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## Acronyms and Abbreviations

DLA	Defense Logistics Agency
DSS	Distribution Standard System
EBS	Enterprise Business System



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April 25, 2008

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on the Controls Over the Reconciliation of Defense Logistics Agency  
Non-Energy Inventory Balances (Report No. D-2008-081)

We are providing this report for your information and use. We considered management comments on a draft of this report when preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, we do not require any additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to Ms. Amy J. Frontz at (303) 676-7392 or Mr. Anthony C. Hans at (614) 751-1400.

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# Results in Brief: Controls Over the Reconciliation of Defense Logistics Agency Non-Energy Inventory Balances

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## What We Did

The Defense Logistics Agency reported \$12.9 billion of non-energy inventories at the end of FY 2006. Inventory valuation and cataloging data is maintained in Defense Logistics Agency supply center systems while the official inventory quantity record is maintained in DoD storage activity systems. Therefore, periodic reconciliations are required. We evaluated the controls over the reconciliation of non-energy inventory quantities between information systems at the Defense Logistics Agency supply centers and DoD storage activities.

## What We Found

The inventory reconciliation process did not adequately fulfill DoD financial and operational requirements. Specifically,

- the automated portion of the process did not accurately select reconciliation items for causative research in accordance with DoD criteria, calculate accurate adjustments, post adjustment reversals to the proper general ledger accounts, and maintain sufficient audit trails; and
- personnel responsible for manual causative research did not perform all required research, consistently perform adequate causative research and post proper adjustments, complete causative research in a timely manner, and request special physical inventories when necessary.

The control weaknesses impact the overall integrity of the inventory records that DoD managers rely on for operational mission decisions and financial reporting purposes.

## What We Recommend

We recommend that the Director, Defense Logistics Agency:

- Evaluate the automated portion of the reconciliation process and modify the system to accurately calculate adjustments, select items for causative research that meet DoD requirements, use the correct general ledger accounts when posting adjustment reversals, and retain data supporting weekly and total reconciliations and justification for manual adjustments.
- Perform a cost/benefit analysis on implementing an automated capability to identify, classify, and track the causes of location reconciliation adjustments for management analysis.
- Implement management controls and update Defense Logistics Agency policy on the inventory record management process to ensure: all required causative research is completed in a timely manner, physical inventories are requested when necessary, review and approval of adjustments posted by resolution specialists during causative research, and retention of supporting documentation for causative research adjustments.

## Client Comments and Our Response

The Defense Logistics Agency concurred with the findings and recommendations. See the finding section of the report for a discussion of management comments.

## Recommendations Table

Client	Recommendations Requiring Comment	No Additional Comments Required
Director, Defense Logistics Agency	None	All

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# Introduction

## Objectives

Our overall audit objective was to evaluate the controls over the reconciliation of non-energy inventory quantities between information systems at the Defense Logistics Agency (DLA) storage activities and supply centers. Specifically, we evaluated the process in place to perform the reconciliation and determined if controls were in place to ensure that an accurate inventory quantity balance is financially reported. See Appendix A for a discussion of the scope and methodology, and for prior coverage related to the objectives.

## Background

Management and distribution of DoD inventories are major logistics functions performed by the DLA in support of the warfighter. DLA manages inventories by supply chain. Non-energy inventories consist of clothing and textiles; electronics, industrial, general, and construction supplies; subsistence; and medical material. DLA reported \$12.9 billion of non-energy inventories at the end of FY 2006.

There are six DLA non-energy supply chains managed by Defense supply centers located in Columbus, Ohio; Philadelphia, Pennsylvania; and Richmond, Virginia. The Defense Supply Center Columbus manages the land and maritime inventory supply chain. The Defense Supply Center Philadelphia manages the medical, subsistence, construction and equipment, and clothing and textile inventory supply chains. The Defense Supply Center Richmond manages the aviation inventory supply chain. DLA supply centers use the Enterprise Business System (EBS) to maintain quantity, valuation, and cataloging data for each inventory item. Inventory balances maintained in EBS are used to make important business decisions (such as purchasing, stock positioning, and disposals) and to prepare the DLA financial statements.

DLA stores a majority of its inventories at 26 worldwide distribution centers. These storage activities are responsible for maintaining the official accountable record for inventory quantities. The official accountable inventory quantity record at 25 of the distribution depots is maintained in the Distribution Standard System (DSS).<sup>1</sup> Because the official accountable inventory quantity record is maintained in DoD storage activity systems, DLA must perform a reconciliation between those systems and EBS. Adjustments are posted to EBS for quantity differences in order to synchronize the EBS balance with the DoD storage activity balance. DLA developed its inventory record management process to accomplish the required reconciliations. DLA performed the process weekly for all active inventory items that had transactions affecting their balances (for example, issues or receipts) and annually for all inventory items. The annual

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<sup>1</sup> The Defense Distribution Depot Kuwait did not use DSS during our audit.

reconciliation is performed in late September each year and is also referred to as the total reconciliation.

**DoD Financial Guidance on Inventory Reconciliations.** DoD 7000.14-R, “DoD Financial Management Regulation,” volume 11B, “Reimbursable Operations Policies and Procedures – Working Capital Funds,” chapter 55, “Supply Management Operations,” December 1994, states that line item accountability records must be reconciled to balances recorded in the general ledger inventory accounts at least quarterly. The regulation further states that when differences between the line item accountability records and general ledger balances are found, the differences must be investigated to determine the cause(s) and error(s) found during the investigation must be corrected. The regulation also states that reconciliations may be required more frequently to identify the cause(s) of the difference(s).

**DoD Operational Guidance on Inventory Reconciliations.** DoD 4000.25-2-M, “Military Standard Transaction Reporting and Accounting Procedures” chapter 7, “Physical Inventory Control,” September 2001, provides guidance on the DoD physical inventory control program for all DoD Components. DoD policy requires DoD storage activities to maintain the property accountability records for all material in storage regardless of ownership and to maintain transaction histories to support the balance. A single total item property record is to be shared between the owner and DoD storage activity to identify the quantity, condition, and value of the item. DoD policy addresses location reconciliations, causative research, and supporting data retention requirements.

**Location Reconciliations.** DoD policy states that absent a single total item property record, the inventory owners and DoD storage activities are required to perform location reconciliations daily for all active records (stock numbers that had any transaction affecting the record balances) and annually for all stock. Location reconciliation is a match between DoD storage activity records and owner records to identify and correct situations where there is:

- an owner record with no corresponding storage activity record,
- a storage activity record with no corresponding owner record,
- common elements of data that do not match, and
- quantity discrepancies.

