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Inspector General

U.S. Department of Defense

SEPTEMBER 9, 2014

Military Sealift Command Oversight of Excess Spare-Parts Inventory and Purchases for Sealift Program Roll-On/Roll-Off Ships Needs Improvement

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Results in Brief

Military Sealift Command Oversight of Excess Spare-Parts Inventory and Purchases for Sealift Program Roll-On/Roll-Off Ships Needs Improvement

September 9, 2014

Objective

We determined whether the Military Sealift Command (MSC) effectively managed the quantities of spare parts in inventory and procured the spare parts at fair and reasonable prices for the large, medium-speed, roll-on/roll-off (LMSR) ships in the Sealift Program. To determine whether MSC procured spare parts at fair and reasonable prices, we focused on price competition, a key control to ensure price reasonableness. We performed this audit in response to a congressional request.

Findings

The MSC property administrator did not effectively manage the excess spare-parts inventory on two Sealift Program LMSR ships, and there were indications in MSC's records that these conditions existed on two other ships. According to MSC inventory records, on-hand spare parts exceeded authorized allowance levels for 4,677 spare parts, with the excess valued at $3.4 million. Although we did not verify all recorded excess, of the 60 spare parts we inventoried, we verified excess for 49 spare parts, valued at $692,305. The excess occurred because MSC staff did not ensure the contractor complied with contract provisions on excess government property. As a result, MSC did not know

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Findings (cont'd)

the numbers of excess spare parts available for reuse, resale, or disposal, increasing the risk that purchases could be made for spare parts already aboard the ships.

In addition, the MSC property administrator and contracting officer did not ensure that Patriot Contract Services (PCS) had acceptable justification for 13 spare-parts purchases not adequately competed and used the Defense Supply System (DSS) for spare-parts purchases. This occurred because the MSC property administrator did not properly review purchase orders during the invoice-review process, and the contracting officer included contradictory language regarding DSS use in the PCS contract. As a result, MSC potentially overpaid for parts procured without adequate competition and paid about $63,674 more than the DSS price for 28 of 76 parts purchased during FY 2011 and FY 2012.

Recommendations

Among other recommendations, we recommend the Commander, MSC perform a 100-percent inventory of spare parts aboard the Sealift Program LMSR ships, update on-hand quantities, reevaluate allowance levels, and process all spare parts deemed excess for reuse, resale, or disposal. In addition, the Commander, MSC, should establish controls to ensure the contractor follows contract requirements for competition and DSS use.

Management Comments and Our Response

Comments from the Military Sealift Command addressed all specifics of the recommendations, and no further comments are required. Please see the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Commander, Military Sealift Command	None	A.1, A.2, A.3, A.4, A.5, B.1, and B.2

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

September 9, 2014

MEMORANDUM FOR NAVAL INSPECTOR GENERAL
COMMANDER, MILITARY SEALIFT COMMAND

SUBJECT: Military Sealift Command Oversight of Excess Spare-Parts Inventory and Purchases for Sealift Program Roll-On/Roll-Off Ships Needs Improvement (Report No. DODIG-2014-106)

We are providing this report for your information and use. We performed this audit in response to a congressional request. Military Sealift Command personnel did not effectively manage the excess spare-parts inventory on two Sealift Program large, medium-speed, roll-on/roll-off ships and there were indications in Military Sealift Command's records that these conditions existed on two other ships. In addition, Military Sealift Command officials did not effectively manage spare-parts procurement on two ships. As a result, excess spare parts were not considered for reuse, resale, or disposal, and the Military Sealift Command overpaid at least $63,674 for spare parts purchased in FY 2011 and 2012.

Although the data used to support the report findings was from FY 2011 through 2012, the findings and recommendations were still relevant because corrective actions had not been completed as indicated in the Military Sealift Command's comments to a draft of this report.

We considered the Military Sealift Command's comments when preparing the final report. Those comments addressed all specifics of the recommendations and conformed to the requirements of DoD Directive 7650.3; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to Mr. Timothy Wimette at (703) 604-8876 (DSN 664-8876).

Daniel R. Blair
Deputy Inspector General
for Auditing

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INSPECTOR GENERAL

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Introduction

Objective

Our audit objective was to determine whether the Military Sealift Command (MSC) effectively managed the quantities of spare parts in inventory and procured the spare parts at fair and reasonable prices for the large, medium-speed, roll-on/roll-off (LMSR) ships in the Sealift Program.

We performed this audit in response to a congressional request concerning the quantity and price of spare parts stored on the United States Naval Ship (USNS) *Gilliland*. The request was to address concerns that about $1 million in excess spare parts were stored on the USNS *Gilliland* and that the Government had overpaid for those parts. (See Appendix B for results specific to the congressional request.) Consistent with this request, we reviewed spare-parts inventory records for the USNS *Gilliland* and three other ships managed by the same contractor, Patriot Contract Services (PCS). For two of the ships, the USNS *Gilliland* and USNS *Gordon*, we inventoried selected spare parts and reviewed spare-parts procurement. To determine whether spare parts on the USNS *Gilliland* and the USNS *Gordon* were procured at fair and reasonable prices, we focused on price competition, a key control to ensure price reasonableness. See Appendix A for the audit scope and methodology.

Background

The MSC Sealift Program provides ocean transportation of vehicles and equipment for DoD and other Federal agencies during peacetime and war. The program uses a mix of Government-owned and long-term-chartered dry-cargo ships and tankers, as well as additional short-term or voyage-chartered ships. Part of MSC's surge sealift fleet includes Government-owned, contractor-operated LMSR ships that support the U.S. military.

According to MSC, each LMSR ship is capable of carrying the equipment requirements of an Army air assault or armored battalion of up to 1,000 soldiers and can travel at up to 24 knots. MSC has nine LMSR ships in its Sealift Program fleet. (See Appendix C for a list of those ships.) When they are in reduced operating status, these ships are ordinarily kept pierside with a crew of 13 contractor employees, which increases to 30 contractor employees when the ship is in full operating status. According to MSC, the LMSRs are capable of departure from U.S. ports in 4 days, fully activated and crewed.

Figure. USNS *Gordon* at Sea
Source: Military Sealift Command

Operation and Maintenance Contracts

In 2010, MSC awarded two operation and maintenance contracts for the nine Government-owned LMSR ships in the Sealift Program. PCS was awarded contract No. N00033-10-C-5301, for the *Gilliland*, *Gordon*, *Shughart*, and *Yano*, and American Overseas Marine (AMSEA) was awarded the contract for the other five LMSR ships. According to the contract, PCS is responsible for providing a wide range of services, including crew management; repair-part procurement and inventory; and ship maintenance. The contractor procures all spare parts, supplies, and equipment necessary to maintain and repair the ships and maintains authorized allowances[1] for spare parts in the Shipboard Configuration and Logistics Program (SHIPCLIP).

[1] Authorized allowance refers to the quantity of a particular part that a ship is allowed to carry based on its configuration, installed equipment, and demand.

The PCS contract is a fixed-price contract with reimbursable elements. The contract specifies fixed daily reimbursement rates for three operating statuses: full, reduced, and repair availability. The contract also specifies fixed charges for transition between the various operating statuses. In addition, the contract specifies reimbursement for the cost of spare parts, supplies, and equipment averaging about $12.5 million annually from FY 2010 to FY 2013. MSC only reimburses PCS for the actual cost of spare parts, including shipping and tax.

