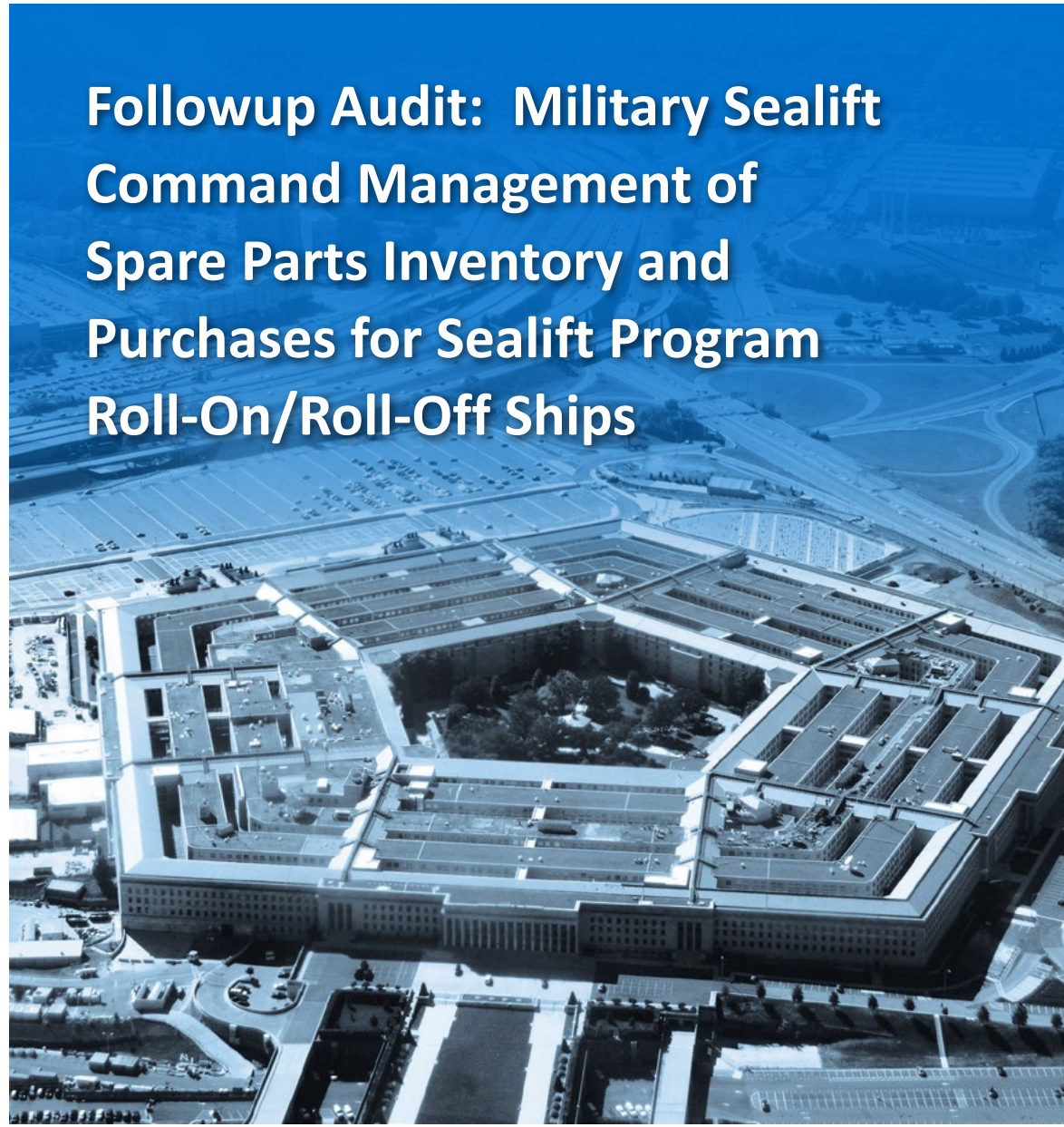




INSPECTOR GENERAL

U.S. Department of Defense

OCTOBER 20, 2017



Followup Audit: Military Sealift Command Management of Spare Parts Inventory and Purchases for Sealift Program Roll-On/Roll-Off Ships

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Results in Brief

Followup Audit: Military Sealift Command Management of Spare Parts Inventory and Purchases for Sealift Program Roll-On/Roll-Off Ships

October 20, 2017

Objective

We determined whether the Military Sealift Command (MSC) implemented actions to correct problems identified in DoD OIG Report No. DODIG-2014-106, "Military Sealift Command Oversight of Excess Spare Parts Inventory and Purchases for Sealift Program Roll-On/Roll-Off Ships Needs Improvement," September 9, 2014, relating to the Command's Large, Medium-Speed, Roll-On/Roll-Off ship (LMSR) spare parts inventory management and procurement practices.

Background

Report No. DODIG-2014-106 identified that the MSC property administrator did not effectively manage the excess spare parts inventory on two of its Sealift Program Large, Medium-Speed, Roll-On/Roll-Off, contractor-managed ships, while MSC's records indicated that these same conditions existed on two other ships. According to MSC inventory records at the time of the original audit, on-hand spare parts exceeded authorized allowance levels for 4,677 spare parts, with the excess valued at \$3.4 million. The DoD OIG recommended the Commander, MSC, to:

- conduct a 100-percent inventory of spare parts aboard the Sealift Program ships;
- update on-hand quantities based on the inventory;

Background (cont'd)

- reevaluate allowance levels and reuse, resell, or dispose of all spare parts deemed excess;
- establish controls to ensure the contractor follows contract requirements regarding competition for the purchase of reimbursable items; and
- direct the contracting officer to modify the contract to clarify and require the use of the Defense Supply System (DSS), which is used to identify, classify, and name materials that DoD customers may order.

Findings

MSC officials did not effectively implement corrective actions to correct all of the problems identified in DoD OIG Report No. DODIG-2014-106. MSC officials established contract requirements to ensure spare parts are purchased at fair and reasonable prices through competition; however, MSC officials could not provide evidence that the contractor always followed the requirements. Specifically, MSC officials could not provide evidence that the contractor adequately competed or provided justification for not competing 3 of the 9 purchases over \$25,000 or 5 of the 12 purchases between \$3,000 and \$25,000, made during FY 2016.¹ The contract required at least three quotes for transactions over \$3,000 in order to receive reimbursement for supplies. Further, the contracting officer did not modify the contract section that stated the use of the DSS was optional despite revising the section that stated the DSS should be used unless the contractor had a valid reason not to. These problems occurred because the MSC officials did not provide adequate oversight to ensure the contractor complied with the updated competition requirements for the contract and that the contracting officer properly modified the contract to clarify and require the query of the DSS.

¹ We nonstatistically selected 12 of the 59 FY 2016 purchases valued between \$3,000 and \$25,000.



