

January 26, 2004



Logistics

Allegations Concerning
Management Practices at Defense
Distribution Depot Susquehanna,
Pennsylvania
(D-2004-048)

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Acronyms

BCA	Business Case Analysis
CCP	Container Consolidation Point
DDC	Defense Distribution Center
DDSP	Defense Distribution Depot Susquehanna, Pennsylvania
DLA	Defense Logistics Agency
DSS	Distribution Standard System
EOAC	Employee Outplacement Assistance Center
ICP	Inventory Control Point
OIG DoD	Office of the Inspector General of the Department of Defense
RIF	Reduction in Force



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January 26, 2004

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

**SUBJECT: Report on Allegations Concerning Management Practices at
Defense Distribution Depot Susquehanna, Pennsylvania (Report
No. D-2004-048)**

We are providing this report for information and use. We considered management comments on a draft of this report in preparing the final report. The complete text of the comments is in the Management Comments section of the report.

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

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Terrance P. Wing, (215) 737-3883 (DSN 444-3883) or Commander Jimmy R. Bobbitt, U.S. Navy at (703) 604-8668 (DSN 664-8668). See Appendix D for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

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

Shelton R. Young
Director, Readiness and
Logistics Support Directorate

Office of the Inspector General of the Department of Defense

Report No. D-2004-048
(Project No. D2003LD-0074)

January 26, 2004

Allegations Concerning Management Practices at Defense Distribution Depot Susquehanna, Pennsylvania

Executive Summary

Who Should Read This Report and Why? Senior logistics and supply managers should read this report. This report discusses allegations of inappropriate management practices at the Defense Distribution Depot Susquehanna, Pennsylvania.

Background. We performed this evaluation in response to a congressional request. Congressman Todd Russell Platts forwarded an inquiry that contained 20 allegations of inappropriate management practices at the Defense Distribution Depot Susquehanna, Pennsylvania (DDSP). Of the 20 allegations, 12 relating to day-to-day operations were forwarded to the Defense Logistics Agency for review. Another allegation concerning personnel management was addressed by both the Defense Logistics Agency and the Office of the Inspector General of the Department of Defense. The Office of the Inspector General of the Department of Defense also addressed the remaining seven allegations concerning strategic management decisions related to a business case analysis, staffing, overtime, contractor support, and transfers of workload to and from other depots. The Defense Distribution Center, under Defense Logistics Agency management, is headquarters to 22 Defense Logistics Agency Distribution Depots, including DDSP. DDSP is the Defense Logistics Agency eastern strategic distribution platform, with facilities in New Cumberland and Mechanicsburg, Pennsylvania, that stock approximately 600,000 items including repair parts, clothing, textiles, medical supplies, and electronic components. During FY 2002, DDSP processed approximately 7 million materiel transactions involving direct shipments and container consolidations.

Results. None of the 13 allegations addressed by the Defense Logistics Agency were substantiated. See Appendix B for a discussion of the 13 allegations and conclusions addressed by the Defense Logistics Agency.

None of the eight allegations addressed by the Office of the Inspector General of the Department of Defense were substantiated, primarily because the management at DDSP made prudent decisions and took appropriate action in responding to significant unforeseen workload fluctuations and organizational issues. However, we did find opportunities for improvement in performance management for container consolidation point management and the Distribution Standard System (Appendix C). See the finding section for a discussion of the eight allegations and conclusions addressed by the Office of the Inspector General of the Department of Defense.

Management Comments. Although no comments were required, the Defense Logistics Agency concurred with the report finding. See the Finding section of the report for a discussion of management comments.

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Background

We performed this evaluation in response to a congressional request. Congressman Todd Russell Platts forwarded an inquiry on behalf of a constituent that contained 20 allegations of inappropriate management practices at the Defense Distribution Depot Susquehanna, Pennsylvania (DDSP). Of the 20 allegations, 12 relating to day-to-day operations were forwarded to the Defense Logistics Agency (DLA) for review. One allegation concerning personnel management was addressed by both DLA and the Office of the Inspector General of the Department of Defense (OIG DoD). The OIG DoD also addressed the remaining seven allegations regarding strategic management decisions. A summary of the 13 allegations forwarded to DLA and the DLA analysis and conclusions are in Appendix B. We addressed the following eight allegations.

- DDSP made poor management decisions based on a flawed business case analyses (BCA) that justified a reduction in force (RIF), which resulted in backlogs and impeded shipments to military personnel stationed overseas.
- DDSP failed to correctly maintain staffing levels, had an excessive layer of supervisors, discriminated against handicapped (disabled) personnel, and exceeded the established cost for contractor support of an Employee Outplacement Assistance Center (EOAC).
- The Defense Distribution Center (DDC) and DDSP used contractor support to perform functions that were the responsibility of DDSP and DDC employees, and DDSP experienced large overtime expenditures as a result of staffing shortages created by the RIF.
- DDSP management actions falsely inflated the on-time performance metric.
- After DDSP implemented the RIF, a huge increase in workload was created by a shift of 13,000 stock items from the Defense Distribution Depot Richmond, Virginia.
- The DDSP movement of a large amount of stock from New Cumberland to Mechanicsburg and immediately back to New Cumberland resulted in an unnecessary, inefficient, and expensive use of resources.
- DDSP implemented a massive reorganization without a staffing plan for supervisors.
- DDSP management actions forced employees to bypass work-in-progress, including high priority shipments, in favor of completing dedicated truck shipments.

DDC Organization and Mission. DDC, located at New Cumberland, Pennsylvania, was established October 1, 1997, by consolidating the Defense Distribution Region East and the Defense Distribution Region West. DDC is the

organization responsible for the receipt, storage, preservation, and worldwide transportation of all items placed under its accountability by DLA and the Military Departments. DDC is headquarters to 22 DLA Distribution Centers located throughout the United States, Europe, and Japan. Those 22 sites store over 3.6 million items in 325 million cubic feet of storage space and process over 24 million transactions annually. As of January 2003, the DDC inventory was valued at \$84.1 billion. The DDC mission is:

To distribute, store, and manage materiel and information enabling a seamless, tailored worldwide DoD Distribution network that provides effective and efficient support to the combatant commands, military services and other agencies, in theater and out, during war and in peace.

DDSP Organization. DDSP is the DLA eastern strategic distribution platform that has facilities in New Cumberland and Mechanicsburg, Pennsylvania. DDSP provides military and commercial repair parts, clothing and textiles, medical supplies, and industrial and electronic components to military customers throughout the world. The New Cumberland, Pennsylvania, depot is the largest distribution facility in DoD.

DDSP stocks approximately 700,000 items valued in excess of \$6.2 billion and also functions as a container consolidation point (CCP) for the Army and Air Force by consolidating materiel into containers for overseas shipments. During FY 2002, DDSP processed approximately 7 million materiel transactions involving direct shipments and container consolidations. DDSP is also the host activity for the New Cumberland, Pennsylvania, installation and is responsible for the day-to-day operations and maintenance.

Objectives

Our overall objective was to determine whether workforce levels at DDSP were sufficient to accomplish its mission. Specifically, we reviewed and evaluated allegations of inappropriate management actions related to the alignment of civilian personnel with strategic plans, core business practices, and overall mission objectives. See Appendix A for a discussion of the scope and methodology and prior coverage related to the objectives.

Management Practices at the Distribution Depot Susquehanna, Pennsylvania

The allegations concerning inappropriate management practices were not substantiated. The allegations were not substantiated primarily because the management at DDSP made prudent decisions and took appropriate action in response to significant workload fluctuations and organizational issues. Specifically, the allegations were not substantiated because:

- The BCA and subsequent RIF was based on generally accurate projections until the events of September 11, 2001, which resulted in unforeseen workload increases.
- DDSP prudently responded to the workload fluctuations by using employee overtime, part-time and temporary employees, and by hiring full-time employees. Further, the supervisor-to-employee ratio was consistent with the ratio for all depots.
- DDC justified the use of contractor support services to assist in the A-76 Competitive Sourcing¹ process and subsequent review of the processes in place at DDSP.
- The on-time performance metric was not affected by the number of cancellation orders, and there was no evidence of false ticketing.
- The transfer of stock from Defense Distribution Depot Richmond and other depots to DDSP was more than offset by subsequent transfers from DDSP to other depots.
- The movement of stock between New Cumberland and Mechanicsburg was part of the overall DDC streamlining plan.
- The organizational changes were approved and implemented through a realignment plan that included a concept of operations, a plan of action, a staffing plan, and established milestones.
- DDSP prioritized and aligned staffing assignments on a daily basis to ensure that customer objectives were met.

