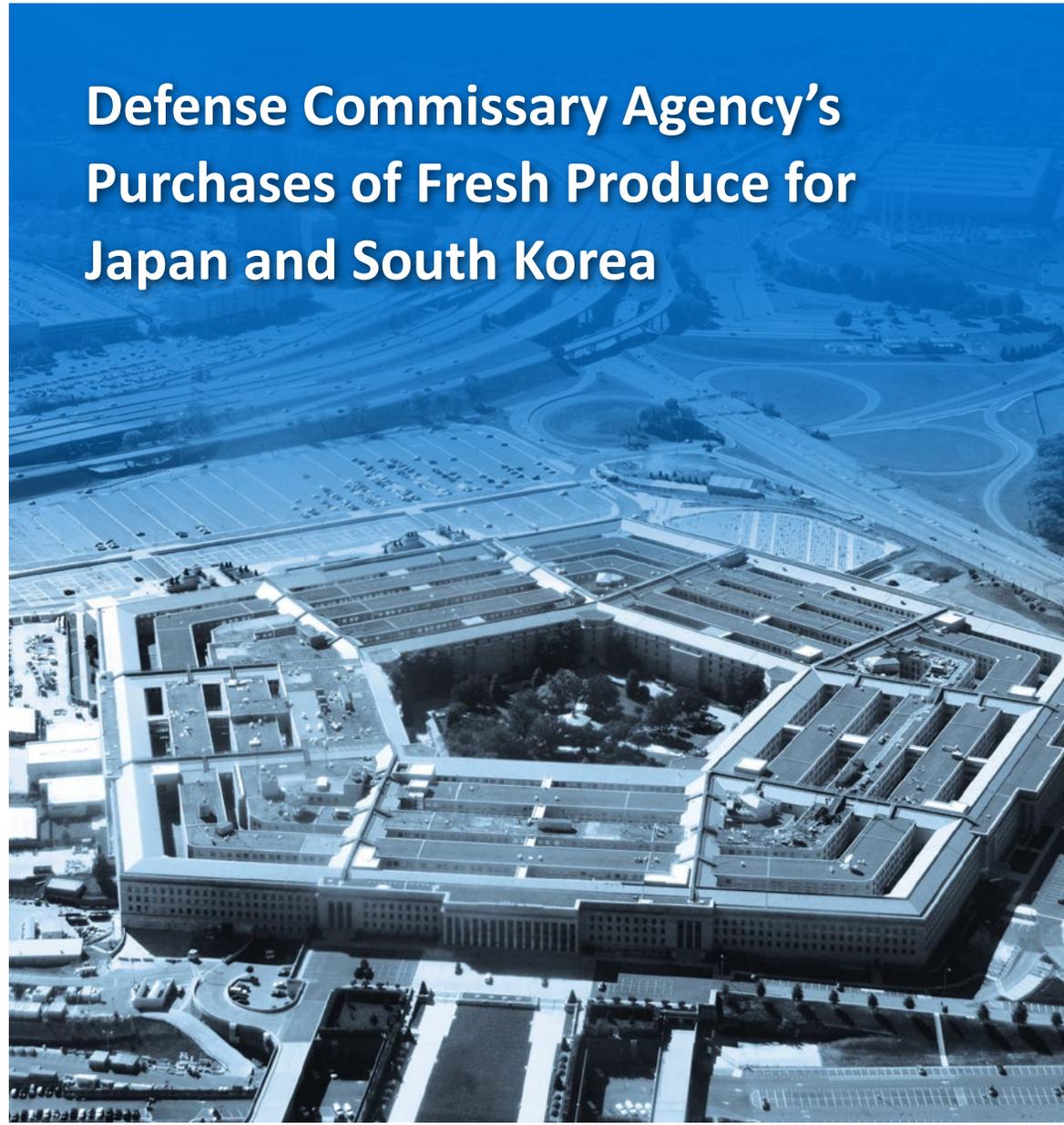




INSPECTOR GENERAL

U.S. Department of Defense

FEBRUARY 12, 2018



Defense Commissary Agency's Purchases of Fresh Produce for Japan and South Korea

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Results in Brief

Defense Commissary Agency's Purchases of Fresh Produce for Japan and South Korea

February 12, 2018

Objective

We determined the impact of the current local purchase process by the Defense Commissary Agency (DeCA) for fresh produce versus the previous DoD-funded transportation process in the Pacific. Specifically, we reviewed the impact as it pertains to the cost and freshness (quality) of fresh produce on DeCA and the DeCA customers in Japan and South Korea.

We performed this audit in response to a reporting requirement contained in House Report 114-537, which accompanied the National Defense Authorization Act for FY 2017. The House Committee on Armed Services was concerned about the performance of the current Pacific fresh fruits and vegetables delivery contracts, the past contract, and the fresh produce local purchase authority across DeCA's enterprise outside the continental United States. The Committee also inquired about the impact as it relates to the overseas cost of living allowance.

This is our second audit on DeCA fresh produce contracts in the Pacific theater (region). We were not able to compare the quality of fresh produce from the previous contract versus the current contract because DeCA produce personnel did not routinely document fresh produce quality in the commissaries under the prior contract.

Background

DeCA's mission is to provide an efficient and effective worldwide system of commissaries for the resale of groceries and related household items at reduced prices to members of the Uniformed Services, retired members, dependents (families), and other authorized customers to enhance their quality of life and to support military readiness, recruitment, and retention. DeCA operates 51 commissaries in the Pacific theater, of which 25 are located in Japan and South Korea.

Findings

We determined that under DeCA's local purchase process for fresh produce in Japan and South Korea, fresh produce contracts were more cost effective than the previous DeCA-funded transportation contract for fresh produce. Purchasing fresh produce from local sources was more cost effective for DeCA because under the current contract, the contractor paid to transport fresh produce to Japan and South Korea. Under the previous contract, DeCA paid \$114.6 million from FYs 2013 through 2015 to transport fresh produce to the same locations.

We also determined that average customer prices from November 2015 through April 2017 for 239 unique fresh produce items at Japan commissaries increased 20.9 percent on the mainland and 23.6 percent for 237 unique fresh produce items on Okinawa. At commissaries in South Korea, prices increased 31.5 percent for 231 unique fresh produce items. In addition, average customer prices that we surveyed in May and June 2017 for locally grown produce sold at the commissaries were 27.1 to 45.3 percent higher than local market prices.

Despite price increases, the impact on the cost of living allowance rate for military personnel in FY 2016 for locations we visited was minimal because fresh produce only accounted for less than 2 percent of the cost of living allowance calculations.



Results in Brief

Defense Commissary Agency's Purchases of Fresh Produce for Japan and South Korea

Findings (cont'd)

Finally, a majority of DeCA customers we surveyed rated the quality of fresh produce sold at the commissary to be worse than the quality of fresh produce sold at local markets in Japan and South Korea.

The higher prices occurred because DeCA's market research did not adequately evaluate the feasibility of obtaining fresh produce items from in-country for DeCA commissaries in the Pacific theater. They also did not conduct a business case analysis to determine the impact on customer prices and fresh produce quality.

