



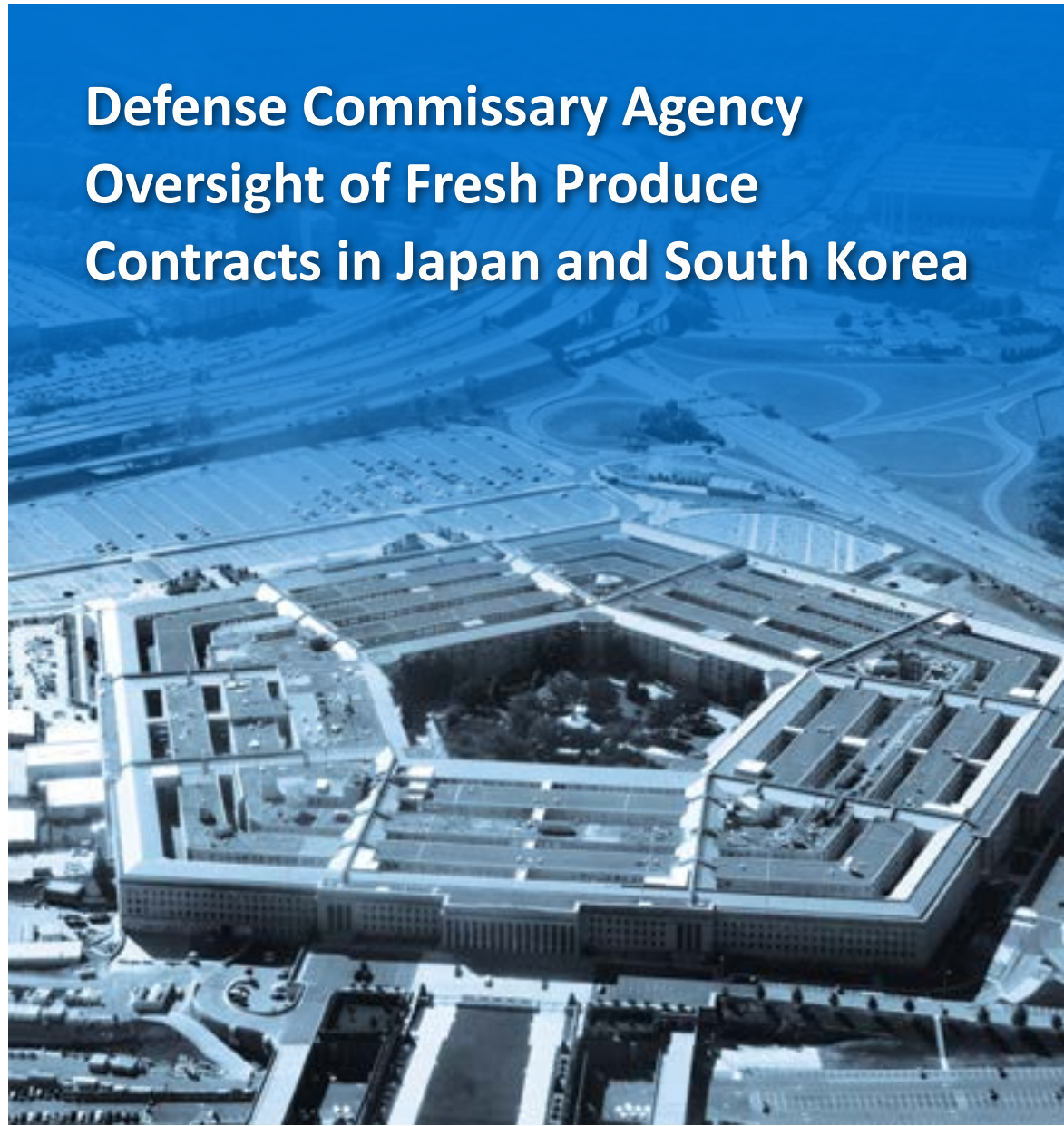
INSPECTOR GENERAL

U.S. Department of Defense

FEBRUARY 22, 2018



Defense Commissary Agency Oversight of Fresh Produce Contracts in Japan and South Korea



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Results in Brief

Defense Commissary Agency Oversight of Fresh Produce Contracts in Japan and South Korea

February 22, 2018

Objective

We determined whether Defense Commissary Agency (DeCA) officials provided effective oversight of the fresh fruits and vegetables contracts for Japan and South Korea in accordance with Federal and DoD contracting policies.

Background

DeCA officials awarded a \$55.1 million contract with an effective date of November 2015, to provide produce to 25 commissaries in Japan and South Korea. The prime contractor awarded two subcontracts to provide support for the produce contract—one for Japan in June 2016 and one for South Korea in July 2016.

In April 2017, the prime contractor transferred the South Korea part of the prime contract to the South Korea subcontractor, and DeCA officials awarded a new contract to support South Korea produce operations. Additionally, in September 2017, the prime contractor transferred the Japan part of the contract to the Japan subcontractor, and DeCA officials awarded a new contract to support Japan produce operations. As a result, there were separate produce contracts for Japan and for South Korea.

The contractors were required to conduct monthly market basket surveys (surveys) in Japan and South Korea to compare the average prices paid by the commissary customer to the average prices paid by customers at private retail stores for the same or comparable items. The survey for

Background (cont'd)

Japan included one for mainland Japan and one for Okinawa. Additionally, DeCA personnel were required to report non-conforming produce on a produce inspection worksheet; and request a price adjustment or credit for the non-conforming produce that is carried forward to the total voucher payment. Non-conforming produce are defective in appearance and do not meet contract quality requirements. Further, the produce contract required a 98-percent fill rate, which DeCA personnel calculated for each delivery by comparing the number of produce cases ordered to the number of produce cases the contractors delivered.

Findings

DeCA officials did not provide effective oversight of the produce contracts for Japan and South Korea. Specifically, DeCA personnel did not verify produce prices for 35 high-volume core items on the surveys submitted by the contractors. High-volume core items, established by the contracts, are mainstream produce items in the typical American diet, such as apples, bananas, carrots, and tomatoes. This occurred because DeCA did not have policies and procedures defining how the personnel should oversee the surveys. Additionally, DeCA personnel did not receive training on the contractual survey requirements. As a result, commissary customers may not have received the required contractual savings amount for produce because DeCA officials did not know whether the contractors met the price savings requirements. The contracts required that 35 high-volume core items cost customers 30 percent less than local Japanese market prices and 34 percent less than local South Korean market prices. In May 2017, we reviewed the contractor's Japan survey and identified price savings were only 13.9 percent.

DeCA personnel also did not accurately calculate credits for non-conforming produce on 29 of 84 produce inspection worksheets we reviewed. This occurred because DeCA officials did not verify that information supporting the credits—including the case price, pack size, cases received,



Results in Brief

Defense Commissary Agency Oversight of Fresh Produce Contracts in Japan and South Korea

Findings (cont'd)

units received, percent case credited, and amount to be credited—was correct before processing voucher payments on the contracts. As a result, 27 vouchers submitted for payment, valued at \$2.5 million, were not fully supported.

Further, DeCA personnel did not accurately calculate fill rate percentages. This occurred because DeCA did not have policies and procedures defining how personnel should calculate contract fill rates or policies and procedures requiring personnel to verify fill rate calculations. As a result, commissary customers may not have had the opportunity to purchase the quantity and variety of produce required under the contract. Additionally, officials used inaccurate fill rates to document contract performance, which resulted in incorrect daily fill rate reports.

In addition to these findings, we observed security concerns with produce storage and transportation during a site visit to the Japan food storage warehouse in May 2017. Specifically, we identified that the main gate was unlocked and open, no one checked identification, and storage coolers did not have controlled access and were not locked. Trucks delivering produce did not have any security seals to deter unwanted entry and monitor driver access. The doors had only a lock on the door and the driver controlled the key. Air Force regulations state that, to mitigate introduction of contaminants into the food supply chain, agencies should incorporate seals on locked containers. As a result, produce could become contaminated and DeCA officials have no assurance that the contractor maintained chain of custody during transportation.

Recommendations

We recommend that the Director, Defense Commissary Agency:

- Develop policies and procedures on how Defense Commissary Agency personnel should oversee and verify the surveys, and calculate and verify contract fill rates before the information is used for contract performance evaluation on the Japan and South Korea produce contracts.
- Develop training for Defense Commissary Agency personnel on contract quality assurance and surveillance, including overseeing the surveys and how to calculate contract fill rates.
- Require Defense Commissary Agency personnel to review and verify credit information for all produce inspection worksheets previously submitted to support all previously paid vouchers on the Japan and South Korea produce contracts, since the original award in July 2015. The Director, Defense Commissary Agency, should provide the results of the review to the DoD Office of Inspector General.
- Develop policies and procedure requiring Defense Commissary Agency personnel to review and verify the accuracy of all future produce inspection worksheets—including the case price, pack size, cases received, units received, percent case credited, amount to be credited and total credit—before processing all future vouchers for payment.