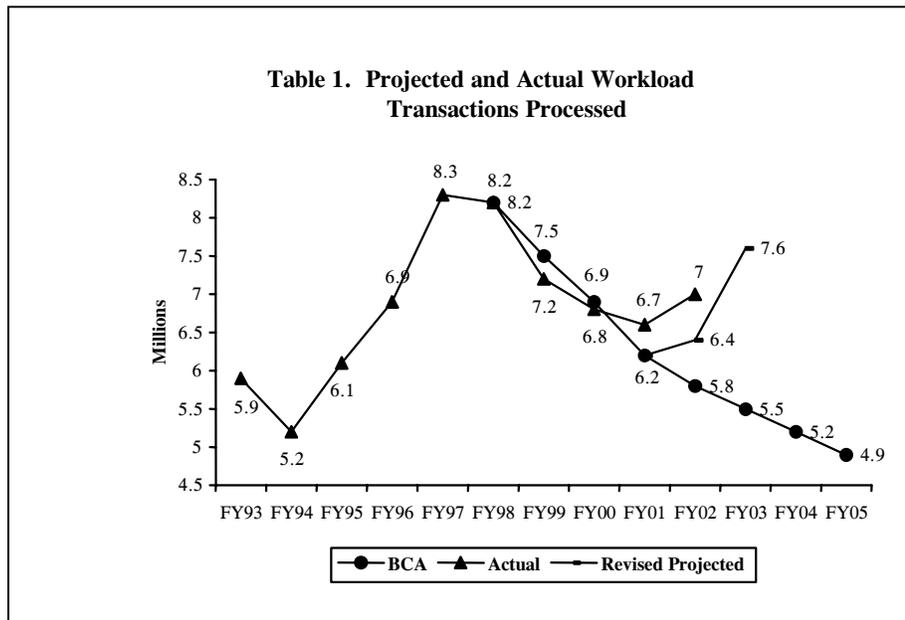
BCA Workload Projections

Allegation. DDC and DDSP made poor management decisions based on a flawed BCA that justified a RIF in FY 2000. The workload at DDSP increased the year following the RIF, resulting in the hiring of 100 part-time employees. A flawed BCA contributed to backlogs that impeded the depot's ability to make timely shipments to military activities stationed overseas.

¹Office of Management and Budget Circular No. A-76, "Performance of Commercial Activities," August 4, 1983 (Revised 1999). The circular establishes federal policy for competitive sourcing of commercial activities. The circular was subsequently revised May 29, 2003.

Evaluation Results. The allegations were not substantiated. The BCA workload projections were generally accurate until the events of September 11, 2001, after which DDSP increased staffing levels in response to unanticipated changes in the workload for FY 2002 and FY 2003. However, we did identify opportunities for improvement in performance management for CCP management and the Distribution Standard System (DSS), which appear in Appendix C. We found that although workload and staffing fluctuated greatly after September 11, 2001, DDSP management made effective adjustments and were responsive to military shipping requirements. For example, overseas and domestic shipments at DDSP were within 10 percent of the standards for priority shipments in FY 2002.

Business Case Analysis. A BCA was completed in May 1999 as a result of the DDC long range business plan and the A-76 competitive sourcing processes. The BCA identified the functions, costs, workload, and other key profiling characteristics for operations at DDSP to establish a baseline for assessing operational improvements and staffing requirements. In addition, the BCA identified a plan to streamline DDSP operations to realize potential savings and increase productivity. DDC anticipated a significant decline in workload in future years because of more efficient business practices, such as direct vendor delivery². The BCA projected a 40 percent workload decrease for FY 1999 through FY 2005. Our review of projected and actual workload data showed that the BCA was generally accurate for the first 3 years. Table 1 illustrates that for FY 1999 and FY 2000, the actual workload decreased more than projected; for FY 2001, the actual workload continued to decrease but was 8 percent over the projection; and in FY 2002, actual workload started to increase and was 22 percent over the projection.



²Direct vendor delivery contracts are a method of contracting that features direct delivery from a designated vendor to a customer. The purpose of direct vendor delivery contracts is to reduce logistics response time and infrastructure costs.

Staffing. In September 2000, as a result of the BCA, DDSP completed a RIF that eliminated 461 positions. After the events of September 11, 2001, the actual workload for FY 2002 increased by 22 percent over the projected workload, and DDSP used employee overtime and part-time employees as a temporary solution until the staffing levels could be adjusted through the workload projection and review process. DDSP increased FY 2002 and FY 2003 staffing levels by 16.5 percent cumulatively in response to the changes in the workload.

Timeliness of Shipments. DDC data on DDSP reflected satisfactory performance for FY 2002, when compared to DoD standards. DDC monitors the timeliness of shipments at the depots, including DDSP, by routinely collecting and reviewing shipping data. DoD 4140.1-R, "DoD Materiel Management Regulation," May 1998³, establishes requirements for DoD materiel managers. The Regulation establishes timeline standards for shipping materiel to troops overseas. In FY 2002, DDSP processed approximately 7 million workload transactions. The shipping standard for priority materiel orders is 1 day. In FY 2002, DDSP processed priority materiel orders on an average of 1.1 days. The shipping standard for routine materiel orders is 3 days. In FY 2002, DDSP processed routine materiel orders on an average of 2 days.

Personnel Management

Allegation. DDSP management failed to maintain staffing levels, had excessive layers of supervision, and made shift changes that resulted in an inability to meet performance goal metrics. The implementation of the RIF discriminated against disabled personnel. Also, DDSP spent \$468,000 for the operation of an EOAC that had a "not to exceed" clause in the contract in the amount of \$110,000.

Evaluation Results. The allegations were not substantiated. DDSP prudently increased staffing levels to accommodate the unanticipated workload increase. The supervisor-to-employee ratio at DDSP, which was 1-to-16, was consistent with the other 21 depots. There was no evidence of any discriminatory actions against disabled employees. Finally, the "not to exceed" amount in the EOAC contract was increased by contract modifications. According to the DDC contract office, the total cost of the DDSP portion of the contract was \$263,228, not \$468,000, as stated in the allegation.

Staffing Levels and Supervision. DDSP prudently responded to the workload fluctuations by using employee overtime, part-time and temporary employees, and by hiring full-time employees. DDSP is a Defense Working Capital Fund activity whose staffing level is based on annual workload projections. The FY 2001 and FY 2002 actual workloads were higher than previously projected, and DDSP did not have sufficient staff to process that workload. Specifically, the FY 2001 actual workload was 498,554 line items more than projected. The actual workload for FY 2002 increased by an additional 347,292 line items over the FY 2001 actual workload. DDSP management

³Superseded by DoD 4140.1-R, "DoD Supply Chain Materiel Management Regulation," May 23, 2003.

authorized employee overtime and hired 142 part-time employees to process the unanticipated workload. DDSP increased the staffing level by 91 full time positions in FY 2002 and by 199 full time positions in FY 2003.

According to the review by DLA in Appendix B, the reorganization of DDSP created excess supervisory personnel. During the transition period for fully implementing the reorganization, DDSP management used 120-day work details to other positions through September 2003 to accommodate the excess supervisors. After September 2003, DLA planned to eliminate excess supervisory positions through RIF procedures. Any supervisory positions eliminated through attrition and retirement would be replaced with production line wage grade positions. DLA concluded in its review that the measures used by DDSP management were prudent. We also determined that the DDSP supervisor-to-employee ratio of 1-to-16 appeared to be reasonable because it was consistent with the ratio at the other 21 DDC depots in FY 2002.

Discrimination Against Disabled Personnel. A smaller percentage of employees with disabilities were separated from DDSP than employees without disabilities. According to DDC Equal Employment Opportunity personnel, there were no complaints filed as a result of the RIF. As a result of the RIF, the total number of DDSP employees (2,244) was reduced by 21 percent (461 positions). According to DDC, of the 2,244 total workforce, 260 (11.6 percent) had reported disabilities. Based on the data DDC provided, disabled personnel reduced by the RIF amounted to 7.3 percent (19 employees) of the 260 disabled personnel in the workforce. There was no indication that the DDSP RIF discriminated against disabled personnel.

Employee Outplacement Assistance Center. The use of contractor support to assist personnel affected by the RIF appeared to be reasonable and appropriate. DLA Regulation No. 1410.1, "Reduction-In-Force, Furlough, and Transfer of Function," July 7, 1993, establishes policy and procedures governing RIFs. The Regulation requires activities to provide outplacement assistance to employees scheduled for separation. DDC contracted for an EOAC to assist personnel affected by the RIF. The EOAC services were contracted out because DDSP personnel were conducting the actual RIF, registering employees in the Priority Placement Program, and counseling employees on retirement packages and severance pay. According to DDSP, its personnel office was not staffed to provide the necessary services and, in some cases, not trained in the services offered by EOAC. EOAC offered courses in resume writing, interviewing skills, outplacement into private sector positions, obtaining state funds for retraining employees, and attending job fairs. DDC used an existing General Services Administration contract to establish an EOAC for DDSP. DDC modified the contract to accommodate the number of personnel that required the services of EOAC. EOAC assisted 156 personnel subjected to the RIF. The initial "not to exceed" amount of the contract was \$90,000. DDC followed proper procedures for modifying the contract amount to ensure that all personnel affected by the RIF received EOAC services. According to the DDC contract office, the amount of the DDSP portion of the EOAC contract was \$263,228, about 56 percent of the alleged cost of \$468,000.