When location reconciliations identify quantity discrepancies between the owner’s system and the DoD storage activity’s system, the owner is required to post adjustments to the system balance to match the DoD storage activity’s official record balance.

**Causative Research.** DoD policy defines causative research as research into the cause(s) of a discrepancy identified during the location reconciliation process. Causative research is required for adjustments that meet specific criteria. Causative research into location reconciliation errors is performed by the owners of the inventory with the assistance of the DoD storage activity, as necessary. Causative research involves the review and comparison of the owner and DoD storage activity transaction histories to

identify missing, duplicate, or erroneous transactions that caused the quantity discrepancy. If the transaction history review fails to identify the cause(s), under certain circumstances, owners must request that the DoD storage activity perform a physical inventory to validate the balance.

When causative research identifies the transaction(s) that caused the quantity discrepancy, the owner must reverse the location reconciliation adjustment and post the necessary transactions to synchronize the balances. If causative research fails to identify the cause(s) of the quantity discrepancy, the accounting adjustment posted during location reconciliation will remain on the owners balance. Table 1 lists the DoD causative research requirements for potential or actual physical inventory adjustments.

<b>Table 1. DoD Causative Research Requirements</b>	
<u>Condition of Inventory Balance Discrepancy</u>	<u>Causative Research</u>
≤ \$5,000	NO
> \$5,000 but ≤ \$16,000 and ≤ 25 percent unit variance	SAMPLE
> \$5,000 but ≤ \$16,000 and > 25 percent unit variance	YES
> \$16,000	YES
Controlled Inventory Items	YES
Suspected Fraud, Waste, or Abuse	YES

**Retention of Accountable Documentation.** Organizations are required to maintain audit capability following the processing of documents and data and the completion of research efforts. Specifically, original source documents, transaction histories, and physical inventory adjustment research backup documentation is to be maintained for at least 2 years.

## Review of Internal Controls

We determined that a material internal control weaknesses in the DLA inventory reconciliation process existed as defined by DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” January 4, 2006. DoD Instruction 5010.40 states that internal controls are the organization, policies, and procedures that help program and financial managers to achieve results and safeguard the integrity of their programs. Implementing all recommendations in this report will improve DLA internal controls over the reconciliation of inventories between supply centers and storage activities and provide reasonable assurance that the EBS inventory balances are complete and accurate. A copy of the report will be provided to the DLA senior officials in charge of management controls.



# Adequacy of Inventory Reconciliations

DLA has made great strides in developing and implementing the process used to reconcile inventory balances between its supply centers and DoD storage activities. However, the reconciliation process did not adequately fulfill DoD financial and operational requirements. Specifically,

- the automated portion of the process did not accurately select reconciliation items for causative research in accordance with DoD criteria, calculate accurate adjustments, post adjustment reversals to the proper general ledger accounts, and maintain sufficient audit trails; and
- personnel responsible for manual causative research did not perform all required research, consistently perform adequate causative research and post proper adjustments, complete causative research in a timely manner, and request special physical inventories when necessary.

The process did not fulfill requirements because of system design limitations and inadequate management controls. The control weaknesses impact the overall integrity of the EBS inventory records that DLA managers rely on for operational mission decisions and financial reporting purposes.

## DLA Inventory Reconciliation Process

The DLA inventory record management process consists of weekly reconciliations on active stock and also a total reconciliation on all stock performed annually. DLA developed a draft inventory record management policy which establishes DLA implementing policy and guidance for the process, its objectives, and metrics for DLA owned assets. The process is a combination of automated reconciliations and adjustments followed by manual causative research. We selected a sample of adjustments resulting from weekly reconciliations to evaluate the overall effectiveness of the process.

**Automated Reconciliations and Adjustments.** The inventory reconciliation process begins with EBS obtaining inventory cataloging and end-of-day quantity information from each of the 26 DoD storage activities and comparing the records to those maintained in EBS. When quantity discrepancies occur, EBS initially considers in-float transactions (receipts, issues, or other transactions that may not have posted in both systems). Next, EBS requests and compares the DoD storage activity transaction histories to the EBS transaction histories. The EBS balance is adjusted when necessary to match the DoD storage activity balance. Once adjustments are posted, EBS calculates the value of adjustments and selects items for causative research based on set criteria. Adjustments for controlled items or items that meet certain dollar value and quantity variance thresholds are required to be researched to determine the cause(s) of the quantity

discrepancy and to ensure that the adjustment synchronized the balances. EBS generates a series of exception and summary reports for use in the manual research process.

**Manual Causative Research.** Resolution specialists at the DLA supply centers use the EBS reports to determine which adjustments to research. The primary EBS report used is titled, “Lines of Inventory Adjusted, Causative Research Required.” Resolution specialists select items from this report and manually review and compare the EBS and DoD storage activity transaction histories to determine how the quantity discrepancy occurred. The resolution specialists also ensure that the adjustment posted to EBS synchronized the DoD storage activity and supply center balances.

If causative research identifies the cause(s) of the discrepancy or the item is not in balance with the DoD storage activity balance, the resolution specialist reverses the adjustment posted by EBS and manually posts the necessary transactions and adjustments to synchronize the EBS and DoD storage activity balances. If causative research fails to identify the cause(s) of the discrepancy and the item is in balance with the DoD storage activity, the adjustment originally posted in EBS will remain. Defense supply center business process analysts assist and advise the resolution specialists on reconciliation issues.

**Audit Sample of Adjustments.** We selected a sample of 109 adjustments with a gross adjustment value of \$35.67 million to evaluate the overall effectiveness of the process. The 109 adjustments were selected from EBS reports on “Lines of Inventory Adjusted, Causative Research Required” that resulted from five weekly reconciliations at the Defense Supply Centers in Columbus, Philadelphia, and Richmond. We did not review the FY 2006 total reconciliation because DLA could not provide the supporting EBS data files.

## System Design Limitations

System design limitations negatively impacted the effectiveness of the reconciliation process. Specifically, EBS did not accurately select reconciliation adjustments for causative research in accordance with DoD criteria, calculate accurate adjustments, post adjustment reversals to the proper general ledger accounts, or maintain sufficient audit trails.