Results in Brief

Followup Audit: Military Sealift Command Management of Spare Parts Inventory and Purchases for Sealift Program Roll-On/Roll-Off Ships

Findings (cont'd)

In addition, MSC officials did not implement corrective actions as agreed for inventory-related recommendations. Specifically, MSC officials did not:

- conduct a 100-percent inventory of spare parts on the four LMSR ships by December 2014, as stated in their response to Report No. DODIG-2014-106. During our followup audit, the MSC Deputy, Logistics Directorate reported that a third-party contractor completed a closeout inventory of spare parts aboard the Sealift Program ships May 31, 2017.
- update on-hand quantities in Shipboard Configuration and Logistics Program (SHIPCLIP) based on the 100-percent inventory results; or
- reevaluate allowance levels and reuse, resell, or dispose of all spare parts deemed excess based on the 100-percent inventory results. During our followup audit, an MSC official stated allowance levels were evaluated based on the closeout inventory results and remaining excess material was offloaded for reuse and disposal between March and May 2017.

This occurred because MSC officials did not provide adequate oversight to ensure the contractor implemented the inventory-related recommendations. As a result, the MSC may have overpaid for spare parts because MSC officials could not provide evidence that the contractor took advantage of competition to drive down the prices of the parts or used the DSS to fill user part requirements when parts were available at DoD inventory storage facilities. Further, the MSC's delay in implementing the recommended corrective actions increased the likelihood that the contractor purchased spare parts already aboard the ships.

Recommendations

We recommend the Commander, MSC, establish and direct a cross-functional team of MSC subject matter experts to develop an oversight process to ensure the contractor complies with the contract's updated competition requirements. In addition, we recommend the Commander, MSC:

- update on-hand quantities based on the annual 100-percent inventory;
- validate authorized allowance levels and ensure all spare parts deemed excess for reuse, resale, or disposal are processed appropriately;
- direct the contracting officer to modify the contract to clarify and require the use of the DSS; and
- develop a time-phased plan with goals and metrics to update SHIPCLIP, validate allowances, and address excess parts.

Management Comments and Our Response

The Commander, MSC agreed with our findings and recommendations. Specifically, the Commander agreed to create a cross-functional team to improve the MSC oversight process to ensure the contractor complies with the contract's updated competition requirements. The cross-functional team plans to begin in early October 2017 and brief MSC leadership in late January 2018. Therefore, this recommendation is resolved, but will remain open. We will close this recommendation once we verify that the new controls governing the oversight process ensures the contractor complies with updated competition requirements for the purchase of reimbursable items for Sealift program ships.



Results in Brief

Followup Audit: Military Sealift Command Management of Spare Parts Inventory and Purchases for Sealift Program Roll-On/Roll-Off Ships

Comments (cont'd)

The Commander also stated that the MSC's support contractor had completed and recorded results of their inventories in SHIPCLIP with an audited accuracy result greater than 98-percent between February and August 2017 for the four LMSR ships. Therefore, this recommendation is closed based on our analysis of the MSC's audit documentation of the support contractor's work.

In addition, the Commander stated that allowance levels were evaluated, and remaining excess material was offloaded for reuse and disposal upon completion of the MSC's support contractor's 100-percent inventory conducted from March 2017 through May 2017. Therefore, this recommendation is resolved, but will remain open. We will close this recommendation once we receive and analyze evidence supporting the transfer of the excess spare parts for reuse and disposal.

Further, the Commander stated that follow-on contract solicitations for purchasing services on MSC's Sealift Program ships now contain new standard contract language. Specifically, the contractor shall procure through the DSS before purchasing spare-parts from commercial sources, unless the parts are unavailable in the DSS, or long lead times to purchase through the DSS would adversely impact the operation of any ships. In addition, the Commander stated that the contractor shall provide a monthly report for all purchases greater than \$25,000, which will indicate whether competition was obtained and

whether the DSS was used, or provide justification for not competing or using DSS for the purchases. After we received the Commander's response to the draft report, the MSC provided a copy of the new contract with updated language that was awarded on September 19, 2017, to another one of its Sealift Program ships. Therefore, this recommendation is closed based on our review of the new contract that includes the new language.

Finally, the Commander stated that MSC's cross-functional team will develop a time-phased plan with goals and metrics to update SHIPCLIP, validate allowances, and address excess parts for all Government-owned/Contract-Operated ships. In addition, the Commander stated that MSC has implemented multiple enhancements to its internal control regime related to updates to SHIPCLIP, validating allowances, and addressing excess parts. Therefore, this recommendation is resolved, but will remain open. We will close this recommendation once we receive and analyze the results of MSC's cross-functional team's time-phased plan with goals and metrics to update SHIPCLIP, validate allowances, and address excess parts for all Government-owned/Contract-Operated ships. We expect to receive supporting documentation for the cross-functional team's plan no later than February 2018.

Please see the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Commander, Military Sealift Command	None	1, 2.b, 3	2.a, 2.c

Note: The following categories are used to describe agency management's comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.



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

October 20, 2017

**MEMORANDUM FOR THE COMMANDER, MILITARY SEALIFT COMMAND
NAVAL INSPECTOR GENERAL**

**SUBJECT: Followup Audit: Military Sealift Command Management of Spare Parts Inventory
and Purchases for Sealift Program Roll-On/Roll-Off Ships
(Report No. DODIG-2018-004)**

We are providing this report for your information and use. Military Sealift Command officials did not effectively implement corrective actions to correct all of the problems identified in DoD OIG Report No. DODIG-2014-106. Specifically, Military Sealift Command officials did not ensure competition for the purchase of spare parts or adequately revise the contract to require its contractor to query the Defense Supply System in advance of spare parts purchases. In addition, Military Sealift Command officials did not conduct the 100-percent inventory of the spare parts aboard the four Large, Medium-Speed, Roll-On/Roll-Off ships in response to our recommendation as agreed by December 2014, update on-hand quantities based on the 100-percent inventory results, or reevaluate allowance levels based on the 100-percent inventory results.

During our audit, the Military Sealift Command's Deputy, Logistics Directorate, reported that a third-party contractor completed a closeout inventory of spare parts aboard the Sealift Program ships on May 31, 2017. Additionally, a Military Sealift Command official stated that allowance levels were evaluated based on the closeout inventory results and remaining excess material was offloaded for reuse and disposal between March and May 2017. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. Comments from the Commander, Military Sealift Command conformed to the requirements of DoD Instruction 7650.03. We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8905, (DSN 664-8905).

A handwritten signature in black ink, appearing to read "Troy M. Meyer".

Troy M. Meyer
Principal Assistant Inspector General
for Audit

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Introduction

Objective

We determined whether the Military Sealift Command (MSC) implemented actions to correct problems identified in DoD OIG Report No. DODIG-2014-106, “Military Sealift Command Oversight of Excess Spare Parts Inventory and Purchases for Sealift Program Roll-On/Roll-Off Ships Needs Improvement,” September 9, 2014, relating to the Command’s Large, Medium-Speed, Roll-On/Roll-Off ship spare parts inventory management and procurement practices.

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. The MSC Sealift Surge Program fleet includes Government-owned, contractor-operated large, medium speed, roll-on/roll-off (LMSR) ships that support the U.S. military.

According to the MSC, each LMSR ship is capable of carrying 300,000 square feet of rolling stock and containerized cargo and can travel at a speed up to 24 knots. The ships are maintained in reduced operating status and have a crew of 30 contractor employees.² The MSC has 10 LMSR ships in its Sealift Program fleet. See Table 1 for the U.S. Naval ships reviewed in DoD OIG Report No. DODIG-2014-106.

