Audit Report

DEFENSE MEDICAL LOGISTICS STANDARD SUPPORT - WHOLESALE PROGRAM

Report Number 99-067 January 12, 1999

Office of the Inspector General
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Acronyms

COR	Contracting Officer Representative
DLA	Defense Logistics Agency
DMLSS-W	Defense Medical Logistics Standard Support - Wholesale
DSCP	Defense Supply Center Philadelphia
FAR	Federal Acquisition Regulation
FEDSIM	Federal Systems Integration and Management
INS	Information Network Systems
ISS	Information Systems Support
MIPR	Military Interdepartmental Purchase Request
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
RMA	Readiness Management Application

INSPECTOR GENERAL
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January 11, 1999

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on the Defense Medical Logistics Standard Support - Wholesale Program (Report No. 99-067)

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

DoD Directive 7650.3 requires that all recommendations and issues be resolved promptly. Therefore, we request that the Director, Defense Logistics Agency, provide the written legal opinion supporting the response to Recommendation 7. We request comments by March 12, 1999.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Tilghman A. Schraden at (703) 604-9186 (DSN 664-9186). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 99-067 **January 12, 1999**
(Project No. 8LD-5004)

Defense Medical Logistics Standard Support - Wholesale Program

Executive Summary

Introduction. This audit was requested by the Deputy Commander, Defense Supply Center Philadelphia, concerning allegations made by a complainant about improprieties in the management of the Defense Medical Logistics Standard Support - Wholesale (DMLSS-W) program. The DMLSS-W program is designed to improve medical logistics business practices in DoD by achieving significant savings in wholesale and retail medical organizations through the reduction of cost of contract payment and processing, hospital inventories, information technology, operations and maintenance of existing systems, and personnel. For FY 1997, funding for the program at the Defense Supply Center Philadelphia was about $8.5 million. The development of the DMLSS-W program required a substantial amount of contractual support services for automated information technology. The Defense Supply Center Philadelphia entered into an agreement with the General Services Administration, Federal Systems Integration and Management Center, Falls Church, Virginia, to provide contractual support services for the DMLSS-W program.

Audit Objectives. The audit objectives were to determine whether the DMLSS-W program funds were properly managed and whether the program was administered in accordance with applicable Government regulations. We also evaluated the management control program as it related to the audit objectives.

Audit Results. The allegations made by the complainant were not substantiated (see Appendix B for details). However, we noted the following conditions related to the allegations.

o Funds totaling $885,000 were inappropriately passed to another Government organization and funds totaling $20,300 were provided for program development but were used to pay contractor employees for duties that were not program related.

o Contract support services for the DMLSS-W program at the Defense Supply Center Philadelphia were inefficient and contract administration was ineffective.

o A contractor employee may have been improperly employed at the Defense Supply Center Philadelphia.

o A prospective contractor may have had an inappropriate competitive advantage.

As a result, the Defense Supply Center Philadelphia did not comply with provisions of the Joint Travel Regulation and the Federal Acquisition Regulation. Additionally, the Defense Supply Center Philadelphia could have avoided as much as $90,814 in administrative and contracting support costs for contractual services and a $500,000 contract for a follow-on project could have been awarded improperly. See Part I for a discussion of the audit results.

The management controls we reviewed were inadequate in that we identified material weaknesses. See Appendix A for details on the management control program.

Management Actions Taken. The contracting officer representative for the Federal Systems Integration and Management Center notified the audit staff on May 13, 1998, that the Information Systems Support company withdrew from the bidders list for the request for proposal on the readiness management application project The company's withdrawal avoided a potential conflict of interest.

Summary of Recommendations. We recommend that the Commander, Defense Supply Center Philadelphia, adequately control DMLSS-W program funds, administratively review the appearance of unauthorized personal services contractual arrangements and the inappropriate supervision of government employees by contractor employees, discontinue issuing Government travel orders to contractors, establish procedures to avoid redundant administrative costs, appropriately adjust contracts for all costs incurred, assign a resident contracting officer representative, and obtain a written legal opinion on former Government employment restriction.

Management Comments. The Defense Logistics Agency concurred with all the recommendations and its actions, planned or taken, are responsive. The Chief Financial Officer, Tricare Management Activity, Office of the Assistant Secretary of Defense (Health Affairs), concurred with the finding and the recommendation to establish procedures that will provide adequate control over funds provided for the DMLSS-W program. See Part I for a discussion of management comments and Part III for the complete text of management comments.

Audit Response. We consider the Defense Logistics Agency comments responsive. However, we request a copy of the legal opinion on the propriety of employment of former Government employees as contractor employees by March 12, 1999.

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Part I - Audit Results

Audit Background

This audit was requested by the Deputy Commander, Defense Supply Center Philadelphia (DSCP), Philadelphia, Pennsylvania, as a result of allegations made by a DSCP complainant. The complainant, who was assigned to the Defense Medical Logistics Standard Support - Wholesale (DMLSS-W) program, alleged that DSCP managers incurred violations of the Antideficiency Act and the Federal Acquisition Regulation (FAR) in developing the DMLSS-W program. See Appendix B for a discussion of the allegations and audit response and Appendix C for criteria applicable to the allegations.

Defense Medical Logistics Standard Support Program. The Medical Logistics Functional Process Improvement Program began in May 1990. The overall objective was to reduce the delivered cost and improve the delivery of materiel and services, and improve medical logistics readiness capability for war and contingency operations. The Medical Logistics Functional Process Improvement Program, which includes the development of the DMLSS program, was approved in March 1991. The DMLSS program, when fielded, will replace the Office of the Secretary of Defense (OSD) Central Processing and Distribution system in addition to eight DoD medical legacy systems. DMLSS-W is a subsystem of the DMLSS program that the Joint Medical Functional Development Center, Fort Detrick, Maryland, an activity acting under the authority of the Assistant Secretary of Defense (Health Affairs), is developing and defining. The DMLSS-W program is designed to improve medical logistics business practices in DoD by achieving savings in wholesale and retail medical organizations through the reduction of cost of contract payment and processing, hospital inventories, information technology, operations and maintenance of existing systems, and personnel.