As a result of the local purchase contracts, DeCA has saved an average of \$38 million per year since 2016 by not subsidizing transportation costs for fresh produce shipped to Japan and South Korea. However, DeCA's fresh produce contracts for Japan and South Korea did not meet the intent of the local purchase process, which is to supply quality produce at prices comparable to prices under the previous contract where DeCA subsidized transportation of fresh produce.

Recommendation

We recommend the Director, DeCA, conduct a business case analysis or detailed market research on the current Pacific fresh produce purchase process to identify potential opportunities to lower fresh produce prices and improve produce quality for customers.

Management Comments and Our Response

The Director, DeCA, agreed to conduct a business case analysis or detailed market research on the current Pacific fresh produce purchase process to identify potential opportunities to lower fresh produce prices and to improve produce quality for customers. Therefore, the recommendation is resolved but will remain open. We will close this recommendation once we verify DeCA completed its business case analysis or market research.

Please see the Recommendations Table on the following page for the status of the recommendation.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Director, Defense Commissary Agency	None	1	None

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**

February 12, 2018

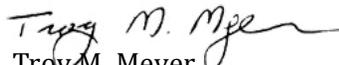
MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY

SUBJECT: Defense Commissary Agency's Purchases of Fresh Produce for
Japan and South Korea (Report No. DODIG-2018-072)

We are providing this report for your review. Under the current contract, the Defense Commissary Agency (DeCA) has saved an average of \$38 million per year since 2016 by not subsidizing transportation costs for fresh produce shipped to Japan and South Korea. However, average customer prices for 239 fresh produce items at Japan commissaries increased 21 percent on the mainland and 24 percent for 237 unique fresh produce items on Okinawa when compared to prices under the prior contract. At commissaries in South Korea, prices increased 32 percent for 231 fresh produce items. In addition, average customer prices that we surveyed for locally grown produce sold at the commissaries were 27 to 45 percent higher than local market prices. Lastly, a majority of DeCA customers we surveyed rated the quality of fresh produce sold at the commissary to be worse than the quality of fresh produce sold at local markets in Japan and South Korea. We conducted this audit in accordance with generally accepted auditing standards.

We considered DeCA management and contractor comments on the draft of this report when preparing the final report. Comments from the Director, DeCA, addressed all specifics of the recommendation and conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments.

We appreciate the cooperation and assistance received during the audit. Please direct questions to Mr. Timothy Wimette at (703) 604-8876 (DSN 664-8876).


Troy M. Meyer
Principal Assistant Inspector General
for Auditing

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Acronyms and Abbreviations

Introduction

Objective

We determined the impact of the current local purchase process by the Defense Commissary Agency (DeCA) for fresh produce versus the previous DoD-funded transportation process in the Pacific. Specifically, we reviewed the impact as it pertained to the cost and freshness (quality) of fresh produce on DeCA and the DeCA customers in Japan and South Korea. This is the second audit on DeCA fresh produce contracts in the Pacific theater (region). We were not able to compare the quality of fresh produce from the previous contract versus the current contract because DeCA produce personnel did not routinely document fresh produce quality in the commissaries under the prior contract.

We performed this audit in response to a reporting requirement contained in House Report 114-537 to accompany H.R. 4909, the National Defense Authorization Act for FY 2017. According to the report language, the House Committee on Armed Services was concerned about the performance of the current Pacific fresh fruits and vegetables delivery contracts, the past contract, and the fresh produce local purchase authority across DeCA's enterprise outside the continental United States. The Committee also inquired about the impact as it relates to the overseas cost of living allowance (COLA). Therefore, the committee directed the DoD Office of Inspector General to evaluate and report on the effectiveness of the new fresh produce purchase process compared to the previous second destination transportation-funded process.

Background

DeCA's mission is to provide an efficient and effective worldwide system of commissaries for the resale of groceries and related household items at reduced prices to members of the Uniformed Services, retired members, dependents (families), and other authorized customers to enhance their quality of life and to support military readiness, recruitment, and retention. DeCA operates 51 commissaries in the Pacific theater, of which 25 are located in Japan and South Korea. DeCA applies a markup of up to 7 percent to fresh produce to cover the actual or estimated cost of spoilage and theft of merchandise.

Since 2007, DeCA has leveraged the increasingly global fresh produce market by implementing a local purchase process for acquiring locally sourced fresh produce in Europe. According to DeCA officials, the local purchase process does not imply that all fresh produce is grown locally, rather it means the contractor has an established supply chain in place to meet fresh produce contract requirements.

Fresh Produce Contracts for the Pacific Theater

In 2014, DeCA officials determined that the Pacific markets could support the local purchase process. DeCA switched in 2015 to a local purchase process contract that was similar to the process used for commissaries in Europe. Under the local purchase process in Europe, DeCA purchases fresh produce from a local supplier and the supplier bears all costs associated with acquiring and transporting the fresh produce to DeCA commissaries. According to DeCA officials, the process in Europe provides commissary customers with fresh quality produce at fairly significant savings to the commercial markets, and that the process is a prime example of adopting commercial practices. DeCA officials stated that the local purchase process did not limit the fresh produce provider to supplying only local produce; however, the approach encouraged them to purchase fresh produce locally to meet contractual delivery requirements. Another DeCA official stated that with the change to the Pacific contract, local sources would lead to lower prices and higher quality for commissary customers.

On May 22, 2015, DeCA awarded two contracts to supply fresh produce to commissaries in the Pacific theater. According to DeCA, these contracts would not only save transportation costs, but they would also provide customers with improved quality produce that is fresher and priced comparably to pricing under the prior contract. DeCA contracting officials awarded one contract to provide fresh produce for resale to commissary locations in Japan and South Korea and another contract for commissaries in Guam. The 24-month contract to purchase local fresh produce for Japan and South Korea had an estimated value of \$55 million.¹ However, the prime contractor was unable to fulfill contract requirements and transferred (novated) the South Korea portion of the contract to one of its subcontractors in April 2017 and novated the Japan portion of the contract to its other subcontractor in September 2017.² DeCA exercised the first option period (November 1, 2017, through October 31, 2018) for both contracts in September 2017.

The contract required the contractor to provide fresh produce to 25 DeCA commissaries in Japan and South Korea and to deliver the fresh produce within 24 hours of the commissary order. The contract also required the contractor to pay for all transportation costs associated with acquiring and delivering the fresh produce to the commissaries. The contract required that 35 high-volume core produce items have an average minimum of 30-percent customer savings over local Japan market prices and 34-percent customer savings over local South Korean

¹ In addition to the 24-month base contract HDEC09-15-D-0002, there were 3 option periods of 12 months each.

² With a novation, the Government approves the transfer of the obligation to perform the contract to another contractor and releases the original contractor from the obligation.

prices. High-volume core items, established by the contract, are mainstream produce items in the typical American diet, such as apples, bananas, carrots and tomatoes. See Appendix B for the list of high-volume core items. Non-high-volume core items are all fresh produce other than the 35 high-volume core items. See Figure 1 for a commissary fresh produce display.