**Selection of Adjustments for Causative Research.** Adjustments resulting from the location reconciliation process were selected by EBS for causative research when they did not meet DoD causative research criteria. Of the 109 causative research adjustments we reviewed, 25 did not meet DoD causative research criteria. According to DoD 4000.25-2-M, the requirements used for selecting physical inventory adjustments for causative research must be used when selecting location reconciliation adjustments for causative research.

We also sampled all adjustments that were identified as requiring causative research from four weekly reconciliation reports generated by EBS on April 24, May 15, June 19, and July 17 of 2007. As shown in Table 2, the weekly reports contained a total of 6,667 location reconciliation adjustments with a gross adjustment value of \$182.28 million. Our analysis revealed that 2,911 of the adjustments were uncontrolled items with an extended adjustment value below the \$5,000 DoD threshold and should not have been reported as requiring causative research.

<u>Discrepancy Adjustment Value</u>	<u>Causative Research Requirement</u>	<u>Total Items Reported</u>	<u>Gross Adjustment Value (Millions)</u>
> \$16,000	YES	1,689	\$167.01
> \$5,000 but ≤ \$16,000	YES*	1,514	13.56
Controlled Items ≤ \$5,000	YES	553	0.47
Uncontrolled Items ≤ \$5,000	NO	<u>2,911</u>	<u>1.24</u>
<b>Total</b>		<b>6,667</b>	<b>\$182.28</b>
*If unit variance is 25 percent or greater. We were unable to determine how many of the 1,514 items in this category required research because EBS reports do not identify unit variance percentages.			

DLA has not established a methodology to prioritize causative research adjustments listed on EBS exception reports for review and completion. Therefore, adjustments on reports that do not meet DoD causative research requirements can create unnecessary workload and preclude resolution specialists from completing required research. Causative research can be a tedious, time consuming, and complex process involving the review of lengthy transaction histories.

DLA Supply Center resolution specialists responsible for performing causative research stated that they do not prioritize their causative research based on dollar value of the adjustments, and some resolution specialists were not aware of DoD causative research criteria. For example, during our site visit to the Defense Supply Center Columbus, 22 of the 44 sampled adjustments did not meet DoD causative research criteria and one responsible resolution specialist was not aware of the applicable criteria.

**Calculation of Adjustments.** EBS did not always calculate accurate inventory adjustments after comparison to the DoD storage activity balances. Our sample of 109 adjustments contained 31 adjustments that were inaccurately calculated and did not synchronize the EBS balance with the storage activity balance. The inaccurate adjustments generally occurred because EBS did not adequately consider in-float transactions when calculating adjustment quantities.

EBS accounts for inventory in several categories including: unrestricted, blocked, quality inspection, and scheduled for delivery. The first three categories maintain inventory

balances; the scheduled-for-delivery category represents the balance of orders placed by customers. When an order is placed by a customer, EBS populates the scheduled-for-delivery category with the ordered quantity and transmits the order to the applicable DoD storage activity for shipment. During the reconciliation process, EBS calculates an on-hand inventory balance by subtracting the scheduled-for-delivery quantity from unrestricted stock. However, situations can occur that cause EBS to calculate an inaccurate adjustment as a result of the inventory balance calculation.

For example, if EBS has not transmitted an order to the DoD storage activity, it would be inaccurate to subtract that order quantity from unrestricted stock. This situation occurred for a gain adjustment of 586, valued at \$439,008, we reviewed at the Defense Supply Center Philadelphia. The transaction involved material number 998357866 that was stored at the Defense Distribution Depot Europe. The responsible business process analyst stated that 547 of the adjustment quantity, valued at \$409,791, were erroneous because the DoD storage activity had not received several orders that were contained in the EBS scheduled for delivery category.

**General Ledger Account Postings.** EBS did not post inventory adjustment reversals to the proper general ledger accounts. Specifically, 14 of the 16 reversal transactions that we reviewed were posted to incorrect general ledger accounts. Table 3 lists the DLA general ledger accounts that identify adjustments associated with the DLA inventory reconciliation process:

<b>Table 3. DLA General Ledger Accounts for Inventory Adjustments</b>	
<u>Account Number</u>	<u>General Ledger Account Title</u>
15210100	Inventory Stock On Hand
71900150	Causative Research Inventory Gain
71900160	Non-Causative Research Inventory Gain
72900150	Causative Research Inventory Loss
72900160	Non-Causative Research Inventory Loss

DLA required the inventory reconciliation process to be capable of posting adjustments to the unrestricted, blocked, and quality inspection stock categories. The accounting transactions (debits and credits) posted to the DLA general ledger for a causative research gain and the proper reversal should be as follows:

Gain - Debit 15210100: Inventory Stock On-Hand  
Credit 71900150: Causative Research Inventory Gain

Reversal - Debit 71900150: Causative Research Inventory Gain  
Credit 15210100: Inventory Stock On-Hand



The accounting transactions posted to the DLA general ledger for a causative research loss and the proper reversal should be as follows:

Loss - Debit 72900150: Causative Research Inventory Loss  
Credit 15210100: Inventory Stock On-Hand

Reversal - Debit 15210100: Inventory Stock On-Hand  
Credit 72900150: Causative Research Inventory Loss

From the 109 causative research items we sampled, we traced 17 adjustments and 16 adjustment reversal transactions to the DLA general ledger to validate the general ledger accounts the adjustments were posted against. Our analysis indicated that all 17 of the adjustments posted to the correct general ledger accounts. However, of the 16 reversals, only 2 posted the proper transactions and the remaining 14 posted an offsetting adjustment rather than a reversal of the original erroneous transaction.

For example, we traced a causative research gain reversal for a quantity of 3,670, valued at \$302,188, to the EBS general ledger. The transaction was posted for material number 014469498 managed by the Defense Supply Center Richmond. The transaction that improperly posted to the general ledger was an offsetting causative research loss instead of a causative research gain reversal. By posting offset adjustments rather than reversals, DLA overstates its general ledger accounts for inventory gains and losses. DLA policy states that when reversing an adjustment the EBS must post true reversals, not offsetting adjustments.

**Audit Capabilities.** EBS did not maintain sufficient audit trail capabilities necessary to comply with DoD policy. Therefore, our ability to validate the EBS portion of the total and weekly reconciliations was inhibited and causative research had to be performed again to validate causative research adjustments. For auditors to evaluate and validate any system, application, or process, capabilities must exist for the auditor to obtain original source data or documentation to perform independent calculations and compare results to output. Further, capabilities should exist in the system to identify location reconciliation adjustment causes and to explain and justify manual adjustments. DoD 4000.25-2-M requires original source documents, transaction histories, and adjustment research backup documentation to be maintained for at least 2 years.

