Scope

We reviewed the management of resources at the EC Office. The review focused on the use of FYs 1994 through 1997 EC Office resources in the following areas: time and attendance, travel, IMPAC cards, MIPRs, contracting, property, leased vehicles, and cellular telephones.

Methodology

We compared EC Office leave records such as SF-71s, "Application for Leave," Final Daily Time and Attendance Labor Exception Recaps, and Forms 45, "Time and Attendance Record," with DLA Forms 991, "Individual Leave Record," for the period October 1995 through March 1997 to identify and quantify leave taken but not reported on official records.

We reviewed travel vouchers obtained from DFAS-Denver and DFAS-Indianapolis for the period October 1995 through March 1997 to determine whether claims and reimbursements were appropriate and accurate, and to determine whether leave hours reported on travel vouchers were recorded on official leave records.

We reviewed IMPAC card billing statements, sales receipts, and related documents for the period February 1996 through March 1997, to determine whether IMPAC cards were used in accordance with applicable guidance.

We reviewed contracts and interviewed Defense Component representatives to determine whether funds provided by the EC Office on MIPRs from December 1995 through April 1997 to support electronic commerce projects were used as intended.

We reviewed total quality management contract delivery orders for the period April through August 1996 and interviewed GSA officials to determine whether DSS-W appropriately used total quality management contracts.

We interviewed officials from OPM, WHS and DSS-W, and reviewed interagency agreements with OPM, DLA, and the Department of Commerce for the period April 1994 through May 1997, to determine compliance with applicable regulatory and statutory guidance.

We reviewed property records maintained by WHS and the Under Secretary of Defense for Acquisition and Technology as of April 9, 1997, and physically verified automated data processing and other property to determine whether property records were accurate and property was appropriate to meet the needs of the office.

We reviewed the justification for leasing GSA vehicles to determine whether vehicles were obtained in accordance with DoD regulations.

We reviewed cellular telephone records maintained by the Defense Telecommunications Service, Washington, for the period October 1995 through April 1997 and compared the cost incurred to that of alternative telephone services to determine whether cellular telephones were efficiently used.

Use of Computer-Processed Data. We relied on computer-processed data from the DFAS payroll and travel systems to identify leave hours and travel taken by EC Office employees; WHS Budget System to identify the contracts and MIPRs issued for the EC Office; the WHS Property System and the Under Secretary of Defense for Acquisition and Technology Automated Data Processing System to identify the accountable property assigned to the EC Office; and the Under Secretary of Defense for Acquisition and Technology electronic mail and Lotus Notes databases to obtain information supporting various conditions identified at the EC Office. Although we did not perform a formal reliability assessment of the computer systems, we verified the accuracy of the data by comparing information on actual leave, travel, contract, MIPR, and property records to the data maintained in the computer systems and determined that the computer-generated data was generally correct. We did not find errors that would preclude use of the computer-processed data to meet the audit objectives or that would change the conclusions in the report.

Audit Type, Date, and Standards. We performed this program audit from March 1997 through January 1998 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 management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within the DoD, Office of Personnel Management, GSA, and Hughes Training, Incorporated, Falls Church, Virginia. Further details are available upon request.

Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provide reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of EC Office management controls over the management of Government resources. Specifically, we reviewed the management controls over time and attendance, travel, IMPAC cards, MIPRs, contracting, property, leased vehicles, and cellular telephones.

Adequacy of Management Controls. We identified material management control weaknesses for the EC Office as defined by DoD Directive 5010.38. The EC Office management controls were not adequate to ensure that Government resources were protected and conserved. The recommendations, if implemented, will improve management of EC Office resources. A copy of the report will be provided to the senior official responsible for management controls in the Office of the Under Secretary of Defense for Acquisition and Technology and DLA.

Adequacy of Management's Self-Evaluation. The audited areas were not included in an assessable unit and the EC Office had not established a management control program. Therefore, we could not evaluate management's self-evaluation.

Summary of Prior Coverage

There have been no prior audits that addressed the objectives of this audit. The Inspector General, DoD issued ten reports relating to the DoD Electronic Commerce/Electronic Data Interchange program from January 1996 through October 1997. Six of these reports identified specific problems with the Federal Acquisition Computer Network. One report stated that the Electronic Commerce Resource Centers were not efficient or cost-effective in promoting the implementation or increased use of Electronic Commerce technologies between Government agencies and vendors. Another report concluded that the Defense Information Systems Agency did not adequately monitor network compliance with its license agreement. One report concluded that contractors were registering with the Central Contractor Registration Program very slowly. The remaining report summarized issues related to the implementation of electronic commerce within DoD.