Results in Brief

Defense Commissary Agency Oversight of Fresh Produce Contracts in Japan and South Korea

Management Comments and Our Response

The Director, DeCA, agreed with the report and all of our recommendations.

The Director agreed with the recommendations to develop policies and training on overseeing and conducting the market basket surveys and calculating and verifying contract fill rates. Comments from the Director addressed the specifics of these two recommendations and no further comments are required. Therefore, the recommendations are resolved, but will remain open. We will close the recommendations once we verify DeCA has completed revisions to its policies and has developed training for store-level personnel that fully address the recommendations.

The Director stated that DeCA conducted a sample review of produce inspection worksheets and supporting vouchers from November 2015 through February 2016. The review included 856 produce inspection worksheets from 17 commissaries. According to the Director, the review revealed 199 of the produce inspection worksheets contained errors. The Director stated that the net impact of all errors was \$1,545, or 0.015 percent of \$9.9 million of payments reviewed.

Comments from the Director partially addressed the specifics of the recommendation to require DeCA personnel to review and verify credit information for produce inspection worksheets previously submitted to support vouchers on the Japan and South Korea contracts. Therefore, the recommendation is unresolved and remains open. DeCA personnel did not review all the produce inspection worksheets submitted since the original contract was awarded in July 2015. According to the Director, DeCA personnel reviewed a 4-month

sample, incurring approximately \$42,000 in internal costs, and the review identified a net of impact of only \$1,545. In addition, the Director's comments did not address reconciling the under or overstated amounts paid with the contractors. We request that the Director provide additional comments on the final report regarding whether DeCA personnel will review the remaining produce inspection worksheets and vouchers, DeCA's supporting documentation from its analysis of the produce inspection worksheets and invoices from November 2015 through February 2016, and documentation to show whether the over or understated amounts were collected or paid.

The Director agreed to modify the produce inspection worksheet in order to provide DeCA officials accurate information. Although the Director agreed with the recommendation, comments from the Director only partially addressed the recommendation; therefore, the recommendation is unresolved and remains open. The comments did not address whether the Director will develop policies that require DeCA personnel to review and verify the accuracy of all future produce inspection worksheets before processing vouchers for payment. We request that the Director provide additional comments on the final report regarding the review and verification of produce inspection worksheets.

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

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Director, Defense Commissary Agency	1c, 1d	1a, 1b	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 22, 2018

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY

SUBJECT: Defense Commissary Agency Oversight of Fresh Produce Contracts in Japan and South Korea (Report No. DODIG-2018-078)

We are providing this report for your review and comment. Defense Commissary Agency personnel did not verify fresh produce prices for high-volume core items on the market basket surveys, verify credits for non-conforming fresh produce was correct in 29 of 84 produce inspection worksheets we reviewed, and calculate fill rate percentages accurately. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on the draft of this report when preparing the final report. DoD Instruction 7650.03 requires that recommendations be resolved promptly. Comments from the Director, Defense Commissary Agency partially addressed the recommendations. Therefore, we request the Director, Defense Commissary Agency provide additional comments on Recommendations 1.c and 1.d by March 22, 2018.

Please send a PDF file containing your comments to audasm@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature.

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

A handwritten signature in black ink, reading "Troy M. Meyer", is positioned above the typed name.

Troy M. Meyer
Principal Assistant Inspector General
for Audit

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Introduction

Objective

We determined whether Defense Commissary Agency (DeCA) officials provided effective oversight of the fresh fruits and vegetables contracts for Japan and South Korea in accordance with Federal and DoD contracting policies. See Appendix A for scope, methodology, and prior audit coverage. See Appendix B for potential security issues at the Japan storage warehouse.

Background

Defense Commissary Agency Mission

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) of members, and other authorized customers, to enhance their quality of life and to support military readiness, recruitment, and retention. DeCA operates 25 commissaries located in Japan and South Korea. See Figure 1 for a picture of fresh produce on display at the Hario Village commissary in Japan.



Figure 1. Fresh Produce on Display at Commissary in Japan
Source: DoD OIG

According to DeCA Directive 40-04, all fresh produce purchased should be of the highest quality and consistent with commercial standards and market conditions.¹ In addition, produce department managers are required to:

- operate the produce department with no financial loss to the Government, while providing quality produce to customers;

¹ DeCA Directive 40-04, "Produce Operating Department," September 12, 2012.

- provide oversight for ordering and receiving;
- train produce department personnel in quality standards, ordering, receiving, customer service, stocking, and inventory procedures;
- ensure receiving personnel resolve all discrepancies between quantity shipped and quantity received, as well as product condition and quality, with assistance from available medical food inspection personnel and store director, if necessary; and
- ensure merchandise is rotated, as needed, to prevent spoilage.

Japan and South Korea Fresh Produce Contracts

DeCA officials awarded a requirements type contract HDEC09-15-D-0002 with an effective date of November 1, 2015.² The contract had an estimated value of \$55.1 million for a 24-month base period of performance from November 1, 2015, through October 31, 2017, and had three option years. The contract contained a contract line item number to deliver produce to Japan and another contract line item number to deliver produce to South Korea.³ The contractor was required to provide produce to commissaries in Japan and South Korea within 24 hours of ordering. DeCA personnel served as quality assurance representatives on the produce contract because the contracting officer did not appoint a contracting officer's representative or a quality assurance representative.⁴ DeCA officials stated that they do not appoint contracting officers or quality assurance representatives on supply contracts—only on service contracts.

Fresh Produce Contract Novation

The produce prime contractor awarded two subcontracts to provide support for the produce contract—one for Japan in June 2016 and one for South Korea in July 2016. In February 2017, the prime contractor novated and transferred the South Korea contract line item number to the South Korea subcontractor.⁵ DeCA officials approved the novation and, in April 2017, awarded a new produce contract, HDEC09-17-D-0050, to the South Korea subcontractor. After the novation, the South Korean company was no longer a subcontractor, but the prime contractor. The new South Korea contract had a base period of performance of April 3, 2017, through October 31, 2017, and an estimated value of \$3.2 million to provide produce deliveries to the South Korea commissaries.

² In a requirements type contract, the Government places orders with the contractor for purchases to be delivered or performed during the contract period.

³ The Japan contract line item number included Okinawa.

⁴ Quality assurance representatives are authorized Government representatives, other than the contracting officer, who determine that the supplies or services conform to contract requirements. A contracting officer's representative is a liaison between the Government and the contractor designated by the contracting officer to conduct contract surveillance to verify contract requirements are met and to document contract performance.

⁵ A novation is an agreement in which the Government recognizes one contractor as the successor on an existing Government contract originally awarded to another contractor.

In July 2017, the prime contractor novated and transferred the remaining Japan contract line item number to the Japan subcontractor. DeCA officials approved the novation and, in September 2017, awarded a new produce contract, HDEC09-17-D-0051, to the Japan subcontractor. After the novation, the Japanese company was no longer a subcontractor, but the prime contractor. The new Japan contract had a base period of performance of September 18, 2017, through October 31, 2017, and an estimate value of \$2.5 million to provide produce deliveries to the Japan and Okinawa commissaries.

The periods of performance for both the Japan and South Korea contracts included three option periods of 12 months each. On September 25, 2017, DeCA officials exercised the first option year on the Japan contract, with a period of performance of November 1, 2017, through October 31, 2018, and an estimated value of \$23.5 million. Additionally, on September 25, 2017, DeCA officials exercised the first option year on the South Korea contract, with a period of performance of November 1, 2017, through October 31, 2018, and an estimated value of \$7 million.

Fresh Produce Requirements for Market Basket Surveys and Fill Rates

The contracts required that 35 high-volume core items cost customers an average minimum of 30 percent less than local Japanese market prices and 34 percent less than local South Korean market prices. High-volume core items, established by the contracts, are mainstream produce items in the typical American diet, such as apples, bananas, carrots, and tomatoes. See Appendix C for the list of high-volume core items. The contractors were required to conduct monthly market basket surveys (surveys) in Japan and South Korea to compare the average prices paid by the commissary customer to the average prices charged by private retail stores for the same or comparable items. The Japan contract requires two separate surveys—one for mainland Japan and one for Okinawa.

The contracts also required a fill rate of 98 percent. DeCA personnel calculated the fill rate for each delivery by comparing the number of produce cases ordered to the number of cases delivered. The contracts stated that DeCA officials would document failure to meet and maintain the required fill rate or fulfill order requirements on the contractors' past performance ratings.

