Audit Report

DUAL MANAGEMENT OF COMMERCIALLY AVAILABLE ITEMS - INFORMATION AND IMAGING SOLUTIONS

Report No. 98-144 June 3, 1998

Office of the Inspector General
Department of Defense

Additional Information and Copies

To obtain additional copies of this audit report, contact the Secondary Reports Distribution Unit of the Analysis, Planning, and Technical Support Directorate at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932 or visit the Inspector General, DoD, Home Page at: www.dodig.osd.mil.

Suggestions for Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch of the Analysis, Planning, and Technical Support Directorate at (703) 604-8908 (DSN 664-8908) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

OAIG-AUD (ATTN: APTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, Virginia 22202-2884

Defense Hotline

To report fraud, waste, or abuse, contract the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@DODIG.OSD.MIL; or by writing to the Defense Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

DISC	Defense Industrial Supply Center
DLA	Defense Logistics Agency
GSA	General Services Administration
JWOD	Javits-Wagner-O'Day
NIB	National Industries for the Blind

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

June 3, 1998

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND TECHNOLOGY
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on Dual Management of Commercially Available Items - Information and Imaging Solutions (Report No. 98-144)

We are providing this report for your review and comments. This report is the third in a series of reports regarding the dual management of commercially available items. This audit was requested by the Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management). We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Comments from the Acting Principal Assistant Deputy Under Secretary of Defense (Logistics) were generally responsive; however, we request that the Acting Principal Assistant Deputy Under Secretary provide more specific information on planned actions and an estimated completion date by August 3, 1998.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Tilghman Schraden at (703) 604-9186 (DSN 664-9186), e-mail tschraden@dodig.osd.mil, or Mr. Terry Wing at (215) 737-3883 (DSN 444-3883), email twing@dodig.osd.mil. See Appendix C for the report distribution. The audit team members are listed inside the back cover.

Robert L. Lieberman
Assistant Inspector General
for Audit

Office of the Inspector General, DoD

Report No. 98-144 **June 3, 1998**
(Project 6LD-5044.04)

Dual Management of Commercially Available Items - Information and Imaging Solutions

Executive Summary

Introduction. This audit was requested by the Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management). This report is the third in a series of reports on dual management of commercially available items.

On October 10,1997, the Defense Industrial Supply Center issued a solicitation to establish a prime vendor for its office solutions initiative. An amendment to the solicitation was issued on December 16, 1997, to revise the solicitation and rename the initiative to the information and imaging solutions prime vendor program. A prime vendor is a business concern that functions as a purchaser's primary source of supply for specified types of products and is responsible for the delivery of those products, produced by various manufacturers, to the customer.

The types of items included in the solicitation were commercial, brand name office products such as automatic data processing equipment, business machines, general office supplies, photographic imaging supplies, and telecommunications equipment. The solicitation covered requirements for 64 military organizations in the southeastern United States and the Defense Industrial Supply Center. The estimated annual budget for information and imaging solution products for the 65 organizations is $392 million.

Audit Objectives. The overall audit objectives were to determine the extent of products available through non-Defense Federal organizations for which DoD also operates central procurement programs and to evaluate whether the DoD programs are providing services without added benefit to DoD. This report discusses our review of the information and imaging solutions initiative to determine the extent of commercially available products included in the initiative that were also available from the General Services Administration and other sources. We also reviewed the adequacy of the management control program applicable to the stated objectives. Subsequent reports will determine the extent of additional commodities available through non-Defense Federal organizations for which DoD also operates centralized procurement programs.

Audit Results. Immediate action was required to suspend the Defense Industrial Supply Center initiative because it duplicated and competed with General Services Administration, National Industries for the Blind, and Defense Logistics Agency procurement and supply programs. If the initiative had proceeded as planned, there was no assurance that Defense Logistics Agency resources would provide added value (cost economies) to either DoD or the Defense Logistics Agency role as a combat support agency. Additionally, customers ordering items through the prime vendor could have paid higher prices than were the same items procured through the General Services Administration or National Industries for the Blind organizations and purchases would not have been consolidated under a single source of supply for potential price discounts.

The management controls could be improved because we identified a material weakness in the process used to select items for the initiative. A similar weakness was also reported in Inspector General, DoD, Report No. 97-205, "Dual Management of Commercially Available Items - Defense Logistics Agency Electronic Catalog," August 15, 1997.

Implementing the recommendation should reduce duplication in procuring commercial items and result in potential monetary benefits. However, we could not quantify the potential benefits because they are dependent on future review results and associated management decisions. See Part I for a discussion of the audit results.

