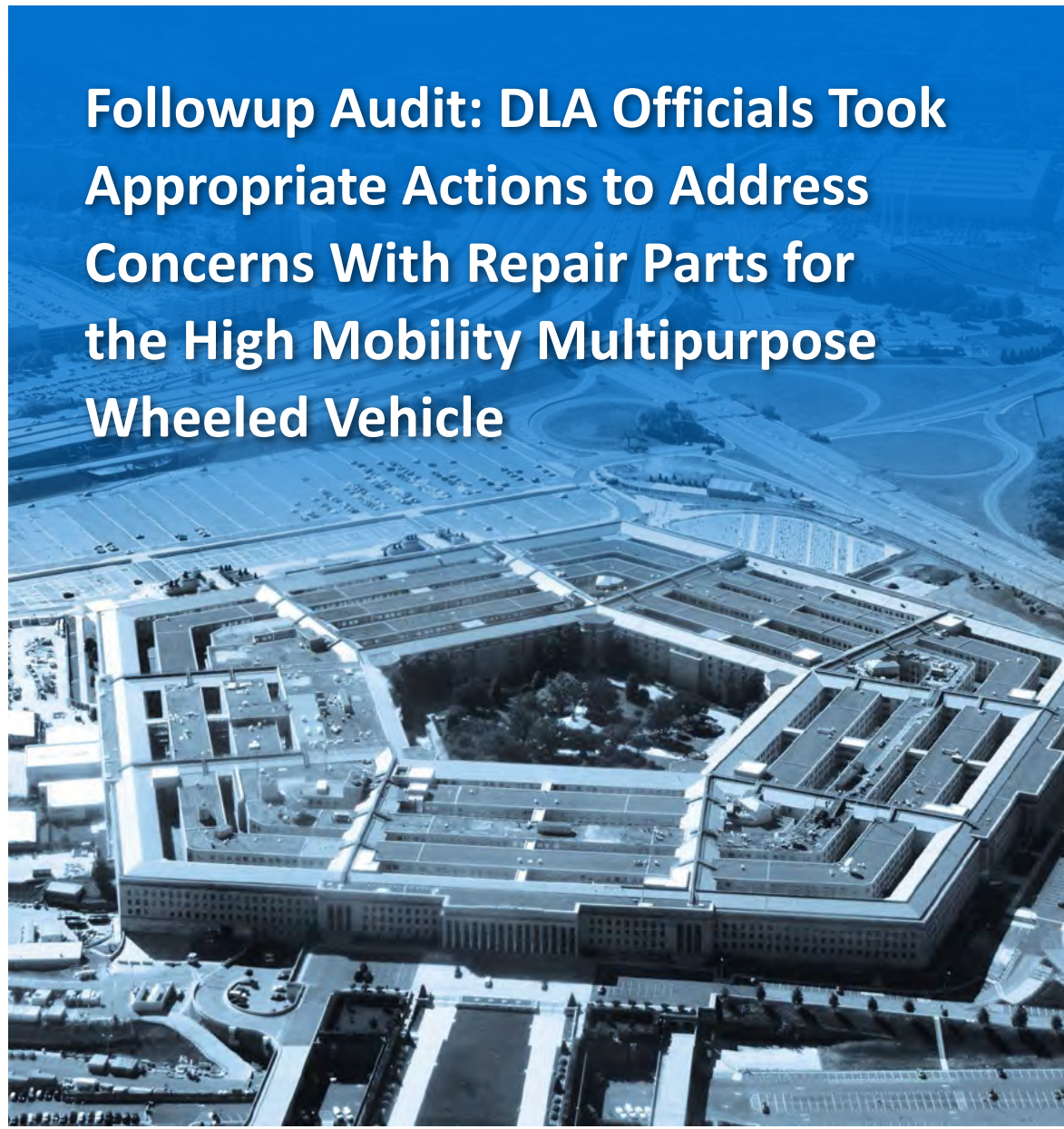




# INSPECTOR GENERAL

*U.S. Department of Defense*

APRIL 29, 2016



## **Followup Audit: DLA Officials Took Appropriate Actions to Address Concerns With Repair Parts for the High Mobility Multipurpose Wheeled Vehicle**

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# Results in Brief

## *Followup Audit: DLA Officials Took Appropriate Actions to Address Concerns With Repair Parts for the High Mobility Multipurpose Wheeled Vehicle*

April 29, 2016

### Objective

We determined whether the Contracting Officer, Defense Logistics Agency (DLA) Land and Maritime, implemented Recommendations B.2.a and b in Report No. DODIG-2014-054 as agreed.