DeCA Produce Inspection Worksheet and Payment Procedures

DeCA personnel are required to annotate the actual quantity of produce received on the contractors' invoices and report any non-conforming produce on a produce inspection worksheet that is carried forward to the total voucher payment. Non-conforming produce are defective in appearance and do not meet

contract quality requirements. The contracts require DeCA personnel to report non-conforming produce to the contractors in a produce inspection worksheet within 24 hours of receipt.

DeCA personnel in Japan created daily vouchers for deliveries made in Japan, and DeCA personnel in South Korea created weekly vouchers for deliveries made in South Korea.⁶ DeCA's standard operating procedures for processing vouchers for produce contracts in the Pacific require that each voucher have an attached voucher backup spreadsheet showing each individual commissary's invoice totals, along with any credits received.⁷ DeCA personnel document credits received for non-conforming produce in produce inspection worksheets. DeCA personnel carry forward the credit totals from the produce inspection worksheets to the voucher backup spreadsheets to support the total voucher payment. DeCA standard operating procedures require personnel to validate the vouchers and spreadsheets and then e-mail the data to DeCA resource management officials. DeCA resource management officials sign the voucher and the backup documentation and forward the documents to the Defense Finance and Accounting Service for payment.

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.⁸

We identified internal control weaknesses in DeCA's quality assurance and oversight of the fresh fruits and vegetables contracts for Japan and South Korea. Specifically, DeCA officials did not have policies and procedures for overseeing the surveys and the contract fill rates calculations. Additionally, DeCA officials did not verify information supporting the credits were correct before submitting voucher payments. We will provide a copy of the report to the senior official responsible for internal controls in the Defense Commissary Agency

⁶ The voucher is a Standard Form 1034 voucher that DeCA submits to Defense Finance and Accounting Service officials for payment.

⁷ The invoices are delivery ticket invoices that the contractors submit to DeCA personnel for each delivery.

⁸ DoD Instruction 5010.40, "Manager's Internal Control Program Procedures," May 30, 2013.

Finding

Ineffective Contract Oversight

DeCA officials did not provide effective oversight of the produce contracts for Japan and South Korea. Specifically, DeCA officials did not verify produce prices for 35 high-volume core items on the surveys submitted by the contractors. This occurred because DeCA did not have policies and procedures that defined how the personnel should oversee the surveys. Additionally, DeCA personnel did not receive training on the contractual survey requirements. As a result, commissary customers may not have received the required contractual savings amount for produce because DeCA officials did not know whether the contractors met the price savings requirement. The contracts required that 35 high-volume core items cost customers 30 percent less than local Japanese market prices and 34 percent less than local South Korean market prices for high-volume core items. In May 2017, we observed, verified, and reviewed the contractor's Japan survey and identified price savings were only 13.9 percent.

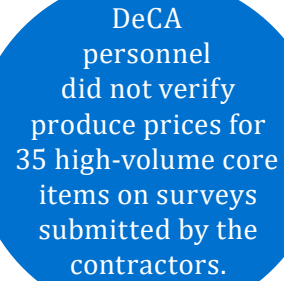
Additionally, DeCA personnel did not accurately calculate credits for non-conforming produce on 29 of 84 produce inspection worksheets we reviewed.⁹ This occurred because DeCA officials did not verify that information supporting the credits—including the case price, pack size, cases received, units received, percent case credited, and amount to be credited—was correct before processing voucher payments on the contracts. As a result, 27 vouchers submitted for payment, valued at \$2.5 million, were not supported.

Further, DeCA personnel did not accurately calculate fill rate percentages. This occurred because DeCA did not have policies and procedures defining how DeCA personnel should calculate contract fill rates or requiring personnel to verify fill rate calculations. As a result, commissary customers may not have had the opportunity to purchase the quantity and variety of produce required under the contract. Additionally, DeCA officials used inaccurate fill rates to document contract performance, which resulted in incorrect daily fill rate reports.

⁹ Non-conforming fresh produce are defective in appearance and do not meet contract quality requirements. DeCA personnel report non-conforming produce on a produce inspection worksheet and request a price adjustment or credit.

Fresh Produce Prices Not Reviewed

DeCA personnel did not verify produce prices for 35 high-volume core items on surveys submitted by the contractors. This occurred because DeCA did not have policies and procedures defining how personnel should oversee the surveys.



DeCA personnel did not verify produce prices for 35 high-volume core items on surveys submitted by the contractors.

Survey Prices Not Verified

DeCA officials stated that they did not verify the prices and calculations contained in the surveys when submitted by the contractors. Additionally, officials stated that they did not review or verify the numbers in the survey conversion worksheets. The contractors prepared conversion worksheets prior to completing the official survey forms. The contractors use the conversion worksheets because the local markets in Japan and South Korea price most produce individually instead of by the pound, and produce prices are sold in the local currency. DeCA officials developed the conversion worksheet as a guide for the contractors to use when converting the local market produce prices to U.S. dollars per pound for the monthly survey. The contractors input the produce weight, price in the local currency, and current exchange rate in the worksheet to calculate the U.S. dollar price per pound for all available produce. The U.S. dollar price per pound is used for the official survey. The contractors calculate the savings percentage by comparing the local market produce prices to the commissary produce prices. According to DeCA officials, they rely on in-country personnel to accompany the contractors to review and verify all numbers and calculations in the worksheets and surveys.

In May and June 2017, we visited DeCA commissaries in Japan and South Korea. DeCA produce managers, who accompany the contractor on the surveys, stated that they do not verify the survey data or certify the official surveys, and that they are unaware of any written survey procedures. In South Korea, the contractor stated that it sends the local market produce price and weight information to its California office to complete the official survey. The contractor then sends the official survey to the DeCA contracting officer—without the produce manager verifying or certifying the surveys. Additionally, we observed that DeCA personnel did not review and verify numbers and calculations in the worksheets and surveys.

We compared contractor worksheets with the corresponding monthly surveys and identified instances when the prices calculated in the worksheets were not the same prices reported on the surveys. For example, the:

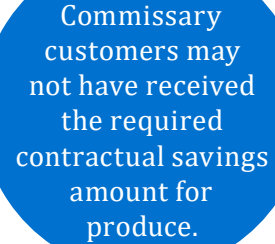
- December 2016 survey for Okinawa, Japan, lists green onions at \$12.56 per pound at one local market store, while the corresponding worksheet calculated green onions to be \$2.99 per pound;
- May 2016 survey for mainland Japan lists grapefruit at \$12.26 per pound at one local market store, while the corresponding worksheet calculated grapefruit to be \$2.17 per pound; and
- November 2016 survey for Okinawa, Japan, lists lemons at \$4.86 per pound at one local market store, while the corresponding worksheet calculated lemons to be \$2.25 per pound.

No Survey Policies or Training

DeCA officials did not verify or certify produce prices for high-volume core items because DeCA officials did not have policies and procedures defining how personnel should oversee the surveys. We reviewed DeCA directives, manuals, and the produce contracts and did not identify policies defining how personnel should oversee the surveys. In April 2015, DeCA contracting officials sent an e-mail to personnel in Japan and South Korea discussing the surveys. The e-mail included information on what to look for when conducting surveys, including the quality of produce, using the correct unit of measure for comparison, and ensuring personnel are comparing the same item. However, the guidance did not include any information on reviewing or verifying the prices and calculations contained in the surveys and survey conversion worksheets. Additionally, DeCA personnel did not receive training on the contractual survey requirements. DeCA officials confirmed that there are no policies and procedures that provide guidance on how personnel should oversee the surveys. Finally, DeCA officials stated that DeCA personnel did not receive any formal training on surveys or any other specific contract requirements. The Director, DeCA, should develop policies and procedures that define roles and responsibilities for personnel overseeing and verifying the surveys for the Japan and South Korea produce contracts. (Recommendation 1.a). Additionally, the Director, DeCA, should develop training for personnel on contract quality assurance and surveillance, including overseeing the surveys (Recommendation 1.b).

DeCA Officials Did Not Verify Savings Requirement

Commissary customers may not have received the required contractual savings amount for produce because DeCA officials did not know if the contractors met price savings requirements of 30 percent less than local Japanese market prices and 34 percent less than local South Korean market prices for high-volume core items. DeCA personnel did not review or verify numbers in the survey or worksheet; therefore, DeCA officials have no assurance that the numbers contained in the survey and worksheet are accurate and correct.



Commissary customers may not have received the required contractual savings amount for produce.

In May 2017, we observed and verified the contractor's monthly Japan survey. The contractor's survey results identified a patron savings rate of 31.4 percent, which was higher than the contractually required 30-percent savings rate for Japan. However, our review and verification of the survey identified a savings rate of only 13.9 percent. Therefore, commissary customers did not receive the contractually required minimal savings percentage. DeCA officials could not explain why the contractor's savings percentage in the official survey was different from the savings percentage we calculated during our review of the survey. DeCA contracting officials stated that they relied on in-country DeCA personnel to accompany the contractors on the surveys and to review and verify all numbers and calculations in the worksheets and surveys. During our review, we determined that the contractor used the wrong order guide price and made errors calculating the total unit price for the produce. See Appendix D for the results of our review and verification of the survey.