SHIPCLIP

SHIPCLIP is the Government's database for maintaining shipboard configuration,[2] as well as its tool for invoice certification. The contractor uses SHIPCLIP to manage the spare-parts inventory for the ships under contract. SHIPCLIP contains established allowance quantities for material to be carried aboard for the operation, maintenance, and repair of the ship's equipment, as well as an automated record of Government-furnished property, which includes the spare-parts inventory.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified an internal control weakness with the MSC logistics and contracting personnel oversight of the contractor's management of excess spare-parts inventory and spare-parts procurement for two Sealift Program LMSR ships. We will provide a copy of this report to the senior officials responsible for internal controls in the Department of the Navy and MSC.

[2] Configuration refers to the equipment installed aboard and the authorized allowance of spare parts to be stored for repairs.

Finding A

Excess Spare-Parts Inventory Not Effectively Managed

The MSC property administrator did not effectively manage the excess spare-parts inventory on the two Sealift Program LMSR ships and there were indications in MSC's records that these conditions existed on two other ships. According to MSC SHIPCLIP inventory records, on-hand spare parts exceeded authorized allowance levels for 4,677 spare parts,[3] with the excess valued at $3.4 million. Although we did not verify all recorded excess, we nonstatistically selected and physically inventoried 60 spare parts on two of the ships; we verified that 49 had excess on-hand inventory, valued at $692,305. In addition, SHIPCLIP records were incorrect for 21 of the 60 spare parts, and of 10 spare parts we traced from the ships to the SHIPCLIP records, 3 were not accounted for in those records. The excess and inaccurate inventory existed because MSC logistics and contracting officials did not provide sufficient oversight to ensure that PCS complied with the contract provisions related to excess Government property and inventory management. As a result, MSC did not know the numbers of excess spare parts available for reuse, resale, or disposal and increased the risk that purchases could be made for spare parts already aboard the ships.

[3] "Spare parts" in this report refers to a spare-part type instead of the actual count of that spare-part type aboard the ship. A national stock number designates a spare-part type; for example, the national stock number 5306-22-269-2811 designates a certain type of machine bolt. There can be one or more units of this machine bolt aboard a ship.

Excess Spare-Parts Inventory

MSC personnel did not effectively manage the excess spare-parts inventory on two Sealift Program LMSR ships and there were indications in MSC's records that these conditions existed on two other ships in our review. We confirmed there were excess spare parts aboard the USNS *Gilliland* similar to the parts referenced in the congressional request. Furthermore, the *Gilliland's* SHIPCLIP records indicated there were excess spare parts in addition to those referenced. A review of the SHIPCLIP records for the other three LMSR ships under the PCS contract indicated excess spare parts on those ships as well. To verify a portion of the excess, we conducted a physical inventory of 60 different spare parts with high-excess values aboard the USNS *Gilliland* and USNS *Gordon*. We also selected 10 spare parts found in the ship's storerooms to determine whether the parts were properly accounted for in SHIPCLIP.

SHIPCLIP Spare-Parts Inventory Exceeded Authorized Allowance Levels

SHIPCLIP records indicated that the four LMSR ships had $3.4 million worth of on-hand spare parts in excess of authorized allowances. The $3.4 million excess represented 4,677 different national stock numbers (NSN) for which SHIPCLIP on-hand inventories exceeded authorized quantities by 59,835 units. The number of excess spare parts represented 11.4 percent of the total spare-parts inventory, and the value of units held in excess represented 18.1 percent of the total spare-parts inventory value. According to PCS property-control procedures, PCS was required to determine whether excess spare parts could be used on another vessel or on another PCS Government contract once identified and recommend disposition action to the contracting officer. Table 1 identifies the excess and total spare-parts inventory aboard each ship and the value of that inventory according to SHIPCLIP.

Table 1. Excess Spare-Parts Inventory According to SHIPCLIP Records

U.S. Naval Ship	Spare Parts With Excess	Quantity of Units Held in Excess	Value of Units Held in Excess	Total Spare Parts Aboard	Total Spare-Parts Inventory Value
Gilliland	1,594	33,660	$977,030	11,279	$4,976,397
Gordon	1,215	6,921	648,157	11,303	4,505,776
Shughart	1,108	10,286	1,001,973	8,980	4,689,232
Yano	760	8,968	737,517	9,442	4,417,098
Total	**4,677**	**59,835**	**$3,364,677**	**41,004**	**$18,588,503**

Physical Inventory Validated Excess on Gilliland and Gordon

Our physical inventory of 60 spare parts aboard the *Gilliland* and *Gordon* verified excess for 49 of those spare parts. To conduct the physical inventory, we nonstatistically selected 30 parts each aboard the *Gilliland* and *Gordon* with the highest calculated excess value. See Appendix D for a list of the 30 spare parts inventoried aboard the *Gilliland* and the corresponding results and Appendix E for a list of the 30 spare parts inventoried aboard the *Gordon* and those corresponding results.

According to SHIPCLIP records, the 30 spare parts inventoried aboard the *Gilliland* were valued at $772,823, and the excess quantities of those parts were valued at $522,500. Our physical inventory verified that 24 of the 30 spare parts had excess quantities but that the excess was valued at $420,709, instead of $522,500, as stated in SHIPCLIP. The inventory aboard the *Gordon* resulted in similar findings. SHIPCLIP records indicated the 30 spare parts inventoried were valued at $568,478 and that the excess quantities of those parts were valued at $301,141. Our physical inventory verified that 25 of the 30 spare parts had excess quantities but that the excess was valued at $271,596, instead of $301,141, as stated in SHIPCLIP.

Across both ships, we verified that 49 of the 60 spare parts had excess quantities valued at $692,305 (52 percent) for the parts inventoried, which had a value of $1,341,301. For the *Gilliland*, the verified excess value of $420,709 represented 54 percent of the inventory value for the selected 30 parts and for the *Gordon*, the verified excess value of $271,596 represented 48 percent of the inventory value for the selected 30 parts.

49 of the 60 spare parts had excess quantities valued at $692,305

SHIPCLIP Records Not Accurate

Our physical inventory of the 60 spare parts aboard the *Gilliland* and the *Gordon* indicated the SHIPCLIP records were inaccurate for some parts. Specifically, the SHIPCLIP records did not match our physical inventory for 19 spare parts, and there was an error in unit of measure for another 2 parts. Moreover, of the 10 spare parts we attempted to trace from the ship storerooms back to the SHIPCLIP records, 3 were not accounted for in those records. On the *Gilliland*, we determined that recorded SHIPCLIP on-hand quantities did not match our physical inventory for 7 of the 30 spare parts inventoried. On the *Gordon*, we determined that SHIPCLIP recorded on-hand quantities did not match our physical inventory for 12 of the 30 spare parts inventoried.

