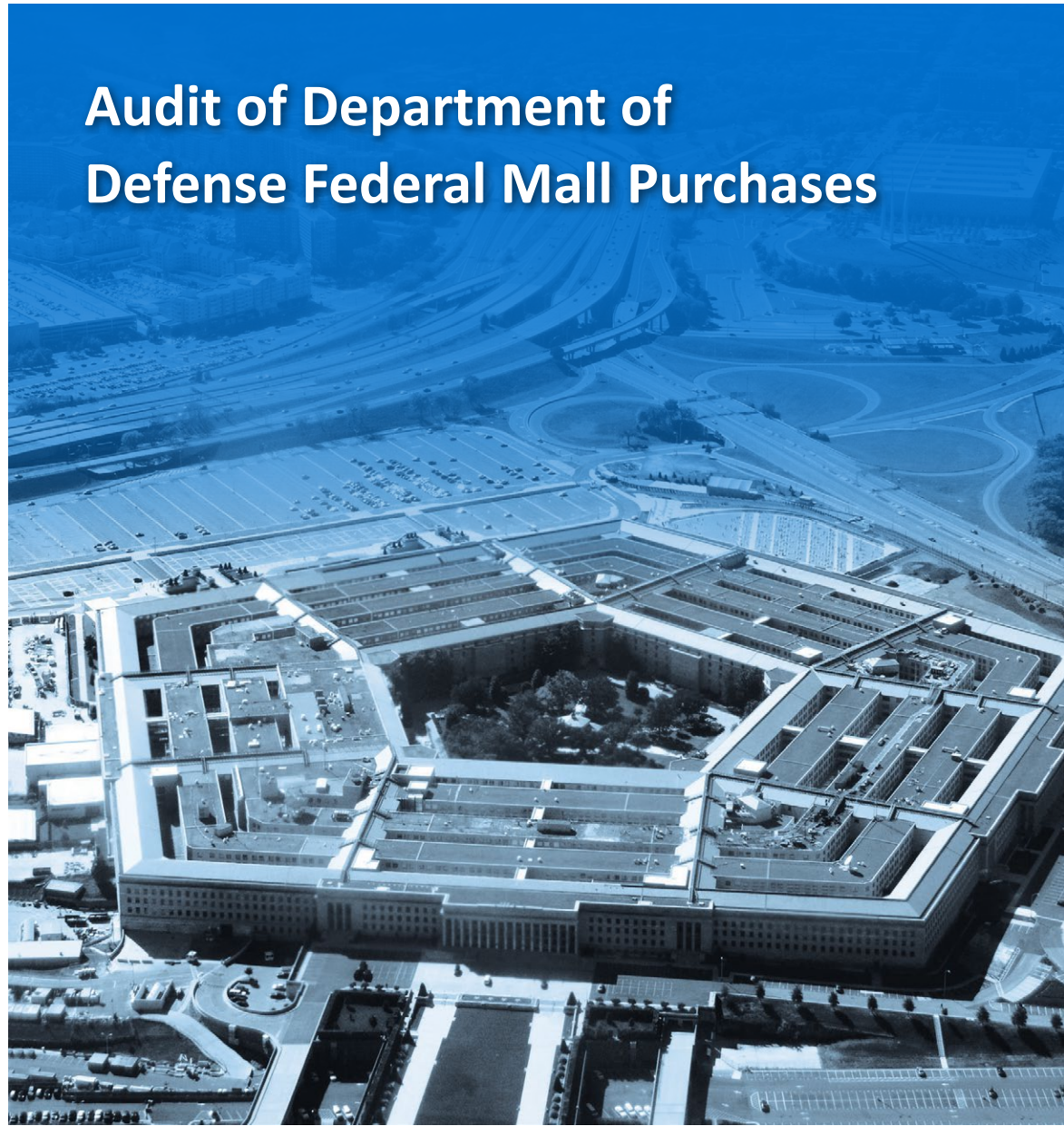




INSPECTOR GENERAL

U.S. Department of Defense

OCTOBER 19, 2022



Audit of Department of Defense Federal Mall Purchases

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





Results in Brief

Audit of Department of Defense Federal Mall Purchases

October 19, 2022

Objective

The objective of this audit was to determine whether the DoD made purchases through Federal Mall (FedMall) in accordance with Federal and DoD policies. To answer this objective, we focused our audit on whether the DoD paid prices for FedMall purchases that were comparable with other commercially available prices for the same items. Additionally, we reviewed whether activities had documentation supporting a requirement or need before making a purchase on FedMall.