Program Funds. The Deputy Under Secretary of Defense for Logistics and the Under Secretary of Defense for Acquisition and Technology provided funds to DSCP to develop the wholesale portion of the DMLSS program. During FY 1997, the Deputy Under Secretary of Defense for Logistics, through the Joint Logistics Services Center, provided $7.6 million for contractual services, organic support, supplies and travel to support the DMLSS-W development projects at DSCP, Directorate of Medical Materiel. The Office of the Under Secretary of Defense for Acquisition and Technology, through the DoD Washington Headquarters Services, provided an additional $885,000 to the DMLSS-W development project for the Reengineering Electronic Commerce with the Prime Vendor Program. The funds were transferred to DSCP on two military interdepartmental purchase requests (MIPRs), which are documents DoD Components use to request supplies and services from one another.

Contract Support Services. In June 1994, DSCP entered into an agreement with the General Services Administration Federal Systems Integration and Management (FEDSIM) Center, Falls Church, Virginia, to provide contractual support services for the DMLSS-W program. DSCP selected FEDSIM to provide contracting support, including contract administration, because the DSCP organic contracting personnel did not have experience in providing contractual services for automated information system development, which DSCP deemed necessary for DMLSS-W development.

During FY 1997, DSCP provided FEDSIM about $5 million in funds for obtaining automated information system support contracts for DMLSS-W program development. FEDSIM entered the funds into the General Services Administration central accounting system for billing and tracking purposes.

FEDSIM obtained contract support services through either direct contracting with contractors on the General Services Administration federal supply schedules or through interdepartmental support agreements. For DMLSS-W, FEDSIM issued an interdepartmental support agreement to the Army Contracting Directorate at Fort Huachuca, Arizona. The Contracting Directorate then issued a contract to the Small Business Administration for the DMLSS-W program development. Further, the Small Business Administration issued a subcontract to the Information Systems Support (ISS) Company, Rockville, Maryland, and the ISS subcontracted with AmerInd, Alexandria, Virginia, and Information Network Systems (INS), Ivyland, Pennsylvania. The contractors working on site at DSCP are from AmerInd, INS, and ISS.

Audit Objectives

The audit objectives were to determine whether the DMLSS-W program funds were properly managed and whether the program was administered in accordance with applicable Government regulations. We also evaluated the management control program as it related to the audit objectives. See Appendix A for a discussion of the scope and methodology and our review of the management control program and for a summary of prior coverage.

Management Controls Over the Defense Medical Logistics Standard Support - Wholesale Program Resources

The DSCP did not properly and efficiently use program funds and contracting services for the DMLSS-W program. Specifically,

o funds totaling $885,000 provided through MIPRs to DSCP for the DMLSS-W program development were inappropriately passed to another Government organization and funds totaling $20,300 for the DMLSS-W program development were used to pay contractor employees to perform duties that were not program related.

o contract support services for the DMLSS-W program at DSCP were inefficient and contract administration was ineffective. Support services were not contracted for directly, contractor invoices and travel claims were not properly certified, and associated costs were not applied to appropriate contracts.

o a former military employee of DSCP may have improperly worked at DSCP as a contractor employee.

o a prospective contractor may have had an inappropriate competitive advantage.

Funds and services were improperly and inefficiently used because DSCP and other Government personnel did not follow the proper procedures for administering program funds and contracts, and for certifying payments for contractor claims. Additionally, the contracting officer representative (COR) was not located in the vicinity of the Government location where the contract work was performed. As a result, the DSCP did not comply with provisions of the Joint Travel Regulation and the FAR. Additionally, DSCP could have avoided as much as $90,814 in administrative and contracting support costs for contractual services and a $500,000 contract for a follow-on project could have been awarded improperly.

Management Controls for DMLSS-W Program

The DSCP did not properly and efficiently use program funds and contracting services for the DMLSS-W program.

DMLSS-W Program Funds. Funds that the Office of the Under Secretary of Defense for Acquisition and Technology, Electronic Commerce Integration Organization, provided to DSCP for the development of the DMLSS-W program were inappropriately passed to another DoD organization. In addition, funds that the Deputy Under Secretary of Defense for Logistics provided for the development of the DMLSS-W program were used to pay contractor employees to perform duties not related to the program.

Military Interdepartmental Purchase Requests. DSCP personnel inappropriately redirected funds received on MIPRs for the development of the DMLSS-W program to another Defense organization. The Office of the Under Secretary of Defense for Acquisition and Technology, Electronic Commerce Integration Organization, provided DSCP $885,000 on two MIPRs, one for $500,000 and the other for $385,000. The fund citation on the two MIPRs was 97 70100.2020, FY 1997 Operation and Maintenance funds. Each MIPR stipulated that the funds may not be redirected and that the acceptor must be the performer.

DSCP personnel did not follow the specific administrative guidance for the MIPRs. DSCP accepted the funds, changed the fund citation to 97x4930.5CP1 001 P11121 25.16 ORG M, Defense Working Capital fund, DSCP Medical, and redirected the funds on two DSCP MIPRs to the Defense Medical Program Activity, Falls Church, Virginia. DSCP stipulated that the funds were for DMLSS program support and named specific contractors for which the funds were designated.

Program Fund Controls. Contractor employees were improperly paid for services with funds for the DMLSS-W program. Our review of 45 invitational travel orders and the related travel claims that INS contractor employees filed during FY 1997 showed that payments to the contractor employees were not for work related to DMLSS-W. For 12 of the 45 travel claims, trips by the contractors were for non-DMLSS-W program work, such as off-site meetings of personnel in the DSCP Medical Materiel Directorate. However, for those 12 trips, the contractors were paid with DMLSS-W program funds. Travel costs totaling about $1,800 and contractor labor costs of about $18,500 for 37 days of services were inappropriately charged as DMLSS-W program work.

Services Performed by Contractor Employees

Contractor employees, paid from DMLSS-W program funds, performed services that were not program related. Contrary to the recommendations made in the Defense Logistics Agency (DLA) procurement management review, at DSCP in October 1996, contractor employees performed day-to-day work that Government employees should have performed. Contractor employees made extensive use of invitational travel orders and prepared military fitness reports.