An investigation of the EC Office by Departmental Inquiries, Office of the Inspector General, DoD was completed January 21, 1998 and addressed the Director's use of cellular telephones over an earlier time period.

Appendix B. Management of Government Resources

The EC Office failed to protect and conserve the following $1.4 million of Government resources:

Use of Funds		
Military Interdepartmental Purchase Requests		
Expired funds	$237,918	
Funds not used as intended	32,319	$270,237
Supplies and services purchased with the IMPAC card rather than from required sources		
Office supplies	5,804	
Printing services	2,320	
Courier services	410	8,534
Contracting		
Economy Act Obligations		595,906
Funds obligated without a bona fide need		113,092
Unauthorized commitment		6,000
Property		
Office furnishings and equipment that exceeded requirements		
Executive desks	14,380	
Desk chairs	9,657	
Computer central processing units	65,565	
Laptop computers	35,189	
Lost laptop computers	6,398	131,189
Unnecessary modular workstations		200,000
Excess automated data processing support services		63,560
Inappropriate lease of two GSA vehicles		8,381
Long distance calls on a cellular telephone		1,016
Total Government Resources		**$1,397,915**

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Deputy Under Secretary of Defense (Logistics)
  Deputy Under Secretary of Defense (Acquisition Reform)
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Public Affairs)
Director, Administration and Management

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy
Dudley Knox Library, Naval Postgraduate School

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, Defense Information Systems Agency
Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency
Director, Washington Headquarters Services
Director, Defense Supply Service-Washington

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
General Services Administration
Technical Information Center, National Security and International Affairs Division, General Accounting Office

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 National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information and Technology, Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Office of Deputy Under Secretary of Defense (Logistics) Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

ACQUISITION AND TECHNOLOGY

17 APR 1998

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Management of Resources at the DoD Electronic Commerce (EC) Office (Project No. 7CK-5036)

The subject report, dated February 11, 1998, discusses a potential violation of the Antideficiency Act by the Department of Defense (DoD) Electronic Commerce Office during fiscal years 1994-1996. You requested that this office, in accordance with DoD 7000.14-R, Financial Management Regulation, take action to initiate a review of the potential violation. This action was taken February 27, 1998 with Washington Headquarters Services; it will conclude by May 27, 1998.

Additionally, you requested that this office provide comments by April 13, 1998 on the findings, recommendations, and associated monetary figures cited in the report. You stated that these comments should describe actions taken or planned in response to agreed upon recommendations, and provide the completion dates of the actions. It was requested that specific reasons for non-concurrence be stated, with alternative actions and associated monetary amounts proposed. The attached comments are hereby provided in response to your request.

Thank you for the opportunity to respond on this matter. The point of contact for this action is Mr. Miles Holtzman, (703) 275-5332.

Roy R. Willis
Acting Deputy Under Secretary
Of Defense (Logistics)

Attachment

Comments Regarding the Material Control Weaknesses
in Appendix A to Draft Audit Report
on Management of Resources at the DoD EC Office
(Project No. 7CK-5036)

The Office of the Under Secretary of Defense (Acquisition and Technology) concurs with the management control weaknesses identified in Appendix A to the draft audit report. It is expected that the weaknesses pertaining to time and attendance, travel, IMPAC cards, MIPRs, contracting, and leased vehicles will be favorably resolved with the completion of the Management Control Plan discussed in response to Recommendation 2.a. Implementation of this Management Control Plan shall ensure that Government resources are protected and conserved, and that there is adequate management assistance in overseeing the day-to-day operations of the Joint Electronic Commerce Program Office.

Comments Regarding Recommendations Included in DoD (IG) Draft Audit Report on Management of Resources at the DoD Electronic Commerce (EC) Office (Project No. 7CK-5036)

Introduction: During the period from February 18, 1998 through March 6, 1998, the resources and individuals comprising the Life Cycle Information Integration Office (LCIIO, which included the DoD EC Office as a Division) were consolidated into the newly created Joint EC Program Office (JECPO). The JECPO was established in accordance with the SECDEF's 'Defense Reform Initiative' issued in November 1997. The JECPO was created to provide a single office responsible for accelerating the application of EC practices and associated information technologies to improve DoD acquisition and life-cycle support processes.