Table 1. Gordon and Shughart Class LMSRs in the Sealift Surge Program

U.S. Naval Ship	Hull Number	Class
<i>Gilliland</i>	T-AKR 298	Gordon
<i>Gordon</i>	T-AKR 296	Gordon
<i>Shughart</i>	T-AKR 295	Shughart
<i>Yano</i>	T-AKR 297	Shughart

Source: MSC Handbook 2016.

Management of Operation and Maintenance Contract

In 2010, the MSC awarded a fixed-price, operation and maintenance contract to manage the four Gordon- and Shughart-class, Government-owned, LMSR ships in the Sealift Program.³ See Figure 1 for a picture of the U.S. Naval Ship (USNS) *Gordon*. The contractor provides a wide range of services, including

² Ships in reduced operating status have a small crew onboard to assure the readiness of propulsion and other primary systems if the need arises to activate the ship.

³ Contract No. N00033-10-C-5301.

crew management, procurement, inventory management, and ship maintenance. It procures all spare parts necessary to maintain and repair the ships and maintains authorized allowances for spare parts in the Shipboard Configuration and Logistics Program (SHIPCLIP).⁴

SHIPCLIP is the MSC database for maintaining shipboard configuration, as well as its tool for invoice certification. It also 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. The MSC reimburses the contractor for the actual cost of spare parts only, including shipping and tax.



Roles and Responsibilities

The MSC contracting officer executes contract modifications for the contract and may reduce the reimbursement to the contractor for the supplies provided by any amount greater than what the contracting officer determines is fair and reasonable.

⁴ 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. Configuration refers to the equipment installed aboard and the authorized allowance of spare parts to be stored for repairs.

The Program Manager, Logistics (PML) ensures the contractor submits allowance change requests for each item with an insufficient or excessive quantity to maintain proper configuration and properly accounts for an increase or decrease of property due to engineering changes or operational requirements.

Summary of Prior Audit

In September 2014, the DoD Office of Inspector General (DoD OIG) issued Report No. DODIG-2014-106 in response to a congressional request that concerned the quantity and price of spare parts stored on the USNS *Gilliland*. The objective was to determine whether the MSC effectively managed the quantities of spare parts in inventory and procured the spare parts at fair and reasonable prices for the LMSR ships in the Sealift Program. The DoD OIG determined that the MSC did not effectively manage the excess spare parts inventory on two LMSR ships and ensure the contractor consistently followed contract requirements when purchasing spare parts for ships.



MSC did not effectively manage the excess spare parts inventory on two LMSR ships and ensure the contractor consistently followed contract requirements.

Recommendations and Agreed-Upon Actions

In the prior report, the DoD OIG recommended the Commander, MSC, to:

- conduct a 100-percent inventory of the spare parts aboard the contractor-managed LMSR ships in the Sealift Program fleet;
- update on-hand quantities in SHIPCLIP in accordance with the results of the 100-percent inventory;
- based on inventory results, reevaluate allowance levels and process all spare parts deemed excess for reuse, resale, or disposal;
- establish controls to ensure the contractor follows contract requirements regarding competition for the purchase of reimbursable items; and
- direct the contracting officer to modify the contract to clarify and require the use of the Defense Supply System (DSS) before acquiring spare parts from commercial sources.⁵

The Executive Director, MSC, responding for the Commander, MSC, agreed with the recommendations and agreed to take corrective actions.

⁵ The DSS is used to identify, classify, and name materials that DoD customers order.

Review of Internal Controls

DoD Instruction 5010.40 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.⁶ We identified internal control weaknesses with the MSC's logistics and contracting personnel oversight of the contractor's management of excess spare parts inventory and spare parts procurement for of its Sealift Program LMSR ships.

We will provide a copy of the report to the senior official responsible for internal controls in the Department of the Navy and the MSC.

⁶ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding

MSC Corrective Actions Were Not Effective or Not Implemented for Spare Parts Inventory and Purchases

MSC officials did not effectively implement corrective actions to correct problems identified in DoD OIG Report No. DODIG-2014-106, “Military Sealift Command Oversight of Excess Spare Parts Inventory and Purchases for Sealift Program Roll-On/Roll-Off Ships Needs Improvement,” September 9, 2014,” relating to the Command’s Large, Medium Speed, Roll-On/Roll-Off ship spare parts inventory management and procurement practices. Specifically:

- MSC officials established contract requirements to ensure that spare parts are purchased at fair and reasonable prices through competition; however, MSC officials could not provide evidence that the contractor always followed the requirements. This occurred because the contracting officer did not provide adequate oversight of the contractor to ensure compliance with the competition requirements for the contract.
- The contracting officer did not modify the contract section that stated the use of the DSS was optional despite revising the section that stated the DSS should be used unless the contractor had a valid reason not to use it. However, this revision did not clarify that the contractor must query the DSS before purchasing from a commercial source. This occurred because MSC officials did not provide adequate oversight to ensure the contracting officer implemented the recommendation.

In addition, MSC officials did not implement corrective actions as agreed for inventory related recommendations. Specifically, MSC officials did not:

- conduct a 100-percent inventory of spare parts on the four LMSR ships by December 2014 as agreed in their response to Report No. DODIG-2014-106; however, during our audit, the MSC Deputy, Logistics Directorate reported that a third-party contractor completed a 100-percent closeout inventory of spare parts aboard the four Sealift Program ships on May 31, 2017;
- update on-hand quantities in SHIPCLIP based on the 100-percent inventory results; or
- reevaluate allowance levels and reuse, resell, or dispose of all spare parts deemed excess based on the 100-percent inventory results. However, during our audit, an MSC official stated allowance levels were evaluated based on the closeout inventory and remaining excess material was offloaded for reuse or disposal between March 2017 and May 2017.

This occurred because MSC officials did not provide adequate oversight to ensure the contractor implemented the inventory-related recommendations. As a result, the MSC may have overpaid for spare parts procured without adequate competition and procured parts through commercial sources rather than using the DSS, where parts were available. Further, the MSC's delay in implementing the recommended corrective actions for its LMSR spare part inventory for more than 2½ years increased the likelihood that the contractor purchased spare parts already on the ships.

Adequate Controls for Competition Developed but Not Effectively Implemented

MSC officials established contract requirements for the contractor to ensure fair and reasonable prices for spare parts through competition; however, MSC officials could not provide evidence that the contractor always followed the requirements. This occurred because the contracting officer did not provide adequate oversight of the contractor to ensure compliance with the competition requirements of the contract.

Adequate Competition Not Always Achieved Despite Additional Controls

In the response to DoD OIG Report No. DODIG-2014-106, MSC officials stated that the contracting officer would modify the contract to require the contractor to report whether competition was obtained, or the contractor would provide the justification for not obtaining competition. During our followup audit, we determined that the MSC contracting officer modified the contract (modification P00126) to require the contractor to submit reports for purchases exceeding \$25,000.⁷ The modification also required the contractor to identify whether competition was obtained or provide justification for not obtaining competition for purchases exceeding \$3,000. The MSC required the contractor to only report on competition for the monthly purchases exceeding \$25,000 despite the contractual requirement that the contractor must obtain at least three quotes for transactions over \$3,000.⁸ Requiring three quotes ensures that the contractor sought adequate price competition.

⁷ Modification to Contract No. N00033-10-C-5301.

⁸ Section G-9, "Reimbursable Supplies and Services," of Contract No. N00033-10-C-5301.