Credits for Fresh Produce Not Reviewed

DeCA personnel did not accurately calculate credits for non-conforming produce in 29 of 84 produce inspection worksheets. This occurred because DeCA officials did not verify that information supporting the credits—including the case price, pack size, cases received, units received, percent case credited, and amount to be credited—was correct before processing voucher payments on the contracts.

Produce Inspection Worksheet Credit Information Incorrect

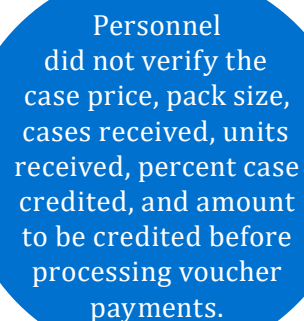
We reviewed 84 produce inspections worksheets for produce that was delivered between November 9, 2015, and May 12, 2017, and identified that DeCA personnel incorrectly calculated credits on 29 worksheets. The following are examples of incorrect calculations we identified on produce inspection worksheets.

- For delivery date of March 25, 2016, the produce inspection worksheet from Yokosuka, Japan, showed that personnel returned more items than ordered.
- For delivery date of April 19, 2016, the produce inspection worksheet from Sasebo, Japan, showed that personnel entered credits for items not ordered, credited more items than ordered, and listed incorrect case prices from the invoice.
- For three separate deliveries in January and February 2017, three produce inspection worksheets from Camp Humphrey, South Korea, showed that officials consistently entered incorrect information on the worksheets for case price and entered information into calculated spreadsheet cells, resulting in incorrect calculations for units received, percent case credited, and amount to be credited.

The contracts required DeCA personnel to report produce that did not meet contract quality requirements on a produce inspection worksheet. DeCA personnel had 24 hours after delivery to report the non-conforming produce, e-mail copies of the produce inspection worksheet to the contracting officer and the contractor, and request a price adjustment or credit. The produce inspection worksheets included entries for the item number, item description, pack size, cases ordered, cases received, units damaged, and case price. See Appendix E for an example of a produce inspection worksheet. The units received, percent case credited, amount to be credited, and total credit were calculated through formulas. The accuracy of the calculated formulas was dependent on the accuracy of information DeCA officials entered into the produce inspection worksheets. If DeCA officials entered incorrect information in the produce inspection worksheet, the result was an incorrect calculation.

DeCA Officials Did Not Verify Credit Information

DeCA officials did not accurately calculate credits for non-conforming produce because personnel did not verify the case price, pack size, cases received, units received, percent case credited, and amount to be credited before processing voucher payments on the



Personnel did not verify the case price, pack size, cases received, units received, percent case credited, and amount to be credited before processing voucher payments.

contracts. We reviewed DeCA directives, manuals, and the produce contracts and did not identify policies requiring DeCA personnel to verify the produce inspection worksheets for accuracy. DeCA standard operating procedures for processing vouchers for produce contracts in the Pacific require personnel to validate the vouchers and backup spreadsheet. However, the procedures do not provide any guidance on requiring personnel to verify produce inspection worksheets for accuracy. According to DeCA officials, accounting officials were responsible for verifying the produce inspection worksheets for accuracy. DeCA officials stated that the accounting officials reviewed the produce inspection worksheets, including the percentage credit, amount to be credited, and total credit, to ensure that the produce inspection worksheets were accurate.

However, we reviewed 84 produce inspection worksheets to verify that the credits were correct. We reviewed the case price, pack size, cases received, units received, percent case credited, amount to be credited, and total credit. We identified that DeCA personnel incorrectly calculated the total credit on 29 produce inspection worksheets. See Table 1 for the breakout of our results.

Table 1. Results of Produce Inspection Worksheet Review

Produce Inspection Worksheet Attribute Reviewed	Number of Incorrect Produce Inspection Worksheets Per Attribute	Reason
Case price	23 of 84	Incorrect Information Entered
Pack Size	8 of 84	Incorrect Information Entered
Cases Received	15 of 84	Incorrect Information Entered
Units Received	21 of 84	Incorrect Calculation
Percent Case Credit	21 of 84	Incorrect Calculation
Amount to be Credited	28 of 84	Incorrect Calculation
TOTAL CREDIT	29 of 84	Incorrect Calculation

Source: The DoD OIG.

The Director, DeCA, should require personnel to review and verify credit information for all produce inspection worksheets previously submitted to support vouchers on the Japan and South Korea produce contracts and provide the DoD Office of Inspector General the results of that review (Recommendation 1.c). Additionally, the Director, DeCA, should develop policies and procedures which require personnel to review and verify the accuracy of all future produce inspection worksheets, including the case price, pack size, cases received, units received, percent case credited, amount to be credited, and total credit, before processing vouchers for payment (Recommendation 1.d).

Fresh Produce Vouchers Not Supported

DeCA officials submitted 27 unsupported vouchers, valued at \$2.5 million, for payment to the contractors for the Japan and South Korea produce contracts.

Of the 27 unsupported vouchers, we identified:

- 1 voucher had 3 produce inspection worksheets with incorrect credits associated with it, and
- 26 vouchers had 1 produce inspection worksheet with incorrect credits associated with them.

In total, we identified 29 of the 84 produce inspection worksheets contained incorrect credit amounts. DeCA officials applied those incorrect credit amounts to invoice totals to calculate a net amount payable to the contractors, then totaled all net amounts payable for deliveries for a particular billing period and developed a total amount due for the 27 vouchers. DeCA officials then submitted those incorrect vouchers, totaling \$2.5 million, to the Defense Finance and Accounting Service for payment on the contracts. See Appendix F for a flow chart showing how DeCA personnel applied a credit for non-conforming produce from the contractor's invoice to the total amount due in a voucher.

The accuracy of the vouchers paid to the contractors was dependent on the accuracy of the vouchers supporting documentation, such as the produce inspection worksheets. We found that 29 of the 84 produce inspection worksheets we reviewed were incorrect. DoD Regulation 7000.14-R, "DoD Financial Management Regulation" (DoD FMR), volume 10, chapter 8, "Commercial Payment Vouchers and Supporting Documentation," requires DoD Components to ensure that appropriate payment documentation is retained to support payment of invoices. Therefore, DeCA personnel did not fully support 27 voucher payments, totaling \$2.5 million because personnel did not maintain accurate documentation to support the payments.

DeCA personnel did not fully support 27 voucher payments, totaling \$2.5 million because personnel did not maintain accurate documentation to support the payments.

Inaccurate Fill Rates

DeCA personnel did not calculate fill rate percentages accurately. This occurred because DeCA did not have policies and procedures regarding how personnel should calculate contract fill rates and requiring personnel to verify fill rate calculations.

Calculations Incorrect

DeCA personnel did not calculate the fill rate accurately for 16 out of 72 invoices we reviewed. DeCA personnel calculated the fill rate by comparing the number of cases ordered to the number of cases delivered. DeCA personnel used invoices to identify whether the contractor delivered the number of cases ordered. The contracts stated that failure to meet and maintain a required fill rate of 98 percent would be reflected in a negative manner on the contractors' past performance evaluations.

The number of cases ordered and cases delivered used by DeCA personnel to calculate the fill rate percentages in their summary spreadsheet were not supported by the invoices. For example, personnel annotated in the summary spreadsheet:

- 127 cases ordered and 91 cases received for produce delivered at the Camp Kinser commissary in Okinawa, Japan, on November 10, 2015. However, the invoice showed 76 cases ordered and 50 cases received. As a result, the fill rate percentage for Camp Kinser on November 11, 2015, was 66 percent instead of the 72 percent reported by DeCA personnel.
- 305 cases ordered and 211 cases received for produce delivered at the Camp Humphreys commissary in South Korea on January 19, 2016. However, the invoice showed 271 cases ordered and 211 cases received. As a result, the fill rate percentage for Camp Humphreys on January 19, 2016, was 78 percent instead of the 69 percent reported by DeCA personnel.

In addition, we identified that DeCA officials did not accurately document cases ordered and cases received in the fill rate data spreadsheet. DeCA personnel were responsible for calculating the daily fill rates based on the delivery invoices and each commissary populated a fill rate spreadsheet, which was sent to DeCA officials daily. For example, the invoice for produce delivered at the Camp Humphreys commissary in South Korea on September 29, 2016, showed 157 cases ordered and 149 cases delivered. However, DeCA's fill rate data spreadsheet showed "No Delivery" for this commissary on that date. Additionally, we identified the same inaccurate information in DeCA's fill rate data spreadsheet for two other invoices for produce delivered at the Sasebo, Japan, commissary on October 5, 2016, and at the Camp Humphreys, South Korea, commissary on October 20, 2016. As a result, DeCA's fill rate data spreadsheet had no fill rate information for these three days, even though produce deliveries occurred.

