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DEFENSE HOTLINE ALLEGATION ON BUNKER FUEL PURCHASES
AT NAPLES, ITALY

Report Number 98-140

May 28, 1998

Office of the Inspector General
Department of Defense

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Acronyms

DESC	Defense Energy Support Center
DFAS	Defense Finance and Accounting Service
MSC	Military Sealift Command
NAVPEOFFINST	Navy Petroleum Office Instruction
NPO	Navy Petroleum Office
NRCC	Naval Regional Contracting Center



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

May 28, 1998

MEMORANDUM FOR ASSISTANT SECRETARY OF NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)

SUBJECT: Evaluation Report on Defense Hotline Allegation on Bunker Fuel
Purchases at Naples, Italy (Report. No. 98-140)

We are providing this report for your information and use. This is the first of two reports on bunker fuel. We conducted the evaluation in response to a complaint made to the Defense Hotline. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft 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 evaluation staff. Questions on the evaluation should be directed to Mr. John A. Gannon at (703) 604-9176 (DSN 664-9176), e-mail jgannon@dodig.osd.mil, or Lieutenant Colonel Thomas P. Toole, U.S. Air Force, at (703) 604-9177 (DSN 664-9177), e-mail ttoole@dodig.osd.mil. See Appendix D for the report distribution. The evaluation team members are listed inside the back cover.

A handwritten signature in black ink that reads "Robert J. Lieberman".

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 98-140
(Project No. 7LB-8006.01)

May 28, 1998

Defense Hotline Allegation on Bunker Fuel Purchases at Naples, Italy

Executive Summary

Introduction. This evaluation was performed in response to a complaint made to the Defense Hotline. The complainant alleged that the Navy purchased ship propulsion fuel, also known as bunker fuel, from non-contract sources rather than from the available Defense Energy Support Center (formerly the Defense Fuel Supply Center) contract source on eight separate occasions at Naples, Italy, from October 1995 through May 1996. The complainant further alleged that the Navy paid \$92,448 more than it would have if it had bought the fuel from the contract source.

Evaluation Objectives. Our evaluation objective was to determine whether Government ships were purchasing bunker fuel from Defense Energy Support Center contract sources at locations where contract fuel was available. We also evaluated whether Defense Energy Support Center customer organizations provided ships' officers sufficient guidance and oversight to ensure that Government ships were purchasing bunker fuel from contract sources wherever possible. An additional objective was to evaluate the management control program as it applied to the stated objectives. We limited our evaluation to determining whether the specific Defense Hotline allegations were substantiated.

Evaluation Results. The Defense Hotline allegation was generally substantiated. The Navy paid at least \$66,242 more in Naples, and an unknown additional amount in Livorno, than it would have if the fuel had been purchased from the contract sources. The bunker fuel contracts were not used principally because the Naval Regional Contracting Center, Naples, did not receive timely notification that the contracts were in place. The Navy Petroleum Office needs to improve controls to avoid repetition of the problem.

Summary of Recommendations. We recommend that the Commanding Officer, Navy Petroleum Office, establish effective communication procedures that promptly distribute bunker fuel contract data to officials and organizations responsible for ordering bunker fuel for Navy ships. Ideally, those procedures should include a feedback mechanism to confirm that contract data was actually received so that prompt action can be taken when ordering officials and organizations do not acknowledge receipt of new or changed contract data.

Management Comments. The Navy concurred with our finding and the intent of our recommendation. However, the Navy stated that inclusion of a feedback mechanism to confirm receipt from all possible ordering officials and organizations is impractical based on the numbers involved. The Navy clarified that confirmation feedback will be obtained from only those organizations requesting bunker fuel contracts. See Part I for a discussion of management comments and Part III for the complete text of those comments.

Evaluation Response. Comments from the Navy were responsive and no additional comments are necessary.

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Part I - Evaluation Results

Evaluation Background

This is the first report resulting from two related Defense Hotline complaints about bunker fuel purchases. The second report will address allegations that the Government was not paying bunker fuel sources in a timely manner because ships' officers were not completing ordering and receiving forms correctly. This report addresses allegations that the Navy, on eight separate occasions from October 1995 through May 1996, purchased bunker fuel from non-contract sources even though contract bunker fuel was available to Navy ships at Naples, Italy. The complainant further alleged that the Navy paid \$92,448 more for the fuel than it would have if the Navy had purchased the fuel from the contract source.