We also conducted a reverse inventory of 10 spare parts located on the *Gilliland* and *Gordon*, which found that the SHIPCLIP records were not complete. For the reverse inventory, we nonstatistically selected 10 (5 from each of the 2 ships) spare parts found in the storerooms aboard the *Gilliland* and *Gordon* and traced them back to SHIPCLIP. For the *Gilliland*, 2 of the 5 spare parts (24 bearings and

2 static shields) found in the storeroom were not recorded in SHIPCLIP. For the *Gordon*, one of the five spare parts (six sleeve bushings) was not recorded in SHIPCLIP. The parts were not identified by NSN, so we could not determine their value.

MSC logistics personnel stated they were not sure why the spare parts were not recorded in SHIPCLIP but that the parts could have been part of a kit purchased as a direct-turnover item and that the parts were not needed or were left over from a repair. According to contractor personnel, direct turnover is the process used to order spare parts not in SHIPCLIP and intended for one-time fixes. These spare parts are not intended to be stocked when ordered but could be stocked if the parts received with the kit exceeded the quantity actually needed for the repair.

Inadequate Oversight of Contractor Performance

The excess and inaccurate inventory existed because MSC logistics and contracting officials did not provide sufficient oversight to ensure PCS complied with the contract provisions related to excess Government property as outlined in COMSCINST 4340.3C, "Military Sealift Command Contract Property Administration Manual," February 16, 2010. The manual states that the MSC property administrator will require the contractor to review and provide justification for retaining excess government property not currently in use in accordance with the contract. The manual also states that the logistics program manager will ensure the contractor submits allowance change requests. An allowance change request is used to notify MSC that the authorized allowance for a particular spare part needs to be increased or decreased and provides a rationale for the change. MSC logistics staff did not focus on identifying excess when conducting inventory audits aboard the LMSR ships, and PCS personnel did not identify Government property in excess of allowance quantities and attempt to transfer or dispose of the property.

In May 2012, MSC logistics staff performed spare-parts inventory audits on the USNS *Gilliland* and USNS *Gordon* to determine whether the spare-parts quantity on hand per SHIPCLIP equaled the quantity counted. In the two resulting reports, MSC staff identified shortages and overages when comparing the inventory count to the SHIPCLIP on-hand quantity, but they did not identify any excess inventory. MSC sampled 279 spare parts and found shortages for 22 spare parts. MSC recommended the contractor find the parts or file paperwork documenting PCS' financial liability for the missing parts. MSC staff also found overages for

2 of the 279 items reviewed and recommended PCS adjust the SHIPCLIP records for additional parts found. However, MSC staff did not identify excess spare parts because the reviews were focused on identifying parts with shortages and steps to remedy the shortages, rather than identifying excess spare parts for reuse, resale, or disposal.

In addition to the inventory audits, MSC staff conducted inspections of the conditions aboard the *Gordon* in February 2012 and the *Gilliland* in July 2012. They did not include excess as part of the inspection; instead, the staff verified that parts procured on recent purchase orders were on hand or had been installed on the ship. During this limited review of recent purchases, MSC staff did not consider whether the parts were purchased and stored in excess of the authorized allowance. Thus, MSC staff did not note any excess inventory in their reports. The Commander, Military Sealift Command, should ensure that during periodic MSC-conducted inventories, MSC staff compare on-hand quantities with authorized quantities and take appropriate action on any identified excess.

During our review of the SHIPCLIP inventory reports, we determined that of the 279 spare parts inventoried by MSC, 59 spare parts had an on-hand quantity that exceeded the authorized allowance quantity according to the SHIPCLIP records. PCS contract Section 5 "Government Furnished Property-General" Paragraph 5.4, "Repair/Spare Parts," refers to section 15 of the LMSR Technical Manual for guidance on parts management. Section 15 states that the contractor is required to develop and implement a property control system to manage (control, use, preserve, protect, repair and maintain) Government property in its possession. To satisfy that requirement, PCS developed property control procedures, which were approved by MSC in 2011.

The PCS property control procedures require that PCS take the following steps once excess is identified.

- If PCS personnel identify Government property in excess of allowance quantities, PCS personnel will first research requirements throughout the Government program for possible transfer to another vessel.
- If a transfer is not possible, PCS personnel will review other Government contracts held by PCS for possible requirements.

- After the requirements review, PCS will notify the contracting officer in writing of the identity of the excess materials and recommend transfer to another vessel, transfer between Government contracts, or disposal of the excess property.
- When disposition instructions are received from the contracting officer, PCS will fulfill them as instructed.

Had MSC logistics and contracting officials periodically reviewed the SHIPCLIP inventory records, they would have found that excess inventory existed on the ships and required PCS to handle the excess in accordance with the property-control procedures. The Commander, Military Sealift Command, should ensure MSC contracting officials establish controls to ensure PCS is complying with its property-control procedures.

Numbers of Excess Spare Parts Unknown

MSC did not know the numbers of excess spare parts available for reuse, resale, or disposal. The SHIPCLIP inventory records for the LMSR ships managed by PCS indicated excess spare parts existed on all four ships. In addition, our inventory of selected parts aboard the USNS *Gilliland* and the USNS *Gordon* indicated that the SHIPCLIP records were incorrect with respect to the on-hand inventory and the numbers of excess spare parts. Therefore, to ensure MSC can determine the actual numbers of excess spare parts on all four LMSR ships managed by PCS, the Commander, Military Sealift Command, should conduct a 100-percent spare-parts inventory on the four PCS-managed LMSR ships, update SHIPCLIP accordingly, reevaluate the inventory allowance levels, and process all spare parts deemed excess for reuse, resale, or disposal. MSC could save funds if excess parts on one ship are transferred and reused to satisfy purchases or shortages aboard another Sealift Program LMSR ship or another ship in the MSC fleet. In addition, the Government could generate funds if excess parts on a Sealift Program LMSR ship were sold to entities in need of the part, or disposed of as scrap.

Management Comments on Background and Finding A and Our Response

The Executive Director, Military Sealift Command, responding for the Commander, Military Sealift Command, recommended deletion of the last sentence in the SHIPCLIP paragraph of the background section. The Executive Director stated that SHIPCLIP was not updated with actual Government property information during turnover from the preceding contractor. In addition, the Executive Director recommended that we revise the first sentence of Finding A to remove property administrator and adjust the wording.

Our Response

We deleted the sentence in the background because it was not significant to the report findings or recommendations. We considered the Executive Director, Military Sealift Command's request to revise the sentence in the finding. However, we did not make the revision because the finding as stated correctly identifies the responsible party and the wording adjustments would not alter the substance of the finding.

Recommendations, Management Comments, and Our Response

Recommendation A

We recommend that the Commander, Military Sealift Command:

1. **Require personnel responsible for conducting periodic Military Sealift Command inventories, to compare on-hand quantities to authorized quantities, and initiate appropriate actions for any excess spare parts identified.**

Military Sealift Command Comments

The Executive Director, Military Sealift Command, responding for the Commander, Military Sealift Command, agreed, stating a property management–system assessment of the USNS *Gordon* and *Gilliland* was conducted in May 2014. The Executive Director stated that the results of the assessment were provided to MSC's Sealift Program Manager and Director of Contracts and Business Management for comments and recommended corrective actions.