In addition, personnel reported the produce items not received and the quantity of produce items not in stock daily to DeCA officials. The officials compiled the information from each commissary and sent it to the contracting officer daily. DeCA officials stated that there is no review or verification of the fill rate data prior to sending the spreadsheet to the contracting officer.

No Policies on Verifying Fill Rate Data

DeCA personnel did not calculate fill rate percentages accurately because officials did not have policies and procedures defining how personnel should calculate contract fill rates or require personnel to verify fill rate calculations. Officials stated that DeCA did not have guidance stating how personnel should calculate fill rates and whether personnel should verify fill rates prior to being used to document contract performance.

We reviewed DeCA manuals and training material and found no information or guidance on how personnel should calculate fill rates, or whether personnel should verify the fill rate calculations.

Officials did not have policies and procedures defining how personnel should calculate contract fill rates or require personnel to verify fill rate calculations.

According to DeCA officials, when the fill rate reporting process was initiated in 2015, there was confusion in some of the commissaries about how personnel should capture the fill rates. Several commissaries were capturing data using a bill of lading to report ordered and received quantities, which can be different from the invoice due to missed items and substitutions.¹⁰ *The Director, DeCA, should develop policies, procedures, and training detailing how personnel calculate and verify contract fill rates before the information is used for contract performance evaluation (Recommendations 1.a and 1.b)*

Inaccurate Information Used to Document Contract Performance

Commissary customers may not have been able to purchase the quantity and selection of produce required under the contract because DeCA officials have no assurance that the contractors are meeting the required 98-percent fill rate. The availability of produce items in stock for the stores is affected when the contractors do not deliver the cases ordered and meet the required fill rate. For example, on November 20, 2015, the Camp Humphreys commissary ordered 11 items that were not delivered that day. As a result, the commissary was unable to offer its customers those 11 items, which the contractor was required to provide under the contract.

¹⁰ A bill of lading is the contractor's delivery memo that lists the quantity of each produce ordered and received for a specific delivery date and commissary

Additionally, DeCA officials used inaccurate information to document contract performance. Officials used a summary spreadsheet to report on the daily fill rate for the Japan and South Korea produce contracts. However, the spreadsheet officials used was inaccurate and the cases order, cases received, and fill rate percentages did not match the invoice in 16 of the 72 invoices we reviewed.

Conclusion

DeCA officials did not provide effective oversight of the contracts for Japan and South Korea. Specifically, DeCA officials did not:

- verify produce prices for high-volume core items on the surveys and did not calculate fill rate percentages accurately;
- have policies and procedures pertaining to how personnel should oversee the surveys, calculate contract fill rates, and verify fill rate calculations; and
- verify credits for non-conforming produce were correct in 29 of 84 produce inspection worksheets reviewed before processing voucher payments on the contracts.

In addition, DeCA personnel did not receive training on the contractual survey requirements. Therefore, commissary customers may not have received the required contractual savings amount for produce because DeCA officials did not know whether the contractors met the 30- and 34-percent price savings requirements over local Japanese and South Korean market prices, respectively. Additionally, commissary customers may not have had the opportunity to purchase the quantity and selection of produce required under the contracts, and DeCA officials have no assurance that the contractors met the required 98-percent fill rate. Further, DeCA officials submitted 27 unsupported vouchers, valued at \$2.5 million, for payment to the contractors for the Japan and South Korea contracts.

DeCA officials must implement corrective actions to ensure that the contractors comply with contract requirements. Corrective actions will provide assurance that commissary customers receive the quantity and variety of produce required by the contracts, at the required price savings over local market prices.

Management Comments on the Finding and Our Responses

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 with the report and its recommendations. The Director stated that DeCA personnel conducted two sample reviews of vouchers and produce inspection worksheets. Specifically, the Director stated that personnel reviewed 35 produce inspection worksheets, which were included the in the 27 unsupported vouchers discussed in the report. According to the Director, the 35 produce inspection worksheets supported non-conforming produce related to \$506,564.21 of store payments. The Director stated that DeCA personnel found errors in the 35 produce inspection worksheets totaling \$1,006.74, which equaled 0.19 percent of the total sampled value of the invoices.

The Director stated that personnel also reviewed the 29 incorrect produce inspection worksheets discussed in the report and found errors totaling \$2,647.10. The Director clarified that the 29 of 84 produce inspection worksheets that the DoD OIG identified as not properly verified were partially included in DeCA's review of the 27 vouchers.

According to the Director, the three examples of incorrect produce inspection worksheet calculations referenced in the report were verified by communicating directly with the applicable store personnel and obtaining information of applied processes. The Director stated the following.

- When the store at Yokosuka, Japan, showed that personnel returned more items than ordered, the store did not conform to the 24-hour policy of reporting the discrepancy on the produce inspection sheet and rather included other discrepancies.
- The Sasebo, Japan, store was entering credit for items not ordered.
- DeCA concurs with the report example and DeCA personnel noticed that there were other input errors in addition to those noted in the report. However, the Director stated that the dollar amount on the produce inspection worksheet was accurate and added that some of the errors occurred because the Excel spreadsheet formulas were overridden and manual input provided.

Our Response

We agree with the Director that 29 produce inspection worksheets were incorrect, and as a result, 27 voucher payments were unsupported. However, we were unable to calculate the net effect of possible over or underpayments of the 29 incorrect produce inspection worksheets on the 27 vouchers in our report. For example:

- A March 25, 2016, invoice for the Yokosuka, Japan, commissary showed that eight cases of cilantro (item number 00227) were ordered. The produce inspection worksheet stated that DeCA personnel returned

10.4 percent of those cases because they were moldy. However, there was a second entry for cilantro on the produce inspection worksheet for a 100-percent credit stating the item was not shipped. We were unable to determine if DeCA personnel requested a credit of 10.4 or 100 percent and therefore could not calculate the correct credit amount.

- A January 11, 2017, invoice for the Daegu, South Korea, commissary showed that one case of habanero peppers (item number 06471) and one case of jalapeno peppers (item number 00290) were ordered. However, the produce inspection worksheet showed that DeCA personnel returned three units of jalapeno peppers, listed under item description, but listed item number 06471 for habanero peppers under item number. We were unable to determine if DeCA personnel requested a credit for habanero peppers or jalapeno peppers and therefore could not calculate the correct credit amount.

We included the \$2.5 million total for all 27 unsupported vouchers because we were unable to calculate the correct credit amounts for the 29 incorrect produce inspection worksheets..

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Director, Defense Commissary Agency:

- a. Develop policies and procedures defining roles and responsibilities regarding contract quality assurance and surveillance on the Japan and South Korea produce contracts. The policies and procedures should provide guidance on how Defense Commissary Agency personnel should oversee and verify the surveys, and calculate and verify contract fill rates before the information is used for contract performance evaluation.**

Director, Defense Commissary Agency

The Director, DeCA, agreed with our recommendation and stated guidance for the current contracts is insufficient and does not ensure compliance; therefore, DeCA is developing better defined policies and procedures that provide guidance on how DeCA personnel should oversee and conduct the market basket surveys, as well as how to calculate and verify contract fill rates.

Our Response

Comments from the Director addressed all specifics of the recommendation and no further comments are required. Therefore, the recommendation is resolved, but will remain open. We will close this recommendation once we verify that DeCA has completed revisions to its policies and procedures that fully address the recommendation.

- b. Develop training for personnel on contract quality assurance and surveillance on the Japan and South Korea produce contracts. The training should include how to oversee the surveys and how to calculate contract fill rates.**

Director, Defense Commissary Agency

The Director, DeCA, agreed with our recommendation, and stated that, once DeCA completes revisions of its policies and procedures, DeCA will develop training for store-level personnel on how to oversee the market basket surveys and how to calculate contract fill rates.

Our Response

Comments from the Director addressed all specifics of the recommendation and no further comments are required. Therefore, the recommendation is resolved, but will remain open. We will close this recommendation once we verify that DeCA has developed training for store-level personnel that fully addressed the recommendation.

- c. Require Defense Commissary Agency personnel to review and verify credit information for all produce inspection worksheets previously submitted to support all vouchers that have been paid on the Japan and South Korea contracts, since the original award in July 2015. If Defense Commissary Agency personnel find incorrect credit information and incorrect voucher amounts that were paid, they should fix the under or overstated amount paid. The Director, Defense Commissary Agency, should provide the results of the review to the DoD Office of Inspector General.**

Director, Defense Commissary Agency

The Director, DeCA, agreed with our recommendation and stated that DeCA conducted a review of a 4-month sample of produce inspection worksheets and supporting vouchers from November 2015 through February 2016. The Director stated that the sample included 856 produce inspection worksheets related to 1,239 invoices from 17 commissaries. According to the Director, the review revealed 199 of the produce inspection worksheets contained errors

(23 percent). The Director stated that errors included inaccuracies in the number of cases shipped or ordered, as well as the case prices. The Director also noted that produce inspection worksheet formulas were overridden and therefore incorrect. The Director stated that, when DeCA recreated and recalculated the 199 produce inspection worksheets, the impact of all errors was a net of \$1,545, or 0.015 percent out of \$9.9 million of payments.