The Defense Energy Support Center (DESC), formerly the Defense Fuel Supply Center, located at Fort Belvoir, Virginia, is the central procurement agency and integrated manager of bulk petroleum products, including bunker fuel, within DoD. DESC establishes contracts at ports worldwide to supply U.S. Government ships with petroleum products at contract prices. The Navy Petroleum Office (NPO), located at Fort Belvoir, Virginia, provides technical direction for petroleum programs within the Navy. NPO develops, publishes, disseminates, and modifies directives and publications pertaining to the Navy's petroleum products. NPO also develops and coordinates requirements for the Navy's worldwide ships' bunker fuel and related petroleum products. NPO submits those requirements to DESC for contract coverage. The Naval Regional Contracting Center (NRCC), Naples, Italy, provides functional management to field contracting organizations within its geographical area, which includes Africa, Europe, and the Middle East. NRCC also serves as a centralized purchasing organization for the Navy, except for aviation support items, in its geographical area.

Bunker Fuel. Bunker fuel refers to fuel delivered to a ship and used to power the ship's engines. DoD Manual 4140.25-M, "DoD Management of Bulk Petroleum Products, Natural Gas and Coal," June 22, 1994, defines bunker fuel as fuel loaded onto a ship for its own use rather than as cargo. As the procurement activity for bunker fuel for use by DoD and other Government agencies, DESC has worldwide responsibility for bulk petroleum products until the products are sold to the Services. DESC regularly publishes a bunker fuel contract bulletin, which lists worldwide bunker fuel contracts. DESC updates

worldwide bunker fuel data with periodic supplements to the contract bulletin. These publications provide ordering officers and procuring organizations with the most current information available on participating contractors, locations, and ordering instructions.

Evaluation Objectives

Our evaluation objective was to determine whether Government ships were purchasing bunker fuel from DESC contract sources at locations where contract fuel was available. We also evaluated whether DESC customer organizations provided ships' officers sufficient guidance and oversight to ensure that Government ships were purchasing bunker fuel from contract sources wherever possible. An additional objective was to evaluate the management control program as it applied to the stated objectives. We limited our evaluation to determining whether the specific Defense Hotline allegations were substantiated. See Appendix A for a discussion of the evaluation scope and methodology and the results of the our review of DESC and Navy management control programs. See Appendix B for a discussion of prior coverage.

Purchases of Bunker Fuel From Non-Contract Sources

All but one of the Navy ships identified in the Defense Hotline allegation purchased bunker fuel from non-contract sources rather than from the available DESC contract source. The remaining ship did not purchase fuel during the period alleged in the Defense Hotline complaint. On six occasions, fuel was purchased from non-contract sources because NRCC, Naples, did not receive timely notification from NPO that a bunker fuel contract was in force at Naples. For the seventh purchase, the Navy was not able to produce records on the quantity of fuel purchased, the amount paid, or justification for purchasing the fuel from a non-contract source at Livorno, Italy. As a result, we estimated that by not using the contract source for the six purchases at Naples, the Navy paid \$66,242 more than necessary. We were unable to quantify the purchase cost impact at Livorno.

Notification Process

DESC is responsible for negotiating and administering DoD bunker fuel contracts worldwide. Once a contract is signed, DESC notifies its customers and then publishes contract bulletins listing the contracts. DESC customers in turn are responsible for notifying their supply officers and ordering organizations that a contract has been signed and is in effect at a specific location.

Non-Contract Source Purchases

Seven Navy ships were identified in the Defense Hotline allegation, with one ship making purchases on two different occasions. On six occasions, Navy ships purchased fuel from non-contract sources at Naples; one ship purchased fuel from a non-contract source at Livorno; and another ship did not purchase any fuel during the period alleged in the Defense Hotline complaint. Specific details are included in Appendix C. Although we could not determine the cause for the non-contract purchase at Livorno, we were able to identify a problem in contract notification for Naples.

Naples Contract Notification

DESC gave prompt contract notification to NPO, but NRCC, Naples, did not receive notification from NPO that a bunker fuel contract was in force at Naples until at least 250 days after the contract's effective date.

DESC Notification of Contract Data to NPO. Prompt contract notification was given by DESC to NPO. On September 29, 1995, DESC signed the first bunker fuel contract with a commercial source to supply bunker fuel to DESC customers at Naples. The contract was effective the same day. On that day, DESC hand delivered a copy of the contract to NPO. On October 12, 1995, DESC published Supplement No. 001 to Contract Bulletin SP0600-95-0013, which included the bunker fuel contract at Naples. DESC forwarded the bulletin to the various organizations that purchase bunker fuel, including NPO, and requested that they provide widest dissemination of the contract information to officials and organizations responsible for ordering bunker fuel.