In FY 2016, the contractor awarded nine purchases valued at \$537,775 subject to the reporting requirement for purchases exceeding \$25,000. Of the nine purchases, MSC provided documentation showing that the contractor:

- reported six purchases valued at \$267,737; and
- did not report three purchases, valued at \$270,038, because the:
 - original price was less than \$25,000;
 - purchase was not coded as a spare part expense type; or
 - contractor overlooked the purchase.

In regards to competition for these same nine purchases, MSC provided documentation to the audit team showing that the contractor:

- adequately competed six purchases valued at \$447,932; and
- did not adequately compete or provide justification for not obtaining the required number of quotes for three purchases valued more than \$89,000 as shown in Table 2.

Table 2. Inadequately Competed Purchases Over \$25,000 Without Justification

U.S. Naval Ship	Purchase Order Number	Items Purchased	Reported Purchases as Required	Number of Quotes Obtained	Amount
Shughart	55029	Compressor parts	Yes	2	\$38,256
	52858	Cooler block	Yes	2	25,812
Gordon	43707	Main engine starting valves	No	2	25,774
Total					\$89,842

Source: MSC spare parts purchase documentation.

In response to the original audit, MSC officials also stated that the contracting officer or designee would visit the contractor's purchasing headquarters at least annually to audit the contractor's supply purchase documentation. During our followup audit, an MSC official stated that MSC personnel conducted audits on an as needed basis, and were only documented if personnel identified problems. However, MSC officials did not document any completed audits and could not provide evidence that they conducted audits of the supply purchase documentation at the contractor's headquarters.

The annual audits would have allowed the MSC to monitor the 59 FY 2016 purchases exceeding the competition threshold of \$3,000 that did not meet the monthly reporting threshold of \$25,000. We nonstatistically selected 12 of the 59 purchase orders, valued between \$3,000 and \$25,000, to determine whether the MSC ensured that adequate price competition was sought. Of the 12 nonstatistically selected purchases reviewed, the MSC:

The MSC did not provide evidence that the contractor obtained three quotes or provided justification for not obtaining adequate competition for five purchases valued more than \$37,000.

- provided evidence of adequate competition for four purchases valued at \$22,615,
- provided evidence of adequate justification for not obtaining three quotes for three purchases valued at \$28,032, and
- did not provide evidence that the contractor obtained three quotes or provided justification for not obtaining adequate competition for five purchases valued more than \$37,000 as shown in Table 3.

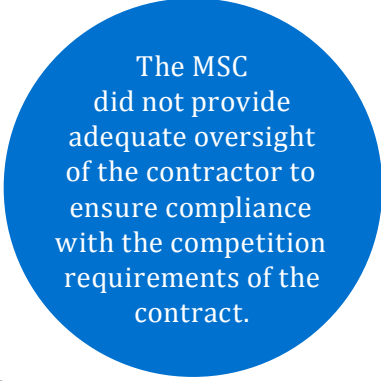
Table 3. Inadequately Competed Purchases Over \$3,000 and Less Than \$25,000 Without Justification

U.S. Naval Ship	Purchase Order Number	Items Purchased	Number of Quotes Obtained	Amount
Yano	53223	Crane parts	1	\$20,982
	54549	Fire hose valves	1	4,961
Gordon	54574	Motor kit and valve	2	4,383
	50493	Handle assemblies	2	3,719
Shughart	53898	Firefighting equipment	2	3,546
Total				\$37,591

Source: MSC spare parts purchase documentation.

Inadequate Oversight of Contractor and Competition Requirements

The MSC contracting officer did not provide adequate oversight of the contractor to ensure compliance with the competition requirements of the contract. According to the contract, the contracting officer was required to ensure the contractor received a minimum of three quotes to ensure adequate competition. In addition, MSC officials did not ensure the contracting officer or designee conducted annual site visits to audit the contractor's supply purchases.



The MSC did not provide adequate oversight of the contractor to ensure compliance with the competition requirements of the contract.

The Commander, MSC, should establish and direct a cross-functional team of MSC subject matter experts to develop an oversight process to ensure the contractor complies with the contract's updated competition requirements.

Controls for the Query of DSS Not Fully Developed

The MSC contracting officer modified the contract to state that unless the contractor had a valid reason not to, the DSS should be used for the procurement of spare parts for the Sealift Program ships. However, this revision did not require the contractor to query the DSS to determine the availability of spare parts before purchasing from a commercial source. In addition, the contract contained a potentially conflicting clause in another section that stated that the use of the DSS by the contractor was optional. This occurred because MSC officials did not provide adequate oversight to ensure the contracting officer implemented the recommendation.

DSS Not Always Queried or Used for Available Parts

In the response to DoD OIG Report No. DODIG-2014-106, the MSC Executive Director agreed that the contract language pertaining to the query of the DSS was not clear. Furthermore, the MSC Executive Director stated in the response that the contracting officer modified the contract to remove the conflicting guidance pertaining to the DSS and listed exceptions to excuse the contractor from procuring parts from the DSS. However, during our followup audit, we determined that the contracting officer did not clarify, in the issued contract modification that the contractor must query the DSS before using commercial sources.

We reviewed the 21 purchases also reviewed for competition to determine whether the contracting officer had records for the contractor’s query of the DSS prior to making those purchases.⁹ An MSC official provided evidence

MSC officials could not provide evidence to show that the contractor had justified not using the equipment that was available in the DSS.

that the contractor queried the DSS for 14 of 21 purchases valued at \$318,399. However, we identified 19 items valued at \$7,042 that were available in the DSS that were not used by the contractor. For these 19 items the contractor instead used a commercial source. MSC officials could not provide evidence to show that the contractor had justified not using the equipment that was available in the DSS.

In addition MSC officials could not provide evidence that the contractor queried the DSS for the remaining 7 of 21 purchases valued at more than \$307,000. See Table 4 for a list of purchases that MSC officials could not provide evidence for the contractor’s query through the DSS before purchasing from a commercial source.

Table 4. Purchases Not Queried Through the DSS

U.S. Naval Ship	Purchase Order Number	Items Purchased	Amount
<i>Gilliland</i>	54781	Shore power cables	\$213,664
<i>Shughart</i>	53452	Throttle parts	30,600
	53898	Firefighting equipment	3,546
<i>Gordon</i>	43707	Starting valves	25,774
<i>Yano</i>	53223	Crane parts	20,982
	52286	Bronze valves	8,088
	54549	Bronze hose valves	4,961
Total			\$307,615

Source: MSC spare parts purchase documentation.

⁹ The 21 purchases is a combination of the 9 purchases that exceeded \$25,000 and the 12 purchases that were over \$3000 and under \$25,000 that are discussed earlier in this report.

Inadequate Oversight of Contractor Spare Parts Purchases

MSC officials did not provide adequate oversight to ensure the contracting officer properly implemented the recommendation regarding the query of the DSS for all spare parts purchases.

The Commander, MSC, should implement all corrective actions to fully address the recommendation for querying the DSS. Specifically, direct the contracting officer to modify the contract to clarify and require the use of the DSS to source needs before acquiring spare parts from commercial sources.