Actions Taken by Management. On March 10, 1998, the Defense Industrial Supply Center, at the direction of the Defense Logistics Agency, canceled the solicitation.

Summary of Recommendations. We recommend that management controls be established to prevent duplication of Defense Logistics Agency commercial item procurement initiatives with centralized procurement programs of other Government organizations.

Management Comments. The Acting Principal Assistant Deputy Under Secretary of Defense (Logistics) concurred with the recommendation, and stated that the Defense Logistics Agency will minimize the duplication of centralized procurement programs of Government organizations. In its contracting actions, the Defense Logistics Agency should be aware of potential overlaps and make a judgment in each case. See Part I for a summary of management comments and Part III for the complete text of management comments.

Audit Response. The comments from the Acting Principal were generally responsive. We request that the Acting Principal provide additional comments to clarify planned actions and provide the estimated completion dates by August 3, 1998.

Table of Contents

Executive Summary i

Part I - Audit Results

Introduction 2
Audit Background 2
Audit Objectives 5
Information and Imaging Solutions Initiative 6

Part II - Additional Information

Appendix A. Audit Process
Scope and Methodology 18
Management Control Program 18
Appendix B. Summary of Prior Coverage 20
Appendix C. Report Distribution 22

Part III - Management Comments

Acting Principal Assistant Deputy Under Secretary of Defense (Logistics) Comments 26

Part I - Audit Results

Introduction

The audit was requested by the Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management). This report, the third in a series of reports on dual management of commercially available items, discusses the Defense Industrial Supply Center (DISC) information and imaging solutions initiative. Inspector General, DoD, Report No. 98-037, "Dual Management of Commercially Available Items - Battery, Food Service, and Photographic Products," December 12, 1997, and Report No. 97-205, "Dual Management of Commercially Available Items - Defense Logistics Agency Electronic Catalog Program," August 15, 1997, discuss duplication between Defense Logistics Agency (DLA) and General Services Administration (GSA) procurement and supply programs. Those reports are summarized in Appendix B.

Audit Background

DISC Office Solutions Initiative Solicitation. On October 10, 1997, DISC, an activity of the DLA located in Philadelphia, Pennsylvania, issued a solicitation (SPO500-97-R-0151) for a prime vendor for its office solutions initiative. Solicitations are used to communicate requirements to potential offerors and to solicit proposals to fill the requirements. Two of the primary objectives of the initiative were to provide customers with one-stop shopping for all office products, and to establish contractual requirements for the rapid acquisition of office products to fill unanticipated requirements as a result of emergency relief efforts, natural disasters, and war. An amendment to the solicitation was issued on December 16, 1997, to revise the solicitation and rename the initiative the information and imaging solutions prime vendor program, hereafter referred to as the DISC office initiative.

A prime vendor is a business concern that functions as a purchaser's primary source of supply for specified types of products and is responsible for the delivery of those products, produced by various manufacturers, to the customer. The types of items included in the DISC solicitation for a prime vendor were commercial, brand name office products and incidental services such as equipment maintenance and repair agreements. The solicitation covered

requirements for 64 military organizations in the southeastern United States and DISC. The estimated annual budget for information and imaging solution products for the 65 organizations is $392 million. As of February 27, 1998, none of the 64 military organizations had formally entered into an agreement with DISC to participate in the program. DISC personnel advised us that the organizations were waiting to evaluate the terms and conditions of the prime vendor contract.

Role of DLA. The DLA is a combat support agency responsible for worldwide logistics support, including procuring; stocking; and issuing consumable items throughout DoD. The primary focus of DLA is to support military operations in peace and war and to provide relief efforts during national emergencies. As of March 1997, DLA managed approximately 4 million national stock numbers, of which 1.5 million national stock numbers were coded as essential to the operation of the Military Department weapons systems.

Role of GSA. The GSA was established in 1949 to supply personal property to Government organizations. GSA operates a worldwide supply system to contract for and distribute personal property and services to Federal agencies. GSA provides items to its customers through several supply programs that include Federal supply schedules, special order, and stock. GSA manages approximately 135,000 national stock numbered items and has approximately 6,000 contracts with vendors for direct delivery of commercial items to customers.

DoD and GSA Supply Management Relationship. The DoD and GSA entered into an agreement in 1971 to eliminate avoidable duplication and overlap between their respective supply systems and those of other Federal agencies. The agreement was also to provide responsive, effective, and economical integrated materiel management to all Government agencies for commonly used commodities. With few exceptions, the agreement assigns to GSA Federal supply classes (4-digit code at the beginning of a national stock number that designates the general commodity grouping of an item) that Federal agencies commonly use, that are commercially available on the civilian economy, and that are not predominantly of a military nature. The agreement assigns to DLA Federal supply classes that are commonly used in military operations or weapons systems support, regardless of how civilian agencies use them.