Defense Logistics Agency Procurement Management Review. In October 1996, DLA completed a procurement management review in which it reported that DSCP had the appearances of unauthorized personal services arrangements with its onboard contractors (see Appendix A). The report recommended that DSCP conduct business with its on-site contract support personnel in a manner that avoided the appearance of unauthorized personal service transactions. DSCP concurred with the recommendation and responded by issuing a contractor policies and procedures memorandum to DMLSS-W program project managers and contractors. The memorandum reiterated the policies and

procedures for interaction between Government personnel and DMLSS-W program contractors. However, personnel at DSCP had not improved procedures to comply with the DLA report recommendations. By issuing invitational travel orders to contractors and allowing contractor employees to perform inherent Government functions, DSCP perpetuated the appearance of personal service or other questionable contractual arrangements.

Use of Invitational Travel Orders. Inconsistent with guidance in the Joint Travel Regulation, DSCP allowed contractor employees to make extensive use of invitational travel orders. Contractor employees were required to be reimbursed for their travel from contract funds. However, the contractor employees routinely were provided invitational travel orders and filed Government travel claims for travel reimbursement rather than being reimbursed from contract funds. The Joint Travel Regulation, volume 2, paragraph C6000, states that a contractor representative may occasionally be issued an invitational travel order to assist the Government in official matters. The practice of issuing Government invitational travel orders to contractor employees at DSCP appeared to be in conflict with the intent of the Joint Travel Regulations as well as the DLA procurement management review recommendations to eliminate the appearance of personal service contractual arrangements.

As noted previously, two INS contractor employees were issued 45 Government invitational travel orders and made travel claims for $26,500 during FY 1997 to perform various duties, including both DMLSS-W program related work and day-to-day work for the Medical Materiel Directorate at DSCP. For each travel order, the contractor employees were directed how and when to travel and for how long. Also, airline tickets, when needed, were procured on a Government travel card and a DSCP travel clerk made all travel arrangements. After each trip, the contractor employees filed travel claims on Government travel vouchers, on which they indicated they were Government civilian employees. The Defense Finance and Accounting Service Disbursing Office, Columbus, Ohio, paid the travel claims. As of April 27, 1998, DSCP had issued 21 invitational travel orders, totaling about $11,300, to contractor employees for FY 1998.

Military Personnel Fitness Reports. In preparing and supervising military fitness reports, a contractor employee may have performed an inherently government function or improperly participated in the evaluation of government personnel. A contractor employee from AmerInd, Inc., had been functioning as a Government supervisor by completing and reviewing military personnel fitness reports. In one instance the contractor employee, a retired military officer, prepared a military fitness report of the Deputy Program Manager of DMLSS-W. The contractor prepared the fitness report because, at the time, the Deputy Program Manager's supervisor was on a temporary duty assignment. The contractor admitted to writing the fitness report and stated that he reviewed fitness reports of other military officers for style and verbiage. The contractor also stated that he did not charge the Government for his time.

Office of Management and Budget (OMB) Policy Letter 92-1 states that anything involving the direction and control of a Government employee is an inherent Government function, and those functions can be done only by Government employees. Otherwise, there will be the appearance of the

supervision of Government personnel by contractors. The arrangement at DSCP was particularly objectionable because the contractor appeared to be preparing fitness reports of Government employees responsible for management of the program. Those same Government employees being evaluated were providing or could be providing recommendations regarding the adequacy of the contractor's performance. Circumstances such as those, whereby contractor employees are involved in supervising Government employees, are inappropriate and not in compliance with OMB guidance.

Contract Support Services and Administration

Contract support services for the DMLSS-W program at DSCP were inefficient and contract administration was ineffective. The contracting officer at FEDSIM did not contract directly with the company providing the support services. The COR certified contractor invoices for services billed on DMLSS-W program contracts without verifying that work billed was done. The COR also did not approve or verify travel costs incurred by contractor employees, and paid by direct reimbursement from a Government disbursing office. In addition, the travel costs were not charged to the applicable contract.

Administrative and Contracting Support Costs. DSCP incurred administrative and contracting support costs of about $90,814 that could have been avoided by contracting directly with the contractor providing support services. Instead of contracting directly, DSCP obtained contractual support services from FEDSIM through an interdepartmental support agreement with the Army Contracting Directorate at Fort Huachuca.

On January 8, 1997, DSCP sent $848,000 on a MIPR to FEDSIM for support of the readiness management application (RMA) project, part of the DMLSS-W program. FEDSIM then forwarded an interdepartmental support agreement to the U.S. Army Intelligence Center and Fort Huachuca Contracting Directorate. The Contracting Directorate, via the Small Business Administration, issued a firm-fixed contract to ISS for the services DSCP requested. The contract with ISS was for $783,639, of which $513,732 was for subcontract costs. For the transaction the administrative costs were charged as follows: FEDSIM $52,606, the Contracting Directorate $11,755, and ISS $52,400, for a total of $116,761 (13.8 percent of $848,000). The process wasted DoD funds.

DSCP did not pursue alternatives to FEDSIM for contracting services that could have reduced overhead costs by using more direct methods. For example, if the contracting officer in another DoD organization with expertise in automated data systems, such as the Defense Information Systems Agency, had competitively contracted for the requirement with resulting awards to ISS and INS companies, a significant portion of the administrative and contracting support costs could have been eliminated for a potential monetary benefit of as much as $90,814.

Verification of Work Performed. The COR at FEDSIM, who was responsible for certifying the DMLSS-W program contract invoices, certified invoices without first verifying that the work was done. The COR had difficulty verifying the work because he was located at FEDSIM in Falls Church while the work was done at DSCP in Philadelphia. The COR stated that he certified invoices based on a "negative confirmation" process. That is, he presumed that the work was adequate and approved invoices after a cursory review unless DSCP personnel told the COR that something was wrong with the contractors' work.

Our review of the invoices that the COR certified for payment under contract DABT63-96-D-0015, delivery order 0038, showed that the COR had insufficient information to certify the invoices for payment. The delivery order, valued at $783,639, was awarded to ISS on February 1, 1997, for support of readiness aspects of the DMLSS-W program. As of March 20, 1998, the COR had certified 13 invoices for payment totaling $636,991. Most of the billed amounts were for subcontractor costs ($475,371 or 75 percent) and the subcontractor costs were billed in lots, with no breakout of costs. To keep abreast of the work in progress, the COR said that on occasion, he would attend the monthly meetings that were held at DSCP on the DMLSS-W program.