Our Response

Comments from the Director partially addressed the specifics of the recommendation to require DeCA personnel to review and verify credit information for produce inspection worksheets previously submitted to support vouchers on the Japan and South Korea contracts. Therefore, the recommendation is unresolved and remains open. DeCA personnel did not review all the produce inspection worksheets submitted since the original contract award in July 2015. According to the Director, DeCA personnel reviewed a 4-month sample, incurring approximately \$42,000 in internal costs, and the review identified a net of impact of only \$1,545. In addition, the Director's comments did not address reconciling the under or overstated amounts paid with the contractors. We request that the Director provide additional comments on the final report regarding whether DeCA personnel will review the remaining produce inspection worksheets and vouchers, DeCA's supporting documentation from its analysis of the 856 produce inspection worksheets and the 1,239 invoices from November 2015 through February 2016, and documentation to show whether the over or understated amounts were collected or paid.

- d. Develop policies and procedures which require Defense Commissary Agency personnel to review and verify the accuracy of all future produce inspection worksheets—including the case price, pack size, cases received, units received, percent case credit, amount to be credited, and total credit—before processing vouchers for payment.**

Director, Defense Commissary Agency

The Director, DeCA, agreed with our recommendation and stated that the produce inspection worksheet will be modified in order to provide the appropriate information for use by DeCA's store operations, the contracting officer, and the resource management office to capture pertinent information relative to everything from receipts to contractor performance to payments.

Our Response

Although the Director agreed with the recommendation, comments from the Director only partially addressed the recommendation; therefore, the recommendation is unresolved and remains open. The comments did not address whether the Director will develop policies and procedures that require DeCA personnel to review and verify the accuracy of all future produce inspection worksheets before processing vouchers for payment. Although the Director stated the produce inspection worksheets would be modified, current DeCA directives and manuals do not require DeCA personnel verify the produce inspection worksheets. Therefore, just modifying the worksheets will not mitigate the risk identified. We request that the Director provide additional comments on the final report regarding the development of policies and procedures requiring the review and verification of produce inspection worksheets prior to processing vouchers for payment.

Appendix A

Scope and Methodology

We conducted this performance audit from March 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 personnel and current contractor personnel.

We visited:

- DeCA Headquarters, Fort Lee, Virginia;
- DeCA Contracting Branch Europe, Kapaun Air Station, Germany;
- DeCA commissaries in Japan (including Okinawa) at Yokota, Sagami, Atsugi, Yokosuka, Iwakuni, Sasebo, Hario Village, Camp Foster, Kadena, and Camp Courtney;
- DeCA commissaries in South Korea at Osan, Yongsan, Camp Humphreys, and Camp Walker; and
- Contractor Warehouse and Operation Center in Yokohama, Japan.

We reviewed the following Federal, DoD, and DeCA policy and guidance to determine whether applicable guidance was followed for managing the commissary produce departments. Specifically, we reviewed:

- Defense Federal Acquisition Regulation Supplement (DFARS) Part 246, "Quality Assurance," Subpart 246.102, "Quality Assurance Policy;"
- DFARS subpart 246.401, "Government Contract Quality Assurance;"
- DoD FMR, volume 10, chapter 8, "Commercial Payment Vouchers and Supporting Documentation;"
- Air Force Manual 10-246, "Food and Water Protection Program;"
- DoD Directive 5105.55, "Defense Commissary Agency (DeCA)," March 12, 2008;
- DoD Instruction 1330.17, "DoD Commissary Program," June 18, 2014;

- DeCA Directive 40-04, "Produce Operating Department," September 12, 2012; and
- DeCA Manual 40-4.1, "Produce Department Operations," September 12, 2012.

Method to Determine Incorrect Produce Inspection Worksheet Credits and Unsupported Vouchers

We randomly selected and reviewed a nonstatistical sample of 78 out of 4,779 produce delivery dates between November 2, 2015, and May 23, 2017, to 12 commissaries in Japan (including Okinawa) and 5 commissaries in South Korea. The sample selection included 6 weekly delivery dates related to 6 vouchers with credits from 21 produce inspection worksheets and 72 daily delivery dates related to 66 vouchers with credits from 63 produce inspection worksheets, for a total of 72 vouchers and 84 produce inspection worksheets. The voucher amounts included any credits for non-conforming produce annotated in a produce inspection worksheet. We reviewed 84 produce inspection worksheets for non-conforming produce. See Appendix F for a flow chart showing how DeCA personnel applied a credit for non-conforming produce from the contractor's invoice to the total amount due in a voucher.

We obtained the voucher, consolidated invoices for each commissary in Japan and South Korea, the voucher backup spreadsheet, the produce inspection worksheet associated with the voucher, and the commissary invoice for each delivery date. We compared the total amount of the voucher to the total amount in the voucher backup spreadsheet. We traced the credit amount from the voucher for a particular commissary to the credit amount in the produce inspection worksheet. For each of the 84 produce inspection worksheets, we:

- compared the non-conforming produce prices and quantities to the invoice for accuracy, and
- verified calculations for percent of case credited for each non-conforming produce and the total credit.

Method to Determine Incorrect Fill Rates

We randomly selected and reviewed a nonstatistical sample of 45 out of 4,779 produce delivery days between November 2, 2015, and May 23, 2017, to 12 commissaries in Japan (including Okinawa) and 5 commissaries in South Korea. The sample included 5 weekly invoices with 32 delivery dates and 40 daily invoices with 40 delivery dates on which DeCA received produce delivered at commissaries located in Japan (including Okinawa) and South Korea, for a total of 72 delivery days. We compared the quantity of cases ordered and cases received

from the invoices to DeCA's fill rate spreadsheet for a specific date and commissary. We re-counted the total of cases ordered and cases received from each invoice reviewed. For each inconsistency identified, we recalculated the fill rate percentage for the commissary invoice and calculated the difference. In addition, we compared DeCA's fill rate spreadsheet to daily fill rate reports provided by the contracting officer.

Method to Conduct the Survey

In May 31, 2017, we visited two local grocery stores in Japan (Sanwa and Livin) that were of comparable size to the Yokosuka commissary. We observed the contractor conducting the monthly survey at the two local stores. The contractor purchased 31 of the 35 high-volume core items at the two local stores. The contractor only purchased 31 items because the remaining 4 items were not available for purchase from either of the two local stores. The contractor translated the receipts from each store and we recorded the price in Japanese currency (yen). We observed the contractor weighing each of the 31 items and recorded the weight in kilograms. We then converted the weight into pounds. Next, we computed the yen per pound price and then converted the price to dollars per pound. Finally, we calculated the price difference between the commissary price per pound and the local market price and calculated the percentage price difference between the commissary price per pound and the local market price per pound.

Use of Computer-Processed Data

We used computer-processed data that DeCA provided to perform this audit. We obtained data from DeCA officials in the form of a spreadsheet for fill rate information from November 1, 2015, through April 30, 2017. The fill rate spreadsheet contained information of daily cases ordered and cases received for each commissary located in Japan (including Okinawa) and South Korea. In addition, we obtained data from officials in the form of a spreadsheet for commissary vouchers paid to contractors from November 1, 2015, through May 23, 2017. The voucher information spreadsheet contained payments made, including credits, to the contractors for produce deliveries at each commissary in Japan (including Okinawa) and South Korea.

To test the reliability of the fill rate spreadsheet, we compared the cases ordered and cases received from the fill rate spreadsheet to invoices to identify any missing or duplicated data. We reviewed a nonstatistical sample selection of 45 delivery days. The sample included weekly and daily dates on which DeCA received produce delivered at commissaries located in Japan (including Okinawa) and South Korea, for a total of 72 delivery days. We identified unreliable fill rate data in

16 of 72 delivery dates reviewed from the fill rate spreadsheet to the commissary invoices. Therefore, the fill rates in the spreadsheet were determined not to be sufficiently reliable. The details of the unreliable data is provided in the Finding section of this report.

To test the reliability of the voucher information spreadsheet, we reviewed the spreadsheet for any invalid or duplicate identification numbers for each date and voucher. Voucher identification numbers are system-generated by Defense Finance and Accounting Services, which restarts the identification number sequence at the beginning of every fiscal year. We determined the voucher information spreadsheet was sufficiently reliable to use for sample selection for testing DeCA's controls for invoice credit information in the produce inspection worksheet.