DoD Policy on GSA Supply Services. DoD Manual 4140.26-M, "Defense Integrated Materiel Management Manual for Consumable Items," May 1997, provides integrated materiel management assignments for consumable materiel. Integrated materiel management responsibilities include cataloging, determining requirements, procuring, distributing, and disposing materiel. According to the Manual, GSA is assigned management responsibility for 12 of the 33 Federal supply classes included in the DISC office initiative.

On March 6, 1997, the Director, Defense Procurement, issued a memorandum, "General Services Administration Federal Supply Schedules as Preferred Sources of Supply," that established DoD policy on using GSA services. The memorandum urged DoD organizations to take full advantage of GSA Federal supply schedule contracts, if needed services and supplies are covered by the contracts. The Director stated that innovative changes mirroring commercial practices, to include the use of the Internet, have made GSA schedules even more efficient to use. Additionally, the use of schedule contracts meets DoD goals to simplify the acquisition process.

Role of the National Industries for the Blind. Congress established the Javits-Wagner-O'Day (JWOD) Act (Public Law 92-28) in 1971 to provide job opportunities for Americans who are blind or have other severe disabilities. The JWOD Act requires Government organizations to purchase certain supplies from participating nonprofit organizations employing blind or severely handicapped people, provided the organizations deliver quality products on time and at a fair price. The JWOD Act also established the Committee for Purchase From People Who are Blind or Severely Disabled, which is responsible for maintaining a procurement list of commodities and services that Government organizations must purchase from participating nonprofit organizations. The Committee designated the National Industries for the Blind (NIB), and the National Industries for the Severely Handicapped to provide technical and financial support for more that 550 nonprofit organizations participating in the JWOD program.

Audit Objectives

The audit objectives were to determine the extent of products available through non-Defense Federal organizations for which DoD also operates central procurement programs and to evaluate whether the DoD programs are providing services without added benefit to DoD. The objective of this report was to evaluate the DISC office initiative to determine the extent of products included in the initiative that were also available from GSA and other sources. We also reviewed the adequacy of the management control program applicable to the stated objectives. Subsequent reports will determine the extent of additional commodities available through non-Defense Federal organizations for which DoD also operates centralized procurement programs. See Appendix A for a discussion of the scope and methodology and our review of the management control program. See Appendix B for a summary of prior coverage.

Information and Imaging Solutions Initiative

The DISC office initiative duplicated and competed with GSA, NIB, and DLA programs. Specifically, the DISC office initiative included commercial, brand name office products that were centrally procured by GSA and available through the NIB supply programs and the DLA electronic catalog. The duplication occurred because of DISC efforts to expand its sales base and provide its customers with the widest number of possible choices by implementing commercial business practices that competed with procurement and supply programs of other Government organizations. If the initiative had proceeded as planned, there was no assurance that DLA resources would provide added value (cost economies) to either DoD or the DLA role as a combat support agency. Additionally, items could cost customers more than if the same items were procured through GSA or NIB. Finally, purchases would not have been consolidated under a single source of supply for potential price discounts.

Overview of the Information and Imaging Solutions Initiative

Under the DISC office initiative, DISC will select regional prime vendors for its south atlantic and south central zones of the United States to supply commercial, brand name office products. DISC is seeking firms that can provide a wide range of products normally used in either a traditional business or administrative setting or in a nontraditional setting, such as in the field during deployment of military forces, on the flight line of an air base, or dockside at a naval base. An indefinite quantity contract is anticipated, and the total length of the contract will consist of a base ordering period of 20 months from the issuance of the first order, plus options to extend the period of the contract up to 2 additional 20-month ordering periods. The Government's guaranteed minimum for the contract is $250,000 for the initial ordering period and option periods. After a contract is awarded, contractors must submit a plan to DISC outlining how they intend to implement the prime vendor program.

Commercial Office Products

The DISC office initiative included commercial, brand name office products that were centrally procured by GSA and available through NIB supply programs and the DLA electronic catalog.