Certification of Travel Costs and Contract Application. The COR did not certify contract costs of about $37,800, nor were they charged to the applicable contract. Three contractor employees, who worked at DSCP on the DMLSS-W program as subcontractors of ISS, incurred costs on 66 Government travel orders that DSCP issued from October 1996 through April 1998. Contractor employees filed travel claims to and were reimbursed directly by the Defense Finance and Accounting Service. The COR did not certify the cost as required by the contract that was issued to ISS. In addition, the costs were not charged to the applicable contract with ISS, instead they were charged directly to the DSCP-Medical portion of the Defense Working Capital fund. Colocating the COR in the vicinity of the site where the contract work is performed would give the COR direct contact or more visibility of the work performed, which would improve the contract administration for the DMLSS-W program.

Former Government Employee

A former employee of the DSCP may have improperly worked for a contractor at DSCP. Public Law, Title 18, United States Code, Section 207a(1), restricts a former employee from communicating or appearing before any officer or employee of the Government in connection with a matter in which the person participated substantially. The restriction pertains to work that the person performed or supervised as a Government employee.

Employment at DSCP. A retired military officer who worked for DSCP as the Chief, Readiness Commodity Business Unit, returned to work at DSCP as a subcontractor on the DMLSS-W RMA project. The individual worked for DSCP until August 12, 1996, and was on paid military leave until October 12, 1996. On August 15, 1996, the individual reported to work at DSCP as an employee of INS. His duties as a subcontractor appear to be related to his duties while working as a Government employee at DSCP. As a

Government employee, the individual was the immediate supervisor of the Chief, Initiatives and Integration Branch. The Initiatives and Integration Branch had control over most of the human resources that were used on DMLSS-W program development projects, including the RMA. INS, the employee's current employer, is involved primarily in supporting the development of the DMLSS-W program RMA. We were unable to verify the employee's direct participation with Government employees or job responsibilities while working with INS. However, the circumstances surrounding the departure of the former DSCP employee from Government and his subsequent employment at a supporting contractor warrant further legal review because of the potential for a conflict of interest.

Propriety of Changing Employers. Before the individual started work for INS, he and DSCP management discussed the propriety of his employment with INS. According to the legal counsel at DSCP, with whom the discussions were held, a written opinion concerning the propriety of his employment was never requested. The DSCP counsel stated that, based on his limited discussion with management, he saw no problem with the individual working with INS. However, our review showed that had a written opinion been requested, and the duties of the individual as a Government employee and as an INS employee delineated, the legal counsel may have seen the similarity in the work and a potential conflict.

Contractual Relationship

The ISS may have had an unfair competitive advantage in obtaining a contract award for the development of the RMA portion of the DMLSS-W program. ISS and INS should have been precluded from competing for a followon contract for the RMA project because of their participation in the development of the statement of work for that followon project.

Compliance With FAR. The participation by ISS and its subcontractor INS in preparing the scope of work gave the two contractors an unfair competitive advantage on an impending contract. FAR, subpart 9.504, stipulates that contracting officers should take appropriate action to eliminate any possibility of conflicts of interest that may provide a prospective contractor with an unfair competitive advantage in obtaining Government contracts. Since August 1996, INS has worked as a subcontractor to ISS on the development of the DMLSS-W program. A substantial portion of the work that INS did was on the development of the RMA project. INS wrote the RMA scope document and had substantial input into writing the statement of work for the impending contract for the RMA project. All the work that INS did was billed to ISS; and in turn, ISS provided the contract deliverables and billed a DMLSS-W program contract for its efforts. ISS and INS have on-site personnel at DSCP working on the development of the DMLSS-W program.

RMA Development Contract. In early April 1998, FEDSIM identified three prospective contractors for the RMA project and ISS was not included among those selected. The contract award, estimated to be $500,000, was scheduled to be made by FEDSIM in June 1998. In mid-April 1998, a division director of ISS notified a project manager for the DMLSS-W program at DSCP

that he wanted his firm, ISS, to be included on the request for proposal distribution list for the RMA development contract. The DMLSS-W project manager conveyed the request to the COR for FEDSIM, who immediately notified the project manager that adding ISS to the list could cause potential problems. The project manager, after consulting with his supervisor, the Chief, Innovation and Integration Branch at DSCP, told the COR for FEDSIM that DSCP had decided to add ISS to the RMA development contract request for proposal distribution list. Because of the ISS relationship with its subcontractor INS, adding ISS to the proposal distribution list resulted in a potential conflict of interest in the impending award of the contract.

In May 1998, we conferred with the Deputy Commander, DSCP, and the contracting officer at FEDSIM about the potential conflict of interest with the award of the development contract for the RMA portion of the DMLSS-W program. The FEDSIM contracting officer agreed that ISS had a conflict of interest and that ISS should not be permitted to bid on the contract. On May 13, 1998, the COR for FEDSIM notified us that ISS had withdrawn its name from the request for proposal bidders list. Therefore, the potential conflict of interest was eliminated, and we made no recommendation addressing the potential conflict of interest.

Conclusion

The DSCP needed to improve the management controls on program funds and contract services related to the DMLSS-W program. DSCP and other Government personnel did not follow the proper procedures for administering program funds and contracts and for certifying payments for contractor claims. Colocating the COR from FEDSIM in the vicinity of the Government location where the contract work was performed could improve the management controls for the DMLSS-W program. As a result of the weak management controls, the DSCP did not comply with provisions of the Joint Travel Regulation and the FAR. Additionally, DSCP may have avoided $90,814 in administrative and contracting support costs for contractual services and could have awarded a $500,000 contract improperly.

Management Comments on the Finding and Audit Response

Management Comments on Contract Support Services and Administration. DLA nonconcurred with specific data in the draft report on contract support services and administration and provided additional information. DLA stated that FEDSIM charges did not duplicate any of the services performed by Fort Huachuca and the fees appeared to be in line with other contract services, including Defense Information Services Agency, which charges a 2-percent service fee.