Corrective Actions Not Fully Implemented for Spare Parts Inventory

MSC officials did not conduct the 100-percent inventory of the spare parts aboard the four LMSR ships by December 2014, update on-hand quantities based on the 100-percent inventory results, or reevaluate allowance levels based on the 100-percent inventory results. This occurred because MSC officials did not provide adequate oversight to ensure the contractor implemented the inventory-related recommendations that MSC had agreed to in their response to Report No DODIG-2014-106.

The MSC Verified 100-Percent Inventory of Spare Parts Was Conducted

In response to DoD OIG Report No. DODIG-2014-106, an MSC official stated that a 100-percent physical inventory of all Government-furnished equipment on the four contractor-managed ships would be completed on or about December 31, 2014. The MSC did not conduct an inventory by the end of 2014. On June 16, 2017, the MSC Deputy, Logistics Directorate reported that a third-party contractor completed a closeout inventory of spare parts aboard the Sealift Program ships in May 2017 in accordance with the original contractor's approved Government Property Control Procedures.¹⁰ While this closeout inventory met the requirement for a 100-percent inventory, the MSC's delay in implementing the recommended corrective actions for more than 2½ years increased the likelihood that the contractor purchased spare parts already on the ships. Considering the delay, the MSC Deputy,

MSC's delay in implementing the recommended corrective actions for more than 2½ years increased the likelihood that the contractor purchased spare parts already on the ships.

¹⁰ Government Property Control Procedures, N00033-14-C-3210, Revision 2014. This is the property control plan that the contractor agreed to execute for MSC, which was agreed between both parties as in compliance with the contract requirements and the FAR 52.245-1.

Logistics Directorate stated that the MSC implemented additional corrective actions related to contract oversight in December 2014 to address personnel performance problems. For example, MSC officials replaced the PML responsible for inventory management and oversight of the contractor.

In addition, the MSC property administrator conducted six periodic surveillance audits, referred to as property management system analysis reviews, from May 12, 2014, through June 28, 2016. The MSC conducted the audits as part of its ongoing Government Property Control Procedures. The primary objective of the audits was to review, inspect, and evaluate the contractor's property management policies, procedures, practices and systems to ensure that they complied with contractual requirements. Specifically, the contractor was required to complete a 100-percent annual physical inventory of all Government-owned property on the ships. In addition, the contractor was required to conduct a 10-percent physical inventory of all storeroom items every month and submit those inventories quarterly to the MSC for review.

In all six audits, MSC personnel identified that the contractor was not performing the required inventories and did not submit required documentation to the MSC for review. In addition, during each of the six audits, MSC personnel identified repeated deficiencies for physical inventory accountability and that the inventory accuracy metrics were not always achieved. For example, a 2016 surveillance audit of the USNS *Gilliland*, found that two inventory analyses reported repair parts accuracy of 85-percent and 79-percent. However, the contractual requirement was for 90-percent accuracy.

SHIPCLIP Not Updated Based on 100-Percent Inventory

In response to DoD OIG Report No. DODIG-2014-106, an MSC official stated that personnel would update SHIPCLIP inventory records based on the results of the 100-percent inventory. However, MSC officials did not update SHIPCLIP inventory records after the May 2017 inventory. According to an MSC official, MSC personnel planned to have the SHIPCLIP inventory records updated by August 25, 2017.

Allowance Levels Not Adjusted Based on Inventory Results

In response to DoD OIG Report No. DODIG-2014-106, an MSC official stated that personnel would reevaluate allowance levels and process all spare parts deemed excess for reuse, resale, or disposal based on the results of the 100-percent inventory. At the time this follow-up audit was initiated, MSC officials had not reevaluated allowance levels or processed all spare parts deemed excess based on the results of the 100-percent inventory. However, an MSC official stated during the followup audit that allowance levels were evaluated and remaining excess material was offloaded for reuse or disposal between March and May 2017 based on a third-party contractor's 100-percent inventory that MSC officials reported was completed in May 2017.

At the time this follow-up audit was initiated, MSC officials had not reevaluated allowance levels or processed all spare parts deemed excess based on the results of the 100-percent inventory.

In addition, the MSC Deputy, Logistics Directorate stated that the current PML had previously adjusted some of the allowance levels for storeroom parts on the LMSR ships between October 2016 and February 2017. The MSC Deputy, Logistics Directorate stated that the PML and ship engineers evaluated the requirements for individual parts and initiated allowance level changes. The MSC Surge LMSR Technical Manual states that the contractor will provide a justification for any requested allowance changes and COMSCINST 4790.3C states that the PML approves or disapproves requested allowance changes from the contractor.¹¹

We requested an update on the status of actions taken by MSC personnel to revise configuration and allowance levels for the 60 parts on the USNS *Gilliland* and the USNS *Gordon*, identified in DoD OIG Report No. 2014-106 that had the highest dollar value of excess according to SHIPCLIP. See Appendix B for the status of 60 spare parts that were identified in DODIG-2014-106. According to MSC officials, between October 2016 and February 2017, the PML took the following actions to revise configuration and allowance levels.

- Increased allowance levels for 38 parts for various operational reasons, including items designated critical in nature, items designated as insurance stock, and items with high demand.
- Transferred 19 parts to meet shortages on other contractor-managed ships or added them to the ashore inventory for availability to meet other MSC or Navy needs.

¹¹ COMSCINST 4790.3C, "Equipment Configuration Data Management, Life Cycle and Logistic Support for the Military Sealift Command (MSC)," May 23, 2011.

- Removed three parts from the storeroom inventory, because the parts were in-use equipment or computers that should not have been listed as storeroom items.

Inadequate MSC Oversight of Contractor Managed Spare Parts

MSC officials did not provide adequate oversight to ensure the contractor conducted the 100-percent inventory of the spare parts aboard the four LMSR ships in response to the recommendation from DoD OIG Report No. DODIG-2014-106, updated on-hand quantities based on the 100-percent inventory results, or reevaluated allowance levels based on the 100-percent inventory results. According to the MSC Deputy, Logistics Directorate, the lack of oversight is a result of personnel changes from a consolidation of MSC Headquarters. Specifically, the Deputy stated, “loss, relocation, and transition (for example retirement, acceptance of outside positions, reassignments to new internal

There is an increased likelihood of overpayments or purchasing parts already in inventory if the MSC does not take appropriate corrective actions.

positions, relocation, and new hires) of key staff due to consolidation of MSC Headquarters was a significant contributing factor.”

While we understand organizational changes can present challenges to the normal course of business operations, there is an increased likelihood of overpayments or purchasing parts already in inventory if the MSC does not take appropriate corrective actions. The 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.

The Commander, MSC, should:

- Update on-hand quantities in the SHIPCLIP in accordance with the results of the annual 100-percent inventory.
- Validate authorized allowance levels and ensure all spare parts deemed excess for reuse, resale, or disposal are processed appropriately.

In addition, the Commander, MSC, should develop a time-phased plan with goals and metrics to update SHIPCLIP, validate allowances, and address excess parts.

Potential for Overpayment Still Exists

The contracting officer established the requirement for the contractor to report all purchases that exceeded \$25,000, indicating if there was adequate competition or justification for all cases of inadequate competition. However, the contracting officer or designee did not conduct annual site visits to audit supply purchase documentation, which could have increased the contractor's compliance with the competition requirements. In addition, the contracting officer issued a contract modification, which did not clarify that the contractor must query the DSS for a better price before purchasing from a commercial source. As a result, the MSC did not ensure that the contractor always adequately competed, properly justified any deviation from competition, conducted the required query of the DSS, or used available spare parts prior to purchasing from a commercial source. Adequate competition and consideration of available inventory in the DSS increases the likelihood that the contractor will obtain fair and reasonable pricing for spare parts and not purchase items already available for use.