As of the date of this document, the LCIIO and its DoD EC Division effectively have been disestablished. Moreover, the individuals who previously staffed the DoD EC Division have been reassigned to new or similar duties within the JECPO. Prior to this realignment, the former Executive Director of the LCIIO made significant progress in improving the supervision and standard operating procedures of the DoD EC Division. Since the personnel and procedures of the LCIIO EC Division have been incorporated in the JECPO, the JECPO on behalf of the USD(A&T) is providing the comments requested of the former Director, LCIIO

Recommendations for Corrective Action

1. We recommend that the Under Secretary of Defense (Acquisition and Technology) [USD(A&T)]:

a. Assign administrative and functional responsibility for the EC Division to a single entity.

USD(A&T) Concurs. The information referenced in the above introduction concisely summarizes the DoD's efforts to provide consistent oversight of the Department's EC program from a single point.

b. Investigate the potential Antideficiency Act violation arising from the use of FY 1994-1996 funds to procure training services using the EC Office interagency agreement with the Office of Personnel Management (OPM); fix responsibility; and, if any violation of the Antideficiency Act occurred, comply with reporting requirements in DoD Directive 7200.1, 'Administrative Control of Funds and Antideficiency Act Violations.'

USD(A&T) Concurs. On February 26, 1998, a senior member of the JECPO contacted the Antideficiency Act focal point within the Office of the Under Secretary of Defense (Comptroller) to determine which investigative organization, external to the DoD EC Office, would be an appropriate entity to review the potential violation referenced above. The focal point stated Washington Headquarters Services (WHS) is qualified to conduct a preliminary review. WHS was the organization through which the majority of the DoD EC Office's funding was processed during the time period referenced in the draft report. Accordingly, the senior member of the JECPO met with a representative

of WHS who, after reviewing the relevant documentation, agreed to coordinate the required preliminary review beginning February 27, 1998.

At the time of this writing, WHS's review is still ongoing. It is expected that this effort will be completed by May 27, 1998. At that time, a copy of the report, along with this office's comments and recommendations, will be forwarded to the DoD IG.

c. Investigate the potential Antideficiency Act violation arising from the use of FY 1996 funds to acquire document imaging services and a management system using delivery order 0011 under contract SP4700-95-D-0005; fix responsibility; and if any violation of the Antideficiency Act occurred, comply with reporting requirements in DoD Directive 7200.1, 'Administrative Control of Funds and Antideficiency Act Violations.'

USD(A&T) Concurs. See the response at recommendation 1.b.

2. We recommend that the Director, LCIIO:

a. Establish a management control program for the Electronic Commerce Division to safeguard staffing, funding, contracting, and property resources.

JECPO Concurs: DoD Directive 5010.38, 'Management Control Program' dated August 26, 1996, is the overarching policy directive requiring that DoD organizations implement a comprehensive system of management controls. With respect to the JECPO, Defense Logistics Agency regulation 5010.4, and Defense Information Systems Agency instruction 630-125-6, provide additional implementing requirements. In response to these requirements, the JECPO has begun to draft a comprehensive plan of management controls that will provide reasonable assurances that its programs are operating as intended. It is anticipated that this plan will be completed by July 31, 1998.

b. Implement a management control program for the Electronic Commerce Division that includes tests of management controls over staffing, funding contracting, and property to ensure that management controls function as intended.

JECPO Concurs: Upon completion of the plan referenced in 2.a, it will be immediately tested, evaluated and implemented. Employees of the JECPO shall be provided with a briefing, informing them of standard operating procedures to be followed in areas such as staffing, travel, the use of funds, contracting, and property management.

c. Review unrecorded leave taken by the DoD EC Office employees and process leave adjustments or collective actions through the Defense Logistics Agency (DLA) as appropriate.

JECPO Concurs: This review will be concluded by June 30, 1998.

d. Cancel any remaining International Merchant Purchase Authorization Cards (IMPAC) obtained from the Defense Supply Service-Washington (DSS-W) and obtain new cards from the DLA.

JECPO Concurs: The DSS-W IMPAC cards will be cancelled immediately.

e. Implement procedures for use of International Merchant Purchase Authorization Cards set forth in DLA commercial credit card user guidance.