NPO Notification of Contract Data to NRCC. NRCC, Naples, did not receive timely notification that a bunker fuel contract was in force at Naples. NPO used Navy Petroleum Office Instruction (NAVPETOFFINST) 4290.1, "Commercial Contracts for Bunker Fuel," September 29, 1995, to formally disseminate bunker fuel guidance and contract information to Navy ordering officials and organizations. NAVPETOFFINST 4290.1 was published on the same day as the effective date for the bunker fuel contract at Naples. NRCC, Naples, received a copy of the instruction. However, the instruction did not indicate that a DESC bunker fuel contract source was available at Naples. On October 3, 1995, NPO sent a message listing newly initiated DESC bunker fuel contracts, including the Naples contract, to selected Navy organizations. However, NRCC, Naples, was not an addressee on the message. On February 28, 1996, NPO published changes to NAVPETOFFINST 4290.1 that included the bunker fuel contract source at Naples. NRCC, Naples, was on the distribution list for the instruction but did not receive a copy until June 14, 1996. NPO and NRCC, Naples, were unable to explain or determine the reason why NRCC, Naples, did not receive the updated instruction. There was no evidence that NRCC, Naples, was aware of the contract prior to June 14, 1996, almost 9 months after the contract effective date. We believe that a breakdown in the NPO notification process caused the Navy ships to purchase bunker fuel from non-contract sources at Naples.

Cost Impact

We estimated that by not using the contract source for the six fuel purchases at Naples, the Navy paid an additional \$66,242. We were unable to quantify the purchase cost impact at Livorno because NRCC, Naples, was not able to produce records on the quantity purchased and the amount paid. See Appendix C for details of our evaluation of the Defense Hotline allegation.

Management Actions

The DESC significantly improved the process for disseminating contract change information by adding its Overseas Ships' Bunkers Contract Bulletins and supplements to the DESC Web site, which is available to NPO, NRCC, Naples, and others via the Internet's World Wide Web. If DESC posts contract change information on the World Wide Web when a contract is awarded, and if all the bunker fuel ordering officials have access to that information prior to a contract's effective date, then DESC will significantly reduce the chance of a communication breakdown in the future. NPO will need to ensure that data on bunker fuel contract sources are disseminated to all ships' supply officers and bunker fuel ordering personnel in a timely manner.

Recommendation, Management Comments, and Evaluation Response

We recommend that the Commanding Officer, Navy Petroleum Office, establish effective communication procedures that promptly distribute bunker fuel contract data to officials and organizations responsible for ordering bunker fuel for Navy ships. Those procedures should include a feedback mechanism to confirm that contract data was actually received so that prompt action can be taken in those instances when ordering officials and organizations do not acknowledge receipt of new or changed contract data.

Management Comments. The Navy concurred with our finding and the intent of our recommendation. However, the Navy stated that inclusion of a feedback mechanism to confirm receipt from all possible ordering officials and organizations is impractical based on the numbers involved. The Navy stated that confirmation feedback will be obtained from only those organizations requesting bunker fuel contracts. The Navy also stated that after learning of the purchases in Naples (prior to the Defense Hotline allegation), NPO started

making improvements in communication between DESC and its customers. The improvements included NPO distributing contract information by military message to requesting officials and organizations upon receipt of such contract information from DESC and publishing the information as a transmittal change to NAVPETOFFINST 4290.1, as warranted. NPO will also update NAVPETOFFINST 4290.1, making it "user friendly," by May 30, 1998. Additionally, NPO has recently launched a Web site at which NAVPETOFFINST 4290.1 is available for viewing and printing.

Evaluation. Response. We consider the Navy comments responsive and that the alternative actions of NPO meet the intent of the recommendation. We commend NPO for the actions taken.