In addition, MSC officials reported that a third-party contractor completed a 100-percent inventory of the spare parts aboard the four LMSR ships in May 2017 and evaluated allowance levels of all spare parts deemed excess for reuse and disposal based on those inventory results; however, they had not yet updated on hand quantities in SHIPCLIP based on the 100-percent inventory results. Further, the 100-percent inventory and two related recommendations were delayed for nearly 2½ years. As a result, the MSC's delay in implementing the recommended corrective actions increased the likelihood that the contractor purchased spare parts already aboard the ships. There is an increased likelihood of overpayments or purchasing parts already in inventory if the MSC does not complete all corrective actions.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend the Commander, Military Sealift Command, establish and direct a cross-functional team of subject matter experts from Military Sealift Command to develop an oversight process to ensure the contractor complies with the contract's updated competition requirements.

Military Sealift Command Comments

The Commander, MSC, agreed with the recommendation, stating that MSC will create a cross-functional team of subject-matter experts to improve its oversight process to ensure the contractor complies with the contract requirements.

The cross-functional team plans to begin in early October 2017 and brief MSC leadership in late January 2018.

Our Response

Comments from the Commander addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we verify that the new controls governing the oversight process ensures the contractor complies with updated competition requirements for the purchase of reimbursable items for Sealift program ships. We expect to receive the information applicable to the new controls governing the oversight process no later than February 2018.

Recommendation 2

We recommend the Commander, Military Sealift Command:

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

Military Sealift Command Comments

The Commander, MSC, agreed with the recommendation, stating that MSC's support contractor had completed and recorded results of their storeroom item inventory and durable moveable property inventories in SHIPCLIP with an audited accuracy result greater than 98-percent between February and August 2017 for the four Large, Medium-Speed, Roll-on/Roll-off ships.

Our Response

Comments from the Commander addressed all specifics of the recommendation; therefore, the recommendation is closed based on our analysis of the MSC's documentation from their audit of the support contractor's inventory and subsequent update to SHIPCLIP.

- b. Validate authorized allowance levels and ensure all spare parts deemed excess for reuse, resale, or disposal are processed appropriately.**

Military Sealift Command Comments

The Commander, MSC, agreed with the recommendation, stating that the MSC had offloaded large amounts of excess inventory previously reported from each ship for reuse and disposal in November 2014. In addition, the Commander stated that allowance levels were evaluated and remaining excess material was offloaded for reuse and disposal upon completion of the MSC's support contractor's 100-percent inventory conducted from March 2017 through May 2017.

Our Response

Comments from the Commander addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive and analyze evidence supporting the transfer of the excess spare parts for reuse and disposal. We expect to receive the supporting documentation no later than October 2017.

- c. Direct the contracting officer to modify the contract to clarify and require the use of the Defense Supply System before acquiring spare parts from commercial sources.**

Military Sealift Command Comments

The Commander, MSC, agreed with the recommendation, stating that follow-on contract solicitations for purchasing services on MSC's Sealift Program ships now contain new standard contract language. Specifically, the contractor shall procure through the DSS before purchasing spare parts from commercial sources, unless the parts are unavailable in the DSS, or long lead times to purchase through the DSS would adversely impact the operation of any ships. In addition, the Commander stated that the contractor shall provide a monthly report for all purchases greater than \$25,000, which will indicate whether competition was obtained and whether the DSS was used, or provide justification for not competing or using the DSS for the purchases. After we received the Commander's response to the draft report, the MSC provided a new contract with updated language that was awarded on September 19, 2017, to another one of its Sealift Program ships (USNS *Bob Hope*).

Our Response

Comments from the Commander addressed all specifics of the recommendation; therefore, the recommendation is closed based on our review of the contract that includes the new language that MSC provided.

Recommendation 3

We recommend the Commander, Military Sealift Command develop a time-phased plan with goals and metrics to update the Shipboard Configuration and Logistics Program, validate allowances, and address excess parts.

Military Sealift Command Comments

The Commander, MSC, agreed with the recommendation, stating that MSC's cross-functional team will develop a time-phased plan with goals and metrics to update SHIPCLIP, validate allowances, and address excess parts for all Government-owned/Contract-Operated ships. In addition, the Commander stated that MSC has implemented multiple enhancements to its internal control regime related to updates to SHIPCLIP, validating allowances, and addressing excess parts.

Our Response

Comments from the Commander addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive and analyze the results of MSC's cross-functional team's time-phased plan with goals and metrics to update SHIPCLIP, validate allowances, and address excess parts for all Government-owned/Contract-Operated ships. We expect to receive supporting documentation for the cross-functional team's plan no later than February 2018.

Appendix A

Scope and Methodology

We conducted this performance audit from January 2017 through August 2017 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We assessed the MSC's efforts to implement the recommendations in DoD OIG Report No. DODIG-2014-106 and determined whether corrective actions addressed the problems. The report stated that the MSC did not effectively manage the excess spare parts inventory on two LMSR ships and ensure the contractor consistently followed contract requirements when purchasing spare parts for ships. Specifically, MSC inventory records showed that on-hand spare parts had exceeded authorized allowance levels for 4,677 spare parts, with the excess valued at \$3.4 million.

We obtained and reviewed documentation of corrective actions taken as a result of the audit. In addition, we evaluated whether the MSC implemented sufficient internal controls to ensure effective competition and require query of the DSS for spare parts purchases for its Sealift Surge Program LMSR contract. We reviewed the documentation for spare parts purchases in FY 2016 to determine whether the MSC ensured that adequate price competition was sought on FY 2016 spare parts purchases for its Sealift Surge Program LMSR ships. For the 12 of 59 purchase orders reviewed, we nonstatistically selected every fifth purchase order from a spreadsheet provided by MSC's contracting officer, containing all 59 purchases, valued between \$3,000 and \$25,000.

Interviews and Policies

We interviewed MSC officials responsible for spare parts inventory management and procurement to understand internal controls and contractor oversight.

We reviewed the following MSC policy and guidance to determine whether applicable guidance was updated and followed. Specifically, we reviewed:

- Contract No. N00033-10-C-5301, March 05, 2010;
- COMSCINST 4340.3C, "Military Sealift Command Contract Property Administration Manual," February 16, 2010;

- COMSCINST 4790.3C, “Equipment Configuration Data Management, Life Cycle and Logistic Support for the Military Sealift Command (MSC),” May 23, 2011;
- “MSC Surge LMSR Technical Manual,” undated; and
- “Government Property Control Procedures, N00033-14-C-3210, Revision 2014”

Use of Computer-Processed Data

We used computer-processed data provided by the MSC’s contracting officer. We received lists of FY 2016 purchase orders for the USNS *Gilliland*, USNS *Gordon*, USNS *Shughart*, and USNS *Yano*. To test the accuracy, we compared the computer processed data to the contractor’s procurement orders, vendor invoices showing price paid by the contractor to other applicable vendors, and delivery receipts.