JECPO Concurs: These procedures shall be included in the JECPO Management Control Plan referenced in 2.a.

f. Require the EC Division to monitor and make adjustments to obligations associated with Military Interdepartmental Purchase Requests, as required by Under Secretary of Defense (Comptroller) Memorandum 'Quarterly Reviews of Commitments and Obligations,' and Office of the Deputy Under Secretary of Defense (Acquisition Reform/EC)-002 'Military Interdepartmental Purchase Request Standard Operating Procedures.'

JECPO Concurs: These procedures shall be included in the JECPO Management Control Plan referenced in 2.a.

g. Terminate the EC Interagency Agreement with the OPM for training services and request the OPM perform a final accounting of project costs and return unobligated funds in accordance with provisions of Title 31, United States Code, Section 1535, 'Economy Act.'

JECPO Partially Concurs: Action on this recommendation shall be held in abeyance, pending completion of the DoD WHS review discussed in the response to Recommendation 1.b.

h. Review EC Division property requirements and return property in excess of minimum needs to Washington Headquarters Services and the USD(A&T) Acquisition Program Integration/Information Management Office.

JECPO Concurs: At the time of the EC Division's reassignment to the JECPO, an inventory of its furnishing, equipment, and property was conducted. Executive desks and desk chairs, under the control of the DoD EC Division, were identified for disposition to DoD WHS. Employees who relocated to the JECPO were allowed to take their computers and accessories with them. Excess computers and accessories were left for disposition by USD(A&T) Network Operations. Laptop computers and servers were reassigned to JECPO Inventory Management.

i. Review and adjust the EC Division automated data processing (ADP) support services agreement with the USD(A&T) Acquisition Program Integration/Information Management Office.

JECPO Concurs: Procedures for the use of ADP support services shall be included in the JECPO Management Control Plan referenced in 2.a.

j. Use workstations in excess of EC Division needs to furnish all divisions of the LCIIO.

JECPO Concurs: As stated previously, the LCIIO and its DoD EC Division effectively have been disestablished. However, a review is underway to determine how these workstations can best be utilized to support OSD Logistics personnel remaining in the Skyline complex, or possibly within Crystal City.

Department of the Army Comments

DEPARTMENT OF THE ARMY
OFFICE OF THE ADMINISTRATIVE ASSISTANT TO THE SECRETARY
105 ARMY PENTAGON
WASHINGTON DC 20310-0105

11 March 1998

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (AUDITIING)

SUBJECT: IG, DoD Draft Report, Management of Resources at the DoD Electronic Commerce Office, Project No. 7CK-5036

The following response to subject report is provided as requested:

Finding and Recommendation 3.

Finding. The Director of the DoD Electronic Commerce Office (the Director) failed to adhere to established management controls over staffing, the use of funds, contracting, and property and did not implement a management control program within the EC Office between February 1994 and April 1997. This condition occurred because the Director used poor judgment and did not receive adequate management oversight. As a result, the Director failed to protect and conserve $1.4 million of Government resources (see Appendix B), may have violated the Antideficiency Act, and did not ensure that 810 hours of annual and sick leave taken were deducted from employee leave balances.

Recommendation 3. That the Defense Supply Service-Washington cease issuing delivery orders against General Service Administration total quality management contracts for services that are outside the scope of the contracts.

Management Response. Concur. Two DSS-W delivery orders (DASW01-96-F-1136 and DASW01-95-F-2182) issued against the GSA total quality management contracts were not within scope. The Director of Contracting will issue a letter to the the appropriate division and branch advising that requirements for delivery orders be scrutinized more carefully in the future, particularly regarding scope issues, before determining the appropriate method of procurement. The Principal Assistant responsible for Contracting and the Management & Oversight Division will be responsible for validating compliance in the course of executing their normal oversight responsibilities. Target date for letter is 15 April 1998.

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Final Report Reference

General Comments. One inaccuracy appears on page 7 of the draft report concerning "Obtaining IMPAC Cards." The sentence "However, they were instructed by their supervisor, who subsequently became the EC Office Deputy Director, to process the applications anyway." is not correct. The supervisor who instructed them to take this action was not the division chief. It was the division chief at that time who later became the EC Office Deputy Director.

Revised, page 7

Any questions concerning this memorandum should be directed to the Director of Contracting, Ms. Sandra Sieber, telephone 693-5009.

Alvin D. Combs
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CF: SAAG-PMO-L

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