Contractor Support Services and Employee Overtime

Allegation. DDSP used contractor support services to perform functions that should have been assigned to DDC employees. Also, large amounts of funds were expended for employee overtime that was a result of the RIF.

Evaluation Results. The allegations were not substantiated. The Office of Management and Budget Circular No. A-76, sets forth the procedures for determining whether commercial activities should be performed under contract with commercial sources or in-house using Government facilities and personnel. In March 1998, DLA announced its intent to conduct public and private competitions to determine whether the workload at its distribution centers should be outsourced.

Contractor Support. DDC contracted for consulting and facilitation services in order to assist with the project management on A-76 competitive sourcing. The specific objectives of the contract were to provide DDC with the requisite expertise, knowledge, and deliverables to evaluate the current business functions at each of the sites under review and to recommend the best business practices to improve performance, reduce costs, and streamline operations.

As the contractor reviews of the depots progressed, it became apparent to DDC that, due to operational requirements, the depots scheduled for evaluation in the latter part of the A76 competitive sourcing project would be unable to evaluate, plan, and execute contractor proposals within the established timelines. Consequently, DDC management decided that the contractor reviews would be redirected from the A-76 reviews to a review of the business processes in place at the two strategic distribution platforms, DDSP and Defense Distribution Depot San Joaquin, California.

The DDC management decision to redirect the contractor support appeared to be reasonable. The A-76 competitive sourcing contract was already established and funded, and the contractor had previous experience in distribution work processes in place throughout the DDC and could provide commercial best practices experiences.

Employee Overtime. The complainant alleged that large expenditures for overtime were needed because of the staffing shortages created by the RIF. DDSP management used employee overtime because of unanticipated workload increases. DDSP experienced staffing shortages in FY 2001 and FY 2002 because of unforeseen variances between projected and actual workload. For example, the FY 2001 staffing level was based on a workload projection of 6.2 million transactions, which in actuality turned out to be 6.7 million transactions. The FY 2001 workload was affected by a change in buying strategy by the inventory control points (ICPs) that buy the materiel that is stored and issued by DDSP and which was not considered in the BCA. The ICP strategy of buying less, more often, increased the quantity of DDSP materiel receipts and associated workload. The events of September 11, 2001, contributed to an increased workload for FY 2002. In response to the increased workload in FY 2001 and FY 2002, DDSP used employee overtime as one of several solutions to process the workload.

Table 2 contains the amount of funds that DDSP spent on overtime per fiscal year. Although overtime costs increased from \$4.8 million in FY 2000 to \$7.5 million in FY 2001, we believe it was an appropriate response to the increases in workload.

<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
\$5,097,104	\$4,372,401	\$4,832,434	\$7,507,244	\$7,914,595

On-time Performance Metric

Allegation. DDSP was inflating on-time performance metrics by canceling tickets with aged materiel release order dates and by committing false picks of materiel by printing tickets for materiel that was not in the location.

Evaluation Results. The allegation was not substantiated. From the information we obtained on the ticketing process, it did not appear that management promoted the cancellation of aged tickets or that the number of canceled tickets and false picks affected the on-time performance metrics.

Employees at DDSP were allowed to determine which tickets were processed. Therefore, the routine issuance and cancellation of tickets was controlled by the employees and not by management. Additionally, the DDSP distribution process was fully automated, minimizing the potential for ticket manipulation. The DSS was used to document and control the ticket process. Customer requirements for stocked items were received into DSS, and employees regularly accessed DSS and printed out tickets that showed customer requirements. The tickets identified the items to be shipped and the packaging and transportation requirements. After the tickets were printed, the employees would pull the materiel from stock and forward the materiel to the various stations for packaging and shipping.

One of the performance metrics for DDSP was the total time to process a materiel shipment that was measured from the receipt of a materiel release order from the ICP through the shipment of the materiel. The complainant alleged that DDSP management was inflating that performance measurement by canceling tickets with aged materiel release order dates and re-entering new materiel release order dates into DSS. The canceling and re-entering actions would record faster shipping times in DSS than were actually achieved. In a hypothetical example, if an item were shipped on January 30, 2003, for a ticket with a materiel release order date of January 1, 2003, the total performance measurement for issuing would be 29 days. However, if the ticket were canceled and re-entered into DSS with a materiel release order date of January 29, 2003, an issue time of 1 day would be recorded, inflating the performance results.

The DSS internal controls minimized the opportunities for DDSP management to inflate performance data for the materiel shipment process. The ICPs initiated the cancellation process with a request to cancel a ticket by automated uplink through

DSS. When an employee pulled the materiel that had been canceled and scanned the bar code into DSS, DSS would recognize that the materiel release order had been canceled. The materiel would be automatically redirected to a workgroup leader who had authorization in DSS to complete the cancellation process and return the materiel to stock. When the cancellation process was complete, the canceled tickets were recorded in DSS, creating a complete audit trail. The DSS database showed that 22,421 (.35 percent) out of 6.4 million materiel release order transactions had been canceled over a 12-month period ending September 30, 2002. Because canceled orders represented less than one percent of total transactions processed, the influence on performance metrics would have been marginal for that time frame.

The allegation also stated that management had been inflating the on-time performance metrics by performing false picks for tickets that were printed without materiel being at a location. We were unable to determine how the action described in the allegation would affect on-time performance. We requested clarification from the complainant and other employees on the process; however, they provided insufficient information and data to explain how false picks would affect the performance metrics. Based on our understanding of the process, the on-time performance metrics would not be affected by false picks because if an item were not at a location, the materiel would be unavailable and could not be shipped. According to DDSP, performance metrics are calculated by using the materiel release order date and the materiel ship date, which are recorded by separate inputs to the DSS. If no materiel was available to be shipped when an employee printed a ticket, the bar code information on the materiel and shipping date could not be recorded in DSS by shipping personnel. Consequently, the ticket would not be included in the on-time performance metric calculations.

Workload Transfers from Other Depots

Allegations. The transfers of workload from Defense Distribution Depot Richmond, Virginia, represented a huge increase in the DDSP workload shortly after the RIF. In addition, work is constantly being transferred to DDSP from other depots.

Evaluation Results. The allegation was not substantiated. The transfer of stock from Defense Distribution Depot Richmond, Virginia, and other depots to DDSP did not cause a significant workload increase. To improve readiness and customer wait time, DDC implemented a strategic stock-positioning plan for the 22 depots. The goal of the plan was to position the right stock at the right distribution depot, which resulted in stock being transferred to and from DDSP and other depots. Because of repositioning and streamlining efforts, DDSP both received and transferred stock items. From FY 2001 through August 2003, 39,523 items⁴ were transferred from DDSP to other depots, and 37,651 items⁵ were transferred to DDSP from other depots. Items that were transferred to DDSP from other depots totaled less than the number of items transferred from DDSP to other depots.

⁴ Total numbers of items were counted only once for FY 2001, FY 2002, and FY 2003 even if shipped more than once.

⁵ Total number of items counted once per year.

Stock Transfers Between New Cumberland and Mechanicsburg

Allegation. DDSP management expended a large sum of time and money on the movement of a large quantity of stock from the New Cumberland site to the Mechanicsburg site and back without the knowledge or permission of the item manager.

Evaluation Results. The allegation was not substantiated. Although New Cumberland and Mechanicsburg are at different locations, both are considered facilities within the complex of DDSP operations. According to ICP guidelines, if stock were moved from one facility to another within the same depot, no notification to the ICP was required, nor was DDSP required to track daily movements of stock between locations. Therefore, DDSP was not required to obtain permission from the ICP to move stock between the two facilities, and did not maintain records on daily movements. The complainant was unable to provide additional information and documentation for any single large movement of stock between the two facilities, and DDSP officials stated that there was no single large movement of stock between New Cumberland and Mechanicsburg. We concluded that daily movements of stock between New Cumberland and Mechanicsburg were routinely accomplished to relocate and reposition stock in an effort to streamline DDSP operations; such movements of stock were a management prerogative, and there was no evidence to support any unauthorized or inappropriate movement of materiel between locations.

DDSP Realignment Plan

Allegation. DDSP was implementing a massive reorganization on a “piecemeal basis” without a definite plan regarding the number or grade-levels of supervisors required throughout the organization.