Figure 1. Summer Tropical Display at Kadena Air Base Commissary, Okinawa, Japan.
Source: DeCA's Japan Fresh Produce Contractor

The previous fresh produce contract was for the acquisition of fresh produce primarily from the continental United States for commissaries in the Pacific theater. The contract was awarded on February 15, 2008, for an estimated value of \$39.4 million.³ The contractor was responsible for delivering fresh produce to the designated port on the west coast of the United States, at which point DeCA owned the fresh produce. DeCA then paid the costs to transport the produce to DeCA commissary locations in Japan, South Korea, and Guam under separate transportation contracts. The transportation costs DeCA paid to have the produce delivered to the commissaries were not included in the commissary produce prices that customers paid.

³ Contract HDEC02-08-D-0001.

Transportation of Produce Under Current and Previous Contracts

Under the current contracts, highly perishable fresh produce, such as lettuces, berries, and leafy vegetables, are acquired by the contractor locally or transported at the contractor's expense by commercial air twice per week to Japan and South Korea. When the highly perishable fresh produce arrives in-country, the contractor processes the produce through customs and places the fresh produce into its inventory for delivery to commissaries. Under the previous contract, highly perishable fresh produce was airlifted using a transportation contract issued by the U.S. Transportation Command, and DeCA used a freight forwarding firm to deliver the produce directly to the commissaries.

Hardy fresh produce, which DeCA defines as produce able to withstand the longer transit time to Japan and South Korea, is transported by ocean vessel. Under the local purchase process contract, the contractor is responsible for the cost of ocean shipping and transportation to DeCA commissaries. Under the previous contract, the contractor loaded shipping containers with the fresh produce and transported the containers to the U.S. port of departure. The produce contractor was responsible for all costs related to transporting containers within the United States, and DeCA paid for the ocean transportation. After the ship arrived in Japan and South Korea, a DeCA freight forwarding contractor delivered the shipping containers to the commissaries. According to the produce contractors, ship transport takes anywhere from 14 to 21 days to arrive at the ports in Japan and South Korea.

Comparable Contract for Fresh Produce in the Pacific Theater—Guam

In February 2017, we reported on the impact of the current fresh produce contract for Guam.⁴ We determined that average fresh produce prices at the two commissaries in Guam increased 7.2 percent from prior Pacific-wide fresh produce contract to the current fresh produce contract. The current contractor in Guam also supplies fresh produce to other local businesses in Guam.

We also found that DeCA personnel did not routinely document quality problems for fresh produce in the commissary display areas under either contract because DeCA guidance and procedures did not routinely require produce personnel to document quality problems. The Director, DeCA, agreed to our recommendation to require DeCA personnel to document quality problems, stating that the Store Operations Group would review and revise DeCA Directive 40-4 to require the documentation of quality checks on fresh produce in the Pacific.

⁴ Report No. DODIG-2017-060, Defense Commissary Agency Purchases of Fresh Produce in Guam, February 28, 2017.

Cost of Living Allowance

The COLA is a non-taxable, supplemental pay allowance that offsets overseas prices of non-housing goods and services. The Defense Travel Management Office implements an overseas COLA for personnel living in Japan and South Korea to offset higher prices of overseas goods and services at that location. As part of the yearly COLA calculation, Defense Travel Management Office officials send retail surveys to overseas points of contact to collect local prices for 120 goods and services purchased at local market stores (off base) and on-base stores (commissaries and military exchanges). The retail price survey includes 12 categories for groceries, fruits and vegetables, clothing, recreation, and childcare, among others. The fruits and vegetables category includes fresh, canned, and frozen produce.

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.⁵ DeCA's internal controls relevant to the audit objectives were effective. However, DeCA's current fresh produce contracts for Japan and South Korea did not meet the intent of the local purchase process, which is to supply quality produce at prices comparable to prices under the previous contract.

⁵ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding

DeCA Reduced Transportation Costs, but Fresh Produce Prices Increased

We determined that under DeCA's local purchase process for fresh produce in Japan and South Korea, fresh produce contracts were more cost effective than the previous DeCA-funded transportation contract for fresh produce. Purchasing fresh produce from local sources was more cost effective for DeCA because under the current contract, the contractor paid to transport fresh produce to Japan and South Korea. Under the previous contract, DeCA paid \$114.6 million from FYs 2013 through 2015 to transport fresh produce to the same locations.

We also determined that average customer prices from November 2015 through April 2017 for 239 unique fresh produce items at Japan commissaries increased 20.9 percent on the mainland and 23.6 percent for 237 unique fresh produce items on Okinawa. At commissaries in South Korea, prices increased 31.5 percent for 231 unique fresh produce items.⁶ In addition, average customer prices that we surveyed in May and June 2017 for locally grown produce sold at the commissaries ranged from 27.1 to 45.3 percent higher than local market prices. Despite these price increases, the impact on the COLA rate for military personnel in FY 2016 for locations we visited was minimal because fresh produce only accounted for less than 2 percent of the COLA calculations. Finally, a majority of DeCA fresh produce customers we surveyed rated the quality of fresh produce sold at the commissary to be worse than the quality of fresh produce sold at local markets in Japan and South Korea.

The higher prices occurred because DeCA's market research did not adequately evaluate the feasibility of obtaining fresh produce for DeCA commissaries in the Pacific theater from in-country suppliers. They also did not conduct a business case analysis to determine the impact on customer prices and fresh produce quality.

As a result of the local purchase contracts, DeCA has saved an average of \$38 million per year since 2016 by not subsidizing transportation costs for fresh produce shipped to Japan and South Korea. However, DeCA's fresh produce contracts for Japan and South Korea did not meet the intent of the local purchase process, which is to supply quality produce at prices comparable to prices under the previous contract where DeCA subsidized transportation of fresh produce.

⁶ This is the amount of fresh produce items we were able to match between the prior and current contracts.

Local Purchase Process Was More Cost Effective for DeCA

DeCA's fresh produce local purchase contracts for Japan and South Korea were more cost effective than the previous DeCA-funded fresh produce transportation contract. The local purchase process was more cost effective because it eliminated the requirement for DeCA to pay to transport fresh produce to Japan and South Korea, which was \$114.6 million from FYs 2013 through 2015. See Table 1 for DeCA-funded transportation costs for fresh produce delivered to Japan and South Korea for FY 2013 through April 2017.

Table 1. DeCA-Funded Transportation Costs to Japan and South Korea

Transportation Type	FY 2013	FY 2014	FY 2015	FYs 2016 – 2017
Air	\$31,745,359	\$30,586,198	\$29,450,754	\$0
Surface	1,871,069	1,661,503	1,051,678	0
Freight Forwarding	6,301,537	6,043,037	4,890,457	0
Local (via Government Purchase Card)	326,139	324,595	327,682	0
Total	\$40,244,104	\$38,615,333	\$35,720,571	\$0

Source: DeCA.

Although DeCA paid substantial costs to transport fresh produce to Japan and South Korea in FYs 2013 through 2015, the cost of transportation was not included in the commissary's fresh produce price under the previous contract. Under the current contract, DeCA does not pay to transport fresh produce. Instead, the contractors pay to acquire and transport the produce to Japan and South Korea, and the contractors recover those costs in the price of the produce sold to the commissary.