Use of Technical Assistance

The DoD OIG Quantitative Methods Division helped us develop a nonstatistical sample for determining reliability on the fill rate spreadsheet provided by DeCA, and for testing the accuracy of credit information from the produce inspection worksheets.

Prior Coverage

During the last 5 years, the DoD Office of Inspector General (DoD OIG) issued one report discussing DeCA's produce contracts. In addition, GAO issued one report discussing DeCA's patron saving methodology. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

GAO

Report No. GAO-17-80, "DoD Needs to Improve Business Processes to Ensure Patron Benefits and Achieve Operational Efficiencies," March 23, 2017.

The report determined that DeCA lacked reasonable assurance that it is maintaining its desired savings rate for commissary patrons because there are weaknesses in the methodology used to calculate patron savings. The report recommended that DeCA revise its methodology for calculating the savings rate to address the limitation identified in the GAO report, including those related to seasonal differences in prices, the sampling methodology for overseas commissaries, geographic differentiation, and the calculation of the weighted average.

DoD OIG

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

The report found that DeCA's current produce local purchase process contract in Guam is more cost-effective than the previous DeCA-funded transportation process. Also, produce personnel did not routinely document quality problems for produce in the commissary display areas under either contract. The report recommended that the Director, DeCA, reevaluate transportation options to address the price increase of bagged salads at the commissary locations in Guam. In addition, the report recommended that the Director, DeCA, require Guam produce personnel to document quality problems with produce in commissary display areas and identify whether problems were related to ordering, product rotation, or receiving for commissaries in Guam.

Appendix B

Potential Security Issues with Japan Storage Warehouse

We visited the contractor's Japan storage facility in May 2017 and identified potential security concerns. Specifically, we identified that the main gate was unlocked and open, no one checked identification, and storage coolers did not have controlled access and were not locked. Additionally, trucks delivering produce did not have any security seals to deter unwanted entry and monitor driver access. The doors only had a lock on the door and the driver controlled the key. See Figure 2 for a picture of a truck without a safety seal used by the contractor in Japan for produce delivery.



Distribution Facility Security Observation

During our site visit to the storage facility in Yokohama, Japan, in May 2017, we noticed facility security concerns. For example, the main gate was unlocked and open, no one checked identification, and the storage coolers did not have controlled access or were not locked. DeCA officials reviewed the contractor's quality control system, force protection, and transportation during contract award in 2015. DeCA officials identified the contractor's proposal to be outstanding in all three areas.

DeCA officials stated that they rely on Army Medical Command veterinary service inspectors to review the contractor's safety measures related to the produce contracts. Army veterinary service inspectors sample and inspect the quality of the produce delivered to Army, Navy, and Marine Corps commissaries in Japan and South Korea. Additionally, Army veterinary service inspectors conduct inspections and sanitation audits at the contractor warehouses. A February 2017 sanitation report showed that food security at the Japan warehouse was satisfactory. Army Medical Command veterinary service inspectors conducted their inspection in accordance with military standards and reviewed the contractor's food defense policy, outside grounds and roof areas, employee and visitor programs, material receiving, facility operations, and finished goods storage and shipping.¹¹ The veterinary service inspectors found all areas satisfactory. However, according to Army Medical Command officials, the inspections are not impromptu inspections and the contractor knows prior to the inspection that veterinary service inspectors are coming.

Distribution Vehicle Security Observation

During our site visit to the storage facility in Yokohama, Japan, and various commissaries in Japan, in May 2017, we noticed distribution vehicle security concerns. We observed that the produce delivery trucks did not contain seals and were secured by a key lock door, in which the delivery driver maintained the key. The contracts require that the contractors maintain a quality control system to ensure safeguard measures are in place to assure the integrity and product security of the food supply from possible terrorism or product alterations. The contractor subcontracted a delivery company to deliver the produce from the distribution facility to the commissaries. During our site visit, we observed that the delivery trucks contained produce for multiple delivery orders. DeCA personnel stated the delivery drivers make several drop-offs and pick-ups, including non-DeCA deliveries, along their delivery route. Air Force Manual 10-246 states that, to mitigate introduction of contaminants into the food supply chain, agencies should incorporate enhanced security measures, such as seals on locked containers with seal numbers to be identified on shipping documents.¹² Additionally, commercial food safety guidelines state that security of the trucks and trailers must be maintained for vehicles making multiple stops. The guidelines state that this can be accomplished by resealing the trailer after a delivery and having the seal number documented on the shipping documents. The commercial food safety guidelines are referenced in Military Standard 3006C, which Army Medical Command inspectors use to conduct their food defense review.

¹¹ Military Standard 3006C, "Sanitation Requirements for Food Establishments," June 1, 2008, establishes the food safety and related requirements for food defense programs.

¹² Air Force Manual 10-246, "Food and water protection program," May 27, 2014, establishes responsibilities and guidance for the food and water protection program and integrates security precautions and defensive measures.

Suggested Actions for Security Observation

We suggest the Director, DeCA, require officials to conduct quarterly unannounced inspections of the contractors' produce storage warehouses in Japan and South Korea. Additionally, we suggest the Director, DeCA, require officials to use seals on all delivery trucks in addition to locking doors for Japan and South Korea produce contractors. Further, we suggest that U.S. Government personnel should be the only authorized personnel to break the seal and should record when the seal is broken. Although not mandatory, requiring the contractors to include a seal would provide additional assurance pertaining to the chain of custody of produce for military families.

Appendix C

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	US #1, 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- to 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- to 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
25	Fresh Herb Cilantro	6 to 30 Bunches, Bags or Tubs

Count	Item Description	Preferred Quality, Size, Count
26	Cucumbers, Green	Super Select or US Fancy, 70-Count in 45-Pound Case
27	Onions, Yellow	US #1, 3-Pound Bag, 21/4' Minimum
28	Onions, Green	US #1, 48-Count, 8-12' 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: The Defense Commissary Agency

Appendix D

Audit Team Japan Market Basket Survey—June 2017

Item Description	Commissary Price per pound	Store 1: Local Market Price	Store 2: Local Market price	average store price	Price Difference	Percent Difference
Apple, Fuji	\$1.97	\$1.59	\$2.20	\$1.89	\$0.08	4.09%
Apple, Orin	2.29	1.59	2.56	2.07	0.22	10.44
Avocado	3.29	3.74	3.98	3.86	(0.57)	(14.72)
Bananas, Yellow	1.19	0.84	0.95	0.89	0.30	33.30
Melon, Honeydew	1.39	0.97	0.97	0.97	0.42	43.45
Pineapple, Gold	0.99	0.60	1.24	0.92	0.07	7.73
Grapefruit	1.42	1.49	1.89	1.69	(0.27)	(16.10)
Grape, White Seedless	3.49	4.34	4.34	4.34	(0.85)	(19.61)
Grape, Red Seedless	3.49	3.14	5.19	4.16	(0.67)	(16.14)
Limes, Regular	3.79	4.06	7.51	5.79	(2.00)	(34.49)
Orange, Navel	1.60	1.59	1.61	1.60	0.00	0.02
Lemon	1.69	2.75	2.79	2.77	(1.08)	(38.96)
Strawberries	6.99	6.13	6.13	6.13	0.86	14.06
Asparagus	5.99	7.12	8.43	7.78	(1.79)	(22.98)
Bok Choy	4.20	0.63	1.15	0.89	3.31	372.89
Broccoli	1.57	1.98	3.67	2.82	(1.25)	(44.28)
Cabbage, Green	0.99	0.69	0.29	0.49	0.50	101.21
Carrots	1.53	1.77	1.90	1.90	(0.38)	(19.83)
Celery	1.29	2.21	3.38	3.38	(2.10)	(61.97)
Fresh Herb Cilantro	8.59	26.17	23.93	25.05	(16.46)	(65.72)
Fresh Herb Parsley	4.19	3.97	2.21	3.09	1.10	35.63
Cauliflower	2.19	2.52	2.52	2.52	(0.33)	(12.93)
Cucumbers, Japanese	1.98	1.49	1.67	1.58	0.40	25.36
Lettuce, Green Leaf	1.68	1.09	8.46	4.78	(3.10)	(64.82)
Lettuce, Cello	1.59	0.67	0.98	0.82	0.77	92.81
Mushroom, Packaged	14.88	8.90	7.43	8.17	6.71	82.14
Onion, Green	5.52	5.70	5.77	5.73	(0.21)	(3.73)
Onion, Yellow	0.79	0.84	1.11	0.97	(0.18)	(18.77)
Pepper Bell, Green	3.89	3.29	4.00	3.64	0.25	6.77

Item Description	Commissary Price per pound	Store 1: Local Market Price	Store 2: Local Market price	average store price	Price Difference	Percent Difference
Potatoes, White	1.59	1.58	1.94	1.76	(0.17)	(6.67)
Tomatoes, Bulk	2.69	2.49	1.88	2.19	0.50	23.08
	\$98.73	\$105.92	\$123.39	\$114.65	(\$15.92)	(13.89%)
Note: We tested commissary and local market prices during the last week of May 2017. Source: The DoD OIG						

Appendix E

Produce Inspection Worksheet Example

Defense Commissary Agency Produce Inspection Worksheet (PIW)

1. Submit Inspection Report to:

2. **DATE**

3.