Evaluation Results. The allegation was not substantiated. DDSP implemented an organizational realignment plan and had completed a concept of operations, a plan of action, a staffing plan, and established milestones to meet the objective of the plan. During FY 2001 and FY 2002, DDSP experienced variances between projected and actual workloads that caused staffing shortages; however, DDSP effectively used employee overtime to offset those staffing shortages during the period of increasing workloads. DDSP was also cognizant of the impact of the reorganization on supervisor-to-employee ratios and maintained a 1-to-16 ratio throughout FY 2002, which was consistent with the ratio at the other 21 DDC depots. Additionally, the DLA review in Appendix B concluded that DDSP had an effective plan and used prudent measures to accommodate excess supervisory personnel resulting from the reorganization.

During the period of increasing workload, DDSP implemented a “get well plan” that included establishing a business process reengineering team to review operations. The organizational realignment was a DDSP improvement project that was recommended by the business process reengineering team. The team also

recommended that DDSP be restructured into work shifts. DDSP management provided routine briefs on the status and progress of the realignment to DDC.

Workload Management

Allegation. DDSP management forced employees to bypass work-in-progress, including high priority requirements, in favor of completing dedicated truck shipments. That practice impedes the ability to support troops who have submitted a priority request based on need.

Evaluation Results. The allegation was not substantiated. DDSP management prioritized and managed workloads on a daily basis to ensure that customer objectives were met. DDSP management had the prerogative of emphasizing work-in-progress or dedicated truck shipments, as the workload dictated. We found no evidence that DDSP was emphasizing dedicated truck shipments to the detriment of processing high-priority materiel. Our evaluation of the picking, packing, and shipping process indicated that there was no clear detriment to the processing of priority materiel because of a supervisor's emphasis on dedicated truck shipments over work-in-progress.

Picking, Packing and Shipping Process. According to DDSP officials, operations were conducted in three daily work shifts and a weekend shift. DDSP stated that the picking, packing, and shipping process is the same for all work shifts and work is accomplished in a priority sequence: high priority requisitions for multiple deliveries, dedicated truck requisitions, and routine requisitions. DDSP reported that since most deliveries to DDSP occurred during the day shift, the first shift focused on unloading trucks and sorting and inspecting materiel in addition to picking, packing, and shipping materiel; the second shift focused on processing receipts of materiel and replenishing stock in forward areas as well as picking, packing, and shipping; the third shift focused almost exclusively on picking, packing, and shipping high priority requisitions; and the weekend shift focused on picking, packing, and shipping high priority items and reducing any backlog that existed.

Dedicated Truck Shipments and Work-in-Progress. Work-in-progress and dedicated truck shipments are two phases of the DDSP materiel picking, packing, and shipping process that have unique priorities. DDC established dedicated truck shipments to support high volume customers that receive numerous shipments from DDC depots. For dedicated truck shipments, an agreement was established between DDC and its customers to deliver all cargo, regardless of priority and size. Delivery times and locations were pre-arranged.

Dedicated truck shipments are usually scheduled for departure at a specified time of the day; thereby establishing a priority for loading a dedicated truck. Work-in-progress includes work that is not complete or ready for shipment, and dedicated truck shipments consist of completed work that is ready for shipment. The DDSP management balanced staffing assignments between work-in-progress and dedicated truck shipments to ensure that priorities and overall materiel picking, packing, and shipping objectives were accomplished.

Management Direction. According to DDSP officials, management was responsible for prioritizing and managing daily workload to meet customer objectives and workload priorities that changed daily based on urgency and worldwide events. DDSP stated that it had one manager per shift, with subordinate supervisors, responsible for redirecting the workforce, when necessary, to complete its assigned tasks. DDSP also stated that both work-in-progress and dedicated truck shipments included the processing of priority materiel.

Both work-in-progress and dedicated truck shipments included priority materiel, but a management decision to emphasize one over the other during the picking, packing, and shipping process was sometimes required during daily operations. Emphasizing dedicated truck shipments could delay picking and packing of priority materiel. Likewise, emphasizing work-in-progress could delay the shipping of priority materiel included in dedicated truck shipments. However, management had the discretionary authority to emphasize one of those separate daily operations to ensure that the overall processing of priority materiel met the delivery objectives of the customers. The management decisions to give priority to dedicated trucks at any given time in the picking, packing, and shipping process appeared to be reasonable.

Conclusion

None of the eight allegations reviewed by the OIG DoD were substantiated, primarily because the management at DDSP made prudent decisions and took appropriate action in responding to significant unforeseen workload fluctuations and organizational issues. We found no instances of inappropriate actions, discrimination, or wrongdoing on the part of management at DDSP.

Management Comments

The Executive Director, Distribution and Reutilization Policy, Defense Logistics Agency concurred with the report finding.

Appendix A. Scope and Methodology

We contacted and discussed the allegations with the complainant. We also interviewed officials at DLA, DDC, and DDSP regarding the allegations of inappropriate management practices. We developed a history of DDC and DDSP business practices from command briefings, the DDC long-range business plan, and the DDC BCA. The documents we reviewed included DoD and DLA guidance, contractor support contracts, and official correspondence. We collected, reviewed, and analyzed data on the DDC BCA, the DDSP RIF, the DDC EOAC contract, the DDSP business process reengineering plan, staffing, overtime costs, workload, and on-time performance metrics. We reviewed the data to determine if the events occurred as described in each allegation. The documents we reviewed were dated from May 1998 through October 2003.

We performed this evaluation from February 2003 through December 2003 according to standards implemented by the Inspector General of the Department of Defense. Our scope was limited to reviewing 7 of the 20 allegations. The remaining allegations were forwarded to DLA. We also addressed a portion of one allegation concerning personnel management that was also forwarded to the DLA. Because our objective was limited to the allegations regarding DDC and DDSP management practices, we did not review the management control program.

Use of Computer-Processed Data. We relied on computer-processed data from the DSS database to aid in evaluating on-time performance for materiel shipments. We did not perform a formal reliability assessment of the computer-processed data. A review of the DSS data for the period October 2002 through February 2003 indicated that 467 out of 226,797 records contained erroneous materiel shipment dates. The errors did not preclude the use of the data to meet evaluation objectives and would not change the conclusions of this report.

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

Prior Coverage

No prior coverage has been conducted on management practices at DDC or DDSP during the last 5 years.

Appendix B. Defense Logistics Agency Review Results



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

IN REPLY
REFER TO J-37

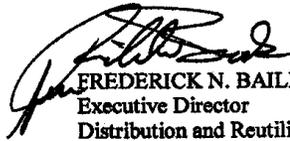
October 20, 2003

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
DEPARTMENT OF DEFENSE

SUBJECT: Management Practices at the Defense Depot Susquehanna, Pennsylvania (DDSP)

The attached is the Defense Logistics Agency's summary review of the subject issues, in response to your letter of referral dated February 3, 2003.

My point of contact for this matter is Mr. Michael Pipan at 703-767-2513 or e-mail Michael.Pipan@dla.mil.

 COL, USA
FREDERICK N. BAILLIE
Executive Director
Distribution and Reutilization Policy Directorate

Attachment

DLA Response to Allegations
Regarding Management Practices at DDSP

Allegation 4

Throughout 1999, DDSP spent approximately \$160,000 to contract for Conflict Resolution classes. In addition, there was a huge investment in labor, since large numbers of Management and Union officials attended those training sessions. This money was essentially wasted, because DDSP and the DDC soon embarked on a mission to ignore their statutory obligation to negotiate with the Union, while also ignoring all agreements involving Partnership with the Union. Management repeatedly violated and/or repudiated the collective bargaining agreement (CBA), settlement agreements, and other negotiated agreements. Clearly, the intent was to force the Union to spend money in arbitration to enforce some of the basic tenets of the CBA. Local 2004 has been forced to submit an ever-increasing number of grievances to arbitration, despite the time and money spent to train the parties on Conflict Resolution.

Analysis

To emphasize the benefits of alternative dispute resolution (ADR) procedures, DDSP conducted Conflict Resolution Training for managers and union officials. DDSP management has and continues to use ADR in appropriate cases. ADR has been successful in resolving EEO complaints and had also been used to avoid impasse in negotiations with the Union over conditions of employment.

We found that a Joint Dispute Resolution (JDR) committee had been active in resolving grievances until December 10, 1999, at which time it was discontinued following a dispute about the Union's request for official time. The Union stated that they would have to discontinue the JDR committee unless they were granted more official time. Management considered the Union request excessive and replied that even lacking this additional expenditure in official time that the JDR committee was already an extremely costly form of ADR and in the end concurred with the Union in discontinuing the committee.

In July 2001, the Union filed a grievance asking that the JDR committee resume. Since that time, there has been sporadic contact between the Union and Management regarding reestablishing the JDR committee in some form with no success. During this time, the Union suggested expedited arbitration. As of May 9, 2003, there were only two grievances pending arbitration.