Fresh Produce Prices Increased, and Customer Surveys Rated Quality Better at Local Markets

Customers paid more for fresh produce under the current contracts than under the previous contract, and prices for local fresh produce were higher at the commissaries than local market prices in Japan and South Korea. However, the fresh produce price increases had minimal impact on the overseas COLA in FY 2016. In addition, the majority of DeCA fresh produce customers we surveyed rated the quality of fresh produce sold at the commissary to be worse than the quality of fresh produce sold at local Japan and South Korea markets.

Fresh Produce Prices Increased Under Current Contract

We reviewed commissary customer prices from November 2015 through April 2017 for fresh produce items available to commissaries in mainland and Okinawa, Japan and South Korea. Our review of mainland and Okinawa, Japan was separate because the contractor had separate fresh produce order guides from which commissaries in those locations could order. We compared fresh produce prices in base year 1 (November 2015 through October 2016) and base year 2 (November 2016 through April 2017) for the current contract to prices in the final year of the prior contract (November 2014 through October 2015). See Table 2 for the comparison of produce prices under the current and prior contracts.

Table 2. Comparison of Fresh Produce Prices under Current and Prior Contracts

Location	Year 1 Number of Unique Items Compared to Prior Contract	Year 1 Price Increase Over Prior Contract	Year 2 Number of Unique Items Compared to Prior Contract	Year 2 Price Increase Over Prior Contract	Total Number of Unique Items Compared	Average Nov 2015 through April 2017 Price Increase Over Prior Contract
Mainland Japan	232	18.3%	95	30.0%	239	20.9%
Okinawa, Japan	217	21.8	96	30.2	237	23.6
South Korea	215	29.2	145	36.8	231	31.5

Note: We did not adjust the percentages for inflation. According to the U.S. Department of Agriculture, the historical inflation average for fresh fruits is 2.2 percent and for fresh vegetables is 2.8 percent. However, DeCA provided inflation data for FY 2016 of 1.88 percent and for FY 2017 through August of minus 1.11 percent.
Source: The DoD OIG.

Average customer prices from November 2015 through April 2017 for 239 unique fresh produce items at Japan commissaries increased 20.9 percent on the mainland and 23.6 percent for 237 unique fresh produce items on Okinawa. At commissaries in South Korea, prices increased 31.5 percent for 231 unique fresh produce items.

Prices of Local Fresh Produce Higher Than Local Market Prices

Locally grown fresh produce sold at the commissaries cost more than local market prices in Japan and South Korea. In May and June 2017, we visited nine local stores in mainland and Okinawa, Japan and South Korea to compare prices of fresh produce to commissary prices. For locally grown produce items, customers were paying considerably more at some of the commissaries as shown in Table 3.

Table 3. Comparison of Local Fresh Produce Prices at Commissaries and Local Stores

Location	Number of Local Stores Visited	Number of Unique Local Items Compared	DeCA Percentage Price Increase Compared to Local Stores
Mainland Japan	4	23	45.3%
Okinawa	2	19	27.1
South Korea	3	15	36.2

Source: The DoD OIG.

Average customer prices that we surveyed in May and June 2017 for locally grown produce sold at the commissaries were 27.1 to 45.3 percent higher than the local market prices. See Appendixes C, D, and E for the list of commissary locally grown fresh produce price comparisons to local stores.

Higher Produce Prices Had Minimal Impact to Cost of Living Allowance

The fresh produce price increases had minimal impact on the overseas COLA in FY 2016. The House Committee on Armed Services inquired about the impact of the change to the fresh produce local purchase process as it relates to the overseas COLA. The Defense Travel Management Office implements an overseas COLA that offsets overseas prices of non-housing goods and services. Overseas COLA weights are updated by the Defense Travel Management Office in conjunction with Bureau of Labor Statistics Consumer Expenditure Survey updates. Weights ensure more dollar significance is placed on heavily weighted items (for example, car insurance, gasoline, day care). The weights for the fresh produce category for locations visited in mainland and Okinawa, Japan ranged from only 1.38 percent to 1.45 percent and in South Korea from 1.21 percent to 1.3 percent in FY 2016. Therefore, the higher prices for fresh produce prices had minimal impact on the overall COLA rates.

Commissary Customers Rated Produce Quality Worse Than at Local Markets

The majority of DeCA fresh produce customers we surveyed rated the quality of fresh produce sold at the commissary to be worse than the quality of fresh produce sold at local Japan and South Korea markets. In May and June 2017, we surveyed customers at 13 Japan and South Korea commissaries to obtain their opinions pertaining to the quality of fresh produce sold at the commissaries. The survey consisted of five questions on quality and pricing. See Appendix F for the survey questions we asked the commissary customers and Appendix G for survey quality results by commissary. The majority of the customers surveyed rated the quality of fresh produce worse than the quality of fresh produce sold at local Japan and

South Korea markets. We surveyed 548 commissary customers in Japan and South Korea in May and June 2017 about the quality of produce sold at the commissary versus produce sold in the local markets:

- 193 of 243 (79.4 percent) commissary customers surveyed in mainland Japan rated the quality of produce sold at the commissaries worse than produce sold at local markets.
- 69 of 97 (71.1 percent) commissary customers surveyed in Okinawa, Japan rated the quality of produce sold at the commissaries worse than produce sold at local markets.
- 66 of 118 (55.9 percent) commissary customers surveyed in South Korea rated the quality of produce sold at the commissaries worse than produce sold at local markets.⁷

The Guam report identified that DeCA produce personnel were not routinely documenting quality problems for fresh produce in the commissary display areas under the prior and current contracts. DeCA agreed to require documentation of quality checks. However, the documentation of quality checks on fresh produce in the Pacific was not yet implemented. Therefore, we had to rely on patron surveys for comparison of fresh produce quality at commissaries versus local markets. Also, we did not ask for patrons to compare the quality between prior and current contracts because of the time gap since the new contract started.

DeCA Did Not Conduct Adequate Market Research or a Business Case Analysis

Although DeCA officials performed market research regarding fresh produce for DeCA commissaries in the Pacific theater, the research did not adequately evaluate the availability of fresh produce items in-country.⁸ In addition, DeCA officials did not conduct a business case analysis to analyze and compare alternatives when selecting the local purchase process versus the previous DeCA-funded transportation contract approach.

Inadequate Market Research Regarding Availability of In-Country Fresh Produce

DeCA officials did not conduct adequate market research to evaluate Pacific theater in-country availability of fresh produce items. DeCA's market research consisted of reviewing trade publications and searching local databases such as DoD contracting

⁷ Of the 548 customers surveyed, 90 customers did not shop off base or did not respond with a rating.

⁸ For purposes of the report, produce available in-country includes locally grown and imported produce locally available for sale.

systems, interested vendor lists, solicitation mailing lists, internet searches, e-mails, and phone calls. The objective of DeCA's market research was to identify local contractors that could provide fresh produce deliveries to DeCA commissaries in the Pacific theater.