PCS, by direction of the MSC contracting officer, has:

- drafted a revised Property Control Procedures plan to address inventory control gaps. MSC reviewed the plan and recommended changes to PCS. MSC required PCS respond to comments by August 8, 2014.
- submitted feedback reports resolving $373,528 in excess repair parts by substantiating allowance change requests for increased allowances,
- established monthly floor to record and record to floor inventory schedule and reporting requirements,
- established monthly cyclic property inventory targets for durable moveable property,
- initiated the posting to SHIPCLIP of excess property to improve accountability, and
- improved direct turnover parts-handling procedures by designating a locked space for receipt of items, entering direct turnover parts into SHIPCLIP upon receipt, and conducting spot audits of 25 percent of direct-turnover parts requisitions monthly.

2. **Ensure that MSC contracting officials establish controls to ensure that PCS is complying with its property control procedures as required by the contract.**

Military Sealift Command Comments

The Executive Director, Military Sealift Command, responding for the Commander, Military Sealift Command, agreed, stating MSC needs to more closely monitor contractor performance by developing and implementing internal procedures. The Executive Director stated MSC:

- created and filled a position to improve oversight of the contractor's Property Management System Compliance Program.
- intends to complete a property management system assessment by December 2014 on the other two PCS operated ships.

The Executive Director also stated that PCS will conduct training for appropriate personnel on allowance change request procedures, material-ordering procedures, and configuration management, and will complete that training by December 2014.

Further, the contracting officer, the contracting officer's representative, and the logistics representative for the PCS contract will meet to ensure understanding of contract requirements, responsibilities, and identify lack of compliance issues.

3. Conduct a 100-percent inventory of the spare parts aboard the PCS-managed large, medium-speed, roll-on/roll-off ships in the Sealift Program fleet.

Military Sealift Command Comments

The Executive Director, Military Sealift Command, responding for the Commander, Military Sealift Command, agreed, stating an inventory schedule was established to conduct 100-percent physical inventory of all government furnished equipment on the four PCS-managed ships. The Executive Director stated the planned completion for the inventories is on or about December 31, 2014. The Executive Director stated MSC will conduct a property-management system assessment on each ship after the inventory is completed.

4. Update on-hand quantities in the Shipboard Configuration and Logistics Program in accordance with the results of the 100-percent inventory.

Military Sealift Command Comments

The Executive Director, Military Sealift Command, responding for the Commander, Military Sealift Command, agreed, stating that SHIPCLIP records will be updated as a result of the 100-percent inventory and MSC will conduct a follow-up property management–system assessment on each ship in 2015.

5. **Based on inventory results, reevaluate allowance levels and process all spare parts deemed excess for reuse, resale, or disposal.**

Military Sealift Command Comments

The Executive Director, Military Sealift Command, responding for the Commander, Military Sealift Command, agreed, stating MSC performed a 100-percent review of shipboard allowances for equipment onboard the four PCS-operated ships. In addition, the Executive Director stated MSC initiated the following corrective actions:

- based upon Government and contractor feedback revised configuration and allowances,
- captured undocumented installed equipment and/or inventory quantities through review of direct-turnover parts and feedback reports,
- reviewed and approved feedback reports,
- identify excess inventory items versus allowances, and
- determined actions regarding disposition on final excess.

Our Response

Comments from the Executive Director addressed all specifics of the recommendations, and no further comments are required.

Finding B

Spare-Parts Purchase Requirements Not Consistently Followed

MSC officials did not ensure that PCS consistently followed contract requirements when purchasing spare parts for the LMSR ships. Specifically, the MSC property administrator and contracting officer did not ensure that the contractor:

- justified not obtaining adequate competition for 13 of 20 purchase orders reviewed, which were issued during FY 2011 and FY 2012, and
- used DSS[4] for spare-parts purchases made between the contract start in March 2010 and March 2013

This occurred because the MSC property administrator did not properly review purchase orders as part of the invoice-review process, and the contracting officer included contradictory guidance in the PCS contract concerning the use of DSS before commercial purchases can be made for spare parts. As a result, MSC potentially overpaid for spare parts procured without adequate competition, and MSC paid about $63,674 more than the DSS price for 28 of 76 spare parts purchased during FY 2011 and FY 2012.

[4] In this report, DSS refers to the DoD Electronic Mall and Navy Supply System.

Adequate Competition Not Always Achieved

The MSC property administrator and contracting officer did not verify that PCS had acceptable justification for inadequate competition for 13 purchase orders issued during FY 2011 and FY 2012, valued at $299,822. PCS contract section G-9 (b) "Reimbursable Supplies and Services (Operating Contracts)," states that to be eligible to receive reimbursement for services and supplies obtained in support of the contract, the contractor must obtain at least three price quotes for each transaction in excess of $3,000. If three quotes are not obtained, the contractor must provide acceptable justification as to why it was impracticable to do so.

During FY 2011 and FY 2012, MSC reimbursed PCS $1,587,616 for USNS *Gilliland* and USNS *Gordon* spare parts purchased. Those purchases included 117 PCS purchase-order transactions, totaling $1,229,015 that exceeded the $3,000 threshold. We analyzed

20 of the purchase orders (10 from the *Gilliland* and 10 from the *Gordon*), valued at $474,164, to determine whether three quotes were obtained. If the three quotes were not obtained, we determined whether PCS provided acceptable justification for not obtaining the quotes. Of the 20 purchase orders, 14 were issued without obtaining at least three quotes. PCS had an acceptable sole-source justification for one of the purchases but did not provide justification for the remaining 13 purchase orders, valued at $299,822.

DSS Not Used

The MSC property administrator and contracting officer did not ensure that the contractor used DSS for spare-parts purchases made between the contract start in March 2010 and March 2013. PCS contract section 5.7.4, "Procurement Procedures for Material/Supplies and Installed Equipment," states that the contractor will query DSS when on-hand stock is insufficient or not available. Section 5.7.6, "Commercial Procurements of Spare Parts and Installed Equipment, General," states that if DSS does not stock the item or if DSS lead times are not acceptable, PCS can then purchase the item from commercial sources. During FY 2011 and FY 2012, PCS awarded 242 purchase orders, totaling $1,455,348 that exceeded $1,000. We analyzed 31 of the purchase orders (15 from the *Gilliland* and 16 from the *Gordon*), valued at $438,529, to determine whether PCS used DSS before making commercial purchases. Of those 31 purchase orders, we determined that PCS did not use DSS before making the purchases. According to PCS representatives, PCS had never queried or used DSS for spare-parts purchases made for any Sealift Program LMSR ships since its contract began in March 2010.

Purchase Orders Not Properly Reviewed

MSC officials were not specifically required to review that the contractor provided acceptable justification for inadequately competed purchases as required by the PCS contract. Although COMSCINT 4340.3C requires the program manager, logistics to audit contractor invoices when material purchases are made from the Federal Supply System, it does not require review of material purchases made from commercial sources to ensure that competition is occurring, as required by PCS contract section G-9. Adequate purchase order review would have ensured that the MSC program manager for logistics require acceptable justification for the inadequate competition or require PCS to obtain the three quotes before making the purchases. The Commander, Military Sealift Command, should establish controls to ensure the contractor follows contract requirements regarding competition for the purchase of reimbursable items.