Finding

The available evidence does not support this allegation. While it is true that the Joint Dispute Resolution (JDR) Committee has been inactive since December 1999, the union was unable to present evidence of increased arbitration activity since that time. In fact, having only two grievances currently active would seem to disprove this charge. We do, however, strongly recommend that ADR procedures be properly negotiated and reestablished.

DLA Response to Allegations
Regarding Management Practices at DDSP

Allegation 5

Five WG-9 mechanics have been detailed to lower graded duties for approximately one year, while many other employees were never placed in the positions assigned to them in the Reduction-in-Force (RIF). These actions are indicative of the ineffective nature of the DDSP staffing plan that was approved by the Federal Service Impasses Panel (FSIP).

Analysis

The Federal Services Impasses Panel approved the Agency's staffing plan that included the WG-09 positions on July 28, 2000. One year later, the Humanitarian Aid Program (HAP) mission supported by the WG-09 mechanic positions was transferred to the Marine Corps.

Actually, four WG-09 Mechanics, one WL-10 Mechanic Leader, and one GS-2030-09 were identified as excess because of HAP Mission Transfer to Albany GA. As of September 2003, one Mechanic took Voluntary Early Retirement/Voluntary Separation Incentive Pay (VERA/VSIP) on July 30, 2002. One Mechanic volunteered for a Change to Lower Grade (CLG) in June 2003. The two remaining WG-09 Mechanics volunteered for CLG to be effective October 19, 2003. The one Distribution Facilities Specialist, GS-2030-09 opted to retire in August 2003 and the one Mechanic Leader pending placement volunteered for CLG to WL-07 to be effective October 19, 2003.

Regarding other employees not placed in positions assigned to them in the RIF, every employee identified as having a position was placed in that position at the time of the RIF. In the almost three years since the plan was approved, there have obviously been numerous details and reassignments made to accommodate changes to the workload and mission of DDSP.

Finding

Although the union presented evidence that employees were, in fact, detailed to lower graded positions, we find as credible management's argument that changing mission and workload at DDSP impacted staffing and the need to detail employees. In addition, the agency management adequately explained that the employees without positions after the RIF were only temporarily detailed until acceptable positions could be identified for them, and that the employees correctly were paid at the higher wage rate while on detail. Management's actions were consistent with standing Federal Government RIF procedures.

DLA Response to Allegations
Regarding Management Practices at DDSP

Allegation 9

On March 15, 2002, the DDC Commander issued a letter, which placed a moratorium on OT [overtime] due to an alleged funding shortfall. The funding shortfall was a result of overstaffing at DDC-HQ after a 1998 RIF that imposed a magic ceiling of 339 positions. Current strength of the DDC-HQ is more than 420 employees. At least 288 of these positions are GS-12 and above. A few months later the DDC authorized TDY with full per diem for approximately 20 employees from Corpus Christi, Red River and Anniston. The DDC initially solicited for 50 volunteers for the TDY. In addition, our budget problems are compounded by the many excessive layers of supervision. Production workers are restricted from working overtime, while excessive numbers of supervisors are working overtime. Management is perfectly willing to allow approximately 16 EEO complaints to cost the agency a sizable sum of money, rather than correct the staffing shortage that was the source of the complaints. This same staffing shortage resulted in a group grievance being filed by approximately 90 employees. Management has placed a large number of employees on administrative leave for extended periods of time due to a "perceived" threat, while others are totally left alone for more egregious acts. DDSP paid a VSIP/VERA bonus to an employee accused of misusing government computer for personal business and viewing pornography. Management and LMER failed to initiate appropriate charges against the supervisor, who won his case as a result.

Analysis

Concerning the increase in positions in the DDC Headquarters, the DDC Corporate Board approves every new position requested based upon either a new mission requirement or an increase to an existing mission. We found no direct correlation between the moratorium placed on overtime in March of 2002 and the alleged overstaffing at HQ DDC following a 1998 RIF. There were three factors that had caused a significant increase in overtime. The factors were support to customers; desire to meet performance metrics and increased transportation costs for Operation Enduring Freedom. To control costs the DDC Commander directed no overtime unless it was approved at the DDC headquarters or in direct support of the surge requirements.

In regard to the use of personnel from other depots to augment the DDSP workforce, HQ DDC occasionally uses employees on Temporary Duty (TDY) to alleviate temporary shortages of trained personnel at DDC depots, to accommodate a surge in workload or to overcome some of the difficulties of transition from one performing activity to another at depots that have undergone competition under OMB Circular A-76. DDC did solicit and obtain volunteers to assist DDSP. A study at the time concluded it was more cost effective to temporarily assign DDC employees from other depots to DDSP in lieu of hiring additional temporary employees. Beginning May 9, 2002 a total of 20 employees from Defense Distribution Depot Red River, Texas, Defense Distribution Depot Anniston, Alabama and Defense Distribution Depot Corpus Christi, Texas assisted DDSP for a period of 45 days. At the end of this period, DDSP performance metrics had improved and the details were terminated.

DLA Response to Allegations
Regarding Management Practices at DDSP

The allegation referring to excessive layering of supervision compounding budget problems is not supportable. During the period of time in question, the DDSP ratio of supervisors to employees has improved from 1:15 in FY99 to 1:16 in FY02. Supervisors are not being used instead of employees on overtime. Supervision is needed during overtime assignments, and occasionally supervisors do work alongside their employees during overtime when there is a diminished need for supervisor specific duties during these periods.

Concerning the 16 EEO complaints, EEO records indicate no complaints relating specifically to a staffing shortage. A class complaint concerning the distribution of overtime was recently dismissed by an administrative judge of the Equal Employment Opportunity Commission (EEOC).

As for the group grievance, involving 90 people, records reflect a group grievance over detailing WG-05 Material Handlers to WG-06 Packers in the Packing Branch. DDSP Management responded to the grievance that there was no violation of the negotiated agreement and no further action was taken by the Union on the grievance. As a result of a Merit System Protection Board settlement agreement and several classification appeals filed by employees, DLA Classifiers reviewed all packing positions in DDSP-SP (formerly the Packing Branch) by applying the Federal Wage System Job Grading Standards dated July 1995. The audit revealed that the duties of these positions were properly classified at the WG-05 level.

DDSP has on a few occasions placed employees on administrative leave pending investigation for making threats. Each situation is assessed individually to determine when it is advisable for safety reasons to place the employee on administrative leave. Guidance for dealing with Violence in the Workplace, signed by the DDC Commander, was provided to DDC Depot Commanders, DDC HQ Directors and Special Staff Offices by memorandum on May 1, 2002.

The employee accused of misusing a Government computer was investigated, and elected to retire under the early retirement authority being offered to eligible employees at the time. No request for a disciplinary action was forwarded by DDSP to the Personnel Office. Public Law 106-398 states that an employee would be ineligible for a voluntary early retirement only if in receipt of a notice of removal at the time of application. Disciplinary action was taken against the supervisor mentioned in the allegation for other actions. The disciplinary action was reduced on appeal through a settlement agreement.

DLA Response to Allegations
Regarding Management Practices at DDSP

Finding

The allegations are unsupported by the evidence presented. Data actually shows that all DDC HQ positions and grades were properly approved, and that there was a reduction in the supervisor-to-employee ratio between 1999 and 2002. Neither management nor the union presented information regarding the cost effectiveness of the TDY. While instances of supervisors working along side production workers did occur, no evidence of excessive overtime for supervisors was uncovered. The EEO complaint cited could not be found, and the group grievance was over the issue of detailing rather than staffing shortages.

Allegation 10

Massive remodeling projects have been undertaken in the DDC-HQ (Building 81), as well as in the Eastern Distribution Center (EDC). In Building 81, the existing cafeteria was renovated for the installation of food service machines. A short time later these machines were removed and another major renovation project was completed to convert the area into a deli. Both DDSP and DDC are constantly moving personnel, purchasing new furniture, and installing new office pods.

Analysis

Remodeling projects at the DDC HQ Building and at the EDC have been properly planned, funded and approved to address changes in office staffing or other mission and organizational changes. Office furniture has been purchased based on the specific needs of the organization as determined and approved by management.

There have been major changes to the missions of the DDC Headquarters and DDSP space requirements. A recent major change was the re-organization of the civilian personnel function within DLA. This re-organization resulted in the Civilian Personnel Office becoming a tenant activity to DDSP and expanding in size. The office was moved to the EDC administrative area, and new furniture was purchased. Other major changes include the transfer of the Call Center function from DDSP to the DDC Headquarters, the establishment of the Business Systems Modernization Office, and the establishment of the A-76 project office. In addition, the Command suite was recently re-modeled and a second conference room was added to the Headquarters building due to the large number of visitors and conferences that take place at the DDC.

The cafeteria in Building 81 consisted of vending machines and an eating area that did not satisfy the need to provide employees with ready access to quality food during their half-hour lunch break. After a study determined that a deli operated by a contractor would best fill the need the cafeteria was renovated to accommodate a deli serving both hot and cold food.