Prior Coverage

During the last 5 years, the DoD Office of Inspector General (DoD OIG) issued one report discussing spare parts aboard and spare part purchases for LMSR ships in the Sealift Program. Unrestricted DoD OIG reports can be accessed from <http://www.dodig.mil/reports.html/>.

DoD OIG

Report No. DODIG-2014-106, “Military Sealift Command Oversight of Excess Spare Parts Inventory and Purchases for Sealift Program Roll-On/Roll-Off Ships Needs Improvement,” September 09, 2014

The DoD OIG determined that the MSC could have more effectively managed the excess spare parts inventory on two Sealift Program LMSR ships. The inventory contained 49 spare parts with excess valued at \$692,305. In addition, the MSC did not ensure that the contractor had acceptable justification for 13 spare parts purchases not adequately competed and used the DSS for spare parts purchases. The MSC potentially overpaid for parts procured without adequate competition and paid \$63,674 more than the DSS price for 28 of 76 parts purchased during FY 2011 and FY 2012.

Appendix B

Status of 60 Spare Parts Reported in DODIG-2014-106

Ship	National Stock Number	Status	Description
<i>Gordon</i>	5920-01-257-2993	Allowance Increased	Fuse, Cartridge
<i>Gordon</i>	4820-01-285-6149	Allowance Increased	Valve, Gate
<i>Gordon</i>	2930-01-411-6493	Transferred	Core Assembly, Fluid Cooler
<i>Gordon</i>	2940-01-417-4939	Transferred	Filter Element, Fluid
<i>Gordon</i>	3426-01-420-2475	Allowance Increased	Anode, Plating
<i>Gordon</i>	2010-01-421-5338	Allowance Increased	Oil Injector
<i>Gordon</i>	3020-01-424-4693	Allowance Increased	Gear, Spur
<i>Gordon</i>	3040-01-424-4701	Allowance Increased	Brake Band and Lining
<i>Gordon</i>	4820-01-425-5293	Transferred	Positioner, Valve
<i>Gordon</i>	5998-01-426-0892	Transferred	Circuit Card Assembly
<i>Gordon</i>	4320-01-426-2355	Allowance Increased	Cylinder Block Unit
<i>Gordon</i>	5330-01-428-3638	Transferred	Seal, Plain
<i>Gordon</i>	2915-01-428-6598	Transferred	Actuator
<i>Gordon</i>	3120-01-430-8882	Allowance Increased	Bearing, Sleeve
<i>Gordon</i>	4820-01-430-8943	Transferred	Valve, Counterbalance
<i>Gordon</i>	5998-01-437-5632	Allowance Increased	Circuit Card Assembly
<i>Gordon</i>	2090-01-442-0263	Transferred	Windshield Wiper Assembly
<i>Gordon</i>	2590-01-449-2358	Transferred	Screen Assembly, Sil
<i>Gordon</i>	2815-01-457-3242	Allowance Increased	Valve, Poppet, Engine
<i>Gordon</i>	4330-14-480-5476	Allowance Increased	Filter Element, Fluid
<i>Gordon</i>	2815-22-269-2668	Allowance Increased	Spring Pack, Comp
<i>Gordon</i>	2815-22-269-2669	Allowance Increased	Ring, Piston
<i>Gordon</i>	2815-22-269-2671	Allowance Increased	Ring, Piston
<i>Gordon</i>	2815-22-269-2673	Allowance Increased	Ring, Piston
<i>Gordon</i>	2815-22-269-2685	Allowance Increased	Valve, Poppet, Engine
<i>Gordon</i>	5330-22-269-2751	Allowance Increased	Seal, Plain
<i>Gordon</i>	0000-LL-CMB-8409	Allowance Increased	Valve Exhaust Compl
<i>Gordon</i>	0000-TS-L60-1038	Allowance Increased	Ring, Lubricating
<i>Gordon</i>	0000-TS-L61-1200	Allowance Increased	Stud
<i>Gordon</i>	0000-TS-L61-1468	Allowance Increased	Segment

Status of 60 Spare Parts Reported in DODIG-2014-106 (cont'd)

Ship	National Stock Number	Status	Description
<i>Gilliland</i>	6230-01-269-1831	Removed	Searchlight
<i>Gilliland</i>	4240-01-272-3841	Removed	Torch, Exothermic
<i>Gilliland</i>	5940-01-303-4978	Transferred	Terminal, Lug
<i>Gilliland</i>	5310-01-310-5968	Transferred	Washer, Seal
<i>Gilliland</i>	4720-01-352-2281	Transferred	Hose, Nonmetallic
<i>Gilliland</i>	6350-01-391-2664	Allowance Increased	Detector, Heat
<i>Gilliland</i>	6210-01-399-8221	Transferred	Light, Indicator
<i>Gilliland</i>	2940-01-417-4939	Allowance Increased	Filter Element, Fluid
<i>Gilliland</i>	4730-01-418-6477	Allowance Increased	Swing Joint, Pipe
<i>Gilliland</i>	4730-01-419-5799	Allowance Increased	Swing Joint, Pipe
<i>Gilliland</i>	5331-01-421-9895	Allowance Increased	O-Ring
<i>Gilliland</i>	5998-01-422-0570	Allowance Increased	Circuit Card Assembly
<i>Gilliland</i>	5998-01-424-7601	Allowance Increased	Printed Circuit Board
<i>Gilliland</i>	5996-01-425-7261	Allowance Increased	Amplifier, Audio Frequency
<i>Gilliland</i>	5930-01-431-0494	Transferred	Push Button
<i>Gilliland</i>	4820-01-433-7159	Transferred	Valve Assembly, Manifold
<i>Gilliland</i>	4820-01-434-0216	Transferred	Regulating Valve
<i>Gilliland</i>	4720-01-487-4162	Transferred	Hose, Nonmetallic
<i>Gilliland</i>	2815-12-341-1216	Allowance Increased	Piston
<i>Gilliland</i>	5998-12-343-3466	Allowance Increased	Electronic Components
<i>Gilliland</i>	4330-14-479-4387	Allowance Increased	Filtering Disk, Fluid
<i>Gilliland</i>	4330-14-480-5476	Allowance Increased	Filter Element, Fluid
<i>Gilliland</i>	2815-22-269-2685	Allowance Increased	Valve, Poppet, Engine
<i>Gilliland</i>	5307-22-269-2794	Allowance Increased	Stud, Plain
<i>Gilliland</i>	5310-22-269-2800	Allowance Increased	Nut, Plain, Hexagon
<i>Gilliland</i>	5306-22-269-2811	Allowance Increased	Bolt, Machine
<i>Gilliland</i>	0000-LL-CMB-8310	Allowance Increased	Liner, Cylinder
<i>Gilliland</i>	0000-TS-L60-8973	Transferred	Valve Assembly
<i>Gilliland</i>	0000-TS-L60-9567	Removed	Processing Unit
<i>Gilliland</i>	0000-TS-L61-3433	Transferred	Ring

Source: The MSC.