Part II - Additional Information

Appendix A. Evaluation Process

Scope and Methodology

Scope. We interviewed the complainant and reviewed the DESC contract to supply bunker fuel at Naples. We reviewed the DESC Overseas Ships' Bunker Contract Bulletin SP0600-95-0013, June 30, 1995, and subsequent supplements. We also reviewed guidance and interviewed operating personnel on the bunker fuel contract notification process at DESC. We reviewed the NPO bunker fuel contract notification procedures and 1995 instructions on availability of bunker fuel from commercial contract sources. We also reviewed the Commanders in Chief, U.S. Atlantic and Pacific Fleets, Fuel Management Afloat Manual, current as of 1995, which established precedence for sources of bunker fuel for Navy ships. We interviewed personnel at the Naval Support Activity at the port of Naples and obtained a listing of all Navy ships that were at the Naples port from October 1, 1995, through May 31, 1996. We then interviewed operating personnel at NRCC, Naples, and specifically reviewed contract records and Ship's Port Visit Cost Reports from October 31, 1995, through May 31, 1996, for the ships identified in the Defense Hotline allegation. In addition, we interviewed the NRCC husbanding* agent and reviewed Logistics Requirements Reports from October 31, 1995, through May 31, 1996, for the ships identified in the Defense Hotline allegation. We reviewed correspondence between NRCC, Naples, and DESC subsequent to the Defense Hotline allegation. During our evaluation, we also exchanged administrative messages with the ships identified in the allegation to confirm the details of each of the eight purchases.

Use of Computer-Processed Data. We did not use computer-processed data in the evaluation.

Evaluation Type, Dates, and Standards. This economy and efficiency evaluation was performed from September through December 1997 in accordance with standards implemented by the Inspector General, DoD. We limited our tests of management controls.

* Husbanding agents act on behalf of Navy ships in making arrangements with port authorities and commercial firms for the provision of all the ship's supplies and services in a foreign port.

Contacts During the Evaluation. We visited or contacted individuals and organizations within and outside DoD. Further details are available upon request.

Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that 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. Our review of DESC and the Navy management control programs was limited to answering the Defense Hotline allegation. We did not attempt to determine if this problem existed at other locations. The management control weakness we identified is not material; therefore, we did not assess the adequacy of management's self-evaluation of these controls.

Adequacy of Management Controls. The DESC management control program for disseminating bunker fuel contract data was adequate as it applied to the evaluation objectives. We identified a management control weakness relating to the Navy's procedures for disseminating bunker fuel contract data. The Navy did not have effective procedures to ensure that DESC bunker fuel contract data was disseminated to ordering officials and organizations in a timely manner. Also, the Navy did not have any procedures to ensure that contract data disseminated was actually received. We did not consider this to be a material management control weakness. However, there is a risk that this may occur at other locations. Therefore, NPO needs to improve its controls over the prompt dissemination of bunker fuel contract data. The recommendation contained in this report, if implemented, will ensure that the Navy's ordering officers receive timely information on changes in contract data.

Appendix B. Summary of Prior Coverage

During the last 5 years, the Office of the Inspector General, DoD, issued three reports that discussed bunker fuel and associated accounting systems.

Inspector General, DoD, Report No. 95-262, "Bunker Fuel Operations," June 29, 1995. The report states that Military Sealift Command (MSC) was collecting and providing fuel consumption data to DESC in support of the continuation and establishment of bunker fuel contracts and the contracts were effectively used by DoD-controlled vessels. The report did not make recommendations.

Inspector General, DoD, Report No. 95-259, "Internal Controls for the Military Sealift Command Portion of the Transportation Business Area of the FY 1994 Defense Business Operations Fund Financial Statements," June 28, 1995. The report states that MSC internal control procedures were not effective and, as a result, the auditors were unable to establish a transaction trail from the account balances to underlying receipt and expenditure transactions. The report recommended that MSC transition toward using the DoD Standard General Ledger chart of accounts and take steps to correct other related accounting system and internal control structure weaknesses. MSC generally concurred with the audit recommendations and agreed to comply with DoD and Navy regulations on the internal controls related to financial data.

Inspector General, DoD, Report No. 95-216, "Bunker Fuel Payments," June 2, 1995. The report states that DFAS overpayments to bunker fuel contractors occurred because of management control weaknesses. As a result, DFAS overpaid contractors about \$3.2 million in FY 1993. The report recommended that DFAS strengthen management controls over the payment process, consolidate payment offices, and collect the overpayments from contractors. Management concurred with the recommendations and, in October 1995, consolidated 19 DFAS payment offices to a single office in Columbus, Ohio.

Appendix C. Evaluation of Allegation

Allegation. The allegation was for the DESC contract for bunker fuel at Naples. The contract source alleged to have had a contract with DESC to supply bunker fuel to Government ships at Naples for deliveries from July 1, 1995, through June 30, 1997. No delivery orders for bunker fuel were placed during the first year of the contract. However, on eight separate occasions from October 31, 1995, through May 31, 1996, Navy ships purchased bunker fuel through a husbanding agent at Naples. In addition, by comparing the prices paid by the Navy to the amounts that would have been paid had the fuel been ordered from the contract source, the complainant alleged that the Navy overpaid \$92,448 for the purchases made on those eight occasions. Table C-1 is a summary of the details given in the allegation.