Contract Requirement for DSS Use Not Clear

Although PCS contract sections 5.7.4 and 5.7.6 require PCS to query and use DSS, when available, unless it would adversely affect the operation of the ship, sections 5.4, "Repair/Spare Parts," and section 5.7.5, "Procurement through the Navy Supply System," contradict that requirement. Specifically, section 5.4 states that the use of the Federal Supply System[5] is "optional," and section 5.7.5 states that the contractor is not required to acquire NSN/material/supplies through the DoD/Navy Supply System. When asked about the conflicting language, the MSC contracting officer said the contract requirement to use DSS is "owned" by the program office, and he thought the program office wanted to give the contractor flexibility in its spare-parts acquisitions. However, the MSC contracting officer stated the contractor must first attempt to acquire spare parts from on-hand stock and DSS and that if a spare part is not available in DSS, the contractor should procure the part commercially. MSC logistics and contracting personnel were unaware that PCS did not use DSS for purchases until our March 2013 site visit. The PCS contract program manager cited the contract section stating that the use of the Federal Supply System was optional. The Commander, Military Sealift Command should ensure the PCS contract is modified to clarify and require the use of DSS before acquiring spare parts from commercial sources.

Increased Potential for Overpayment

As a result of PCS not achieving adequate competition for 13 purchase orders, MSC potentially paid more for the spare parts purchased. MSC's failure to review PCS's justification for the inadequate competition increased the risk that MSC paid more than necessary. Adequate competition increases the likelihood that spare parts are procured at competitive prices. It also reduces the risk of purchases being directed to a few vendors at the expense of the Government.

MSC paid approximately $63,674 more than the DSS price for spare parts.

In addition, as a result of PCS not using DSS, MSC paid approximately $63,674 more than the DSS price for spare parts. PCS could have used DSS to purchase 28 of 76 parts on 31 purchase orders. For the commercial purchase of these 28 parts, MSC reimbursed PCS $184,837. Purchase of the parts through DSS would have cost $121,163 and resulted in savings of approximately $63,674.

[5] Federal Supply System includes General Services Administration, DoD Emall, and the Military Services' Supply systems.

Management Comments on Finding B and Our Response

The Executive Director, Military Sealift Command, responding for the Commander, Military Sealift Command, recommended revision of the second sentence in the finding paragraph to remove positional titles.

Our Response

We considered the Executive Director, Military Sealift Command's request to revise the sentence in the finding. However, we did not make the revision because the finding as stated correctly identifies the responsible parties.

Recommendations, Management Comments, and Our Response

Recommendation B

We recommend that the Commander, Military Sealift Command:

1. **Establish controls to ensure the contractor follows contract requirements regarding competition for the purchase of reimbursable items.**

Military Sealift Command Comments

The Executive Director, Military Sealift Command, responding for the Commander, Military Sealift Command, agreed, stating the:

- contracting officer will modify the contract requiring the contractor provide monthly reports on prior month supply purchases to determine whether competition was obtained, and if applicable, provide the justification for not using DSS or obtaining competition
- contracting officer or designee will audit the contractor's supply purchase documentation at least annually.

The Executive Director also stated that MSC will implement standard operating procedures for certifying property invoices. The procedures will require the certifier to determine if reimbursable items are authorized, validated, are accounted for in the property control system (SHIPCLIP), and if there is appropriate funding available.

2. **Direct the contracting officer to modify the Patriot Contract Services contract to clarify and require the use of DSS before acquiring spare parts from commercial sources.**

Military Sealift Command Comments

The Executive Director, Military Sealift Command, responding for the Commander, Military Sealift Command, agreed, stating the contract language pertaining to the use of DSS was not clear. The Executive Director stated that the contract has been modified to remove the conflicting guidance pertaining to DSS use, and provides guidance regarding when DSS use is not required. In addition, the contracting officer will, by September 30, 2014, provide additional guidance on documenting the contractor's DSS review when considering commercial procurements.

The Executive Director also stated, based on the findings in the report, MSC will review:

- all MSC-awarded ship operation and maintenance contracts with reimbursable elements to ensure personnel effectively manage Government property and parts are procured at fair and reasonable prices.
- processes used in the oversight of other reimbursable items to determine if vulnerabilities exist; which could result in mismanagement. If MSC identifies vulnerabilities, MSC will implement procedures to safeguard against mismanagement and ensure all contractual and regulatory requirements are met.

Our Response

Comments from the Executive Director addressed all specifics of the recommendations, and no further comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from November 2012 through June 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We interviewed MSC and contractor officials responsible for spare-parts inventory management and procurement. We obtained an understanding of internal controls and contractor oversight and conducted site visits at MSC headquarters and the USNS *Gilliland* and USNS *Gordon* docked in Baltimore, Maryland. We reviewed contract No. N00033-10-C-5301; COMSCINST 4340.3C, Military Sealift Command Contract Property Administration; the MSC Surge LMSR Technical Manual; and the PCS Government Property Control Procedures.

We reviewed SHIPCLIP inventory records for the four LMSR ships managed by PCS to determine the quantity and potential value of parts held in excess. Specifically, we reviewed SHIPCLIP on-hand quantities and compared with authorized allowance levels established in SHIPCLIP. In May 2013, based on the SHIPCLIP data, we nonstatistically selected and inventoried the 30 spare parts with the highest potential excess value for the *Gilliland* and the 30 spare parts with the highest potential excess value for the *Gordon*. In addition, we performed a reverse inventory to determine the completeness of SHIPCLIP inventory records for the *Gilliland* and *Gordon*. Specifically, we nonstatistically selected five parts in the storerooms of each ship and determined whether those parts were accurately recorded in SHIPCLIP.

We reviewed the FY 2011 through FY 2012 purchase-order listings provided by PCS for the *Gilliland* and *Gordon* and determined that PCS issued 622 purchase-order numbers for parts valued at $1,587,616. The contract between MSC and PCS only required competition for purchases exceeding $3,000. Thus, to assess adequacy of competition and any actions taken by MSC, we limited our purchase-order universe to the 117 purchase orders exceeding $3,000, which were valued at $1,229,015.

We reviewed bidding documentation obtained from PCS for 20 purchase orders (10 from each of the two ships) valued at $474,164 and requested the approved PCS invoices from MSC.

To assess PCS usage of DSS, we limited the purchase order universe to the 242 purchases exceeding $1,000, which were valued at $1,455,348, of the 622 purchase orders in FY 2011 to FY 2012. We nonstatistically sampled 31 spare-parts purchase orders for the *Gilliland* and *Gordon* valued at $438,529. We reviewed the procurement orders and delivery documentation to determine the vendor used by PCS, quantity purchased and price paid. For parts with DSS pricing, we compared the price paid for the commercial purchase to the price MSC could have potentially received if PCS had used DSS.

From the Defense Logistics Agency Office of Operations Research and Resource Analysis personnel, we received the standard unit price in effect on the transaction date for the purchase orders reviewed. We only used the information from DLA to show the net amount MSC could have saved had the contractor used the DSS.