Report No. DODIG-2014-054, "Defense Logistics Agency Land and Maritime Paid Too Much for High Mobility Multipurpose Wheeled Vehicle Repair Parts," (HMMWV) was issued on April 4, 2014. The audit identified 49 repair parts for the HMMWV available for purchase through the Integrated Logistics Partnership contract that required a unit-of-issue conversion. This conversion was required when the contractor's unit of issue differed from the Government's. Recommendation B.2.a pertained to the identification of any authorized overpayments for any other HMMWV repair parts. Recommendation B.2.b pertained to the alignment of AM General's repair part prices with the Government standard units of issue on future delivery orders and invoices.

### Finding

We determined that DLA Land and Maritime officials implemented Recommendation B.2.a as agreed. DLA Land and Maritime officials reconciled billing records for HMMWV repair parts that required a unit-of-issue conversion from February 2009 through September 2013 as agreed to in Recommendation B.2.a. Further, DLA Land and Maritime officials conducted monthly

### Finding (cont'd)

reconciliations through October 2015 to close out billing transactions for both the Integrated Logistics Partnership and follow-on contracts. DLA Land and Maritime found, and we confirmed, that no further overpayments occurred. In addition, we confirmed that DLA Land and Maritime officials issued \$1.62 million in credit memos against AM General, and that \$1.62 million was credited to the Government.

We determined that DLA Land and Maritime officials did not fully implement Recommendation B.2.b as agreed. Our review of DLA Land and Maritime's billing reconciliations indicated that the unit-of-issue conversion problem still existed. However, DLA Land and Maritime officials took appropriate actions to address the unit-of-issue conversion problem. Specifically, DLA Land and Maritime continued to perform monthly reconciliations and updated their standard operating procedures with steps to ensure the unit of issue matched the unit price. Although the problem still existed, we determined it did not result in further overpayments.

### Recommendations

We are not making recommendations in this report. Although DLA Land and Maritime officials did not fully implement Recommendation B.2.b, they took appropriate actions to address the unit-of-issue conversion problem and we did not find any evidence of further overpayments.

### Management Comments and Our Response

We provided a discussion draft of this report to management for review and comment. Management concurred with our conclusion and did not have any comments on the discussion draft. Therefore, no written response to this report is required.

## ***Recommendations Table***

<b>Management</b>	<b>Recommendations Requiring Comment</b>
Contracting Officer, Defense Logistics Agency Land and Maritime	None



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

April 29, 2016

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

**SUBJECT: Followup Audit: DLA Officials Took Appropriate Actions to Address Concerns  
With Repair Parts for the High Mobility Multipurpose Wheeled Vehicle  
(Report No. DODIG-2016-083)**

We are providing this report for your information and use. DLA Land and Maritime officials took appropriate actions for Recommendations B.2.a and b that mitigated the potential for further overpayments for High Mobility Multipurpose Wheeled Vehicle repair parts due to unit-of-issue conversion problems. We conducted this audit in accordance with generally accepted government auditing standards. We provided a discussion draft of this report to management for review and comment. Management concurred with our conclusion and did not have any comments on the discussion draft. Therefore, no written response to this report is required.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9077 (DSN 664-9077).

*Jacqueline L. Wiccarver*  
Jacqueline L. Wiccarver  
Acting Deputy Inspector General  
For Auditing

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## Acronyms and Abbreviations

# Introduction

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## Objective

Our objective was to determine whether the Contracting Officer, Defense Logistics Agency (DLA) Land and Maritime, implemented Recommendations B.2.a and b in Report No. DODIG-2014-054 as agreed.

## Background

We performed this followup audit on Recommendations B.2.a and b in prior Report No. DODIG-2014-054, “Defense Logistics Agency Land and Maritime Paid Too Much for High Mobility Multipurpose Wheeled Vehicle Repair Parts,” April 4, 2014.

The prior audit identified 49 repair parts for the High Mobility Multipurpose Wheeled Vehicle (HMMWV) available for purchase through the Integrated Logistics Partnership (ILP) contract that required a unit-of-issue conversion. The unit of issue used by AM General, LLC (AM General) differed from the Government standard unit of issue listed on the ILP contract.