DLA also stated that it pursued alternatives to FEDSIM for contracting services and that consideration was given to information technology contracting expertise, speed, and efficiency. DLA further stated that the availability of

contract vehicles and the quickness in awarding contracts were considered in choosing contractor support services. Finally, DLA stated that it had other contracting services in the past, but long lead times put projects at risk.

Audit Response. We agree that some administrative and contracting service costs would be incurred for the contract support for DMLSS-W program. However, use of a more efficient contracting methodology would have resulted in significant savings in contractual and administrative cost. We used the 2-percent rate provided by DLA to recompute the estimated cost for contract support and administrative services that we believe could have been saved. At the 2-percent rate, had DISA contracted directly with ISS and other contractors, the contract support service fees and administration fees would have been about $25,948, instead of $116,762, or a potential reduction in cost of $90,814. We made adjustments in the report for the revised estimate. However, it is an embarassment for DLA that a contract action had to travel through four different Government offices before award.

DLA did not provide documentation showing that it considered other contracting services. Therefore, we made no adjustments to the report.

Recommendations, Management Comments, and Audit Responses

We recommend that the Commander, Defense Supply Center Philadelphia:

1. Establish procedures that will provide adequate control over funds provided for the Defense Medical Logistics Standard Support - Wholesale program.

Office of the Assistant Secretary of Defense (Health Affairs) Comments. The Chief Financial Officer, Tricare Management Activity, Office of the Assistant Secretary of Defense (Health Affairs), agreed with the report findings concerning program resources. The Chief Financial Officer recommended that the DSCP concur with the recommendation on control over funds.

Defense Logistics Agency Comments. DLA concurred, and stated that financial statements and oversight on contracts was accomplished by monthly reviews of contractor-furnished financial statements, task status, and variance reports. Additionally, monthly interim progress reviews are conducted that include financial statements to the DMLSS Program Director. DLA also concurred with the finding stating that internal controls were implemented in FY 1998 to confirm the nature and scope of involvement of the Defense Supply Center Philadelphia before acceptance of MIPRs for DMLSS, which will preclude the inappropriate redirection of funds. The DMLSS-W Program Manager is required to provide a written comfirmation before processing the MIPR.

2. Perform an administrative review of the circumstances surrounding the appearance of unauthorized personal services contractual arrangements and the possible performance of inherently governmental functions or other inappropriate supervision of Government employees, determine the personnel responsible for the conditions, and take appropriate administrative action to preclude the reoccurrence of such practices.

Defense Logistics Agency Comments. DLA concurred and stated that it conducted a review of a contractor completing and reviewing military fitness reports. The contractor did not participate in the preparation of the fitness report, but reviewed and updated the fitness report for format purposes based on supervisory guidance. Because of the potential appearance of impropriety, the contractor and the DSCP supervisor have been instructed to discontinue the practice. In addition, DSCP will request that the Corporate Contracting Office perform an independent review that will be completed by January 31, 1999.

3. Discontinue the practice of routinely issuing Government travel orders to contractor employees.

Defense Logistics Agency Comments. DLA concurred, and stated that the practice of issuing Government travel orders to contractor personnel has been discontinued.

4. Establish procedures for competitive contracting for required services that minimize administrative and overhead costs.

Defense Logistics Agency Comments. DLA concurred, and stated that DMLSS will continue to pursue alternative sources for contracting that minimize administrative and overhead costs.

5. Make appropriate adjustments to Defense Medical Logistics Standard Support - Wholesale program contracts to reflect all costs that were incurred under the contracts.

Defense Logistics Agency Comments. DLA concurred, and stated that contracts were adjusted to reflect all costs, including travel costs.

6. Assign a resident contracting officer representative to the Defense Supply Center Philadelphia for all Defense Medical Logistics Standard Support - Wholesale program development contracts.

Defense Logistics Agency Comments. DLA concurred, and stated that the Deputy Program Manager, DMLSS-W had been assigned the function of resident contracting officer representative. The individual will obtain the appropriate training required for the function by January 1999.

7. Obtain a written legal opinion on the propriety of employment of former Government employees as contractor employees, and take appropriate action if a violation of former Government employment restrictions occurred.

Defense Logistics Agency Comments. DLA concurred, and stated that an additional legal review affirmed the situation to be proper.

Audit Response. Comments from DLA were partially responsive. We request that DLA provide a copy of the written legal opinion on the propriety of employment of former Government employees as contractor employees.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We reviewed the processes that DSCP used to administer the DMLSS-W program. We reviewed contract files, accounting reports, and travel claim reports for FY 1997 and the first and second quarters of FY 1998. We also reviewed FAR contract administration procedures used at FEDSIM to maintain the FY 1997 DMLSS-W program contracts that FEDSIM awarded at the request of DSCP.

We reviewed related costs for the FY 1997 obligation and expenditure data for the DMLSS-W program and FY 1997 DMLSS-W program contract files that were maintained at FEDSIM. Also, we interviewed DSCP personnel and contractor employees who were assigned to the DMLSS-W program development at DSCP.

DoD-wide Corporate Level Government Performance and Results Act (GPRA) Goals. In response to the GPRA, the DoD established 6 DoD-wide corporate level performance objectives and 14 goals for meeting those objectives. This report pertains to achievement of the following objective and goal.

> **Objective:** Fundamentally reengineer DoD and achieve 21st century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. **(DoD-6)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

> o **Acquisition Functional Area. Objective:** Internal reinvention. **Goal:** Eliminate layers of management by streamlining processes while reducing the DoD acquisition-related workforce by 15 percent. **(ACQ-3.1)**
>
> o **Financial Management Functional Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with Federal Managers Financial Integrity Act. **(FM-5.3)**

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Contract Management and Defense Financial Management high-risk areas.

Use of Computer-Processed Data. We did not use computer-processed data during the audit.

Audit Type, Dates, and Standards. We performed this economy and efficiency audit from October 1997 through April 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 DoD. Further details are available on 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 provides 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 the DSCP management controls over the DMLSS-W program as they related to accounting for funds provided and procedures used to obtain contract support services.