DLA Response to Allegations
Regarding Management Practices at DDSP

In regard to the allegation that DDSP and DDC are constantly moving personnel, purchasing new furniture, and installing new office pods, we found that in October 2001 the Union had filed an Unfair Labor Practice (ULP) about newly constructed office cubicles and having reached agreement with DDSP management withdrew the charge. In November 2002 the Union filed a ULP charging that DDC had negotiated in bad faith on the assignment of individuals to office pods in the Financial Management organization. The Union has withdrawn the ULP and is having continuing discussions with Management. On February 3, 2003 the Union filed another ULP against DDSP because a supervisor moved production equipment from an office to an adjacent room used as a break room. Management removed the equipment and the Union withdrew the charge on February 27, 2003.

Finding

The evidence accumulated shows that all remodeling projects were found to be adequately planned, funded and approved, and were undertaken in response to changing needs and mission requirements. Greater emphasis should be placed on consultation and negotiation with the union whenever the impacts of changes effect working conditions. There is evidence that management has been delinquent in this area in the past.

Allegation 11

Management transferred one Visual Information Specialist position from DDSP to the DDC-HQ as part of a RIF in 1998. All other Visual Information Specialists positions were abolished. In 2000, the DDC solicited bids from an outside contractor to perform Visual Information Specialist duties. The legal department later cancelled this solicitation.

Analysis

One Visual Information Specialist (VIS) position was transferred from DDSP to the DDC and one position still exists at DDSP. DDC determined that it needed additional Visual Information support and explored the possibility of obtaining that support by contract. However, after staff review, it was decided that a contract should not be executed.

Finding

One VIS position remains at DDSP. The evidence accumulated does not demonstrate improprieties in either the movement or abolishment of VIS positions.

DLA Response to Allegations
Regarding Management Practices at DDSP

Allegation 12

An individual was promoted to a GS-14 as the Public Affairs Officer and has three assistants. Her predecessors did the job as a GS-11 and GS-13 with one assistant each. During the aforementioned 1998 RIF, a Public Affairs Officer position was established for DDSP. However, the DDC micro-manages this position and does not permit the incumbent to perform her duties despite the Command's insistence on maintaining separate areas of responsibility.

Analysis

The grade of each civilian position is determined by standards published by the Office of Personnel Management (OPM). Using those standards, the grade of the Public Affairs Officer position encumbered by this individual was determined to be GS-14 by a DLA staffing specialist. The grade is commensurate with the standards and reflects the DDC-wide responsibilities of the position. DDC command policy requires that PAO functions at each DDC distribution center be coordinated through Headquarters level. This individual is responsible for that oversight as part of her position as the DDC PAO.

DDSP's PAO takes direction from the DDSP Deputy Commander and has broad latitude with her day-to-day PAO responsibilities deferring to the DDC only for guidance and advice on matters having broader command impact. There have been no grievances filed by the incumbent.

Finding

Management was able to show that greater corporate coordination responsibilities for the current DDC Public Affairs Officer justified the higher graded position. Additionally, while the greater coordination activities require DDC involvement in DDSP public affairs, the union could not provide any documentation to substantiate the charge of micro-management.

Allegation 13b

Civilian Personnel (CPO) and management have already committed to "grandfathering" higher graded supervisors into lower graded positions without conducting a RIF or downgrading these employees. It is management's intent to "detail" all the excess supervisors and administrative support to lower graded positions indefinitely. These "grandfathered" details will allow these employees to maintain their current job, title, series and grade, despite the fact that lower graded duties are being performed. In addition, CPO and management notified the Union and the employees of their intent to backfill every position that was vacated as a result of VSIP/VERA by converting the positions to WG-5 positions.

DLA Response to Allegations
Regarding Management Practices at DDSP

Analysis

DDSP has established a straight-line organization that encompasses the entire distribution process from receipt to stow and stow to ship. This consolidates four divisions into one single division that is now organized by shift rather than function. While the establishment of this division created excess supervisors, it created a different management structure and DDSP needed an opportunity to allow the organization to transition prior to considering a reduction in force.

During this time period, the employees were detailed to other positions in increments of 120 days. No details were processed with an "indefinite" time frame. DDSP management determined that the transition period should last until September 30, 2003 to finalize the supervisory/managerial requirements. Details will continue in 120-day increments until excess employees are placed into valid positions or RIF procedures are implemented. This process is what the Union allegation refers to as "grandfathering".

As of May 9, 2003, DDSP has reduced the number of supervisors by thirteen and an additional eighteen administrative overhead positions have been eliminated. Some of these individuals accepted VSIP/VERA opportunities, which negated the need for a RIF that would have impacted lower graded employees. VSIP stands for voluntary separation incentive pay, an employee buyout plan designed to give employees who are likely to be involuntarily separated through a RIF, base closure, reorganization, or transfer of function, the option of voluntarily leaving Government service through either resignation, or retirement if eligible, in exchange for up to \$25,000 compensation. VERA is the Government's voluntary early retirement authority, which permits agencies to offer to employees who also are subject to involuntary separation, the option of leaving Government service through retirement, when they might not otherwise have been eligible to retire. At the same time the number of front-line production jobs has been increased by 72.

Finding

DDSP reorganized in a manner that created excess supervisory personnel, but the organizational transition is still taking place. Management's estimate that it would take until September 2003 to finalize requirements is reasonable. At that time, any remaining excess supervisory capacity are to be dealt with through RIF procedures. Prior to September 2003, management's use of 120-day details for excess supervisors was a prudent measure. Also, any supervisory positions currently eliminated through attrition and retirement are being replaced with production line wage grade positions.

DLA Response to Allegations
Regarding Management Practices at DDSP

Allegation 15

The DDC-HQ has repeatedly detailed employees from one depot to another to support sub-par contractor performance. New policy allowing for hiring up to 25% of strength to avoid repeat of Warner Robins problems.

Analysis

This is in reference to the October 2000 requirement to send Government employees to the Defense Distribution Depot Warner Robins, GA when the contractor who had just assumed the distribution mission following an A-76 competition was having performance problems. This situation lasted only a few weeks and the contractor reimbursed the government for the full cost of the Government assistance. Sixteen DDC depots have or will undergo competition under OMB Circular A-76 and it has been necessary on occasion to detail employees to overcome a temporary shortage of critical skills.

The DDC has authorized hiring temporary employees that equal 25 percent of the depot's permanent workforce for depots in transition to a new performing activity. After several A-76 competitions were completed, the DDC found that their Priority Placement Program (PPP) for displaced workers had been very effective and the depots under competition were losing workers very quickly during transition to the new performing activity. This resulted in personnel shortages and the requirement for the DDC to augment the impacted depots with employees from other DDC depots to maintain mission effectiveness.

As more depots were being competed, augmentation from other depots was more difficult. DDC senior leadership decided to hire temporary workers, who would not have PPP entitlements, to remain with the impacted depot throughout the entire transition. In addition to ensuring mission accomplishment, this action also provided additional trained employees that a contractor could hire if the competition resulted in a contractor decision. The 25 percent figure was a management estimate of the number of temporary employees needed to augment competed depots based on prior competitions.

DLA Response to Allegations
Regarding Management Practices at DDSP

Finding

The facts of what occurred at Defense Depot Warner Robins, Georgia (DDWG), are not disputed by either Agency management or the union. Agency management presented evidence showing that when confronted with an unexpected, critical mission impact, they acted reasonably within existing Government personnel rules to avoid any further performance problems. Management has always had a right to direct resources to meet demand and smooth workload. The union did not provide any evidence that such management actions are intended to support sub-par contractor performance. The allegation refers to a specific instance after an A-76 competition won by a new contractor. It has become a lesson learned for the Agency leading to a new policy allowing the hiring of temporary employees to ease the transition to a contractor after A-76 competition.

Allegation 16

Repeatedly poor management decisions regarding infrastructure contribute a significant amount to the budget problems. Examples: Constantly moving workspace without any input from the affected employees or AFGE. Spent a large sum of money to install an overhead walkway for inspecting trucks at the Dispatch Building. Not used and management wanted to replace the inspectors with cameras. Repeated leaks of water pipes in Building 87 led to huge expenditures of funds for clean up. Installed and removed 1. Racks in Outloading. 2. Carpentry equipment in the Box Shop. 3. Spray paint booth in Active Bulk. 4. Two Cafeteria Annexes. Long history of poor decisions – Marsh Run Park has been an environmental problem for many years – Asbestos settlement agreement.

Analysis

The Dispatch Building was originally part of the Eastern Distribution Center (EDC) MILCON project. Funds for the building were cut from the original project, and it was not finally awarded until FY 98 as part of the EDC Addition MILCON. There was an overhead walkway that was part of the project, but it was seldom used. As newer technology became available, cameras were installed so that inspectors could do their job without getting on the overhead walkway. The overhead walkway was a safety hazard, especially in the winter.