**FY 2006 Total Reconciliation.** We attempted to obtain copies of all DSS and EBS data files supporting the FY 2006 DLA total inventory reconciliation. DLA was able to provide the DSS files but could not provide the supporting EBS files. DLA officials informed us that the EBS files supporting the inventory record management process were overwritten after 7 days. Because DLA could not provide the EBS data, our ability to validate the EBS portion of the inventory reconciliation process was inhibited. DLA officials informed us that a system change request would be submitted to enable EBS to retain the supporting data.

**FY 2007 Weekly Reconciliations.** We attempted to review and validate the results of completed causative research adjustments resulting from FY 2007 weekly reconciliations and found that support for the adjustments was not maintained in EBS. Therefore, the causative research had to be performed again for all our sample items because it was not apparent why the adjustments were posted. Further, we were unable to determine whether the adjustments were posted during causative research or during another operational process. EBS should have the capability to retain supporting data that explains and justifies manual adjustments posted during the inventory reconciliation process.

**Location Reconciliation Adjustment Causes.** Identification and classification of adjustments and their causes are not only important from an audit perspective, but also would allow DLA management to identify and correct repetitive processing errors that occur during location reconciliations. According to DoD 4000.25-2-M, analysis of inventory adjustments is vital to identify failures in the control systems so improvements can be made to:

- reduce similar discrepancies in the future;
- ensure that the proper adjustment was made;
- evaluate indicators of trends or system problems for corrective action; and
- detect negligence, abuse, or theft of material.

DLA has established a process within DSS to identify, classify, and analyze errors resulting in physical inventory adjustments. However, no such capability exists in EBS for accounting adjustments resulting from location reconciliations. For informational purposes, we classified and summarized the causes for the causative research adjustments reviewed during our audit (see Appendix B for details).

**Other System Issues.** In addition to the system design limitations previously discussed, several other system issues impacted the inventory reconciliation process during our audit. Specifically,

- EBS did not have the capability to reconcile at least \$775 million in inventories stored at locations not using DSS,
- the EBS automatic adjustment function was turned off during a portion of our audit,
- seven system change requests were outstanding to correct previously identified EBS system limitations and issues arose during the audit which resulted in additional system change requests, and
- a flaw in the methodology used by EBS to calculate the inventory reconciliation accuracy rate caused the rate to be misstated on summary reports (see Appendix C for details).

## Controls Over Manual Causative Research

DLA did not establish adequate management controls to ensure that causative research was performed in accordance with DoD financial and operational guidelines. Specifically, controls were not in place to ensure that resolution specialists performed all required research, consistently performed adequate causative research and posted proper adjustments, completed research in a timely manner, and requested special physical inventories when necessary.

**Performance of Causative Research.** Resolution specialists did not always perform required causative research. DLA non-energy inventory is divided into six supply chains, and the Defense Supply Center Philadelphia manages inventory items in the clothing and textiles, construction and equipment, subsistence, and medical supply chains. Our June 2007 site visit revealed that three of the four supply chains managed by the Defense Supply Center Philadelphia were not performing causative research. These included the construction and equipment, subsistence, and medical inventory supply chains.

**Construction and Equipment Inventory.** Personnel in the construction and equipment supply chain stated that it was their understanding that the EBS portion of the inventory reconciliation process was not functioning and, therefore, they were not required to perform causative research. We determined that the EBS portion was functioning and DLA officials informed us that the required research should have been performed.

**Subsistence Inventory.** DLA officials stated that a majority of the subsistence inventory was stored commercially and was not reconciled. Additionally, DLA officials stated that meals ready-to-eat represented a significant portion of subsistence inventory; EBS is not capable of performing reconciliation automatic adjustments for these items because they are maintained by location and batch year (year produced) and DSS does not maintain a corresponding field. When EBS calculates an adjustment, it does not know which batch year to post the adjustment to because the DSS balance it compares against is by location total only. The process used to produce and receipt these items into EBS almost always requires manual posting of transactions and constant monitoring.

**Medical Inventory.** DLA officials stated that medical inventory stored by vendors was not reconciled. In addition, medical inventory is positioned at Army sites and various DLA distribution depots. The medical supply chain converted to the EBS in December 2006 and location reconciliations were not performed prior to the conversion. DLA is currently working on improving the EBS portion of the inventory reconciliation process to include medical supply chain items stored by the Army.

**Adequacy of Causative Research.** Resolution specialists did not consistently perform adequate causative research and post proper adjustments. The purpose of location reconciliation causative research is to identify and correct the transaction(s) that caused the quantity discrepancy and ensure the EBS and DoD storage activity balances are synchronized. When research fails to identify the cause(s) of the discrepancy, DoD

policy specifies that the accounting adjustment posted during the location reconciliation will remain on the owners balance. For 25 of the 109 causative research adjustments we reviewed, the resolution specialist either did not identify all causes of the discrepancy to justify the adjustments they posted or did not post sufficient adjustments to synchronize the balances between the systems. Overall, the supply centers did not have a formal process in place to allow for management review and approval of causative research adjustments posted by the resolution specialists.

For example, during our site visit to the Defense Supply Center Columbus, we reviewed material number 013337632 stored at the Defense Distribution Depot in Red River, Texas. EBS indicated on April 24, 2007, that the item required a causative research gain of 804 tires with a \$199,392 adjustment value. Causative research observed on May 17, 2007, identified the actual quantity discrepancy between the systems as 2,181 with a \$540,888 adjustment value. Ownership of the item was being reassigned to DLA from the Army through logistical reassignment transactions. The resolution specialist stated that missing logistical reassignment transactions in EBS caused the quantity discrepancies but these transaction discrepancies only accounted for a variance quantity of 97. The responsible business process analyst advised posting a logistical reassignment adjustment of 1,432, which equaled the quantity suggested by EBS for the reconciliation that completed on May 15, 2007. The resolution specialist did as advised, but the EBS balance remained 749 lower than the DSS balance. Ultimately, a second round of causative research was necessary to synchronize the system balances for this item.

**Timeliness of Causative Research.** DLA resolution specialists did not complete causative research in a timely manner. Timely completion of research is essential because delays only increase the complexities of adequate research and reduce the probability of conclusive findings. We sampled adjustments identified by EBS as requiring causative research and conducted our site visits 3 to 5 weeks after the weekly location reconciliations were completed. As illustrated in Table 4, causative research had only been completed for 10 of the 58 items we sampled.