Use of Computer-Processed Data

We used computer-processed data provided by MSC and PCS. We used data from MSC SHIPCLIP to obtain the inventory listing of spare parts aboard the USNS *Gilliland*, USNS *Gordon*, USNS *Shughart* and USNS *Yano*. We used the SHIPCLIP on-hand quantity, authorized allowed levels, and unit price, to calculate an initial estimate of the excess inventory. To verify the accuracy of the excess inventory numbers, we conducted further testing on the *Gilliland* and *Gordon*. For these ships, we conducted a physical inventory of 30 spare parts on each ship and verified that 49 of the 60 spare parts had excess quantities. To assess the completeness of the SHIPCLIP data, we selected five parts aboard each ship and attempted to find the parts listed in SHIPCLIP. During these tests, we found inaccuracies in SHIPCLIP that indicated some items identified as excess might not have been excess; some items had unit of measure errors, which caused inaccurate excess values; and some items in the storeroom were not identified in SHIPCLIP. We discuss these inaccuracies in the body of the report. Although we identified some data reliability problems with SHIPCLIP during our testing on the *Gilliland* and *Gordon*, we determined that the data were sufficiently reliable for the purpose of identifying that excess spare parts potentially existed on all four ships.

We received lists from PCS of purchase orders in FY 2011 and FY 2012 for the *Gilliland* and *Gordon*. We tested the accuracy of the data by reviewing the PCS procurement order, vendor invoice showing price paid by PCS to the third party vendor, and delivery receipt. We did not find any errors in the lists.

Use of Technical Assistance

We did not use technical assistance in conducting this audit.

Prior Coverage

No prior coverage has been conducted on the LMSR ships in the Sealift Program during the last 5 years.

Appendix B

Congressional Request Related to Spare Parts Aboard the USNS *Gilliland*

In November 2011, the DoD Office of Inspector General received a congressional request related to the spare parts aboard the USNS *Gilliland*, an LMSR ship in the Sealift Program. Specifically, the request focused on concerns that $1 million in excess spare parts were stored on the *Gilliland* and that MSC paid an excessive price for spare parts. The six items identified as excess were a stainless steel rod, two types of O-rings, a transistor, a filter, and an indicator light.

Excess Spare Parts

Specific to the congressional request, we reviewed the spare-parts inventory listing in SHIPCLIP for the *Gilliland* for the parts identified in the congressional request. However, the request did not cite specific NSNs that would have identified the exact spare part. We performed a physical inventory of parts similar to the spare parts cited in the request and confirmed that five parts similar to the six items referenced in the congressional request were held in excess of the authorized quantities. For example, we inventoried 1,999 light-emitting diode bulbs in stock, although the ship was authorized to carry only 1. Transistors were the only item not overstocked.

Excessive Prices for Spare Parts

We could not confirm that MSC paid excessive prices for the six items listed in the congressional request. The request provided the SHIPCLIP unit price at the time of the request but not the actual purchase price or the NSN; therefore, we could not determine if MSC paid excessive prices for the specific spare parts referenced in the congressional request.

Appendix C

MSC Sealift Program LMSR Ships

The following list provides the MSC Sealift Program LMSR ships, identifying information for the ship, and the contractor responsible for its operation.

U.S. Naval Ship	Hull Number	Class	Contractor
Benavidez	T-AKR 306	Bob Hope	AMSEA
Bob Hope	T-AKR 300	Bob Hope	AMSEA
Brittin	T-AKR 305	Bob Hope	AMSEA
Fisher	T-AKR 301	Bob Hope	AMSEA
Mendonca	T-AKR 303	Bob Hope	AMSEA
Gilliland	T-AKR 298	Gordon	PCS
Gordon	T-AKR 296	Gordon	PCS
Shughart	T-AKR 295	Shughart	PCS
Yano	T-AKR 297	Shughart	PCS

Appendix D

Excess Aboard USNS *Gilliland*

We counted the quantity on-hand for 30 NSNs in the SHIPCLIP records for the USNS *Gilliland* and calculated the quantity and value of the parts held in excess. The actual excess value found aboard the *Gilliland* ranged from $4,485 to $69,477.

NSN	Storeroom Item Allowance Per SHIPCLIP	On-Hand Quantity Per SHIPCLIP	Excess Per SHIPCLIP	Actual On-Hand Quantity	Actual Excess	Actual Excess Value
5307-22-269-2794	6	43	37	43	37	$69,477
4730-01-419-5799	1	10	9	10	9	29,855
4330-14-480-5476	1	11	10	11	10	29,009
5940-01-303-4978	6	830	824	830	824	27,241
0000-TS-L60-9567	1	11	10	11	10	25,000
5996-01-425-7261	5	7	2	7	2	24,284
4820-01-434-0216	1	45	44	45	44	20,299
4730-01-418-6477	1	7	6	7	6	19,903
2815-22-269-2685	3	5	2	6	3	18,663
4820-01-433-7159	1	33	32	44	43	18,545
5310-01-310-5968	83	7862	7779	7862	7779	17,892
5998-01-424-7601	1	2	1	2	1	12,688
2815-12-341-1216	2	7	5	7	5	10,900
4330-14-479-4387	12	29	17	29	17	10,761
6210-01-399-8221	1	1999	1998	1999	1998	10,310
5930-01-431-0494	1	104	103	104	103	9,785
2940-01-417-4939	28	110	82	110	82	9,684
6350-01-391-2664	71	238	167	238	167	9,389
0000-TS-L60-8973	1	29	28	29	28	9,100
5998-12-343-3466	1	2	1	2	1	9,027
0000-TS-L61-3433	2	148	146	148	146	8,507
4240-01-272-3841	1	3	2	3	2	8,240
5331-01-421-9895	2	22	20	22	20	7,665
6230-01-269-1831	1	3	2	2	1	4,485

NSN	Storeroom Item Allowance Per SHIPCLIP	On-Hand Quantity Per SHIPCLIP	Excess Per SHIPCLIP	Actual On-Hand Quantity	Actual Excess	Actual Excess Value
0000-LL-CMB-8310	3	5	2	3	0	0
4720-01-487-4162	1	576	575	576 inch	0	0
5306-22-269-2811	6	12	6	0	0	0
5998-01-422-0570	1	3	2	0	0	0
4720-01-352-2281	2	120	118	120 inch	0	0
5310-22-269-2800	48	96	48	48	0	0
Total						**$420,709**

Appendix E

Excess Aboard USNS *Gordon*

We counted the quantity on-hand for 30 NSNs in the SHIPCLIP records for the USNS *Gordon* and calculated the quantity and value of the parts held in excess. The actual excess value found aboard the *Gordon* ranged from $2,858 to $34,811.