4.

5.

6.

7. COMMISSARY:

8. ADDRESS:

9. CONTRACT NO.:

10. CONTRACT #:

11. CALL NO.:

12. DRIVER'S NO.:

13. TRUCKING PARTIAL:

14. Request delivery of produce direct?

15. Have items rejected?

16. Delivery time of replacement order:

17. Manufacturer Receipt:

18. REQUIRED FILL-IN INFORMATION:

19. Total dollars received:

20. Total Cashes Expended:

21. Actual delivery date:

22. Actual Truck Disposition:

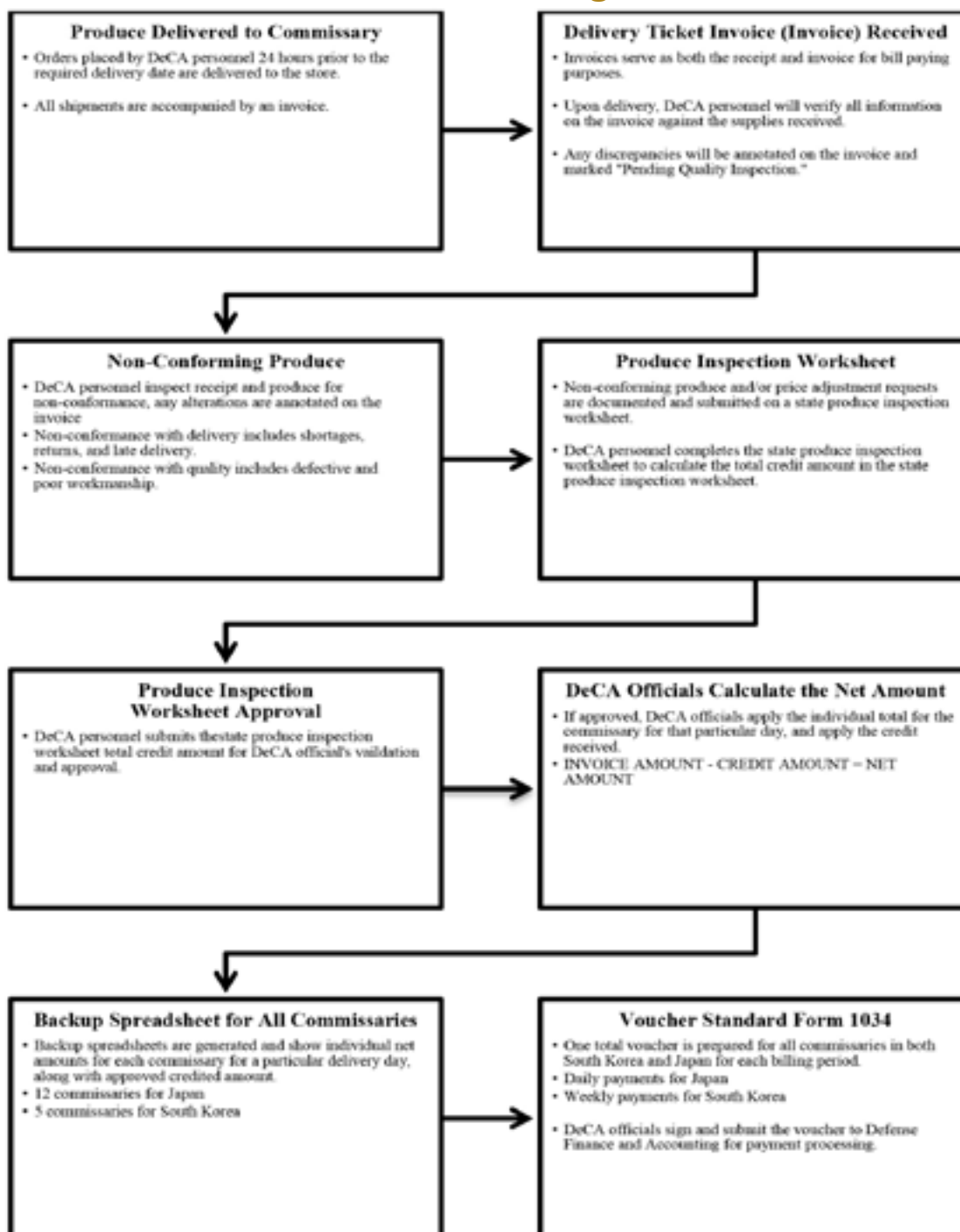
23. Time of delivery:

24. Cash received:

25. Cash received:

Appendix F

Credit Process for Non-conforming Produce Flow Chart



Source: The DoD OIG

Management Comments

Defense Commissary Agency



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

CC


January 19, 2018

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR
GENERAL

SUBJECT: Defense Commissary Agency Oversight of Fresh Produce Contracts in Japan and
South Korea

Reference: Project No. D2017-D000AJ-0114.000

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


Robert J. Bianchi
Director

Attachment:
As stated

Defense Commissary Agency (cont'd)

Attachment (page 1 of 2)

Official Agency Response

Defense Commissary Agency Oversight of Fresh Produce Contracts in Japan and South Korea
Reference: Project No. D2017-D000AJ-0114.000
/ / / / / / /

DeCA agrees with the report and its recommendations. In regards to recommendations one and two, DeCA is developing better defined policies and procedures that provide guidance on how DeCA personnel should oversee and conduct the market basket surveys, as well as calculating and verifying contract fill rates. The guidance previously provided at the start of the current contracts was insufficient to ensure compliance throughout the duration of the contract. Upon completion of the revised policies and procedures DeCA will develop training for store level personnel to implement regarding how to oversee the market basket surveys and how to calculate contract fill rates.

In regards to recommendation number three, DeCA notes that it conducted a review of a 4-month sample of source documents consisting of both the source documents and verification of credit information for all produce inspection worksheets (PIW) supporting vouchers for the period of Nov 2015 – Feb 2016, incurring approximately \$42,200 in internal costs. The sample included all (17) stores, totaling 1,239 invoices. A review of the 856 PIWs revealed 23% of the documents (199) contained errors. The errors included case pack, shipped or ordered, case price, unit packs and formulas within the PIW which were overridden and therefore incorrectly reflected. When all 199 PIWs were recalculated and recreated --- the impact of all errors was a net of \$1,545.62 out of \$9,879,785.08 of payments or 0.015% of discrepancy.

The report states that "27 vouchers, submitted for payment, valued at \$2.5Million, were not fully supported." the actual total value of the discrepancies within the 35 produce inspection worksheets was \$1,006.74 of the sample disbursements totaling \$506,564.21. Which equals 0.19%.

With regards to Draft Report D2017-D000AJ-0114.000/9 ---- "we reviewed 84 produce inspections worksheets for produce that was delivered between November 9, 2015 to May 12, 2017, and identified that DeCA personnel incorrectly calculated credits on 29 worksheets." As a point of clarification, the 29 of 84 produce inspection sheets the IG identified as not properly verified were partially included in the 27 voucher reviews discussed above.

The 3 different scenarios referenced in the produce inspection worksheet credit information incorrect section were verified by communicating directly with the applicable store personnel and obtaining information of applied processes. They are summarized below:

- When the store at Yokosuka, Japan showed that personnel returned more items than ordered, the store did not conform to the 24-hour policy of complying with reporting discrepancy on the produce inspection sheet and rather included other discrepancies in agreement with the company.

Defense Commissary Agency (cont'd)

- The store was entering credit for items not ordered.
- Incorrect entering of data: we concur, however we have noticed that additional input errors were made than those noted, but the \$ amount of credit was accurate. The cause was that some of the Excel spreadsheet formulas were overridden and manual input provided.

Overall, the 29 produce inspection sheets related to invoice payments of \$798,283.57 and produce inspection worksheet amounts processed were \$48,356.85 with a deviation after recalculation of \$2,647.10.

Finally in regards to recommendation number four, the key source document for identifying and reporting discrepancies for produce is the DeCA Produce Inspection Worksheet (PIW). The form will be modified in order to provide the appropriate information for use by our Store Operations, the Contracting Officer, and the Resource Management office to capture pertinent information relative to everything from receipts to contractor performance to payments.

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Acronyms and Abbreviations

DeCA	Defense Commissary Agency
DFARS	Defense Federal Acquisition Regulation Supplement
FMR	Financial Management Regulation
GAO	Government Accountability Office
Survey	Market basket surveys

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

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