Adequacy of Management Controls. We identified material management control weaknesses for DSCP as defined by DoD Directive 5010.38. The management controls were not adequate to identify and preclude unauthorized personal services contractual arrangements with DSCP contractor employees, improper use of DMLSS-W program funds, a potential conflict of interest by a contractor, and potential violations of the restrictions on former Government employment. Recommendations 1. through 7., if implemented, will improve the DSCP controls. A copy of the report will be provided to senior officials responsible for management controls in DLA.

Adequacy of Management Self-Evaluation. Officials at DSCP identified the DMLSS program as an assessable unit. The DSCP review included an assessment of the integrity of medical data to include all data DSCP used for the Prime Vendor Program. The review was conducted in conjunction with the efforts of the Joint Wholesale and Retail Integrated Product Team, which was chartered by the Director of Medical Materiel at DSCP and the DMLSS program manager to develop controls to improve and maintain the integrity of medical data. However, the review did not include financial and acquisition aspects of DMLSS-W program.

Summary of Prior Coverage

The DLA issued the following related report.

Defense Logistics Agency report, "Procurement Management Review of the Medical Directorate, Defense Personal Support Activity," October 11, 1996. The report was a comprehensive review of the DSCP (the then Defense Personnel Support Center) Medical Directorate procurement function. The report stated that:

o there was no contractor on-site program or project manager to supervise contractor employees,

o many day-to-day work assignments were conveyed directly to contractor employees by civil service or military managers within the DSCP Medical Directorate,

o task orders covering the contractor's employees often generally described the type of work to be performed but did not set forth efforts in a defined and written contract order,

o contractor employees used Government office space, equipment, and facilities,

o a Government employee interviewed prospective contractor employees and recommended which persons the contractor should hire,

o a Government employee conducted annual performance evaluations for contractor employees and furnished his recommendations to the contractor, and

o contractor employees prepared statements of work for revised or new work requirements that formed the basis for ordering additional contractual performance, which were conflicts of interest.

The report recommended that DSCP ensure that the DSCP conduct business with its on-site contract support personnel in a manner that avoids the appearance of unauthorized personal service transactions.

In response, DSCP issued a memorandum on February 3, 1997, to the DMLSS-W program project managers and contractors to reiterate the policies and procedures to be followed to preclude the appearance of unauthorized personal service transactions.

Appendix B. Discussion of Allegations and Audit Response

A complainant, assigned to the DSCP DMLSS-W program, made seven allegations related to the mismanagement of the DMLSS-W program by senior DSCP personnel in the Medical Materiel Directorate. In the July 25, 1997, allegations, the complainant also resigned his position in the DMLSS-W program. The complainant expanded his allegations in a 20-page e-mail on August 31, 1997, to the Commanding Officer, DSCP. Three of the seven allegations related to the management style of senior personnel in the Medical Materiel Directorate, and the remaining four allegations pertained to apparent violations of the ADA and the FAR. The seven allegations and audit results pertaining to each allegation are summarized below.

Allegation 1. Civilian and military supervisors give the complainant one direction while the complainant's civilian and military leadership give the opposite direction and singles the complainant out for discipline knowing that the complainant's supervision is in synch with the complainant's actions.

Audit Results. The allegation was not substantiated.

Allegation 2. The complainant was told that taking aggressive action to solve critical program and organizational problems was a mistake, even after all the nice management methods had been tried.

Audit Results. The allegation was not substantiated.

Allegation 3. The complainant was precluded from passing accurate and precise information and professional opinions to the complainant's acquisition chain of command, on programmatic matters.

Audit Results. The allegation was not substantiated.

Allegation 4. The complainant was expected to misappropriate Research and Development funds to sustain inherently Government and institutional costs in violation of the ADA.

Audit Results. The allegation was not substantiated. Funds that were provided for the development of the DMLSS-W program at DSCP were not Research and Development funds, but rather Defense Working Capital funds. Some of the FY 1997 funds that were provided for the development of the DMLSS-W program were used for other than DMLSS-W program purposes, but that use would not result in an Antideficiency Act violation.

Allegation 5. The complainant was expected to direct system engineering contractors to perform personal and executive services.

Audit Results. The allegation was not substantiated because we could not determine whether the complainant was directed to have contractor employees perform personal and executive services. However, we identified instances in which contractor employees appeared to perform inherent Government functions that were not authorized under the development of the contract for the DMLSS-W program.

Allegation 6. The complainant was expected to award contract task orders based on DSCP managers' preferences.

Audit Results. The allegation was not substantiated because we saw no evidence of the complainant being directed to award contracts based on DSCP managers' preferences. However, we did note a potential conflict of interest in which a DSCP person requested a particular contractor be added to a bidders list after the COR for FEDSIM alerted him that a conflict of interest could arise if the particular contractor was selected for the contract. The contractor subsequently withdrew its name from the request for proposal bidders list.

Allegation 7. The complainant was expected to direct contractors to hire people that DSCP managers had selected for employment and were pending separation and retirement from Government service.

Audit Results. The allegation was not substantiated because we could not determine whether the complainant was expected to direct DMLSS-W program contractors to hire certain persons who were separating or retiring from Government service. However, we noted one instance in which a former DSCP employee (retired military officer) was hired by a DMLSS-W program subcontractor to perform the same duties that he performed while employed by DSCP.

Appendix C. Criteria Applicable to Allegations

Conflicts of Interests. Organizational conflict of interest is defined in FAR, subpart 9.5., "Organizational and Consultant Conflicts of Interest." It states:

> that because of other activities or relationships with other persons, a person is unable or potentially unable to render impartial assistance or advice to the Government, or the person's objectivity in performing the contract work is or might be otherwise impaired, or a person has an unfair competitive advantage.

FAR 9.504, "Contracting Officer Responsibilities," requires the contracting officer to:

- analyze planned acquisitions as early as possible to avoid, neutralize, or mitigate significant potential conflicts of interests before contract award;
- evaluate potential conflicts as early as possible; and
- develop a contract clause (restrictive clause) to restrict a contractor from bidding on certain future contracts and subcontracts that may involve potential conflicts.