Figure 1. Army's High Mobility Multipurpose Wheeled Vehicle  
Source: Program Executive Officer, Combat Support & Combat Service Support

## ***DLA Land and Maritime***

DLA is DoD's logistics combat support agency whose mission is to provide logistics, acquisition, and technical support to the Military Services. DLA Land and Maritime manages and coordinates shipment of HMMWV repair parts and is responsible for commercial support contracting with AM General through the ILP and the follow-on contracts for HMMWV repair parts.

DLA Land and Maritime is the headquarters for DLA's Land and Maritime Supply Chains, and has more than 2,500 employees in 37 locations around the world. It manages 1.9 million items and supports more than 15,000 customers throughout the Military Services, civil agencies, and other DoD organizations. DLA Land and Maritime awards more than 660,000 contracts annually, supports more than 2,000 weapon systems, and handles more than 9 million orders annually, with FY 2015 sales topping \$3.4 billion.

## ***Integrated Logistics Partnership and Follow-on Contracts***

DLA Land and Maritime contracting officials awarded contract SPM7LX-09-D-9001 (ILP contract) to AM General on November 7, 2008. The ILP contract period of performance began January 16, 2009 for 1 year with four 1-year options. The final option year began in January 2013. DLA Land and Maritime awarded contract SPM7MX-14-D-0039 (the follow-on contract) on a sole-source basis to AM General with a maximum value of \$48 million. The follow-on contract's performance period began in January 2014 and extended through September 2014, with six 30-day option periods available to continue performance through March 2015. DLA Land and Maritime had no plans to award any other contract to support HMMWV maintenance when the follow-on contract ended.

## **Review of Internal Controls**

DoD Instruction 5010.40<sup>1</sup> requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We determined that internal controls over DLA Land and Maritime's billing reconciliation processes were appropriate as they applied to the audit objective.

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<sup>1</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.



## Finding

### **DLA Land and Maritime Contracting Officials Took Appropriate Actions to Address Unit-of-Issue Price and Discrepancies With HMMWV Repair Parts**

We determined that DLA Land and Maritime officials implemented Recommendation B.2.a as agreed. DLA Land and Maritime officials reconciled billing records for HMMWV repair parts that required a unit-of-issue conversion from February 2009 through September 2013 as agreed to in Recommendation B.2.a. Further, DLA Land and Maritime officials conducted monthly reconciliations through October 2015 for both the ILP and follow-on contracts. DLA Land and Maritime found that no further overpayments occurred. In addition, we confirmed that DLA Land and Maritime officials issued \$1.62 million in credit memos against AM General, and that \$1.62 million was credited to the Government.

We determined that DLA Land and Maritime officials did not fully implement Recommendation B.2.b as agreed. Our review of DLA Land and Maritime's billing reconciliations indicated that the unit-of-issue conversion problem still existed. Although the problem still existed, we determined it did not result in further overpayments, because DLA Land and Maritime officials took appropriate actions to address the unit-of-issue conversion problem.

### **Audit Summary – Report No. DODIG-2014-054**

We performed this followup audit on Recommendations B.2.a and b in Report No. DODIG-2014-054.<sup>2</sup> The prior audit identified that AM General overbilled DLA Land and Maritime 34 times for a HMMWV repair part purchased on the ILP contract from November 2012 through June 2013. This occurred because DLA Land and Maritime contracting officials did not identify the incorrect unit prices listed on AM General's delivery orders used to obtain those repair parts and did not require AM General's invoiced unit prices to align with the units of issue for those repair parts. In addition, contracting officials did not verify that AM General invoiced using the correct unit price for the unit of issue billed. As a result, DLA Land and Maritime contracting officials authorized overpayments of at least \$1.5 million to AM General for a repair part purchased through the ILP contract. During the prior audit, DLA Land and Maritime identified additional overpayments for a total of \$1.62 million.

<sup>2</sup> Report No. DODIG-2014-054 contains two findings. This followup report focused only on Finding B.

**Recommendation B.2.a and Agreed-Upon Action**

Recommendation B.2.a stated that the Contracting Officer, DLA Land and Maritime, should review all contract SPM7LX-09-D-9001 invoices and vouchers since January 2009 that included repair parts with a unit-of-issue conversion to determine whether DLA Land and Maritime authorized overpayments for any other HMMWV repair parts acquired. If so, collect a refund from AM General for any amounts overpaid.