<b>Table 4. Completion of Sampled Causative Research Items</b>					
<u>Supply Center</u>	<u>Report Run Date</u>	<u>Site Visit Date</u>	<u>Items Sampled</u>	<u>Causative Research</u>	
				<u>Completed Before Site Visit</u>	<u>Not Completed Before Site Visit</u>
Columbus	April 24	May 14	23	6	17
Philadelphia	May 15	June 19	25	0	25
Richmond	July 17	Aug 21	<u>10</u>	<u>4</u>	<u>6</u>
<b>Totals</b>			<b>58</b>	<b>10</b>	<b>48</b>

We also found that causative research had not been completed in a timely manner for significant adjustments. For example, during our site visit to the Defense Supply Center Philadelphia, we reviewed material number 013275335 stored at the Defense Distribution

Depot Susquehanna. EBS indicated on May 15, 2007, that the item required a loss for a quantity of 216,754 valued at \$5,429,688. Our site visit, which occurred 5 weeks after the reconciliation processed, determined that an adjustment was required but was never made because causative research had not yet been performed. DLA needs to ensure causative research is completed in a timely manner.

Overall, we were unable to determine the number of adjustments that required causative research and the number for which causative research was completed or the average days required to complete the research because EBS does not maintain the necessary information. In addition, the supply centers do not maintain data outside of EBS on causative research adjustments generated and completed. DoD 4000.25-2-M requires that causative research on physical inventory adjustments be completed within 45 days. We believe that this time frame would also be reasonable for the completion of causative research on accounting adjustments resulting from location reconciliations.

**Requests for Special Physical Inventories.** Resolution specialists did not request special physical inventories when necessary. During the research phase of the inventory reconciliation process, resolution specialists review and compare EBS and DoD storage activity transaction histories to determine how the quantity discrepancy between the systems occurred. DoD policy states that if the review of the transaction histories fails to identify the cause(s) of the quantity discrepancy, the owner must request the storage activity perform a physical inventory of the item if:

- the item is classified, sensitive, or pilferable and the extended dollar value of the variance is greater than \$100, or
- the extended dollar value of the variance is greater than \$5,000 and 10% of the items beginning value.

Of the 109 items we reviewed, there were five causative research adjustments where the resolution specialists failed to identify the cause(s) of the quantity discrepancy and where the variance met the requirements to have a special physical inventory conducted. In all five cases, the resolution specialist performing causative research did not request the DoD storage activity to perform a physical inventory and validate the items on-hand balances. Further, resolution specialists stated that they do not request DoD storage activities to perform physical inventories to verify on-hand balances.

For example, during our site visit to the Defense Supply Center Richmond, causative research was performed on material number 015298073 stored at the Defense Distribution Depot Susquehanna Pennsylvania. EBS indicated that a causative research gain of 23 parts kits, valued at \$72,588, was required for the item. The EBS balance was zero at the time research was performed. Research did not yield the cause of the difference between the two systems. DLA personnel posted an adjustment to EBS to synchronize the balance with DSS, but the depot was not requested to physically inventory the item.

## Conclusion

DLA has made great strides in developing and implementing its inventory record management process. However, additional improvements to the system, process, and controls are necessary. We identified several weaknesses in the EBS portion of the inventory reconciliation process and management controls were not in place to track the performance and completion of causative research, review and approve adjustments posted by resolution specialists, and to maintain documentation to support adjustments. DLA needs to develop a methodology to monitor the performance and completion of causative research. Without a method to monitor this workload, managers cannot determine if resolution specialists are performing their job functions adequately and in a timely manner. DLA also needs to develop a process for reviewing and approving adjustments posted by resolution specialists. Reviewing and approving adjustments can ensure that resolution specialists perform sufficient research, request inventories when necessary, and post proper adjustments to the DLA general ledger. Resolution specialists do not maintain, and DLA policy does not require them to maintain, documentation to support causative research adjustments. DLA should update and enforce policy to ensure sufficient audit trails are available to support causative research adjustments. The control weaknesses impact the overall integrity of the EBS inventory records.

## Recommendations, Client Comments, and Our Response

**We recommend that Director, Defense Logistics Agency:**

- 1. Evaluate the Enterprise Business System portion of the inventory record management process and modify the system to:**
  - a. Ensure adequate consideration is given to in-float transactions when calculating adjustments.**

**Management Comments.** The Defense Logistics Agency concurred with the recommendation. The Executive Director of Material Policy, Process and Assessment stated that an analysis of the Inventory Records Management adjustment logic in the Enterprise Business System will be performed and completed no later than fourth quarter FY 2008. The analysis will identify the necessary system changes required to prevent the Enterprise Business System from posting erroneous adjustments.

**Audit Response.** The Defense Logistics Agency comments are fully responsive and the planned actions meet the intent of the recommendation.

- b. Accurately select items for causative research that meet DoD 4000.25-2-M, “Military Standard Transaction Reporting and Accounting Procedures” requirements.**

**Management Comments.** The Defense Logistics Agency concurred with the recommendation. The Executive Director of Material Policy, Process and Assessment stated that policy will be developed no later than fourth quarter FY 2008 that will identify transaction research requirements for potential or actual accounting adjustments as specified in DoD 4000.25-2-M. Further, the Executive Director stated that the Defense Logistics Agency will analyze and modify Enterprise Business System logic for calculating and selecting adjustments for causative research.

**Audit Response.** The Defense Logistics Agency comments are fully responsive and the planned actions meet the intent of the recommendation.

**c. Use the correct general ledger accounts when posting location reconciliation adjustment reversals.**

**Management Comments.** The Defense Logistics Agency concurred with the recommendation. The Executive Director of Material Policy, Process and Assessment stated an Integrated Process Team will be established to evaluate and correct the posting logic in the Enterprise Business System for each of the respective Inventory General Ledger Accounts. Further, the Executive Director stated that the Defense Logistics Agency has issued instructions to resolution specialists as an interim solution to ensure proper reversals of Inventory Record Management adjustments.

**Audit Response.** The Defense Logistics Agency comments are fully responsive; the interim solution and the planned actions meet the intent of the recommendation.

**d. Retain data supporting weekly and total reconciliations and justification for manual adjustments in accordance with DoD 4000.25-2-M requirements.**

**Management Comments.** The Defense Logistics Agency concurred with the recommendation. The Executive Director of Material Policy, Process and Assessment stated that the Enterprise Business Systems data storage capabilities will be assessed, and data files will be archived for a minimum of 2 years as required by DoD 4000.25-2-M and the Defense Logistics Agency One Book Policy Chapter on Source Documentation Retention.