Types of Items Included in the Initiative. The DISC office initiative included commercial, brand name office products. The types of items included in the solicitation were commercial (any item offered for sale, lease, or license to the general public), brand name office products, and incidental services such as extended commercial warranties and technical training. Office products and incidental services included in the solicitation were divided into primary and secondary groups. The primary group consists of general supplies; automatic data processing equipment; and business equipment including binders, computer peripherals and monitors, copy and computer paper, desktop and laptop computers, facsimile machines and paper, folders, index cards, pens, scissors, and staplers. The secondary group consists of miscellaneous items such as, batteries, dictionaries, janitorial supplies, photographic and imaging equipment and supplies (cameras, film, etc.), telecommunications equipment and supplies (modems, pagers, telephones, and video conferencing equipment), and incidental services. At a minimum, prime vendors will be required to provide customers with supplies from the primary products group.

GSA Procurement and Supply Programs. GSA supply and procurement programs provided the same or similar commercial, brand name office products that would be provided by the DISC office initiative. Additionally, Government organizations meet statutory requirements to purchase JWOD products when they procure items through GSA programs.

Customer Supply Centers. GSA has 10 customer supply centers located throughout the United States that provide easy, fast, one-stop shopping for about 18,000 common office, administrative, and industrial supplies. Customers can order materiel by facsimile, personal computer, or phone. Orders are delivered within 1 to 3 days of receipt to the customers' location. Of the 10 supply centers, 4 provide supplies to organizations in the geographical area covered by the DISC office initiative.

As an extension of the customer supply centers, GSA opened GSA express stores (virtual or walk-in) at various DoD organizations. Those stores provide easy access to a wide variety of office and industrial products. Ten virtual stores

have items on display; an array of brochures, catalogs, and pamphlets regarding available products; and a personal computer on which customers may order supplies electronically. Six walk-in stores have materiel in stock for on the spot sale. Walk-in customers can also place electronic orders for materiel that is not in stock.

Stock Program. The GSA stocks a wide variety of items in a nationwide network of distribution centers. Stock items are listed in the GSA supply catalog and can be ordered either by submitting a requisition or by ordering through the GSA Advantage Program, an on-line shopping service available on the Internet. Approximately 1,900 items that are in the supply catalog are also in the Federal supply classes included in the DISC office initiative. For select customers, GSA arranges for materiel to be shipped directly from the vendor to the customer when it is more economical.

Federal Supply Schedule Program. Under the Federal supply schedule program, GSA enters into contracts with commercial firms to provide supplies and services at stated prices for given periods. The program provides customers with literally millions of state of the art, high quality commercial products at a volume discount price through direct delivery. Customers place orders directly with contractors, and contractors make deliveries directly to customers. For the 33 Federal supply classes included in the DISC office initiative, GSA had 32 Federal supply schedules with office products available from over 2,600 vendors.

One of the Federal supply schedules, "Office Supplies - Next Day Delivery," covered nine Federal supply classes that were included in the DISC office initiative. GSA sales from the Federal supply schedule were $16.2 million from April 1996 through January 1998. Customers used that Federal supply schedule to order office supplies from six vendors (Boise Cascade Office Products, BT Office Products International, Corporate Express Inc., Innovative Sales Brokers Inc., Office Depot, and Staples National Advantage). The vendors accept the Government credit card as payment and accept orders 24 hours a day, 7 days a week. Customers placed orders by personal computer using the GSA Advantage Program, by facsimile, or by dialing an 800 telephone number. Delivery was required by the next business day and JWOD items were integrated into the contracts. The contract price for the materiel ordered included a 1 percent GSA cost recovery factor.

GSA Advantage Program. The GSA Advantage Program became operational in October 1995. It is being developed incrementally and, when completed, it will bring together products in all GSA supply programs, along with their descriptions, delivery options, and prices to provide a simplified method of ordering. Advantage allows customers to use the Internet to browse, perform searches, and place orders for products. In July 1997, the President of the United States, outlining the Administration's actions to move forward in the new electronic age of commerce, directed GSA to "move the Federal Government into the age of electronic commerce by expanding the GSA Advantage, its on-line shopping service for the Federal community to cover four million items by 12 months from now." As of December 1997, the Advantage Program contained over 310,000 items.

NIB Supply Programs. The NIB supply programs provided the same or similar commercial, brand name office products that would be provided by the DISC office initiative. The NIB has established base supply centers at military installations where the installation has closed or deactivated its self-service supply center or base supply store. By having the supply centers located on installations, military commands have immediate access to supplies and know that procurements are in compliance with the provisions of the JWOD Act.