Guidance on Service Contracting. The Office of Federal Procurement Policy Letter 91-2, "Service Contracting," April 9, 1991, policy letter 93-1, "Management Oversight of Service Contracting," reissued May 24, 1994, and FAR, part 37, "Service Contracting," prescribe policy and procedures for acquiring contract support services. FAR, part 37 distinguishes between contracts for unauthorized personal services and those for nonpersonal services, and includes special conditions to be observed in acquiring advisory and assistance services. FAR 37.104(d), "Personal Services Contracts," provides descriptive elements that should be used as a guide in assessing whether proposed contracts are personal. In addition, FAR, part 44, "Subcontracting Policies and Procedures," outlines policies for Government consent to subcontract.

Joint Travel Regulations. Joint Travel Regulations, volume 2, chapter 6, C6000 provides that invitational travel orders may be issued to individuals employed intermittently in Government service as consultants or experts when they are acting in a capacity that is directly related to, or in connection with, official activities of DoD. Paragraph C6000, specifies that if it is determined by the appropriate DoD Component to be in the best interest of DoD, travel of representatives and employees of contractors under contracts with DoD, including contractor technicians and field service representatives, is authorized provided the travel involved is not the financial responsibility of the contractor. The travelers' orders must include accounting classification and approval of the administrative contracting officer.

Military Interdepartmental Purchase Request. A MIPR is a document DoD Components use to request services and supplies from one another. Each MIPR has the appropriation funds citation of the requesting DoD Component. The Defense Federal Acquisition Regulation Supplement states that MIPRs received after May 31 of the fiscal year should be carefully monitored to ensure that annual appropriation funds provided on the MIPRs are obligated before the funds expire on September 30 of the fiscal year. If the Component accepting the funds on a MIPR cannot obligate the funds on a contract by September 30 of the fiscal year, the accepting Component must notify the sending Component and the funds must be returned to the sender.

Personal Services Contract. A personal services contract, by its expressed terms or as administered, makes contractor employees appear, in effect, as Government employees. While personal service contracts are allowed by statute in specific instances, they are generally prohibited by the FAR. The general prohibition is based on the notion that a personal service contract is so like an employment contract that it runs counter to the principal that the Government should obtain its employees by direct hire under applicable civil service laws. FAR 37.104 (a) and (b) prohibit the award of personal service contracts by an agency unless specifically authorized by Congress or by Title 5, United States Code, Section 3109. FAR 37. 104 (f) provides that contracting officers shall effect necessary coordination with the cognizant personnel office if acquiring the personal services of experts or consultants.

Prohibitions on Former Government Employment. FAR, part 3.104-1 (3) states that former Government employment restrictions are covered by Title 18, United States Code, Section 207, which prohibits certain activities by former Government employees, including representation of a contractor before the Government in relation to any contract or other particular matter involving specific parties on which the former employee participated personally or substantially while employed by the Government.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Director of Defense Procurement
  Deputy Under Secretary of Defense (Logistics)
    Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management)
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program and Budget)
Assistant Secretary of Defense (Health Affairs)
Assistant Secretary of Defense (Public Affairs)

Department of the Army

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

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
  Commander, Defense Supply Center Philadelphia
Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

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

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

Part III- Management Comments

Office of the Assistant Secretary of Defense (Health Affairs) Comments

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
HEALTH AFFAIRS
SKYLINE FIVE, SUITE 810, 5111 LEESBURG PIKE
FALLS CHURCH, VIRGINIA 22041-3206

TRICARE
MANAGEMENT
ACTIVITY

OCT 5 1998

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
DIRECTOR, READINESS AND LOGISTICS SUPPORT
DIRECTORATE

SUBJECT: Audit Report on the Defense Medical Logistics Standard Support – Wholesale Program (Project No. 8LD-5004)

We have reviewed the draft subject audit report. We appreciate the opportunity to provide comments. While the DMLSS–Wholesale program falls under the auspices of the Defense Logistics Agency (DLA) who has primary responsibility for review of the audit, we do wish to address the report findings concerning program resources.

One IG finding concludes that $885,000 from the Office of the Undersecretary of Defense for Acquisition and Technology, Electronic Commerce Integration Organization provided through MIPRS to the Defense Supply Center Philadelphia (DSCP) for the DMLSS-W program development were inappropriately passed to another Government organization. Further, $20,300 of these funds for the DMLSS-W program development were used to pay contracting employees to perform duties that were not program related.

We recommend that DSCP concur with this finding and its related recommendation for corrective action ("1. Establish procedures that will provide adequate control over funds provided for the Defense Medical Logistics Standard Support – Wholesale program.")

Please feel free to direct any questions to Mr. Gunther J. Zimmerman at (703) 681-7894 or the functional point of contact, Col John Clarke at (703) 681-6733.

Jean Storck
Chief Financial Officer

Defense Logistics Agency Comments

DEFENSE LOGISTICS AGENCY
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FT BELVOIR, VIRGINIA 22060-6221

IN REPLY REFER TO DDAI

3 November 1998

MEMORANDUM FOR DIRECTOR, READINESS AND LOGISTICS SUPPORT DIRECTORATE
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on the Defense Medical Logistics Standard Support – Wholesale Program (Project No. 8LD-5004)

Enclosed are DLA comments in response to your 31 August 1998 request. If you have any questions, please contact Ms. Mimi Schirmacher, 767-6263.

Encl

JEFFREY GOLDSTEIN
Chief (Acting), Internal Review

cc
DLSC-BOS
DSCP-DI

Defense Logistics Agency Comments

SUBJECT: Defense Medical Logistics Standard Support – Wholesale Program (Project No. 8LD-5004)

FINDING: Management Controls Over the Defense Medical Logistics Standard Support – Wholesale Program Resources. The DSCP did not properly and efficiently use program funds and contracting services for the DMLSS-W program. Specifically,

- Funds totaling $885,000 provided through MIPRs to DSCP for the DMLSS-W program development were inappropriately passed to another Government organization and funds totaling $20,300 for the DMLSS-W program development were used to pay contractor employees to perform

- Contract support services for the DMLSS-W program at DSCP were inefficient and contract administration was ineffective. Support services were not contracted for directly, contractor invoices and travel claims were not properly certified, and associated costs were not applied to appropriate contracts.

- A former military employee of DSCP may have improperly worked at DSCP as a contractor employee.

- A prospective contractor may have had an inappropriate competitive advantage.