According to the DeCA market research document, DeCA intended to award the Pacific produce contracts based on best value tradeoff procedures to contractors whose offers conformed to the solicitation and were most advantageous to the Government. In an effort to reduce cost and improve quality, DeCA officials decided that one or more contractors could support the commissaries in the Pacific. Based on the market research results, DeCA concluded that:

- fresh produce efforts in the Pacific theater would adopt approaches (local purchase process) used by overseas Commissaries throughout Europe, Africa, and Asia;
- contractors would provide all necessary fresh produce support; and
- contractors would provide all necessary facilities, order processing, distribution, and inventory management, to receive, store, handle, sort, and deliver fresh produce items to the various commissary locations throughout the Pacific theater.

Inadequate Evaluation of the Availability of Fresh Produce In-Country

DeCA did not adequately evaluate the in-country availability of fresh produce items. During their market research, DeCA did not determine the quantity and variety of fresh produce that could be bought in-country and the amount of fresh produce that would need to be imported. According to DeCA officials, they described local sourcing as the contractor already had an established supply chain in place to meet fresh produce contract requirements. They also stated,

Local sources [contractors] typically have far greater knowledge of sourcing product from local resources such as, distributors, farmers, and terminal markets. Local sources speak the native language of these contractors and are familiar with cultural and logistical requisites to the supply of produce.

Contractors benefit from buying produce in-country, such as eliminating transportation costs, avoiding lost product due to importation issues, and acquiring fresher produce.

The DeCA contracts require the contractors to include all costs associated with acquiring the produce, including transportation and customs clearance costs, into the price of the produce sold to the commissaries. A review of DeCA provided contractor sales data by dollars showed that in:

- Japan, for the 11-month period (October 2016 through August 2017), the contractor imported 76 percent of all fresh produce supplied to the commissaries.
- South Korea, for the 11-month period (October 2016 through August 2017), the contractor imported 61 percent of fresh produce supplied to the commissaries.

By importing a large percentage of fresh produce, the contractors are incurring more transportation and importation costs than if they had purchased the produce in-country, and these costs are added to the produce prices and passed on to DeCA customers. In addition, DeCA's produce contractors for South Korea and Japan had only one customer, DeCA, in their respective countries, which was in contrast to the fresh produce contracts in Europe and Guam.⁹ The contractor in Europe supporting the DeCA commissaries is a regional supermarket chain, and the contractor in Guam is a fresh produce distributor. Both contractors had established produce suppliers and multiple customers.

While fresh produce prices increased more than 20 percent at the commissaries in Japan and South Korea since DeCA switched to the local purchase process, prices increased only 7.2 percent at commissaries in Guam. We believe that supporting only one customer has the potential to limit the contractor from receiving quantity discounts. Also, the cost to transport fresh produce and losses due to sanitary importation requirements have a greater potential impact on commissary customer prices than it would for larger produce suppliers or for suppliers with multiple clients.¹⁰

Lastly, the contractors responsible for providing fresh produce to DeCA South Korea and Japan commissaries stated that there were problems with importing fresh produce into the respective countries. For example, in South Korea, if an insect is found during a customs inspection, the entire order of that fresh produce item is destroyed. According to the contractor in Japan, Japan Plant Quarantine officials regularly inspect at least 34 fresh produce categories and may require any of them to be fumigated (disinfected), which can degrade the quality of the fresh produce before granting clearance into Japan. The produce contracts require the

⁹ The contract reviewed for Europe was for commissaries in Germany, Belgium, and the Netherlands.

¹⁰ The objective of sanitary inspections are to protect the health of personnel from foodborne illnesses, determine sanitary compliance, and to ensure maintenance of food safety in order to ensure that wholesome food is maintained.

contractors to include the costs associated with customs clearance into the price of the produce. A DeCA official stated that they did not consider the difficulty of transporting produce into Japan and South Korea and its impact on produce prices when awarding the contract.

DeCA officials did not conduct adequate market research to conclude that DeCA South Korea and Japan commissaries would be able to adopt the fresh produce approach executed by DeCA for the commissaries in Europe while keeping produce prices comparable to prices under the previous second destination transportation-funded process.

No Business Case Analysis

In addition to not performing adequate market research, DeCA officials did not conduct a business case analysis to analyze and compare alternatives when implementing the local purchase process versus the previous DeCA-funded transportation contract. For example, DeCA officials did not adequately identify the availability of fresh produce from local sources or transportation costs and challenges, such as customs clearance issues, to determine the impact on customer prices and fresh produce quality. We recommend that the Director, DeCA, conduct a business case analysis or detailed market research on the Pacific fresh produce purchase process to identify potential opportunities to lower fresh produce prices and improve produce quality for customers.

Conclusion

DeCA is saving on average \$38 million per year by not paying to transport fresh produce to Japan and South Korea. However, DeCA's fresh produce contract approach resulted in considerably higher produce prices overall for commissary customers, and most customers that we surveyed rated the fresh produce quality worse than fresh produce at local stores. Therefore, DeCA's fresh produce contracts are not meeting the intent of the local purchase process to provide quality produce at prices comparable to prices under the previous contract where DeCA subsidized transportation of fresh produce. DeCA should reevaluate the current fresh produce purchase process to address pricing and quality issues.

Management Comments on the Finding and Our Response

The Director, DeCA, provided comments on the finding and report. We addressed the comments in this section and revised the report, where appropriate. For the full text of the Director's comments, see the Management Comments section of the report.

DeCA Comments

The Director, DeCA agreed that a majority of DeCA customers surveyed rated the quality of fresh produce sold at the commissary to be worse than the quality of fresh produce sold at local markets in Japan and South Korea. However, the Director disagreed that higher prices occurred because DeCA officials performed limited market research, and that DeCA did not adequately evaluate the availability of obtaining fresh produce from in-country sources.

According to the Director, DeCA's business model for providing fresh produce is predicated upon the contractor having the infrastructure to locally source fresh produce as much as possible, which increases quality, freshness, and reduces transportation costs. The Director stated that DeCA performed extensive market research before it solicited for the local purchase contract and sought input from established international commercial chains, which allowed it to conclude that the Pacific area had a robust and developing market of locally grown and imported quality fresh produce.

The Director also stated that, prior to the award of the contract, one of the offeror's challenged DeCA's market research effort, and the General Accountability Office viewed DeCA's research as adequate in identifying sources capable of satisfying the agency's requirement in supplying fresh produce to the Pacific area commissaries.

The Director stated that only U.S.-based firms responded to the solicitation, and DeCA awarded the contract to a firm that continued to source significant quantities of fresh produce from the continental United States. According to the Director, with DeCA transferring the contract to two in-country firms, he anticipates the transfer will provide opportunities for better quality and more favorable pricing.