Background

FedMall is an e-Commerce ordering system that allows registered users to search for and acquire products from government and commercial sources to fulfill their mission. Customers may pay for items with a government purchase card, Military Standard Requisitioning and Issue Procedures (MILSTRIP), or an approved DoD contractor corporate credit card. MILSTRIP is a process that all Military Services, Defense agencies, and participating Federal agencies use to requisition, issue, and dispose of materiel.

Defense Pricing and Contracting and the Defense Logistics Agency (DLA) are responsible for directing, administering, and providing policy guidance for the FedMall program. The DLA Contracting Services Office (DCSO) awards and administers FedMall contracts.

We reviewed 568 FedMall requisitions made in FY 2019 and FY 2020 by 10 activities, of which 210 requisitions were for contract purchases of 157 commercial items.

Findings

We reviewed 157 items that eight activities purchased on FedMall and found that vendors added items to their FedMall catalogs and increased prices without DCSO approval. Specifically, activities purchased 13 items that vendors added to FedMall without approval from DCSO officials, and activities purchased 12 items at prices that DCSO officials never approved. This occurred because DLA program and contracting officials did not establish proper controls over vendor catalogs in FedMall. Before December 2021, vendors were able to make changes to their FedMall catalogs without any contracting office approval. During our audit, DLA program officials implemented a system update that requires contracting officer approval for vendor catalog submissions and catalog updates.

In addition, DoD activities purchased items on FedMall at prices that were higher than other commercial sources. Activities purchased 52 items at prices that were up to 533 percent higher than prices available outside of FedMall. Activities paid higher prices because DCSO officials made price reasonableness determinations based on vendors' proposed catalog prices and discounts offered instead of other commercially available prices for the same items. In addition, DCSO officials expected that purchasers would conduct price comparisons before placing an order on FedMall; however, FedMall program officials did not communicate this requirement to purchasers.

Army activities used MILSTRIP to purchase 79 items, valued at \$852,158, in violation of Army policies, which do not permit the use of MILSTRIP as a payment method for FedMall purchases. Additionally, while the Navy and Air Force activities had documentation to support requirements for FedMall purchases, the Army activities did not. Specifically, the 407th Brigade Support Battalion and the 1st Battalion, 9th Field Artillery Regiment (1-9 Field Artillery Battalion) could not provide documentation supporting a valid requirement for 45 and 34 items purchased, respectively. This occurred because Army activity officials were unaware of the regulation prohibiting the use of MILSTRIP for FedMall purchases and did not know that activities made purchases. Additionally, Army officials did not have a process to identify FedMall purchases funded through MILSTRIP.



Results in Brief

Audit of Department of Defense Federal Mall Purchases

Findings (cont'd)

We identified \$367,081 in questioned costs related to vendors that increased prices without DCSO approval, in violation of contract terms. We identified an additional \$851,290 in questioned costs related to two Army activities we reviewed that made FedMall purchases that violated Army policy.¹ Additionally, we found that the Army made \$23.1 million in additional FedMall purchases in FY 2020 with prohibited MILSTRIP payments, which were not included in our sample review. Therefore, we identified an additional \$23.1 million in questioned costs for Army FedMall purchases in FY 2020. Finally, we identified \$603,335 of wasted funds for items where we found lower prices from sources outside of FedMall.

Recommendations

We recommend that the DCSO Director:

- identify and take appropriate action against any FedMall vendors that violated contract terms by adding items or increasing prices without approval;
- initiate action to recover the \$367,081 in questioned costs from five FedMall vendors that increased prices without approval; and
- direct contracting officials to prioritize competitive price comparisons in their price analysis and price reasonableness determinations.

We recommend that the DLA Director direct the FedMall Program Manager to update FedMall user guides and training to instruct ordering activities to compare prices from three vendors and place orders with the vendor that provides the best value.

¹ This is the total value of all Army requisitions in our sample, \$852,158, minus \$868 for sample items we included in the questioned costs related to vendors that increased prices without DCSO approval. See Appendix B for details regarding potential monetary benefits.

Recommendations (cont'd)

We recommend that Deputy Chief of Staff of the Army, G4, develop and implement guidance for making purchases on FedMall, including review and approval by the ordering activity commander and documenting a need for purchase. Additionally, we recommend that the Deputy Chief of Staff, in coordination with Army ordering commands, review FY 2020 Army FedMall requisitions, valued at \$23.1 million, and determine whether a valid need existed for the items purchased and whether the purchases violated Army policy.