NSN	Storeroom Item Allowance Per SHIPCLIP	On-Hand Quantity Per SHIPCLIP	Excess Per SHIPCLIP	Actual On-Hand Quantity	Actual Excess	Actual Excess Value
4330-14-480-5476	1	12	11	13	12	$34,811
0000-LL-CMB-8409	3	4	1	4	1	34,036
4820-01-430-8943	2	4	2	4	2	19,353
2815-22-269-2685	3	6	3	6	3	18,663
2940-01-417-4939	28	176	148	175	147	17,361
2815-22-269-2669	6	47	41	49	43	17,027
3040-01-424-4701	2	4	2	5	3	15,826
5998-01-426-0892	7	14	7	14	7	11,550
5920-01-257-2993	51	298	247	298	247	11,283
5998-01-437-5632	1	2	1	2	1	8,400
2815-22-269-2671	3	23	20	23	20	8,185
2815-22-269-2673	3	15	12	13	10	7,763
5330-01-428-3638	1	5	4	5	4	7,599
4320-01-426-2355	1	2	1	2	1	7,327
5330-22-269-2751	3	28	25	28	25	6,753
2815-01-457-3242	5	14	9	14	9	5,832
4820-01-425-5293	1	3	2	3	2	5,540
4820-01-285-6149	4	7	3	7	3	4,889
0000-TS-L60-1038	1	2	1	2	1	4,690
2915-01-428-6598	1	4	3	4	3	4,678
2090-01-442-0263	1	5	4	5	4	4,607
3426-01-420-2475	1	3	2	3	2	4,477
3120-01-430-8882	11	22	11	22	11	4,431
2010-01-421-5338	1	4	3	3	2	3,657

NSN	Storeroom Item Allowance Per SHIPCLIP	On-Hand Quantity Per SHIPCLIP	Excess Per SHIPCLIP	Actual On-Hand Quantity	Actual Excess	Actual Excess Value
2590-01-449-2358	4	7	3	6	2	2,858
0000-TS-L61-1200	12	22	10	0	0	0
2930-01-411-6493	1	2	1	1	0	0
0000-TS-L61-1468	1	2	1	1	0	0
3020-01-424-4693	1	2	1	1	0	0
2815-22-269-2668	12	20	8	12	0	0
Total						**$271,596**

Management Comments

Military Sealift Command

Final Report Reference

DEPARTMENT OF THE NAVY
COMMANDER, MILITARY SEALIFT COMMAND
914 CHARLES MORRIS CT SE
WASHINGTON NAVY YARD DC 20398-5540

5041
Ser N00/000284
31 JUL 2014

From: Commander, Military Sealift Command
To: Department of Defense Office of Inspector General, Program Director, Readiness and Cyber Operations

Subj: DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT AUDIT REPORT - MILITARY SEALIFT COMMAND OVERSIGHT OF EXCESS SPARE PARTS INVENTORY AND PURCHASES FOR SEALIFT PROGRAM ROLL-ON/ROLL-OFF SHIPS NEEDS IMPROVEMENT (PROJECT NO. D2012-D000LD-0219.000)

Ref: (a) DoDIG Draft Report, Project No. D2012-D000LD-0219.000

Encl: (1) MSC Responses to Recommendations A1-A5, B1 and B2

1. In response to reference (a), enclosure (1) provides Military Sealift Command (MSC) responses to recommendations included in the subject report.

2. The MSC point of contact for this audit is [redacted], who may be reached at [redacted] or via email at [redacted].

JOHN S. THACKRAH
By Direction

Military Sealift Command (cont'd)

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Finding A: Excess Spare Parts Inventory Not Effectively Managed

The Military Sealift Command (MSC) property administrator did not effectively manage the excess spare parts inventory on two Sealift Program LMSR ships and there were indications in MSC's records that these conditions existed on two other ships. According to MSC SHIPCLIP inventory records, on-hand spare parts exceeded authorized allowance levels for 4,677 spare parts, with the excess valued at $3.4 million. Although we did not verify all of the recorded excess, we non-statistically selected and inventoried 60 spare parts on two of the ships, and verified that 49 had excess on-hand inventory, which was valued at $692,305. In addition, SHIPCLIP records were incorrect for 21 of the 60 spare parts, and of 10 spare parts we traced from the ships to the SHIPCLIP records, 3 were not accounted for in those records. The excess and inaccurate inventory existed because MSC logistics and contracting officials did not provide sufficient oversight to ensure that Patriot Contact Services LLC (Patriot) complied with the contract provisions related to excess government property and inventory management. As a result, MSC did not know the amount of excess spare parts available for reuse, resale, or disposal and increased the risk that purchases could be made for spare parts already aboard the ships.

MILITARY SEALIFT COMMAND COMMENT ON FINDING:

Recommend the first sentence of this finding be revised by 1) deleting the words "property administrator", and 2) substituting the words "the same may be true for" for the words "these conditions existed on". As revised the sentence would read as follows: "The MSC did not effectively manage the excess spare parts inventory on two Sealift Program LMSR ships and there were indications in MSC's records that the same may be true for two other ships."

Recommendation A1: Require personnel responsible for conducting periodic Military Sealift Command inventories, to compare on-

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hand quantities to authorized quantities, and initiate appropriate actions for any excess spare parts identified.

Military Sealift Command Comment to Recommendation A1:

MSC concurs with this recommendation.

Corrective Actions Taken by Military Sealift Command to address Recommendation A1:

To ensure accurate authorized quantities and align material management procedures and practices, the following actions have been completed:

- A command directed property management system assessment (PMSA) of the two Gordon-Class vessels was conducted in May 2014. The results of this PMSA have been provided to MSC's Director of Contracts and Business Management (N10) and to the Sealift Program Manager (PM5) for comments and recommendations for corrective action(s).

- In response to Contracting Officer direction, Patriot has:

  1. Drafted a revised Property Control Procedures plan to address procedural inventory control gaps (The draft, submitted to MSC on 25 May 2014, was reviewed and returned to Patriot with recommended changes on 9 July 2014; Patriot comments are due back on 8 August 2014);
  2. Submitted Feedback Reports (FBR) resolving $373,528 in excess repair parts through allowance change requests (ACRs) substantiating the request for an increased allowance;
  3. Established monthly floor to record/record to floor inventory schedule and reporting requirements;
  4. Established monthly cyclic property inventory targets for each durable moveable property category;
  5. Initiated the posting of all instances of excess property to SHIPCLIP to improve accountability; and

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6. Improved Direct Turnover (DTO) parts handling procedures by requiring that:

a. Locked spaces be designated for receipt of all DTO parts;

b. All DTO parts be entered into SHIPCLIP upon receipt;

c. FBRs for DTO parts not utilized within 14 calendar days for designated repair be submitted; and

d. Spot audits of 25% of DTO parts requisitions be conducted monthly.

Recommendation A2: Ensure MSC contracting officials establish controls to ensure that Patriot is complying with its property control procedures as required by the contract.

Military Sealift Command Comments to Recommendation A2:

The draft report attributes the problem of excess and inaccurate inventory to a lack of sufficient oversight to ensure contractor compliance with contract requirements (p4) and the failure of MSC logistics and contracting officials to periodically review SHIPCLIP inventory records (p9). Specifically, the draft report finds that MSC personnel did not focus on identifying excess inventory when conducting periodic inventory audits (pp7-8). With the understanding that Recommendation A2 refers to the need to develop and implement internal procedures to more closely monitor the contractor's performance in the control of excess inventory, MSC concurs in the recommendation.

Corrective Actions Taken by Military Sealift Command to address Recommendation A2:

MSC has created and filled a new position to improve management oversight of the contractor's Property Management System Compliance program. As evidence of MSC's increased capability to enforce the contract's property management control requirements, a PMSA was conducted onboard both USNS Gordon and

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USNS Gilliland in May 2014. Additionally, it is MSC's intention to complete a PMSA of the other two Patriot operated ships by December 2014. In addition, Patriot will conduct SAMM/SHIPCLIP training for Chief Engineers, Officers-In-Charge, and Assistant Property Administrators on allowance change request procedures, configuration management, and material ordering procedures. This training is scheduled to be completed by December 2014.