Our Response

We agree with the Government Accountability Office that DeCA conducted market research to identify sources capable of satisfying the agency's requirement for acquiring fresh produce from a contractor responsible for paying all transportation costs. The Government Accountability Office's statement was, "it is evident that the agency conducted market research to identify sources capable of satisfying the agency's requirement, as described in FAR § 10.001(a)(3)(i)." FAR § 10.001(a)(3)(i) requires agencies to "[u]se the results of market research to [d]etermine if sources capable of satisfying the agency's requirements exist." However, we concluded that more in-depth research was needed to identify in-country fresh produce suppliers to meet the intent of the local purchase process, which was to provide quality produce at prices comparable to prices under the previous contract. Our point is that DeCA did not perform additional research to evaluate the sources identified

to determine the feasibility of obtaining locally grown fresh produce; the quantity and variety of fresh produce that could be bought in-country; or the amount of fresh produce that would need to be imported. In addition, the research did not identify any contractors in Japan as potential bidders on the contract. Lastly, the source selection report showed that no in-country contractors had bid on the Japan portion of the contract and only one in-country contractor had submitted an unacceptable bid on the South Korea portion of the contract.

The fact that the current contractors continued to procure the majority of fresh produce from U.S. sources, and that DeCA had only one in-country bid supports our conclusion that more in-depth market research was needed to determine whether DeCA's stated goal of contracting with local sources would improve quality at comparable prices.

Recommendation, Management Comments, and Our Response

Recommendation 1

We recommend the Director, Defense Commissary Agency, conduct a business case analysis or detailed market research on the Pacific fresh produce purchase process to identify potential opportunities to lower fresh produce prices and improve produce quality for customers.

Director, Defense Commissary Agency Comments

The Director, DeCA, agreed with our recommendation, stating DeCA would conduct a business case analysis or detailed market research on the current Pacific fresh produce purchase process to identify potential opportunities to lower fresh produce prices and to improve produce quality for customers.

Our Response

Comments from the Director addressed all specifics of the recommendation; therefore, the recommendation is resolved, but will remain open. We will close the recommendation once we verify that DeCA has conducted a business case analysis or detailed market research on the current Pacific fresh produce purchase process that identifies potential opportunities to lower fresh produce prices and improve produce quality for customers at commissaries in Japan and South Korea.

Appendix A

Scope and Methodology

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

Interviews and Policies

We interviewed DeCA officials responsible for commissary produce department guidance and management. We also interviewed DeCA contracting personnel, DeCA produce personnel, current fresh produce contractor personnel, U.S. Army veterinary personnel, and Air Force public health personnel.

We visited:

- DeCA Headquarters, Fort Lee, Virginia;
- DeCA Contracting Branch Europe, Kapaun Air Station, Germany;
- DeCA Commissaries at Naval Air Facility Atsugi, Japan; Marine Corps Air Station Iwakuni, Japan; Sagamihara Housing Area, Japan; U.S. Fleet Activities Sasebo, Japan; U.S. Fleet Activities Yokosuka, Japan; Yokota Air Base, Japan; Camp Courtney, Okinawa, Japan; Camp Foster, Okinawa, Japan; Kadena Air Base, Okinawa, Japan; Camp Humphreys, South Korea; Camp Walker, South Korea; Osan Air Base, South Korea; U.S. Army Garrison Yongsan, South Korea; and
- Current Fresh Produce Contractor Facilities, Anseong, South Korea; Yokohama, Japan; and Naha-City, Okinawa, Japan.

Method to Determine Increases to Fresh Produce Prices

We compared the weekly prices for fresh produce under the current contract for mainland Japan, Okinawa, Japan, and South Korea for the 1st year (November 2015 through October 2016) to prices for the final year of the previous contract (November 2014 through October 2015). We also compared the weekly prices under the current contract for mainland Japan, Okinawa, Japan, and South Korea for the 2nd year for which we had data (November 2016 through April 2017) to prices for the period under the final year of the previous contract (November 2014 through April 2015). We selected this period because the new contract started in November 2015 and pricing data was only available through April 2017 at the time of our review.

Of the 527 fresh produce items offered in mainland Japan by the current contractor during the time frame of review (November 2015 through April 2017), we compared 239 fresh produce items that were available for sale under both contracts. Of the 477 fresh produce items offered in Okinawa, Japan by the current contractor during the time frame of review (November 2015 through April 2017), we compared 237 fresh produce items that were available for sale under both contracts. Of the 608 fresh produce items offered in South Korea by the current contractor during the time frame of review (November 2015 through April 2017), we compared 231 fresh produce items that were available for sale under both contracts.

Method to Determine if Commissary Prices Were Comparable to Local Market Prices

In mainland Japan, we visited four local markets in three locations in May and June 2017. In Okinawa, Japan, we visited two local markets in June 2017 and in South Korea, we visited three local markets in two locations in May 2017. We visited the markets to obtain local prices for produce items that were comparable to items being sold in the commissaries. The markets we visited were the approved markets used to determine customer savings. We sampled 23 locally grown produce items in mainland Japan, 19 locally grown produce items in Okinawa, Japan, and 15 locally grown produce items in South Korea and compared the current commissary prices to the local market prices.

Method Used to Collect Customer Opinions on Quality of Fresh Produce

In May and June 2017, we conducted 548 interviews with commissary customers shopping in the produce area at the 13 commissaries in Japan and South Korea to determine customer opinions on the quality and price of the produce offered for sale.

Use of Computer-Processed Data

We used computer-processed data that DeCA provided. We used second destination transportation data to determine the amount that DeCA paid to transport fresh produce items to Japan and South Korea in FYs 2013 through 2015. Although we did not validate the second destination transportation costs, the use of the data would not change the conclusions of this report.

Prior Coverage

During the last 5 years, the DoD Office of Inspector General (DoD OIG) issued one report discussing the purchase of fresh produce. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

DoD OIG

Report No. DODIG-2017-060, “Defense Commissary Agency Purchases of Fresh Produce in Guam,” February 28, 2017

As a result of DeCA’s current local purchase process contract, DeCA will save on average \$8.3 million per year by not paying transportation costs to ship fresh produce to Guam. In addition, customers paid more for fresh produce under the current contract than under the previous one.

Appendix B

High-Volume Core Items

Count	Item Description	Preferred Quality, Size, Count
1	Apples, Red Delicious	Count 88, Extra Fancy, 40 Pound Case
2	Apples, Granny Smith	Count 88, Extra Fancy, 40 Pound Case
3	Apples, Gala	Count 88, Extra Fancy, 40 Pound Case
4	Avocados	Count 48, Hass Variety
5	Bananas, Yellow	Variety Cavendish, Color Code 2 & 3, 40 Pound Case
6	Grapes, Red Seedless	US #1, Large to Extra Large, 18 Pound Case
7	Grapes, White Green Seedless	Extra Fancy, Large to Extra Large, 18 Pound Case
8	Grapefruits, Red	US #1, Large to Extra Large, 18 Pound Case
9	Lemons, Large	US #1, Count 95 and Larger, 40 Pound Case
10	Limes, Regular	US #1, 36 or 150 Count Case
11	Melons, Cantaloupe	US #1, 12 Count Case Only
12	Melons, Honeydew	US #1, 6 Count Case
13	Oranges	US Fancy, 56 to 64 Count, 35 Pound Case, 72/88 Count for Bags
14	Pineapples, Extra Sweet	Gold, 5-6 Count Case
15	Strawberries	US #1, 8 1 Pound Clamshell Packs per Case
16	Asparagus, Green	US #1, Medium 6-8 Inch in 28 Pound Case
17	Bok Choy	150 Grams, 20 Each
18	Broccoli	US Extra Fancy, 20 Pound Case
19	Cabbage, Green	US #1, 16-18 Count, 50 Pound Case, Medium to Large
20	Cabbage, Nappa	Head
21	Carrots, Peeled Mini	US #1, 24 1 Pound Bags per Case
22	Carrots	US #1 or Better, 1, 2 and 5 Pound Bags, Topped
23	Cauliflower	US #1, 12 Count, Cellophane
24	Celery	US #1 or Better, 24 Count, Sleeved