Table C-1. Details of Non-Contract Bunker Fuel Purchases Provided by the DoD Hotline Complainant

<u>Date</u>	<u>Ship</u>	<u>Quantity (in gallons)</u>	<u>Amount Paid</u>	<u>Contract Price</u>	<u>Amount Overpaid</u>
10/31/95	Boone	30,000	\$ 21,825	\$ 18,121	\$ 3,704
11/27/95	Simpson	85,000	60,922	53,769	7,153
12/19/95	Monterey	150,000	117,922	103,687	14,235
01/08/96	Dewert	68,000	53,606	49,054	4,552
05/10/96	Radford	90,000	72,968	58,501	14,467
05/27/96	Conolly	163,000	131,644	106,728	24,916
05/30/96	Barry	90,000	72,968	61,641	11,327
05/31/96	Radford	<u>100,000</u>	<u>80,584</u>	<u>68,490</u>	<u>12,094</u>
Total		776,000	\$612,439	\$519,991	\$92,448

Evaluation Response. The Defense Hotline allegation was substantiated. The Navy purchased bunker fuel from non-contract sources at Naples from October 31, 1995, through May 31, 1996. We estimated that the Navy paid at least \$66,242 more than it would have if the fuel had been purchased from the

Appendix C. Evaluation of Allegation

contract source. Also, the DESC contract was effective on September 29, 1995. As a result, no deliveries could have been made on the contract prior to September 29, 1995. The results of our evaluation are summarized in Table C-2.

Table C-2. Details of Non-Contract Bunker Fuel Purchases Determined in Evaluation

<u>Date</u>	<u>Ship</u>	<u>Quantity (in gallons)</u>	<u>Amount Paid</u>	<u>Contract Price</u>	<u>Amount Overpaid</u>
10/31/95	Boone	30,000	\$ 21,825	\$ 18,121	\$ 3,704
11/27/95	Simpson	85,172	59,620	53,769	5,851
12/19/95	Monterey ¹	--	--	--	--
01/08/96	Dewert	68,000 ²	58,606	47,005	11,601
05/10/96	Radford	91,788	72,513	58,501	14,012
05/27/96	Conolly	162,460	128,343	106,728	21,615
05/30/96	Barry	<u>90,000</u>	<u>71,100</u>	<u>61,641</u>	<u>9,459</u>
Total		527,420	\$412,007	\$345,765	\$66,242

¹Data was not available at NRCC. Personnel aboard Monterey indicated that the ship did not purchase fuel at Naples as alleged.

²Data was not available at NRCC. Quantity listed was contained in the Defense Hotline allegation.

Summary of Evaluation Response. We compared our evaluation results to the Defense Hotline allegation and concluded:

- o All but one of the Navy ships identified in the Defense Hotline allegation purchased bunker fuel from non-contract sources rather than from available DESC contract sources. On six occasions, Navy ships purchased fuel from non-contract sources at Naples. One ship also purchased fuel from a non-contract source at Livorno, but we were unable to quantify the purchase cost impact. As a result, the Livorno transaction is not included in Table C-2. The DESC contract source at Naples and the DESC contract source for the type of fuel purchased at Livorno were not the same. One ship identified in the

Defense Hotline allegation, Monterey, did not purchase fuel during the period alleged. In response to our evaluation request, personnel aboard Monterey indicated to representatives at NRCC, Naples, that their ship was at Naples but they did not purchase fuel during the period alleged in the Defense Hotline complaint.

o The quantities of fuel purchased that the allegation identified were not materially different from what we determined in our evaluation. Also, except for the transaction on January 8, 1996, the contract prices alleged in the Defense Hotline complaint were the same contract prices provided to us by DESC. The Navy would have paid the lower contract prices if it had purchased the fuel from the contract source.

o The Navy overpaid at least \$66,242 for the fuel it purchased from non-contract sources.