As of December 10, 1997, NIB base supply centers were established at 31 military installations. The product lines stocked at the supply centers, from 500 to 3,600 items, included items mandated by the JWOD Act and other commercial products. Examples of mandated items stocked in the supply centers are calendars, cleaning supplies and maintenance equipment items, disks, office supplies, and tape. NIB plans to open another nine supply centers in the near future. Of the 40 NIB supply centers, 13 were located on installations that were included in the DISC office initiative. The 13 installations accounted for $138.9 million (36 percent) of the estimated $392 million of office product sales for the organizations included in the DISC office initiative.

The DISC office initiative requires that prime vendors comply with the JWOD Act. Accordingly, the prime vendors will procure mandatory items from JWOD organizations and distribute the materiel to its customers.

DLA Electronic Catalog. The DLA electronic catalog program provided the same or similar commercial, brand name office products that would be provided by the DISC office initiative. The DLA established an electronic catalog pilot

program in April 1997 that customers, through the Internet, could browse, select, and order commercial items. The program is being tested in phases, with four customers and seven vendors participating. Of the seven vendors included in the program, three provide office products. If it is successful, DLA plans to rapidly expand the catalog into a major buying tool for DLA customers.

Value Added

Having various Government organizations operating centralized procurement and supply programs that compete with each other in procuring commercial, brand name office products did not contribute to the economy and efficiency of the Government. Additionally, the types of items selected for the solicitation did not add value to either the DoD or the DLA role as a combat support agency. We agree with the DISC position that the DISC office initiative could provide its customers with additional choices of suppliers and products. However, we believe that with GSA and NIB procurement and supply programs and increased local procurement authority, particularly using the Government credit card, customers already have sufficient choices to obtain needed office products at the best combination of price, service, and availability. Additionally, the DISC office initiative does not guarantee any significant benefits over other supply sources regarding ordering, delivering, pricing, billing and paying. If anything, the prime vendor program could result in higher prices to customers.

Ordering Items. The DISC office initiative did not guarantee any significant benefit over other supply sources regarding the ordering of materiel. Prime vendors are required to possess an electronic order entry system so that participating organizations can order materiel by using a personal computer. Nonemergency orders on the prime vendors system will be accepted between the hours of 8:00 a.m. and 5:00 p.m. Monday through Friday, and emergency orders will be accepted 24 hours a day, 7 days a week. Additionally, after the prime vendors are selected, the vendors will have the option to permit customers to order by either facsimile or telephone. Prime vendors systems will also include an on-line electronic price and product catalog that lists the office supply items that are available for sale. This ordering process is similar to or the same as the GSA Advantage Program, the Office Supplies - Next Day Delivery Federal supply schedule, and the DLA electronic catalog already provide.

Delivering Items. The DISC office initiative did not guarantee any significant benefit over other supply sources regarding the delivery of materiel. Basic or consumable supplies will be delivered by 5:00 p.m. on the next business day following the placement of the order. Specialty and nonconsumable supplies will be delivered by 5:00 p.m. no later than 30 calendar days following the placement of the order. Emergency orders will be delivered to an organization's receiving locations within 6 hours following placement of the order. While those terms of delivery should ensure that customers receive materiel when needed, the same or similar terms are also offered by the GSA Office Supplies - Next Day Delivery Federal supply schedule. Additionally, with access to NIB supply stores and with local procurement, materiel would be available immediately, if in stock.

Pricing of Materiel. Items ordered through the DISC prime vendor could cost customers more than if the same items were procured through GSA or NIB. During the term of the contract, the pricing of items provided by the prime vendors, except items provided by NIB organizations, will be based on the Moore retail pricer. Moore O. P. Services maintains the retail pricer that some Government organizations use as a benchmark for pricing contracts. The pricer contains descriptions of items and manufacturers' suggested retail pricing information for the types of items included in the primary and secondary products groups covered by the DISC office initiative. The lowest package retail price shown in the retail pricer will be used to establish the base price for items. JWOD Act organizations provide items to commercial distributors at a price established by the Committee for Purchase From People Who Are Blind or Severely Disabled.

For items based on the retail pricer, vendors will discount a percentage off the base price and mark up a percentage for JWOD Act items. The percentages include the prime vendors profit and transportation costs. DISC will also add a cost recovery factor, estimated to be from 3 to 4 percent, to recoup its costs for administering the program. The base price of items will be updated quarterly. However, the percentage discount and markup will not change over the life of the contract. The GSA Office Supplies - Next Day Delivery Federal supply schedule uses the same pricing techniques that the selected prime vendors will use. However, prices in Federal supply schedules include only a 1 percent GSA cost recovery factor.