Management Comments

Military Sealift Command



DEPARTMENT OF THE NAVY
COMMANDER MILITARY SEALIFT COMMAND
471 EAST C STREET
NORFOLK VA 23511-2419

5000
Ser N00/340
21 Sep 17

From: Commander, Military Sealift Command
To: Inspector General, Department of Defense

Subj: RESPONSE TO DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT FOLLOW-UP AUDIT REPORT – MILITARY SEALIFT COMMAND MANAGEMENT OF SPARE PARTS INVENTORY AND PURCHASES FOR SEALIFT PROGRAM ROLL-ON/ROLL-OFF SHIPS PROJECT NO. D2017-D000AJ-0076.000)

Ref: (a) DoD Draft Follow-up Audit Report, Project No. D2017-D000AJ-0076.000 of 21 Aug 17

Encl: (1) Military Sealift Command (MSC) Responses to the Findings and Recommendations

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

2. We appreciate the opportunity to review and comment on the findings and recommendations. My point of contact for this document is [REDACTED] MSC Audit Liaison, who can be reached at [REDACTED].

DEEL MEWBOURNE

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Military Sealift Command (cont'd)

**Military Sealift Command Response to
DoDIG Draft Report of 21 August 2017
On**

**Followup Audit: Military Sealift Command Management of Spare Parts Inventory and
Purchases for Sealift Program Roll-On/Roll-Off Ships
(Project No. D2017-D000AJ-0076.000)**

Summary of findings and recommendations: This draft report notes that MSC corrective actions were not effective or not implemented for Spare Parts Inventory and Purchases for prior audit DODIG-2014-106, "Military Sealift Program Roll-On/Roll-Off Ships Needs Improvement" dated 9 September 2014. In this follow-up audit, DoD OIG made the following recommendations to correct deficiencies:

Recommendation 1:

Commander, Military Sealift Command establish and direct a cross-functional team of subject matter experts from Military Sealift Command to develop an oversight process to ensure the contractor complies with the contract's updated competition requirements.

Recommendation 2:

Commander, Military Sealift Command:

- a. Update on-hand quantities in the Shipboard Configuration and Logistics Program in accordance with the results of the annual 100-percent inventory.
- b. Validate authorized allowance levels and ensure all spare parts deemed excess for reuse, resale, or disposal are processed appropriately.
- c. Direct the contracting officer to modify the contract to clarify and require the use of the Defense Supply System before acquiring spare parts from commercial sources.

Recommendation 3:

Commander, Military Sealift Command, develop a time-phased plan with goals and metrics to update the Shipboard Configuration and Logistics Program, validate allowances, and address excess parts.

The report findings are substantially correct. The following details specific actions MSC has taken/will take to correct the identified deficiencies.

Military Sealift Command (cont'd)

Recommendation #1: Concur Estimated Completion Date: **26 January 2018**

- MSC will convene a cross-functional team of subject matter experts to improve our oversight process to ensure the contractor complies with the contract requirements. The CFT will begin approximately 6 October 2017 and brief MSC leadership approximately 26 January 2018.

Recommendation #2a: Concur Estimated Completion Date: **Completed February through August 2017**

- MSC's support contractor has completed and recorded Storeroom Item (SRI) inventory results on the following ships directly into Shipboard Logistics Information Program (ShipCLIP) software with audited inventory accuracy results in excess of 98%.
 - GORDON (completed 16 Feb 17)
 - GILLILAND (completed 22 Feb 17)
 - YANO (completed 23 Mar 17)
 - SHUGHART (completed 23 Mar 17)
- MSC's support contractor has completed Durable Moveable Property (DMP) inventories on the following ships with audited inventory accuracy results in excess of 98%.
 - YANO (completed 21 Apr 17)
 - SHUGHART (completed 21 Apr 17)
 - GORDON (completed 31 May 17)
 - GILLILAND (completed 31 May 17)
- Sourcing/pricing data research and recording of Durable Moveable Property (DMP) inventory results in Shipboard Logistics Information Program (ShipCLIP) software has been completed with an audited accuracy rate in excess of 98%.
 - YANO (recorded 25 July 17)
 - GILLILAND (recorded 9 Aug 17)
 - SHUGHART (recorded 16 August 17)
 - GORDON (recorded 25 August 17)

Recommendation #2b: Concur Estimated Completion Date: **Completed May 2017**

- In November 2014, the reported large amounts of excess inventory were physically off-loaded from each ship and processed ashore for re-use or disposal; YANO (2,637 line items); SHUGHART (3,157 line items); GORDON (1,937 line items); and GILLILAND (4,532 line items).
- During the March-May 2017 wall-to-wall shipboard inventory process, allowance levels were evaluated and remaining excess material was offloaded for re-use and/or disposal.

Recommendation #2c: Concur Estimated Completion Date: **Close of FY17**

The follow-on contract solicitations for these services now contain this new standard contract language:

Military Sealift Command (cont'd)

“5.4.5.1 Procurement through the Defense Supply System. (also referred to the Navy Supply System) Before using commercial sources, the contractor shall first attempt to match all needed spare parts, supplies, or equipment to a national stock number (NSN) using SHIPCLIP, HAYSTACK, or equivalent system, and query the One -Touch system to determine availability of the required items in the Reutilization Asset Management (RAM) / Enterprise Resources Planning (ERP) systems.

5.4.5.2 Commercial Procurements of Spare parts and Installed Equipment. If the Defense Supply System does not stock the required item or if the lead-time for ordering a specific item from the Defense Supply System would adversely impact the operation of any ship, the contractor shall procure the required item from commercial sources using SHIPCLIP to record the transaction. “

5.4.5.4 Monthly Reporting. No later than the 7th of each month, the Contractor shall submit a report on all purchases for material, supplies, or installed equipment during the previous month with values greater than \$25,000.00. For each such purchase, the Contractor shall indicate: a) whether competition was obtained (and provide justification if not competed), and b) whether the Defense Supply System (DSS) was used (and provide justification if DSS was not used).

Recommendation #3: Concur Estimated Completion Date: **01/26/2018**

- To enhance existing policy (COMSCINST 4790.3C, Equipment Configuration Data Management, Life Cycle and Logistics Support for the Military Sealift Command), implemented MSC Configuration and Logistics Support Verification Quality Management System (QMS) procedure (N44.751.1.Q) on 24 October 2016 to update the Shipboard Configuration and Logistics Program, validate allowances, and address excess parts.
- MSC's Government Property Management Program has been included as a work process that is monitored and tracked for the N4 Assessable Unit's (AU) Managers' Internal Control (MIC) Program. This AU is included in MSC's annual Statement of Assurance (SOA) report to US Fleet Forces Command, which validates MSC's assurance that internal controls (such as validation of allowances, acquisition of shortages, and processing of excesses) are operating effectively.
- The inventory posture of individual ships is being reported to the applicable Program Managers on a monthly basis. Report includes range/depth allowances, on-hand plus on orders totals, shortages and excesses.
- CFT (Recommendation #1) will develop a time-phased campaign plan, with goals and metrics, to update the Shipboard Configuration and Logistics Program, validate allowances, and address excess parts for all Government-owned/Contract-Operated (GOCO) ships.

Acronyms and Abbreviations

DSS	Defense Supply System
LMSR	Large, Medium-Speed, Roll-On/Roll-Off
MSC	Military Sealift Command
PML	Program Manager, Logistics
SHIPCLIP	Shipboard Configuration and Logistics Program
USNS	United States Naval Ship



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U.S. DEPARTMENT OF DEFENSE

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