The Contracting Officer will lead a meeting with the Contracting Officer's Representative for the Patriot contract as well as the PM5 Logistics Representative to review contracting requirements specific to property administration to ensure understanding of contract requirements, responsibilities, and to identify issues with lack of compliance.

Recommendation A3: Conduct a 100-percent inventory of the spare parts aboard the Patriot managed Large, Medium-Speed, Roll-On/Roll-Off ships in the Sealift Program fleet.

Military Sealift Command Comments to Recommendation A3:

MSC concurs with the recommendation.

Corrective Actions Taken by Military Sealift Command to address Recommendation A3:

An inventory schedule to conduct a 100% physical inventory of all Government Furnished Property (GFP) has been established. The 100% physical inventory on the four Patriot managed Large, Medium Speed, Roll-on/Roll-Off ships is planned to be completed on or about 31 December 2014. A follow up PMSA will be conducted on each ship after the inventory is completed.

Recommendation A4: Update on-hand quantities in the Shipboard Configuration and Logistics Program in accordance with the results of the 100 percent inventory.

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Military Sealift Command Comments to Recommendation A4:

MSC concurs with the recommendation.

Corrective Actions Taken by Military Sealift Command to address Recommendation A4:

SHIPCLIP records will be updated as a result of the 100% inventory. Additionally, MSC will conduct a follow up PMSA in 2015 on each ship.

Recommendation A5: Based on inventory results, reevaluate allowance levels and process all spare parts deemed excess for reuse, resale, or disposal.

Military Sealift Command Comments to Recommendation A5:

MSC concurs with the recommendation.

Corrective Actions Taken by Military Sealift Command to address Recommendation A5:

MSC has performed 100% review of shipboard allowances for equipment installed onboard the four ships operated by Patriot. In addition, the following corrective actions have been initiated:

a. Revise configuration and allowances based upon Government review and contractor feedback.

b. Review DTO parts and submit feedback reports to capture undocumented installed equipment and/or associated inventory quantities.

c. Review and approve submitted feedback reports.

d. Identify excess inventory items as compared with allowances.

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e. Determine disposition action on final excess.

Finding B - Spare Parts Purchase Requirements Not Consistently Followed

MSC officials did not ensure that Patriot consistently followed contract requirements when purchasing spare parts for the LMSR ships. Specifically, the MSC property administrator and Contracting Officer did not ensure that the contractor:

- Justified not obtaining adequate competition for 13 of 20 purchase orders reviewed, which were issued during FY 2011 and FY 2012, and
- Used the Defense Supply System (DSS) for spare parts purchases made between the contract start in March 2010 until March 2013.

This occurred because the MSC property administrator did not properly review purchase orders as part of the invoice review process, and the contracting officer included contradictory guidance in the Patriot contract concerning the use of DSS before commercial purchases can be made for spare parts. As a result, MSC potentially overpaid for spare parts procured without adequate competition, and MSC paid about $63,674 more than the DSS price for 28 of 76 spare parts purchased during FY 2011 and FY 2012.

MILITARY SEALIFT COMMAND COMMENT ON FINDING: Recommend the second sentence be modified to read "Specifically, MSC did not ensure that the contractor:" to remove positional titles.

Recommendation B1: Establish controls to ensure the contractor follows contract requirements regarding competition for the purchase of reimbursable items.

Military Sealift Command Comments to Recommendation B1:

The draft report found that the purchase orders were not being properly reviewed (p12). With the understanding that

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Recommendation B1 recommends that MSC develop and implement a procedure for the review of purchase orders to ensure contractor compliance with the competition requirements of the contract, MSC concurs.

Corrective Actions Taken by Military Sealift Command to address Recommendation B1:

The Contracting Officer will modify the contract to require the contractor to submit monthly reports on supply purchases placed in the previous month indicating whether competition was obtained, whether the DSS was used, and, if applicable, the justification/rationale for not obtaining competition or for not using DSS. In addition, the Contracting Officer or designee will visit the contractor's purchasing headquarters no less frequently than annually to audit the contractor's supply purchase documentation.

Additionally, to address the IG finding regarding improper invoice certification, MSC will implement the following standard operating procedure for certification of property invoices. The certifier shall:

a. Determine if the reimbursable items are identified/authorized by the Operating Contract Technical Manual (Section 15).

b. Determine if reimbursable item is identified and validated within CMLS as applicable to/allowed for that ship/ship class.

c. Determine if the reimbursable item accounted for (received, stored, issued, and disposed of) is within the Property Control System (SHIPCLIP).

d. Determine if there is appropriate and sufficient funding available (FMS) to certify the invoiced item for payment.

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Recommendation B2: Direct the contracting officer to modify the Patriot Contract Services, LLC contract to clarify and require the use of DSS before acquiring spare parts from commercial sources.

Military Sealift Command Comments to Recommendation B2:

MSC concurs with the finding (see p13 of the report) that the contract language relevant to the requirement to use DSS is not clearly set forth (compare contract sections 5.7.4 and 5.7.6 to contract section 5.7.5) and appreciate the DoD IG bringing this matter to the attention of the contracting officer.

Corrective Actions Taken by Military Sealift Command to address Recommendation B2:

The contract has been modified to remove the conflicting guidance regarding the use of DSS (Modification P00082 issued on 3 June 2014). The contract now provides specific guidance on when use of DSS is not required. Further, the Contracting Officer will issue a letter providing additional guidance regarding proper procedures for documenting the contractor's review of DSS when considering meeting supply requirements through commercial procurement. This guidance will be issued by 30 September 2014.

Additional Corrective Actions to Be Taken By MSC

In light of the findings presented in the report, MSC will review all MSC-awarded ship operation and maintenance contracts with reimbursable elements to ensure that Government property is effectively managed and parts are procured at fair and reasonable prices.

In addition to a review of government property, MSC will review processes utilized in the oversight of other reimbursable items to determine if vulnerabilities exist that could result in

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mismanagement. If vulnerabilities are identified, MSC will implement procedures to safeguard against mismanagement and ensure all contractual and regulatory requirements are met.

Correction Required to Report

Revised Background Section on Page 3

On page 3 of the report, under the section titled "SHIPCLIP" we recommend deleting the last sentence, "According to the MSC property administrator, at the beginning of the Patriot contract, SHIPCLIP was updated with the most recent spare parts allowances and on-hand quantities for the ship." SHIPCLIP for the Patriot managed vessels was not updated with actual Government Property information during turnover from the preceding contractor. Patriot, in coordination with the PM5 Logistics representative (PM5L), has begun updating SHIPCLIP for all four of the vessels. SHIPCLIP will be updated no later than 31 December 2014.

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Acronyms and Abbreviations

AMSEA	American Overseas Marine
COMSCINST	Commander, Military Sealift Command Instruction
DSS	Defense Supply System
LMSR	Large, Medium-Speed, Roll-On/Roll-Off
MSC	Military Sealift Command
NSN	National Stock Number
PCS	Patriot Contract Services
SHIPCLIP	Shipboard Configuration and Logistics Program
USNS	United States Naval Ship

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U.S. Department of Defense

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