DLA and GSA Partnership. The DLA and GSA partnership for the DISC office initiative may not add value or avoid duplication. In January 1998, DLA and GSA met to discuss the DISC office initiative and GSA supply programs for office products and how DLA and GSA could develop a partnership for the DISC office initiative. A task force was created to identify any issues that might impede the DLA initiative, resolve any legal issues, determine alternative approaches, and make recommendations. One alternative the task force considered was that DISC prime vendors would be required to use the GSA Federal supply schedules when best value could be attained by that method of support. In effect, prime vendors would act as a broker between the GSA vendor and customers. This alternative, however, would result in customers paying more than if the materiel was ordered directly from a GSA vendor because of the DISC cost recovery rate and the prime vendors' profit markup. For example, if a customer ordered a piece of business equipment from a GSA vendor for $100, the price would include the cost of the materiel, the vendor profit markup, GSA 1 percent cost recovery factor, and transportation costs. If the same item was procured through the DLA prime vendor, the customer would pay $100 plus the prime vendor profit markup and the DISC cost recovery factor. Assuming a prime vendor profit markup of 6 percent and a DISC cost recovery factor of 4 percent, the customer would pay approximately $110 for the same item that could have been obtained from GSA for $100. On March 10, 1998, the Commissioner, Federal Supply Service, GSA, sent a memorandum to DLA stating that he was concerned that the alternatives being pursued by the task force may unwittingly cause duplicative work efforts in the Government and industry and result in increased costs to the taxpayer.

Customer Billing and Vendor Payments. The GSA and NIB supply alternatives eliminate the administrative costs included in the DISC office initiative for matching receipt data and customer billing. Under the DISC office initiative, after receipt of orders, customers will report receipt information to DISC via a requisition. DISC will record the receipt data in its active contract file. Vendors will submit billing data to DISC and DISC will match receipt and billing data. If the data match, DISC will authorize the Defense Finance and Accounting Service to pay the vendor using customers appropriated funds. If the data do not match, DISC will research the data to reconcile discrepancies. For GSA supply programs and the NIB supply center stores, only the customer and the vendor are generally involved in customer billing and vendor payments.

The DISC solicitation states that during the life of the contract, the Government would like to begin to offer participating organizations the opportunity to use the Government credit card as a form of payment when orders are placed. Additionally, the Government and the prime vendors agree to negotiate a mutually acceptable implementation for the credit card at a future time. As customers switch over to credit card usage, there should be less DISC involvement in the receipt matching and billing process.

Consolidation of Purchases

Consolidated purchases generally result in volume price discounts. By eliminating the duplication between DISC office initiative and other programs that procure the same types of items, the Government could consolidate requirements and generate larger orders from the vendors. Vendors realize reduced order processing and administrative expenses for large quantity orders. Generally, the vendors pass those savings to customers when large quantity orders are placed.

Management Controls

The DLA had not established management controls to ensure that commercial item initiatives did not duplicate procurement and supply programs of GSA, NIB, and the DLA electronic catalog. The DISC office initiative duplicated the supply and procurement programs because of the DISC efforts to increase its sales base and provide its customers with the widest number of possible choices. To achieve that, DISC implemented commercial business practices that competed with procurement and supply programs of other Government organizations. In selecting items for the initiative, DISC disregarded criteria established in the 1971 agreement to eliminate duplication and overlap between Government supply systems. DLA officials advised us that with the National Performance Review and the DLA emphasis to reengineer its business practices to provide total support to its customers, the 1971 agreement regarding the assignment of Federal supply classes might not be the best policy in obtaining needed supplies to provide DLA customers with total support. We believe the initiative is contrary to the National Performance Review and the Defense Reform Initiative. Section 912 of the National Defense Authorization Act for FY 1998 (Public Law 105-85) requires that DoD reduce acquisition positions by 15,000 to 25,000. Actions necessary to achieve that objective include

identifying areas of overlap, duplication, and redundancy among acquisition organizations. The essence of Public Law 105-85 is captured in the National Performance Review and the DoD November 1997 reform initiative, "The Business Strategy for Defense in the 21st Century," which provide that DoD will streamline organizations to remove redundancy and maximize synergy, and reduce excess support structures to free resources and focus on core competencies. We do not believe that the acquisition of office products is a DLA core competency.

Summary

The DLA will use its diminishing resources to compete with other Government organizations for sales of commercial, brand name office products. Other Government organizations, including DoD, have relied on the GSA program to supply types of products for many years. We find it difficult to understand the benefit to DoD or DLA in continuing to use their dwindling resources to reinvent programs that already exist in GSA and NIB and that provide more than adequate service, cost-effectively. DLA needs to evaluate its policy to expand sales of commercial items to ensure that resources are directed toward weapon system items that are used in support of military operations and that the types of items do not duplicate centralized procurement programs of other Government organizations.