Appendix D. Report Distribution

Office of the Secretary of Defense

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

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Deputy Chief of Naval Operations (Logistics)
Auditor General, Department of the Navy
Commander, Naval Supply Systems Command
Commanding Officer, Navy Petroleum Office

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 Energy Support Center
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
Technical Information Center, National Security and International Affairs Division,
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Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform and Oversight
House Subcommittee on National Security, Internal Affairs, and Criminal Justice,
Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Department of the Navy Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH, DEVELOPMENT AND ACQUISITION
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

MAY 08 1998

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR
GENERAL FOR AUDITING

SUBJECT: DODIG Draft Evaluation Report On Defense Hotline
Allegation On Bunker Fuel Purchases At Naples,
Italy (Project No. 7LB-8006.01)

REFERENCE: (a) DODIG memo of 10 Mar 98

ENCLOSURE: (1) Department of the Navy Comments on DODIG
Draft Evaluation Report on Defense Hotline
Allegation on Bunker Fuel Purchases at
Naples, Italy (Project No. 7LB-8006.01)

In response to reference (a), our comments are provided
in enclosure (1). We concur with the finding and the intent
of the recommendation.

A handwritten signature in cursive script, appearing to read "W. Schaefer".

WILLIAM J. SCHAEFER
Deputy Assistant Secretary
of the Navy
Planning, Programming and
Resources

Copy to:
FMO-31
COMNAVSUP (91E)
NAVPEOFF (FMA)

Department of the Navy Comments
on
DODIG Draft Evaluation Report
on
Defense Hotline Allegation on Bunker Fuel Purchases at
Naples, Italy
(Project No. 7LB-8006.01)

Finding. Purchases of Bunker Fuel From Non-contract Sources

All but one of the Navy ships identified in the Defense Hotline allegation purchased bunker fuel from non-contract sources rather than from the available Defense Energy Support Center (DESC) contract source. The remaining ship did not purchase fuel during the period alleged in the Defense Hotline complaint. On six occasions, fuel was purchased from non-contract sources because Naval Regional Contracting Center (NRCC), Naples, did not receive timely notification from the Navy Petroleum Office (NAVPEOFF) that a bunker fuel contract was in force at Naples. For the seventh purchase, the Navy was not able to produce records on the quantity of fuel purchased, the amount paid or justification for purchasing the fuel from a non-contract source at Livorno, Italy. As a result, we estimated that by not using the contract source for the six purchases at Naples, the Navy paid \$66,242 more than necessary. We were unable to quantify the purchase cost impact at Livorno.

DON comment

Concur.

Recommendation

We recommend that the Commanding Officer, NAVPEOFF, establish effective communication procedures that promptly distribute bunker fuel contract data to officials and organizations responsible for ordering bunker fuel for Navy ships. Those procedures should include a feedback mechanism to confirm that contract data was actually received so that prompt action can be taken in those instances when ordering officials and organizations do not acknowledge receipt of new or changed contract data.

DON comment

Concur with the recommendation of establishing effective communication procedures to promptly distribute contract information. However, the inclusion of a feedback mechanism to confirm receipt from all possible ordering officials and

Enclosure (1)

Department of the Navy Comments

organizations is considered impractical based on the numbers involved. Receipt confirmation feedback will be obtained only from the activities which request that bunker contracts be established.

After learning of these purchases in Naples, and prior to the Hotline complaint, NAVPETOFF started making communication improvements. Through a close working relationship with DESC and constant communications between DESC, customers, and NAVPETOFF, the following corrective actions have been taken:

a. Contract information is distributed via military messages with an expanded distribution. Upon receipt of contract award and modification information from DESC, NPO immediately notifies the activity generating the requirement, Fleet Commanders, NRCCs Naples and Singapore, all Defense Attaché Offices and other interested parties via message traffic. The message requests widest dissemination to all subordinate commands who will utilize the contract. Requirement activities are then contacted telephonically to verify receipt of the message.

b. After a message is sent, a change transmittal or update to NAVPETOFF Instruction 4290.1, Commercial Contracts for Bunker fuel, is distributed as warranted. The distribution for this instruction is to 639 Navy activities.

c. NAVPETOFF recently launched a website at which NAVPETOFF Instruction 4290.1 is available for viewing and printing. The website address is being included in all bunker fuel correspondence.

Actions remaining:

a. NAVPETOFF is updating NAVPETOFF Instruction 4290.1, Commercial Contracts for Bunker Fuel, to make the contract information more user friendly. The update will include the website address. Estimated completion date is 30 May 1998.

b. NAVPETOFF will send messages semi-annually to all ships reminding Supply Officers to use bunker contracted fuel when available. Action is ongoing.

Enclosure (1)

Evaluation Team Members

This report was prepared by the Readiness and Logistics Support Directorate,
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