Funds and services were improperly and inefficiently used because DSCP and other Government personnel did not follow the proper procedures for administering program funds and contracts, and for certifying payments for contractor claims. Additionally, the contracting officer representative (COR) was not located in the vicinity of the Government location where the contract work was performed. As a result, the DSCP did not comply with provisions of the Joint Travel Regulation and the FAR. Additionally, DSCP could have avoided as much as $117,000 in administrative costs for contractual services and a $500,000 contract for a follow-on project could have been awarded improperly.

Conditions Reported

- *Funds totaling $885,000 were inappropriately passed to another government organization and funds totaling $20,300 were provided for program development but were used to pay contractor employees for duties that were not program related.*

COMMENT: Concur.

At the time of acceptance of MIPRS, there was a misunderstanding regarding DSCP Medical's role in the performance process. Effective in FY 98, internal controls were implemented to confirm the nature and scope of DSCP

Medical involvement prior to acceptance of MIPRs for DMLSS. This will preclude inappropriate redirection of funds as cited in the report. DMLSS-W Program Manager is required to provide a written confirmation prior to the MIPR processing.

ECD: Complete

- *Contract Support Services for the DMLSS-W Program at the Defense Supply Center Philadelphia were inefficient and contract administrations was ineffective*

COMMENT: Nonconcur. The section of the report entitled "Contract Support Services and Administration" does not accurately reflect the facts of how the ISS contract was administered.

FEDSIM charges are based on an hourly rate and do not duplicate any of the services performed by Ft Huachuca. These fees appear to be in line with other contract services we use, such as DASC. DISA charges a 2% service fee, which contradicts the IG's statement that $117,000 could have been avoided by contracting with DISA directly.

The $116,761 ISS administrative fee should not be categorized together with contractual service fees, as the IG has done. This represents the major disparity in the IG estimate of 13.8% and the FEDSIM estimate of 2.7%.

The IG statement that DSCP did not pursue alternatives to FEDSIM for contracting services is not true. Part of the rationale for choosing contractor support services is the type of contract vehicles available through a particular service and how quickly the award can be made. We had other contracting services in the past, but long lead-times put our projects at risk. Consideration is given to IT contracting expertise, speed, and efficiency in selecting a contracting service.

ECD: Complete.

- *A former military employee of DSCP may have improperly worked at DSCP as a contractor employee.*

COMMENT: Nonconcur. Based on the finding, DSCP's Office of Counsel has thoroughly reviewed the situation and have reaffirmed that the employment situation was not improper.

ECD: Complete.

- *A prospective contractor may have had an inappropriate competitive advantage*

COMMENT- Concur with comments. If the contractor did compete there could have been an appearance of a competitive advantage; however, the contractor withdrew the bid as soon as it was brought to the attention of FEDSIM.

ECD: Complete.

RECOMMENDATION 1: *Establish procedures that will provide adequate control over funds provided for the Defense Medical Logistics Standard Support Wholesale Program*

DLA COMMENTS: Concur. Oversight on contracts occurs on a monthly basis by review of detailed contractor furnished financial statements and task status in Work Breakdown structures as well as Variance Reports. In addition, monthly IPRs are conducted to include financial information to the DMLSS Program Director. DSCP utilizes the Project Management Institute's internationally recognized and standardized procedures.

DISPOSITION: Action is complete.

RECOMMENDATION 2: *Perform an administrative review of the circumstances surrounding the appearance of unauthorized personal services contractual arrangements and the possible performance of inherently Governmental functions or other inappropriate supervision of Government employees, determine the personnel responsible for the conditions, and take appropriate administrative action to preclude the reoccurrence of such practices.*

DLA COMMENTS: Concur. A review was conducted concerning the allegation of a contractor completing and reviewing military fitness reports. The contractor did not participate in the evaluation of the military officer, nor did he act as the supervisor. He reviewed and updated the fitness report for format purposes based on supervisory guidance. Hence, in this role of editor, he did not perform an inherently governmental function. As indicated in the report, these reviews were not accomplished on government time; however, both the contractor and the supervisor have been instructed to discontinue this practice, due to the potential appearance of impropriety. An independent review by our Corporate Contracting Office will be requested.

DISPOSITION: Action is ongoing. ECD: January 31, 1999.

RECOMMENDATION 3: *Discontinue the practice of routinely issuing Government travel orders to contractor employees*

DLA COMMENTS: Concur. Practice has been discontinued.

DISPOSITION: Action is complete.

RECOMMENDATION 4: *Establish procedures for competitive contracting for required services that minimize administrative and overhead costs.*

DLA COMMENTS: Concur. As mentioned above, DMLSS will continue to pursue alternative sources for contracting that minimizes administrative and overhead costs.

DISPOSITION: Action is complete.

RECOMMENDATION 5: *Make appropriate adjustments to Defense Medical Logistics Standard Support - Wholesale program contracts to reflect all costs that were incurred under the contracts.*

DLA COMMENTS: Concur. Contracts now reflect all costs, including travel costs.

ECD: Complete

RECOMMENDATION 6: *Assign a resident contracting officer representative to the Defense Supply Center Philadelphia for all Defense Medical Logistics Standard Support – Wholesale program development contracts*

DLA COMMENTS: Concur. The Deputy Program Manager, DMLSS-W has been assigned this function. This individual will obtain the appropriate training required for this function by January 1999.

DISPOSITION: Action is ongoing. ECD: January 31, 1999.

Defense Logistics Agency Comments

RECOMMENDATION 7: *Obtain a written legal opinion on the propriety of employment of former Government employees as contractor employees, and take appropriate action if a violation of former Government employment restrictions occurred.*

DLA COMMENTS: Concur. Based on additional review by Legal, the situation was affirmed to be proper.

DISPOSITION: Action is complete.

ACTION OFFICER: Stephen A. Sadler, DLSC-BBS, 767-2505
REVIEW/APPROVAL: Frederick N. Baillie, Executive Director Resource Planning and Performance Directorate
COORDINATION: Mimi Schirmacher, DDAI

DLA APPROVAL:

11/2/98

for **E. R. CHAMBERLIN**
Rear Admiral, SC, USN
Deputy Director

Audit Team Members

This report was produced by the Readiness and Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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