Management Actions

On March 6, 1998, the Deputy Commander, Defense Industrial Supply Center, informed the audit staff that, at the direction of the Defense Logistics Agency executive management, the solicitation for the information and imaging solutions initiative would be canceled. Subsequently, the DLA executive management stated that some items should not have been included in the DISC office initiative and the title for the initiative was inappropriate. The DLA executive management further stated that it planned a review to determine the appropriate items for the DLA mission that should be included in a future solicitation. DLA canceled the solicitation on March 10, 1998. As a result of the cancellation, we made no recommendation addressing the solicitation.

Recommendation, Management Comments, and Audit Response

We recommend that the Under Secretary of Defense for Acquisition and Technology direct that the Director, Defense Logistics Agency, establish controls to ensure that Defense Logistics Agency initiatives for commercial, brand name items do not duplicate centralized procurement programs of other Government organizations.

Management Comments. The Acting Principal Assistant Deputy Under Secretary of Defense (Logistics) concurred, and stated that DLA will minimize the duplication of centralized procurement programs of other Government organizations. DLA should be aware of potential overlaps in its contracting initiatives and make a judgment in each case. Substantial duplication will be eliminated, as demonstrated by the cancellation of the office products solicitation. Incidental overlap will be reviewed to ensure that unwarranted costs are not incurred. Additionally, lessons learned through an agreed-upon review of the DLA Electronic Catalog Pilot Program will be applied to future cases of potential overlap.

Audit Response. Comments from the Acting Principal were partially responsive because the Acting Principal did not provide information on the specific controls DLA will use to minimize duplication of its contracting initiatives with centralized programs of other Government organizations. Therefore, we request that the Acting Principal provide a clarification on the planned actions and the planned completion date.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We evaluated the solicitation (SP0500-97-R-0151) for the DISC office initiative to determine the types of items included in the initiative, and the procedures proposed to order, ship, deliver, and bill those items included in the initiative. We obtained supply and procurement program data on GSA, NIB, and the DLA electronic catalog to compare those programs to the DISC office initiative to determine whether products included in the initiative were also provided by GSA and NIB. The documentation reviewed covered the period from August 1997 through February 1998.

Use of Computer-Processed Data. We did not use computer-processed data or statistical sampling procedures for this audit.

Audit Type, Dates, and Standards. We performed this economy and efficiency audit from December 1997 through February 1998 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD, GSA, and NIB. Further details are available on request.

Management Control Program

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

Scope of Review of Management Control Program. We reviewed the adequacy of DLA management controls to prevent duplication and overlap between the DISC office initiative and GSA and NIB supply programs. We assessed the DLA self-evaluation of these controls.

Adequacy of Management Controls. We identified a material management control weakness for the DLA as defined by DoD Directive 5010.38. DLA management controls were not adequate to ensure that duplication did not exist between the DISC office initiative and GSA and NIB supply programs and the DLA electronic catalog. The inadequate DLA management controls were previously reported in Inspector General, DoD, Report No. 97-205. Recommendations in this report, if implemented, will correct the material weakness. We could not determine the amount of the monetary benefits because it is dependent on future review results and associated management decisions. A copy of the report will be provided to the senior official responsible for management controls in DLA.

Adequacy of Management Self-Evaluation. Officials at DLA Headquarters did not identify the DISC office initiative as an assessable unit, and, therefore, did not identify the material management control weakness identified by the audit.

Appendix B. Summary of Prior Coverage

Inspector General, DoD, Report No. 98-037, "Dual Management of Commercially Available Items - Battery, Food Service and Photographic Products," December 12, 1997. The report states that DLA managed battery, food service, and photographic national stock numbered items that were not predominantly military and that GSA centrally procured. A random statistical sample indicated that 27,958 (61 percent) of 45,936 national stock numbered items managed by DLA in 17 Federal supply classes were either procured by DLA or GSA and GSA contracted with the same vendors, but the items were not in the GSA vendors' catalogs or the catalogs were not available for review. The report recommended that duplication between DLA and GSA in procuring battery, food service, and photographic products be eliminated and that DoD requisitioners be reminded that they have the authority to use sources of supply other than the integrated manager, when the other sources of supply offer best value. The Acting Deputy Under Secretary of Defense (Logistics) concurred with the recommendations and stated that by April 15, 1998, based on a written DLA analysis, he will initiate coordination with GSA on the management of the items and on October 24, 1997, he issued a reminder to DoD organizations about the authority they have to purchase items from various sources of supply. DLA nonconcurred with the recommendation to provide a written analysis that identifies items that GSA is best suited to procure, and stated that it will work with GSA to determine the best possible manager for each of the 17 Federal supply classes in question. DLA concurred with the recommendation to provide justification for retaining the management of items in the Federal supply classes that are not predominantly military or classified as nonessential. DLA stated that the justification will be as a result of negotiations with GSA and any supply classes retained will be on the basis that DLA supports all requirements and provides the best overall price and service to customers. We considered the DLA comments to be non-responsive, and audit mediation is in process.