DLA Land and Maritime officials agreed and conducted an analysis for the HMMWV repair parts that required a unit-of-issue conversion, and determined that no overpayments were authorized. Further, DLA Land and Maritime officials confirmed and issued \$1.62 million in credit memos against AM General.

**Actions Taken to Address Recommendation B.2.a**

We determined that DLA Land and Maritime officials implemented Recommendation B.2.a. Specifically, we determined that DLA Land and Maritime officials conducted a review of billing records, as agreed, for HMMWV repair parts that required a unit-of-issue conversion from February 2009 through September 2013.<sup>3</sup> Based on the reconciliations, DLA Land and Maritime officials determined that no additional overpayments occurred for the HMMWV repair parts that required a unit-of-issue conversion.

In addition, DLA Land and Maritime officials conducted monthly reconciliations of billing records through October 2015<sup>4</sup> for both the ILP and the follow-on contracts. Specifically, to identify any potential unit-of-issue conversion quantity differences, DLA Land and Maritime officials compared the ordered quantity with the billed quantity. DLA Land and Maritime officials also held monthly meetings to determine the cause of quantity differences. The causes varied from missing invoices to offsetting (reversing) transactions.

To determine whether DLA Land and Maritime officials captured all the unit-of-issue conversion quantity differences, we conducted our own monthly reconciliations of the billing records. We compared our results with DLA Land and Maritime's and determined that its reconciliations captured all transactions that resulted in quantity differences. Though our reconciliations identified quantity differences that indicated the unit-of-issue conversion problem still existed, we did not find any additional authorized overpayments.

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<sup>3</sup> Although the contract's performance period began in January 2009, billing records pertaining to unit-of-issue conversion for HMMWV repair parts were not available until February 2009. Beginning October 2013, new standard operating procedures became effective, with steps to ensure the unit of issue matched the unit price.

<sup>4</sup> Although the follow-on contract ended in March 2015, billing reconciliations continued through October 2015 to close out billing transactions.

To determine whether DLA Land and Maritime officials processed 36 credit memos accordingly, we compared the credit memos against DFAS payment reports. We concluded that the 36 credit memos with a total value of \$1.62 million were credited to the Government as agreed.

### *HMMWV Repair Part Analysis*

We also determined whether the purchase of 49 HMMWV repair parts that required a unit-of-issue conversion, available for purchase through the ILP and the follow-on contracts, resulted in authorized overpayments. For the ILP contract, DLA purchased 16 of 49 HMMWV repair parts that required a unit-of-issue conversion in 2014. We found that 1 (NSN 4720-00-241-4435) of the 16 repair parts purchased resulted in an overpayment, which was later reversed and credited by DLA Land and Maritime staff.

For the follow-on contract, DLA purchased 15 of 49 HMMWV repair parts that required a unit-of-issue conversion in 2014 and 2015. We found that 1 (NSN 4720-00-241-4435) of the 15 repair parts purchased resulted in an overpayment, which was later reversed and credited by DLA Land and Maritime staff.

In addition, we identified unit-of-issue or price discrepancies in seven transactions. We requested and reviewed the invoices for these seven transactions to determine whether there were any other authorized overpayments and we determined that no additional overpayments were authorized.

### ***Recommendation B.2.b and Agreed-Upon Action***

Recommendation B.2.b stated that the DLA Land and Maritime contracting officer should require AM General to align its repair part prices with the Government standard units of issue on future delivery orders and invoices associated with contract SPM7LX-09-D-9001 and its ILP follow-on contract.

DLA Land and Maritime officials agreed and stated that AM General reviewed its records in detail and found that an inadvertent error in the computer system resulted in incorrect billing. This error was related to unit-of-issue conversion. AM General determined that this computer system error did not affect any other parts. In September 2013, AM General stated that it modified the system to correct the problem and that it confirmed both DLA calculations and the computer system error.

### ***Actions Taken to Address Recommendation B.2.b***

We determined that DLA Land and Maritime did not fully implement Recommendation B.2.b as agreed. Our review of DLA Land and Maritime's billing reconciliations indicated that the unit-of-issue conversion problem still existed; however, we found no evidence of further overpayments for the ILP contract or for the follow-on contract.