**Audit Response.** The Defense Logistics Agency comments are fully responsive and the planned actions meet the intent of the recommendation.

**2. Perform a cost/benefit analysis on implementing a capability in the Enterprise Business System to identify, classify, and track the causes of location reconciliation adjustments for management analysis.**

**Management Comments.** The Defense Logistics Agency concurred with the recommendation. The Executive Director of Material Policy, Process and Assessment stated that a cost/benefit analysis for future enhancements to the Enterprise Business

System to allow Resolution Specialists to systemically identify the causes of errors which resulted in Inventory Record Management accounting adjustments will be completed no later than first quarter FY 2009. This enhancement will provide the Defense Logistics Agency with capabilities to identify and correct repetitive processing errors.

**Audit Response.** The Defense Logistics Agency comments are fully responsive and the planned actions meet the intent of the recommendation.

**3. Implement management controls and update Defense Logistics Agency policy on the inventory record management process to ensure:**

**a. All required causative research is completed in a timely manner and physical inventories are requested when necessary.**

**Management Comments.** The Defense Logistics Agency concurred with the recommendation. The Executive Director of Material Policy, Process and Assessment stated that policy will be updated no later than fourth quarter FY 2008 to establish a standard time frame for causative research and require Resolution Specialists to initiate physical inventory counts when necessary. Further, the Defense Logistics Agency stated that training materials, job aids, and classroom instruction will be updated to incorporate new guidelines.

**Audit Response.** The Defense Logistics Agency comments are fully responsive and the planned actions meet the intent of the recommendation.

**b. Review and approval of adjustments posted by resolution specialists during causative research.**

**Management Comments.** The Defense Logistics Agency concurred with the recommendation. The Executive Director of Material Policy, Process and Assessment stated that a policy memorandum was released in January 2008 that establishes guidelines for supervisory level review and approval of inventory accounting adjustments initiated by Resolution Specialists. The policy establishes dollar value thresholds for review and approval, and will be incorporated into the Inventory Record Management One Book policy update.

**Audit Response.** The Defense Logistics Agency comments are fully responsive; the actions taken and planned meet the intent of the recommendation.

**c. Retention of supporting documentation for causative research adjustments.**

**Management Comments.** The Defense Logistics Agency concurred with the recommendation. The Executive Director of Material Policy, Process and Assessment stated that a policy memorandum was released in January 2008 that establishes the requirement to maintain hard and soft copy documentation and forms for causative research adjustments for a 2-year time frame, consistent with DoD 4000.25-2-M and the



Defense Logistics Agency One Book Policy Chapter on Source Documentation Retention. Further, the Executive Director stated that the Defense Logistics Agency developed an Inventory Adjustment Report form for manual transactional research to ensure tracking of adjustments and to comply with source documentation retention requirements.

**Audit Response.** The Defense Logistics Agency comments are fully responsive; the actions taken and planned meet the intent of the recommendation.



## **Appendix A. Scope and Methodology**

We conducted this financial related audit from March 2007 through February 2008 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.

The audit was performed at the DLA headquarters, the Defense Supply Center Columbus, Defense Supply Center Philadelphia, and Defense Supply Center Richmond. We reviewed applicable DoD logistics and financial policy. In addition, we reviewed a DLA draft inventory record management policy provided to us in April 2007. We also reviewed additional causative research procedures including a causative research job aid dated June 19, 2006, and an inventory comparison reports job aid dated January 31, 2007.

We interviewed personnel at DLA headquarters involved with the inventory reconciliation process and also interviewed Defense Supply Center business process analysts and resolution specialists. In addition, we interviewed the Director of the Medical Supplier Operations Directorate and the Director and Deputy Director of the Subsistence Supplier Directorate at the Defense Supply Center Philadelphia. We used non-statistical sampling procedures and selected for review and observation of location reconciliation causative research 109 location reconciliation causative research adjustments with a gross adjustment value of \$35.67 million from five weekly inventory reconciliations. Our scope was limited because DLA could not produce the supporting EBS data files and we could not review the FY 2006 total reconciliation.

### **Use of Computer-Processed Data**

We used computer-processed data to perform this audit. Specifically, we used Inventory Comparison Reports generated by EBS. We did not test the general and application controls of the EBS and did not make any conclusions about the reliability of the data. To determine the reliability of the data, we observed and reviewed causative research to determine the accuracy of adjustments generated by EBS.

### **Prior Coverage**

No prior coverage has been conducted on DLA inventory reconciliations during the last 5 years.

## Appendix B. Causes of Sampled Location Reconciliation Adjustments

The following table lists causes of location reconciliation adjustments that were identified during our causative research observations and the number of occurrences for each cause identified. Several adjustments had multiple causes for the quantity discrepancy between EBS and the DoD storage activities. Transactions that failed to post in EBS caused the majority of the location reconciliation adjustments.

<b>Identified Causes of Quantity Discrepancies</b>	
<u>Description of Cause Identified</u>	<u>Number of Occurrences</u>
EBS failed transaction - logistical transfer	24
EBS failed transaction - physical inventory loss	12
Cancelled order posted improperly to EBS	11
EBS failed transaction – receipt	9
Incorrect EBS adjustment (gain)	8
Incorrect EBS adjustment (loss)	6
Logistical transfer posted a different quantity in EBS than in DSS	5
Supply center error	5
EBS failed transaction - receipt reversal	4
Overage receipts left in blocked stock	3
Defense Distribution Center error	2
DoD storage activity error	2
EBS failed transaction - physical inventory loss reversal	2
EBS failed transaction - shipment confirmation	2
Logistical transfer posted in EBS but not in DSS	2
EBS failed transaction - physical inventory gain	1
Resolution specialist error	1
Time zone	1

## Appendix C. Weekly Location Reconciliation Accuracy Rates

DLA performs the inventory reconciliation process weekly for all active inventory items that had a balance affecting transaction (for example, issues or receipts) and a total reconciliation for all inventory items in September each year. DoD 4000.25-2-M establishes the DoD inventory location reconciliation accuracy goal at 97 percent but does not specify whether the goal applies to weekly or total reconciliations.