Inspector General, DoD, Report No. 97-205, "Dual Management of Commercially Available Items - Defense Logistics Agency Electronic Catalog," August 15, 1997. The report states that portions of the DLA electronic catalog program duplicated GSA supply programs, particularly the Federal supply schedule and Advantage Program. The report recommended that duplication between the electronic catalog and GSA supply programs be eliminated and that management controls be established to prevent duplication of DLA commercial item procurement initiatives with centralized procurement

programs of other Government organizations. DLA nonconcurred with the recommendations and stated that the electronic catalog supports the National Performance Review and as such, DLA is required to reengineer its business practices to implement new ways and better ways of doing business in support of its customers. DLA further stated that the 12- to 18-month catalog operational demonstration period will provide valuable sales information to determine which commercial catalog items are most important in the operational support of the Armed Forces and to do otherwise compromises the pilot test, removing the capability of DLA to effectively evaluate the new supply support concept. To resolve the issue, the Office of the Inspector General, DoD, and DLA agreed to conduct a joint survey of DLA customers to determine whether the electronic catalog should contain items also offered by GSA.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
- Deputy Under Secretary of Defense (Acquisition Reform)
- Deputy Under Secretary of Defense (Logistics)
- Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management)
- Director, Defense Procurement
- Director, Defense Logistics Studies Information Exchange

Under Secretary of Defense (Comptroller)
- Deputy Chief Financial Officer
- Deputy Comptroller (Program and 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)
Auditor General, Department of the Navy

Department of the Air Force

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

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
  Commander, Defense Industrial Supply 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
General Accounting Office
  National Security and International Affairs Division
    Technical Information Center
Committee for Purchase From People Who are Blind or Severely Disabled
National Industries for the Blind
National Industries for the Severely Handicapped
General Services Administration

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

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

Part III - Management Comments

Acting Principal Assistant Deputy Under Secretary of Defense (Logistics) Comments

OFFICE OF THE SECRETARY OF DEFENSE

1000 DEFENSE PENTAGON
WASHINGTON, DC 20301-1000

(L/MDM)

1 6 MAY 1998

MEMORANDUM FOR DOD INSPECTOR GENERAL
THROUGH: CAIR 5/13/98

SUBJECT: Draft Audit Report on Dual Management of Commercially Available Items - Information and Imaging Solutions (Project No. 6LD-5044.04)

This responds to your memorandum of March 19, 1998, on the subject draft audit report. One recommendation was addressed to the Under Secretary of Defense for Acquisition and Technology. Our detailed comments on that recommendation are included in the attachment.

James B. Emahiser
Acting Principal Assistant Deputy
Under Secretary of Defense (Logistics)

Attachment

cc: Director, DLA

Acting Principal Assistant Deputy Under Secretary of Defense (Logistics) Comments

ATTACHMENT

"We recommend that the Under Secretary of Defense for Acquisition and Technology direct the Director, Defense Logistics Agency, establish controls to ensure that Defense Logistics Agency initiatives for commercial, brand name items do not duplicate centralized procurement programs of other Government organizations."

This office concurs with the recommendation. The Defense Logistics Agency (DLA) will minimize the duplication of centralized procurement programs of other Government organizations. In its contracting initiatives, DLA should be aware of potential overlaps and make a judgment in each case. Substantial duplication will be eliminated, as demonstrated by the cancellation of the office products solicitation discussed in the current report. Incidental overlap, such as that addressed in the recent Audit Report on the DLA Electronic Catalog Pilot Program (OIG Report 97-205), will be reviewed to ensure that unwarranted costs are not incurred. The "lessons learned" through the agreed-to actions regarding the Electronic Catalog Pilot Program will be applied to future cases of incidental overlap between DLA contracting initiatives and centralized procurement programs of other Government organizations.

Audit Team Members

The Readiness and Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report.

Shelton R. Young
Tilghman A. Schraden
Terrance P. Wing
James J. McDermott
David R. Hasz