DLA Land and Maritime officials stated that they required AM General to align its repair part prices with the Government standard units of issue. In September 2013, AM General stated that it modified the computer system to address the unit-of-issue problem. However, DLA Land and Maritime's billing reconciliations indicated that the unit-of-issue problem still existed. As a result, DLA Land and Maritime officials relied on their internal billing reconciliation process to identify any unit-of-issue conversion problems. In addition, to help mitigate the potential overpayments, in October 2013, DLA Land and Maritime officials updated the standard operating procedures to require a check for unit-of-issue conversion inconsistencies when performing monthly reconciliations. Before this update, no specific procedures existed to ensure the unit of issue matched the unit price.

According to a DLA Land and Maritime official, AM General's unit of issue was not always aligned with the Government's, but when possible DLA Land and Maritime attempted to align it. Since the follow-on contract ended in March 2015, and DLA Land and Maritime has not awarded and has no plans to award any other contract to AM General for HMMWV repair parts, we did not perform additional work to verify whether AM General did in fact fix the unit-of-issue conversion problem.

### **Conclusion**

DLA Land and Maritime officials reconciled billing records beginning in February 2009 through September 2013 as agreed to for Recommendation B.2.a. Although DLA Land and Maritime officials did not fully implement Recommendation B.2.b, they took appropriate actions to mitigate the potential for further overpayments for HMMWV repair parts that required the unit-of-issue conversion. In addition, we did not find any evidence of further overpayments in the ILP or the follow-on contract.

## Appendix

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### Scope and Methodology

We conducted this performance audit from September 2015 through March 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted interviews with DLA Land and Maritime officials. We collected, reviewed, and analyzed:

- DFAS payment reports;
- credit memos;
- schedules of supply for SPM7LX-09-D-9001 and SPM7MX-14-D-0039 contracts;
- DLA Land and Maritime's analysis of unit-of-issue transactions for billing records from February 2009 through September 2013;
- DLA Land and Maritime's monthly reconciliations from October 2013 through October 2015; and
- DLA Land and Maritime's standard operating procedures.

Additionally, we nonstatistically selected and reviewed seven invoices to validate that no overpayments were authorized. These invoices were requested for transactions where we identified unit-of-issue discrepancies or where the total price we calculated did not match DLA Land and Maritime's billing reconciliation extended price.

### Use of Computer-Processed Data

We obtained and used computer-processed data. Specifically, we used billing records to determine whether any additional overpayments were authorized when purchasing HMMWV repair parts. We compared the unit prices and unit of issue on the billing records to the schedules of supply for the 49 NSNs on the ILP and follow-on contracts. We also traced selected AM General invoices to the billing records to make sure the billing records reflected the same date, quantity, and price as the invoices. We did not find significant discrepancies in the data that would affect our findings and conclusions. Therefore, we determined that the data were sufficiently reliable for the purpose of this followup audit.

## Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG) issued five reports discussing fair and reasonable prices for HMMWV repair parts. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

### ***DoD IG***

Report No. DODIG-2014-054, “Defense Logistics Agency Land and Maritime Paid Too Much for High Mobility Multipurpose Wheeled Vehicle Repair Parts,” April 4, 2014

Report No. D-2013-090, “Improved Guidance Needed to Obtain Fair and Reasonable Prices for Sole-Source Spare Parts Procured By the Defense Logistics Agency From The Boeing Company,” June 7, 2013

Report No. DODIG-2013-073, “Use of Defense Logistics Agency Excess Parts for High Mobility Multipurpose Wheeled Vehicle Depot Repairs Will Reduce Costs,” April 25, 2013

Report No. D-2011-104, “Pricing and Escalation Issues Weaken the Effectiveness of the Army Contract With Sikorsky to Support the Corpus Christi Army Depot,” September 8, 2011

Report No. D-2011-061, “Excess Inventory and Contract Pricing Problems Jeopardize the Army Contract with Boeing to Support the Corpus Christi Army Depot,” May 3, 2011

## Acronyms and Abbreviations

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<b>AM General</b>	AM General, LLC
<b>DFAS</b>	Defense Finance Accounting Service
<b>DLA</b>	Defense Logistics Agency
<b>HMMWV</b>	High Mobility Multipurpose Wheeled Vehicle
<b>ILP</b>	Integrated Logistics Partnership
<b>NSN</b>	National Stock Number





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