DLA reported an inventory reconciliation accuracy rate of 99.56 percent on its “Total Reconciliation Inventory Comparison Summary Report” for FY 2006. We were unable to validate this rate because DLA could not provide the supporting EBS data files. We analyzed weekly summary reports generated in FY 2007 to determine the DLA location reconciliation accuracy rate for active inventory items. During this analysis, we identified a flaw in the methodology used to calculate the inventory reconciliation accuracy rate which caused the rate to be overstated.

The DLA inventory reconciliation accuracy rate is calculated at the end of the process on inventory record management Report S, “Inventory Comparison Report: Summary Totals.” For purposes of this report, EBS calculates the inventory reconciliation accuracy rate by dividing the reported “Total Number of Inventory Lines Balanced” by the reported “Total Number of Inventory Lines Compared.” Our review of the functional design of the report identified a flaw in the programming.

The report contains a category of location reconciliation errors titled “History Not Received.” These items had quantity discrepancies when inventory balances in EBS were compared to those at the DoD storage activities. However, when EBS requested transaction histories from the DoD storage activity for further comparison during the process, the DoD storage activity did not transmit the transaction history back. According to the report’s functional design, these items are not contained in the “Total Number of Inventory Lines Compared” or the “Total Number of Inventory Lines Not Balanced” categories. As a result, the reported “Total Percent Balanced” and the “Total Percent Identified Errors” are not accurate. The “Total Percent Balanced” represents the DLA inventory reconciliation accuracy rate and the “Total Percent Identified Errors” represents percentage of cataloging errors found between the EBS and the DoD storage activity systems.

As illustrated in the following table, our review of 24 weekly summary reports for October 2006 through May 2007 revealed that the DLA location reconciliation accuracy rate for active inventory items consistently fell below the DoD accuracy goal. In addition, the table also shows the results of our analysis which revealed that on average the weekly accuracy rate dropped 3.66 percent per DoD storage activity after properly adding the category of “History Not Received” into the “Total Number of Inventory Lines Compared.”

### Analysis of Weekly Inventory Reconciliation Accuracy Rates

<u>Week</u>	<u>Inventory Lines Compared</u>	<u>Inventory Lines Balanced</u>	<u>Total Percent Balanced</u>	<u>Inventory Lines Compared (Corrected)</u>	<u>Total Percent Balanced (Corrected)</u>	<u>Percent Change After Correction</u>
10/3/2006	97,195	91,071	93.70	99,947	91.12	-2.58
10/11/2006	117,236	114,580	97.73	125,121	91.58	-6.15
10/18/2006	120,370	110,934	92.16	123,145	90.08	-2.08
10/24/2006	99,249	90,016	90.70	111,600	80.66	-10.04
10/31/2006	127,274	113,132	88.89	136,495	82.88	-6.01
11/7/2006	181,085	169,292	93.49	185,224	91.40	-2.09
11/14/2006	133,038	125,913	94.64	136,856	92.00	-2.64
12/1/2006	240,869	229,601	95.32	244,205	94.02	-1.30
1/5/2007	84,252	77,301	91.75	88,733	87.12	-4.63
1/16/2007	149,610	146,912	98.20	159,183	92.29	-5.91
1/23/2007	139,497	131,584	94.33	142,560	92.30	-2.03
2/14/2007	169,754	159,162	93.76	172,403	92.32	-1.44
2/22/2007	152,523	141,219	92.59	154,106	91.64	-0.95
2/27/2007	128,511	116,329	90.52	131,733	88.31	-2.21
3/6/2007	157,707	154,978	98.27	168,344	92.06	-6.21
3/20/2007	141,989	139,207	98.04	151,088	92.14	-5.90
3/27/2007	154,162	143,724	93.23	156,368	91.91	-1.32
4/3/2007	146,573	143,757	98.08	156,061	92.12	-5.96
4/19/2007	272,057	252,486	92.81	272,148	92.78	-0.03
4/24/2007	125,270	115,631	92.31	129,023	89.62	-2.68
5/1/2007	151,381	149,230	98.58	160,776	92.82	-5.76
5/11/2007	157,418	149,969	95.27	163,934	91.48	-3.79
5/15/2007	154,028	146,349	95.01	160,437	91.22	-3.80
5/22/2007	189,778	182,093	95.95	194,406	93.67	<u>-2.28</u>
<b>Average Percent Change</b>						<b>-3.66</b>

# Defense Logistics Agency Comments



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

MAR 21 2008

IN REPLY  
REFER TO J-3Y

MEMORANDUM FOR DIRECTOR, OFFICE OF INVESTIGATIONS AND  
INTERNAL AUDITS

SUBJECT: Response to Department of Defense Inspector General (DODIG)  
Report: Controls over the Reconciliation of Defense Logistics Agency  
Non-Energy Inventory Balances (Project No. D2007-D000FD-0156.000)

The Inventory Management Process Owner concurs with the findings and recommendations on the DODIG Report: Controls over the Reconciliation of Defense Logistics Agency Non-Energy Inventory Balances (Project No. D2007-D000FD-0156.000).

J-3Y will develop a Plan of Action and Milestones to correct the identified deficiencies and provide management oversight of the Defense Supply Centers to ensure the Inventory Records Management process is working properly.

The point of contact for this matter is Mr. Terry Simpson, J-3YP-OF1,  
(703) 767-1606, or e-mail: [terry.simpson@dla.mil](mailto:terry.simpson@dla.mil).

KATHY D. CUTLER  
Executive Director  
Materiel Policy, Process and Assessment

Attachment

**MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE,  
OFFICE OF THE ASSISTANT INSPECTOR GENERAL FOR AUDITING**

**SUBJECT:** Report on the Controls Over the Reconciliation of Defense Logistics Agency Non-Energy Inventory Balances (Project No. D2007-D000FD-0156.000)

Defense Logistics Agency (DLA) provides the following comments in response to Department of Defense Inspector General (DoDIG) recommendations:

“Evaluate the automated portion of the reconciliation process and modify the system to accurately calculate adjustments, select items for causative research that meet DoD requirements, use the correct general ledger accounts when posting adjustment reversals, and retain data supporting weekly and total reconciliations and justification for manual adjustments. Perform a cost/benefit analysis on implementing an automated capability to identify, classify, and track the causes of location reconciliation adjustments for management analysis. Implement management controls and update Defense Logistics Agency policy on the inventory record management process to ensure: all required causative research is completed in a timely manner, physical inventories are requested when necessary, review and approval of adjustments posted by resolution specialists during causative research and retention of supporting documentation for causative research adjustments”.