High-Volume Core Items (cont'd)

Count	Item Description	Preferred Quality, Size, Count
25	Fresh Herb Cilantro	6 to 30 Bunches, Bags or Tubs
26	Cucumbers, Green	Super Select or US Fancy, 70 Count in 45 Pound Case
27	Onions, Yellow	US #1, 3 Pound Bag, 2 1/4 inches Minimum
28	Onions, Green	US #1, 48 Count, 8-12 inches in Length, Medium Diameter
29	Lettuce Iceberg, Wrapped in Foil, Vacuum Cooled	US Fancy, Minimum 500 grams per head, Vacuum Cooled and Wrapped
30	Lettuce, Green	US #1, 12 or 24 Count, Unwrapped or Shrink Wrapped
31	Mushrooms, White	US #1, Jumbo or Extra Large, White, 10 Pound Case
32	Peppers, Green Bell	US Fancy, Large to Jumbo, 45 Count, 20 Pound Case
33	Fresh Herb Parsley	6 to 30 Bunches, Bags or Tubs
34	Potatoes, Russet Baking	US Extra #1, A Size, 5 Pound Bag
35	Tomatoes, Regular	US #1, Large

Source: DeCA.

Appendix C

Price Comparison of Local Items Sold in South Korea

Item Count	Item Description	Average Commissary Sales Price ¹	Average Local Market Sales Price ²	Difference in Sales Price ³	DeCA Percent Difference in Sales Price
1	Avocado (each)	\$3.27	\$2.81	\$0.46	16.4%
2	Bok Choy (pack)	1.67	1.41	0.26	18.4
3	Broccoli (pound)	1.97	0.78	1.19	152.6
4	Cabbage, Nappa (pound)	0.79	0.58	0.21	37.1
5	Cauliflower (head)	6.29	3.83	2.46	64.2
6	Cherry Tomatoes (pound)	4.06	2.57	1.49	57.8
7	Grape White Seedless (pound)	4.67	2.99	1.68	56.2
8	Grape Red Seedless (pound)	3.97	3.50	0.47	13.5
9	Jujube Tomatoes (pound)	4.34	2.97	1.37	46.0
10	Korean Melon, Yellow (pound)	3.92	3.53	0.39	11.0
11	Lettuce Cello (head)	2.17	1.64	0.53	32.3
12	Onion Green (bunch)	3.07	2.07	1.00	48.3
13	Pineapple Gold (pound)	1.47	0.81	0.66	81.5
14	Tomatoes, Bulk (pound)	1.26	2.51	-1.25	-49.8
15	Watermelon (pound)	1.67	0.74	0.93	125.7
Average		\$2.97	\$2.18	\$0.79	36.2%

¹ Average catalog price for the two weeks May 22 through June 4, 2017.

² Average market price for the period May 26 through May 30, 2017.

³ Differences in price may not equal the actual sum because of rounding.

Source: The DoD OIG.

Appendix D

Price Comparison of Local Items Sold in Okinawa, Japan

Item Count	Item Description	Average Commissary Sales Price ¹	Average Local Market Sales Price ²	Difference in Sales Price ³	DeCA Percent Difference in Sales Price
1	Apples Fuji	\$2.29	\$2.52	-\$0.23	-9.1%
2	Apples Orin	2.29	2.64	-0.35	-13.3
3	Apples Johnagold	2.29	2.91	-0.62	-21.3
4	Bitter Melon	4.99	2.55	2.44	95.7
5	Bok Choy	2.23	3.99	-1.76	-44.1
6	Cauliflower	2.89	2.34	0.55	23.5
7	Corn	3.99	3.10	0.89	28.7
8	Ginger Root	5.99	11.07	-5.08	-45.9
9	Herb Basil	90.42	47.19	42.23	91.6
10	Lettuce Green Leaf	1.79	10.58	-8.79	-83.1
11	Lettuce Head	1.87	2.23	-0.36	-16.1
12	Mushrooms White	11.24	11.48	-0.24	-2.1
13	Onion Yellow	0.99	1.48	-0.49	-33.1
14	Potatoes Russet Baking	1.89	2.03	-0.14	-6.9
15	Radish Daikon	1.79	0.61	1.18	193.4
16	Spinach	5.63	5.42	0.21	3.9
17	Sweet Potato Unno Large	2.99	1.44	1.55	107.6
18	Sweet Potato Satsuma	2.19	1.58	0.61	38.6
19	Tomatoes, Regular	2.99	3.20	-0.21	-6.6
Average		\$7.93	\$6.24	\$1.69	27.1%

¹ Average catalog price for the week June 5 through June 11, 2017.

² Average market price on June 5, 2017.

³ Differences in price may not equal the actual sum because of rounding.

Source: The DoD OIG.

Appendix E

Price Comparison of Local Items Sold in Mainland Japan

Item Count	Item Description	Average Commissary Sales Price ¹	Average Local Market Sales Price ²	Difference in Sales Price ³	DeCA Percent Difference in Sales Price
1	Apples Orin	\$2.29	\$2.20	\$0.09	4.1%
2	Bitter Melon	5.67	2.19	3.48	158.9
3	Bok Choy Chingensai	3.70	1.73	1.97	113.9
4	Cabbage, Chinese	0.92	0.83	0.09	10.8
5	Cabbage, Green	0.94	0.55	0.39	70.9
6	Cauliflower	2.84	2.04	0.80	39.2
7	Carrots Topped Large	1.53	1.78	-0.25	-14.0
8	Corn	4.13	2.18	1.95	89.4
9	Cucumbers, Japanese	1.98	1.36	0.62	45.6
10	Eggplant	1.85	2.67	-0.82	-30.7
11	Ginger Root	5.86	5.50	0.36	6.5
12	Herb Basil (pack)	2.99	1.93	1.06	54.9
13	Lettuce Cello	1.44	0.95	0.49	51.6
14	Lettuce Green Leaf	1.68	3.86	-2.18	-56.5
15	Lettuce Red Leaf	1.53	2.10	-0.57	-27.1
16	Lettuce Romaine	3.29	0.39	2.90	743.6
17	Mushrooms White	14.54	7.11	7.43	104.5
18	Potato Sweet Satsuma	2.42	2.15	0.27	12.6
19	Potatoes White	1.59	1.56	0.03	1.6
20	Radish Daikon	1.29	0.78	0.51	65.4

Price Comparison of Local Items Sold in Mainland Japan (cont'd)

Item Count	Item Description	Average Commissary Sales Price ¹	Average Local Market Sales Price ²	Difference in Sales Price ³	DeCA Percent Difference in Sales Price
21	Spinach	4.19	2.82	1.37	48.6
22	Tomato Cherry	5.91	2.95	2.96	100.3
23	Tomatoes, Bulk	2.57	2.09	0.48	23.0
Average		\$3.27	\$2.25	\$1.02	45.3%

¹ Average Catalog price for the two weeks May 29 through June 11, 2017.