Building 87 is the Hazardous Material warehouse. There have been problems with the foam sprinkler system as a result of poor workmanship by the contractor. DDSP has arranged to have the contractor fix the problem under the warranty clause.

DLA Response to Allegations
Regarding Management Practices at DDSP

The outloading racks refer to the EDC. The original design had racks in the outloading area that were to be used to stage loads for longer periods of time than are now acceptable. After the load was built and the truck arrived, the material would be retrieved from the racks and loaded into the truck. Shortly after the building was put into use circa 1990, Management found it was taking a lot of time to retrieve the material from the racks and put it onto the truck. As customer expectations increased, management sought to reduce hold times. The racks were seen as an inhibitor to carrier performance. The operators preferred to put the loads onto designated areas on the floor, and then move the load from one area. The racks were removed and the loads have been staged on the floor since that time providing more efficient truck loading.

Carpentry equipment in the Box Shop refers to the EDC. The original Army design included a very large box shop as part of the EDC. Shortly after the EDC was put into use, the New Cumberland Army Depot and the Defense Depot Mechanicsburg merged. Each depot had a large box shop. The two box shops co-existed for some time before a decision was made to consolidate the operations in Mechanicsburg. The space in the EDC was then converted to storage for active bulk material.

The spray paint booth in active bulk storage refers to the EDC. Under the original Army design, the assumption was that there would be a great amount of package preservation, packaging, and marking (PPP&M) work and that some of the work would take place inside of the EDC. Actual PPP&M workload has not been as large as projections, so all of the PPP&M work has been moved to warehouse 55, which was the primary PPP&M operation. It has a very large paint booth and many other types of PPP&M capabilities. Converting both the paint booth and the box shop to warehouse space allowed for the storage of as many as 8,000 new National Stock Numbers of fast turnover material. This improved customer delivery since both central receiving and shipping are in the EDC.

Two cafeteria annexes within the EDC. Although included in the original design, there are fewer people in the EDC than originally forecasted by the designers. These annexes were never used from the time the building was first operated because it is not cost effective to run the main cafeteria and the two annexes simultaneously.

Marsh Run Park refers to a Formerly Used Defense Site that is currently being remediated by the Army Corps of Engineers. Groundwater cleanup is in progress.

DLA Response to Allegations
Regarding Management Practices at DDSP

Mention of asbestos settlement is in reference to an arbitration proceeding involving the New Cumberland Army Depot (NCAD) and AFGE Local 2004 prior to the transfer of NCAD to DLA in 1991. In the late 1980s the NCAD contracted for the removal of asbestos from depot warehouses. The Union subsequently filed a grievance alleging that employees had been exposed to asbestos. The Agency denied the grievance in part because air sampling showed that NCAD met OSHA standards concerning exposure to airborne asbestos. An arbitrator awarded employees environmental differential pay (EDP) for alleged exposure to asbestos based on a determination that NCAD was required to exceed OSHA standards. Although the Agency disputed the arbitrator's determination, the parties agreed to a settlement in 1992 that involved a lump sum payment in lieu of EDP.

We found that there were no grievances filed against Management regarding infrastructure changes.

Finding

Management provided information to justify all cases cited as legitimate business decisions based on changing mission requirements, needs, or technologies. The union did not provide any data to validate its claim of poor management decisions.

Allegation 17

Management recently purchased new forklifts, despite their knowledge that the equipment was not maintenance friendly.

Analysis

DDSP recently purchased swing mast forklifts from a specific company. These are specialized forklifts that are used in very narrow aisle storage areas. Although DDSP has been dealing with this company for many years, the forklifts purchased from this company in FY 01 and FY 02 have been experiencing above-normal maintenance problems.

DDSP has been working with the DDC staff and this company to resolve the issues, and the company has made repairs in accordance with the warranty. On February 19, 2003 this company's Government Sales Representative and Director of Engineering were on-site at DDSP to address maintenance and operational issues. In addition, the DDC is working with DDSP to look for possible alternate sources for swing mast forklifts. The Union, through personal statements submitted to us, suggests that management consult with the operators and maintenance personnel regarding equipment suitability before purchasing support equipment. The Union has not filed grievances regarding this allegation.

DLA Response to Allegations
Regarding Management Practices at DDSP

Finding

Evidence was provided to validate that the purchases were from a known and reliable vendor. The vendor has made repairs in accordance with its warrantee and is actively working with DDSP to alleviate the current problems.

Allegation 18

Budget problems were compounded by: 1. Excessive costs associated with DDC attendance at Business Systems Modernization meetings and DDC Commander's conferences. 2. Management's refusal to negotiate, in good faith, a DDC Supplement to the Master Agreement. 3. Management's repudiation of existing contract language related to their obligation to negotiate 7106(b)(1) issues and their repudiation of agreed upon language in the DDC Supplement. An arbitrator recently upheld the Union's right to negotiate 7106(b)(1) issues, as well as the status of the DDRE Supplement.

Analysis

BSM is a critical program to the modernization of DLA and to its future. Costs associated with the program are fully funded and have not detracted from the resources used to perform the DDC mission. On-site Commanders Conferences are infrequent, usually no more than one a year, and are necessary to effectively coordinate and communicate policy and procedure among the 22 distribution centers. The DDC has recently begun using Video Teleconferencing to hold conferences with depot commanders.

Beginning in 1999 DDC attempted to negotiate a supplement to the Master Labor Agreement (MLA) between DLA and AFGE. DDC funded four negotiating sessions but no agreement was reached. In June 2000 the Union filed an Unfair Labor Practice charge concerning the negotiations. Upon review, the Federal Labor Relations Authority determined that DDC did not conduct bad faith bargaining as alleged by the Union.

DLA Response to Allegations
Regarding Management Practices at DDSP

On November 30, 2001 the Union filed a grievance alleging that DDSP violated the Master Agreement and DDRE supplement by failing to negotiate numbers, types and grades, and appropriate arrangements, over the hiring of 100 temporary employees in July 2001 to work Saturdays and Sundays. They further alleged that DDSP failed to give notice and bargain numbers, types, and grades when the Agency solicited volunteers to work in the "New Active Items Area" and also failed to give notice and bargain number, types and grade concerning details of several employees. The Union invoked arbitration and on October 21, 2002 the arbitrator sustained the grievance, ruling among other things that the Agency must negotiate 5 U.S.C. 7106(b)(1) Management Rights in accordance with Article 2, Section 3 and Article 45 until such time as a new Supplement is negotiated. The Agency filed Exceptions to the Arbitrator's Award and on July 31, 2003 the FLRA issued a decision that in part sustains the union position and in part remands some issues back to the parties to either settle or to seek clarification from the arbitrator. DDSP management is currently reviewing the ruling. Both DDSP and the DDC will comply with the FLRA decision.

In October 2002 the Master Labor Agreement (MLA) expired. Subsequent to the expiration of the MLA, AFGE elected to conduct negotiations at the HQ DLA level and no negotiations on a supplement were permitted until agreement on a new MLA was reached. The new MLA was signed by both parties on September 30, 2003 and has been ratified by the union. It will now be presented to the DoD Civilian Personnel Management Service for Agency head review.

Finding

Documentation provided by the union did not show a causative connection between any perceived budget problems and labor negotiation and bargaining. A new Master Labor Agreement has just recently been negotiated, and DDSP management is currently reviewing the arbitrator's ruling.

Allegation 19

The Agency has a long history of reneging on negotiated agreements and settlement agreements, as well as repudiation of the collective bargaining agreements. It is apparent that the Agency is intent on bankrupting the Unions by forcing them to spend money to arbitrate these many violations. Some examples are: A. DDSP repudiated a grievance settlement involving back pay and promotions. B. DDSP refused to negotiate the establishment of a Caretaker organization for the Memphis portion of DDSP. C. DDSP signed a settlement agreement in 1998 permitted employees in S Division to have paid lunches and repudiated that agreement in 2000. D. In 2002, another provision of that same settlement agreement was repudiated related to minimum number of overtime hours. E. In 1999, DDSP reneged on a negotiated agreement that established third shift in the S Division. F. DDSP and DDC have repeatedly repudiated Article 2 and Article 45 of the collective bargaining agreement involving 7106 (b)(1) and the duration of the DDRE Supplement.

DLA Response to Allegations
Regarding Management Practices at DDSP

Analysis

We found no record of DDSP repudiating a grievance settlement involving back pay and promotions. We did find a June 27, 2002 FLRA ruling on the charge that DDSP violated sections 7116(a)(1), (5) and (8) of the Federal Service Labor Management Relations Statute by repudiating the overtime provision of a Memorandum of Agreement (MOA) dated June 5, 1998. The General Counsel of the FLRA concluded that issuance of a complaint was not warranted. He stated that although the parties disagree as to whether and to what extent management was aware of the 1998 MOA, DDSP is once again complying with it.