**Audit Recommendation 1:** Evaluate the Enterprise Business System portion of the inventory record management process and modify the system to:

**1a. Ensure adequate consideration is given to in-float transactions when calculating adjustments.**

**DLA Comment**

Concur. DLA, J-3YP, Order Fulfillment will conduct an analysis NLT 4th Quarter FY08 of the Inventory Records Management (IRM) adjustment logic in the Enterprise Business System (EBS) to ensure that the system is accurately taking into consideration all “in-float” transactions prior to making adjustments to recorded balances. The analysis will identify the necessary system changes required when developing a System Change Request (SCR) to correct the identified condition. The benefits of implementing this change will prevent EBS from posting erroneous adjustments.

**1b. Accurately select items for causative research that meet DoD 4000.25-2-M, “Military Standard Transaction Reporting and Accounting Procedures” requirements.**



**DLA Comment**

Concur. DLA, J-3YP, Order Fulfillment will develop Enterprise policy NLT 4th Quarter FY08 identifying transaction research requirements for potential and or actual accounting adjustments utilizing DoD 4000.25-2-M guidelines. The policy will underscore the importance of prioritizing research based on the dollar value of adjustments with emphasis placed on the highest dollar value adjustments. In addition, J-3YP will develop an SCR to analyze EBS logic for calculating and selecting adjustments for causative research. This action will ensure that only adjustments meeting DoD 4000.25-2-M causative research criteria are selected for research and eliminate unnecessary workload of researching adjustments for uncontrolled items less than \$5000 as identified in Table 2 of the audit report.

**1c. Use of the correct General Ledger Accounts when posting location reconciliation adjustment reversals.**

**DLA Comment**

Concur. DLA, J-3YP, Order Fulfillment and J-8, Financial Operations will establish an Integrated Process Team (IPT) to evaluate the posting logic in EBS for each of the Inventory General Ledger Accounts, *Inventory Stock On-Hand*, *Causative Research Inventory Gain*, *Non-Causative research Inventory Gain*, *Causative Research Inventory Loss* and *Non-Causative Research Inventory Loss*. If deemed necessary, the IPT will develop a Systems Change Request (SCR) to correct the posting logic.

As an interim solution until the system logic can be evaluated, the IRM Sub-Process Owner has provided instructions to all Business Process Analysts and Resolution Specialists. When working IRM reports, OF-39, OF-49, OF-11 and OF-167 interfaces, personnel must use the "MBST" transaction to ensure transactions post to the correct General Ledger Account Code in lieu of IRM movement type reversal codes.

**1d. Retain Data supporting weekly and total reconciliations and justification for manual adjustments in accordance with DoD 4000.25-2-M requirements.**

**DLA Comment**

Concur. The IRM Process Owner will coordinate with DLA J-6, Information Operations to assess EBS current data storage capabilities. Data files consisting of transaction histories, adjustment research and total reconciliation will be archived for a minimum of 2 years as specified in DoD 4000.25-2-M and DLA's Source Documentation Retention One Book Policy Chapter.

**Audit Recommendation 2:** Perform a cost/benefit analysis on implementing a capability in the Enterprise Business System to identify, classify, and track the causes of location reconciliation adjustments for management analysis.

**DLA Comment**

Concur. DLA will perform a cost/benefit analysis NLT 1st Quarter FY09 for a future enhancement of EBS capabilities that will allow the Resolution Specialist a means of systemically identifying the causes for errors which resulted in accounting adjustments. This functionality is currently programmed in the Distribution Standard System by way of Error Classification Codes. The outcome of this system enhancement will provide DLA the capability to generate management level analysis for evaluation and to initiate corrective actions when repetitive processing errors are identified.

**Audit Recommendation 3:** Implement Management controls and update Defense Logistics Agency policy on the Inventory Records Management process.

**3a. All required causative research is completed in a "Timely Manner" and Physical Inventories are required when necessary**

**DLA Comment:** Concur. DLA, J-3YP, Order Fulfillment will update the IRM One Book draft policy NLT 4th Quarter FY08 to establish a standard time frame for completion of transactional accounting adjustment research. The policy will also require Resolution Specialists to initiate physical inventory counts by contacting the appropriate distribution depot where suspected imbalances exist. To further enforce this policy, training materials, job-aides, and classroom instruction will be updated to incorporate these new guidelines.

**3b. Review and approval of adjustments posted by Resolution Specialists during causative research.**

**DLA Comment:** Concur. In January 2008, DLA J-3Y, Materiel Policy, Process and Assessment Directorate released policy memorandum (IRM Thresholds for Causative Research Report Number Three, dated January 30, 2008). The memorandum establishes guidelines for supervisory level review and approval of inventory accounting adjustments initiated by Resolution Specialists based on dollar value thresholds. The policy guidelines are listed below and will be included in the IRM One Book draft policy update.

Dollar Value of Adjustments	Signature Level Approval
\$50,000 and below**	Resolution Specialist - GS 9 or above
\$75,000 and below**	Resolution Specialist - GS 11 or above
\$75,001 to 200,000	Supervisor /RS Team Lead - GS 12 or above
\$200,001 to 500,000	Branch Chief - GS 13 or above
\$500,001 to 750,000	Division Chief - GS 14 or above
\$750,001 to 1,000,000	Director of Supply Operations or above
\$1,000,001 and above	Commander or Deputy Commander

**Note:** Grade levels below the journeyman level (GS 9) require signature approval authority as outlined below:

**\*\*** For GS -5 Resolution Specialist - signature is required for any adjustments over \$10,000

**\*\*** For GS -7 Resolution Specialist - signature is required for any adjustments over \$25,000

### **3c. Retention of supporting documentation for causative research adjustments**

**DLA Comment:** Concur. In January 2008, DLA J-3Y, Materiel Policy, Process and Assessment Directorate released policy memorandum (IRM Thresholds for Causative Research Report Number Three, dated January 30, 2008). The memorandum establishes the requirement to maintain hard and soft copy documentation for causative research adjustments. In addition, DLA has developed an Inventory Adjustment Report form for manual transactional research to ensure tracking of adjustments and to comply with source documentation retention requirements. All forms will be maintained for the required 2 year timeframe consistent with DoD 4000.25-2-M and DLA's Source Documentation Retention One Book Policy Chapter.

All corrective actions identified in DLA's comments will be tracked and monitored via the J-3Y Non-Energy Inventory Quantity Plan Of Action and Milestones.



## **Team Members**

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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# Inspector General Department of Defense