² Average price for the period May 31 through June 5, 2017.

³ Differences in price may not equal the actual sum because of rounding.

Source: The DoD OIG.

Appendix F

Survey Questionnaire

Department of Defense Office of Inspector General
 Audit of the Defense Commissary Agency's Fresh Produce Contracts for Japan and South Korea
 Project Number D2017-D000AJ-0115.000

Survey of South Korea/ Japan Commissary Patrons

Date: _____ Time: _____ Location: Commissary Survey No.: _____

How long have you been shopping at this commissary? Years _____

1. Prior location/station _____

How would you rate the quality of produce you purchase at this commissary, compared to the quality of the produce at your prior location/station?

1-worse 2-(slightly worse) 3-the same 4-(slightly better) 5-better 6-N/A

2. How would you rate the availability of the produce you purchase now at this commissary compared to your prior location/station?

1-worse 2-(slightly worse) 3-the same 4-(slightly better) 5-better 6-N/A

3. Have you shopped off base for fresh produce? How would rate the quality of produce at this commissary compared to the quality of the produce at super markets off base?

1-worse 2-(slightly worse) 3-the same 4-(slightly better) 5-better 6-N/A

4. How would you rate the price of the produce at this commissary compared to the price of the produce at super markets off base?

1-much more expensive 2-slightly more expensive 3-the same

4-less expensive 5-much less expensive 6-N/A

5. How would you rate the availability of the produce you purchase now at this commissary compared to super markets off base?

1-worse 2-(slightly worse) 3-the same 4-(slightly better) 5-better 6-N/A

Additional Comments:

Source: The DOD OIG

Appendix G

Survey Quality Results by Commissary

Survey Question 3. How would you rate the quality of produce at this commissary compared to the quality of the produce at super markets off base?

Commissary	Number of Customer Responses ¹					Total Responses ²	Average Rating
	(1) Worse	(2) Slightly Worse	(3) The Same	(4) Slightly Better	(5) Better		
Mainland, Japan							
Atsugi	9	10	7	1	-	27	2.0
Iwakuni	17	13	6	-	-	36	1.7
Sagamihara	7	10	3	-	1	21	2.0
Sasebo	9	9	3	-	-	21	1.7
Yokosuka	42	17	13	-	1	73	1.6
Yokota	26	24	12	1	2	65	1.9
Total	110	83	44	2	4	243	1.8
Okinawa, Japan							
Camp Courtney	7	22	7	-	-	36	2.0
Camp Foster	8	11	6	2	1	28	2.2
Kadena AB	11	10	12	-	-	33	2.0
Total	26	43	25	2	1	97	2.1
South Korea							
Camp Humphreys	4	8	7	4	2	25	2.7
Camp Walker	10	17	10	3	-	40	2.2
Osan AB	5	5	4	4	4	22	2.9
Yongsan	10	7	12	2	-	31	2.2
Total	29	37	33	13	6	118	2.4

¹ Surveys completed in May and June 2017, to obtain commissary customer opinions pertaining to the quality of fresh produce sold at the commissaries.

² 90 commissary customers surveyed did not shop off base or did not respond with a rating.

Source: The DoD OIG.

Management Comments

Defense Commissary Agency



DEFENSE COMMISSARY AGENCY
HEADQUARTERS
1300 E AVENUE
FORT LEE, VIRGINIA 23801-1800

CC

December 22, 2017

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR
GENERAL

SUBJECT: Defense Commissary Agency Purchase of Fresh Produce for Japan and South Korea

Reference: Project No. D2017-D000AJ-0115.000

Attached per your request is the Defense Commissary Agency's response to referenced project.

A handwritten signature in black ink, appearing to read "R. Bianchi", is positioned above the printed name of the Director.

Robert J. Bianchi
Director

Attachment:
As Stated

Management Comments

Defense Commissary Agency (cont'd)

Attachment (page 1 of 1)

Official Agency Response

Defense Commissary Agency (DeCA) Purchase of Fresh Produce for Japan and South Korea
Reference: Project No. D2017-D000AJ-0115.000

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While DeCA agrees with the finding that a majority of DeCA customers surveyed rated the quality of fresh produce sold at the commissary to be worse than the quality of fresh produce sold at local markets in Japan and South Korea, we disagree with the finding that [t]he higher prices occurred because DeCA officials performed limited market research and did not adequately evaluate the availability of obtaining fresh produce items from in-country for DeCA commissaries in the Pacific theater. However, DeCA agrees with the recommendation to conduct a business case analysis or detailed market research on the current Pacific fresh produce purchase process to identify potential opportunities to lower fresh produce prices and improve produce quality for customers.

It should be noted that prior to the original contract award for Pacific fresh produce in 2015, DeCA did accomplish an extensive market research effort in advance of the solicitation to learn as much as possible about the local conditions. Prior to the award of the contract, one of the offerors challenged DeCA's market research efforts to the General Accountability Office (GAO), whose subsequent decision (GAO File B-409872.2, 06 Nov 2014) recognized DeCA's efforts and viewed it as adequate under the circumstances of the procurement. While established international commercial chains provided DeCA with input for its Market Research that allowed it to determine that the Pacific Area has a robust and developing FF&V market providing quality locally grown and imported products, a limited number of firms responded to the solicitation. Ultimately, only U.S. based firms responded to the solicitations for Korea and Japan.

With regard to the current contract coverage, the DeCA business model for providing fresh produce to our various locations worldwide is predicated upon the prime contractor(s) having the infrastructure to source as much of the product as possible locally, thereby increasing quality and freshness, and also reducing transportation costs that can adversely affect the ability to price items competitively. The original contract award in 2015 was to a U.S. based source who had been the primary buying agent for the previous contracted source. Unfortunately, their business plan continued to source significant quantities of product from the Mainland U.S. – which added a significant time lapse between the product being extracted from the farmer's field and its placement for resale on the commissary shelf, as well as incurring the cost of overseas transportation. Since that time, in the 2017 time frame, performance under that single contract has been transferred to via contract novation agreements to two separate firms with in-country presence for both Japan and South Korea respectively. DeCA looks forward to this significant change in sourcing capabilities providing opportunities for better quality and more favorable pricing.

////////

Acronyms and Abbreviations

- COLA** Cost of Living Allowance
- DeCA** Defense Commissary Agency
- FOIA** Freedom of Information Act

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

The Whistleblower Protection Ombudsman's role is to educate agency employees about prohibitions on retaliation and employees' rights and remedies available for reprisal. The DoD Hotline Director is the designated ombudsman. For more information, please visit the Whistleblower webpage at www.dodig.mil/Components/Administrative-Investigations/DoD-Hotline/.

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