As a result of BRAC 95, the Defense Depot Memphis Tennessee (DDMT) was closed in 1997. A caretaker operation staffed by former DDMT employees was established to maintain the facility. This operation was temporary in nature as the use and control of the DDMT site was to be turned over to the Memphis Redevelopment Corporation. In compliance with an arbitrator's award, DDSP negotiated the establishment of the Caretaker workforce with AFGE Local 2501. In 1999 DDSP decided to reduce the caretaker workforce in keeping with increasingly reduced mission requirements. The Agency's reduction-in-force and subsequent closure of the caretaker operation was upheld by an arbitrator and affirmed on appeal.

We found that DDSP Management had signed a tentative agreement with AFGE on June 5, 1998 which called for employees in a organization to be given a "paid lunch" thus allowing them to leave work one-half hour earlier. The Union withdrew a ULP against the Agency upon execution of the MOA. DDSP Management, after the Union had filed the ULP, sought a legal review and was informed that the procedure was contrary to wage and hour rulings by the Comptroller General and informed the Union of that fact. Management did not renege on the agreement; they simply refused to implement an illegal provision.

In the Memorandum of Agreement with the Union, addressed in the first paragraph of our response above, the Union pointed out that a provision in regard to minimum number of overtime hours was not being followed in some cases. The FLRA stated that although the parties disagree as to whether and to what extent management was aware of the 1998 MOA, DDSP is once again complying with it. Thus, the violation had been cured as DDSP has agreed to comply with the overtime provision in the 1998 MOA. The third shift referred to was disestablished due to fluctuations in workload. Management maintains that it retains the right to determine hours of work.

Regarding the alleged repudiation of the collective bargaining agreement involving 7106 (b)(1) and the duration of the DDRE Supplement. The Federal Labor Relations Authority has ruled on the Agency's Exceptions to the Arbitrator's Award cited in paragraph 3 to our response to Allegation 18. DDSP Management is currently reviewing the decision that in part sustains the Union position and in part remands some issues back to the parties to either settle or to seek clarification from the arbitrator. DDSP and the DDC will comply with the FLRA decision.

DLA Response to Allegations
Regarding Management Practices at DDSP

Finding

No factual basis was presented to support the charge that the Agency is forcing excessive arbitration actions in order to bankrupt the union. In the cases where grievances or unfair labor practices have been filed, the agency has complied with arbitrator or Federal Labor Relations Authority rulings. The issues dealing with 5 U.S.C. 7106(b)(1) Management Rights may not be settled until the negotiation of a new Defense Distribution Region East (DDRE) regional supplement to the newly agreed-upon Master Labor Agreement.

Allegation 20

Constantly detailing employees due to staffing shortages. Many of these employees are detailed to lower graded duties for an extended period of time. WL-8 cutting grass for approximately two years. The same arbitrator agreed that DDSP was guilty of repeated violations of the collective bargaining agreement related to details and misassignments.

Analysis

In past practice, with the full knowledge of Local 2004, managers had been soliciting volunteers for "details" and if there were a sufficient number of volunteers, management temporarily assigned employees to the work. On November 30, 2001 the Union filed a grievance alleging among other things that DDSP failed to give notice and bargain numbers, types and grade concerning details of several employees. Although initially denied by the DDSP Deputy Commander, the Union invoked arbitration of its grievance. The arbitrator concluded that DDSP violated Article 29 of the Collective Bargaining Agreement by involuntarily detailing employees and by not providing notice to the Union. The Agency had filed exceptions to the arbitrator's award and on July 31, 2003 the FLRA issued a decision that in part sustains the union position and in part remands some issues back to the parties to either settle or to seek clarification from the arbitrator. DDSP management is currently reviewing the ruling. Both DDSP and the DDC will comply with the FLRA decision.

**DLA Response to Allegations
Regarding Management Practices at DDSP**

DDSP reorganized in June of 2002, and planned to allow one year for placement of displaced employees into positions commensurate with their grade. As of September 2003, the following placement efforts are underway on the remaining excess employees. One General Schedule (GS-14) employee has unofficially stated that she will volunteer for a GS-13 position; however, she has been on leave and her acceptance has to be confirmed with the Personnel Office. Two GS-12 employees will be reassigned to available non-supervisory GS-12 positions effective October 19, 2003. One GS-10 employee has volunteered for a Change to Lower Grade (CLG) to a GS-09 position effective October 19, 2003. A number of wage supervisory (WS) employees will either be moved to GS-09 positions if selected through a Job Opportunity Announcement (JOA) or be offered any available vacant positions as voluntary CLGs. RIF Authority will be requested no later than December 31, 2003 for any remaining excess WS-05/06 employees that do not volunteer for vacant positions. If any of the excess employees are retirement eligible, VERA/VSIP will be offered to affected employees before conducting RIF.

There is a WL-08 assigned to the maintenance crew. He is a working leader, and as such, is to be working alongside the workers he leads. His grade level is appropriate for his duties.

Finding

No evidence was presented that the detailing of employees was due to staffing shortages. Management stated that detailing was necessary for a reasonable period (one year) after the accomplishment of the organizational realignment. All employees currently working outside of their grade or position will be placed or released by December 31, 2003. Detailing to cover temporary shortages or relieve temporary overages is a normal practice that has been performed with the full knowledge and consent of the union. The issue of whether detail specifics need to be bargained is currently under Agency appeal.

Appendix C. Opportunities for Improvement

A review of the DDC performance management system identified opportunities for improvement in monitoring CCP transactions and the DSS database. The DDSP mission is to store, manage, and distribute materiel as part of the worldwide DoD distribution network that provides support to the Military Departments and other agencies during peace and war. The absence of CCP overseas transactions as a command metric increased the risk of military units overseas not receiving materiel according to DoD standards. Database errors increased the risk that metrics reflecting materiel shipping times were inaccurate. DDSP should evaluate standards and procedures for monitoring CCP and the accuracy of DSS in order to improve the efficiency and accuracy of performance metrics reflecting its important mission.

Container Consolidation Point Management

Materiel for overseas shipments are combined at CCPs. DDSP functions as a CCP for materiel received from vendors and other sources for overseas Army and Air Force units. DoD Materiel Management Regulation 4140.1-R, Appendix 8, "Uniform Materiel Movement Issue Priority System Time Standards," May 1998, prescribes procedures on the uniform management of DoD materiel, including specific standards for CCPs. On-time performance standards for CCPs are promulgated in that regulation. The standards are based on priority designators, urgency of need, and required delivery date.

We observed that DDSP did not monitor the on-time performance for approximately 6.6 million overseas shipments for compliance with the DoD 4140.1-R from FY 1998 through FY 2002. Consequently, DDSP management was unable to determine the timeliness of overseas shipments to military units.

Distribution Standard System

DDSP had two designated command-level metrics for monitoring issuance of materiel to customers. The metrics were designed to collect data and show the average time required to ship an item after receipt of the materiel release order from the inventory control point. DSS was used to document materiel receipt, storage, issue, packaging, and shipping. The factors used to calculate on-time shipping performance were recorded and maintained in the DSS database.

A review of the database for entries during FY 2002 revealed questionable shipping dates and timeframes. Out of 226,797 transactions for supporting Operation Enduring Freedom, there were 467 instances of shipping times that had negative numbers. Further analyses indicated that the negative numbers resulted from data that had shipping dates that were prior to the date of receipt of materiel

release orders by DDSP. The materiel release order identifies the customer, materiel requirement, and requisition number for cost accounting and authorizes DDSP to ship the materiel. From our knowledge of the DDSP process, materiel is not shipped before receipt of the materiel release order. The database also reflected some unusually long shipping times. For example, one item had a shipping time of 2,187 days (6 years).

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Joint Staff

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 (Manpower and Reserve Affairs)
Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Unified Command

Inspector General, U.S. Joint Forces Command

Other Defense Organizations

Director, Defense Logistics Agency

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Honorable Arlen Specter, U.S. Senate
Honorable Rick Santorum, U.S. Senate
Honorable Todd Russell Platts, U.S. House of Representatives

Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY
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JAN 12 2004

IN REPLY
REFER TO J-37

MEMORANDUM FOR J-308

SUBJECT: Allegations Concerning Management Practices at Defense Distribution
Depot Susquehanna, Pennsylvania

J-37 concurs with the DODIG draft report, subject as above, Project Number
D2003-LD-0074, dated December 12, 2003.

The point of contact for this matter is Mr. Michael Pipan, J-3731, (703) 767-1585, or
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FREDERICK N. BAILLIE
Executive Director
Distribution and Reutilization Policy

Federal Recycling Program



Printed on Recycled Paper

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