We recommend that the Commanding General of the U.S. Army Forces Command establish and implement procedures to identify, monitor, track, and review transactions made outside of the Global Combat Support System, the Army's primary system for ordering supplies and equipment.

Management Comments and Our Response

DLA officials agreed with the recommendation to identify and take appropriate action against any FedMall vendors that violated contract terms by adding items or increasing prices without approval, and they specifically agreed to initiate action to recover the \$367,081 in questioned costs from five FedMall vendors. DLA officials also agreed to revise the price analysis techniques used for the FedMall program. Therefore, these recommendations are resolved but open. We will close the recommendations when we verify that the agreed-upon actions are complete.

DLA officials partially agreed with the recommendation to update FedMall training materials but did not specifically address updates to FedMall user guides; therefore, this recommendation is unresolved. We request that DLA officials provide additional comments on the final report to describe the actions planned or taken to update FedMall user guides and training.



Results in Brief

Audit of Department of Defense Federal Mall Purchases

Comments (cont'd)

Army officials did not agree with the recommendations to develop FedMall purchasing guidance, review FedMall requisitions, and implement procedures to identify and review purchases made outside of the Army's primary ordering system. Therefore, those recommendations are unresolved. We request that the Army officials provide additional comments on the final report to describe the actions planned or taken to address the recommendations.

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

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Commanding General, U.S. Army Forces Command	B.2.a, B.2.b	None	None
Deputy Chief of Staff of the Army, G4	B.1.a, B.1.b	None	None
Director, Defense Logistics Agency	A.2	None	None
Director, Defense Logistics Agency Contracting Services Office	None	A.1.a, A.1.b, A.1.c	None

Please provide Management Comments by November 21, 2022.

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** – DoD OIG verified that the agreed upon corrective actions were implemented.



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

October 19, 2022

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
AUDITOR GENERAL, DEPARTMENT OF THE NAVY
AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: Audit of Department of Defense Federal Mall Purchases
(Report No. DODIG-2023-006)

This final report provides the results of the DoD Office of Inspector General's audit. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

This report contains five recommendations that we consider unresolved because management officials did not fully address the recommendations. Therefore, as discussed in the Recommendations, Management Comments, and Our Response section of this report, the recommendations will remain unresolved until an agreement is reached on the actions management officials will take to address the recommendations. Once an agreement is reached, the recommendations will be considered resolved but will remain open until we receive documentation showing that the agreed-upon actions are complete. Once we verify that the actions are complete, we will close the recommendations.

This report contains three recommendations that we consider resolved. Therefore, as discussed in the Recommendations, Management Comments, and Our Response section of this report, the recommendations will remain open until we receive documentation showing that the agreed-upon actions are complete. Once we verify that the actions are complete, we will close the recommendations.

DoD Instruction 7650.03 requires that recommendations be resolved promptly. For the unresolved recommendations, within 30 days please provide us your comments concerning specific actions in process or alternative corrective actions proposed on the recommendations. For the resolved recommendations, within 90 days please provide us documentation showing that the agreed-upon action has been completed. Your response should be sent as a PDF file to audacs@dodig.mil. Responses must have the actual signature of the authorizing official for your organization.

We appreciate the cooperation and assistance received during the audit. Please direct questions to me at [REDACTED]).

A handwritten signature in cursive script, reading "Carol N. Gorman".

Carol N. Gorman
Deputy Assistant Inspector General for Audit
Cyberspace Operations & Acquisition,
Contracting, and Sustainment

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Introduction

Objective

The objective of this audit was to determine whether the DoD made purchases through Federal Mall (FedMall) in accordance with Federal and DoD policies. To answer this objective, we focused our audit on whether the DoD paid prices for FedMall purchases that were comparable with other commercially available prices for the same items. Additionally, we reviewed whether activities had documentation supporting a requirement or need before making a purchase on FedMall. See Appendix A for the scope and methodology and prior coverage related to the audit.

Background

FedMall is an e-Commerce ordering system that allows registered users to search for and acquire products from U.S. Government and commercial sources to fulfill their mission. Buyers have access to commercial off-the-shelf products from centrally managed DoD and General Services Administration (GSA) assets. According to the Federal Acquisition Regulation (FAR), a commercial-off-the-shelf item is a commercial product sold in substantial quantities in the commercial marketplace and offered to the U.S. Government in the same form in which it is sold in that marketplace.² As of February 2020, FedMall offered more than 56 million items for purchase, including National Stock Number (NSN) items, commercial contract items, and “MarketPlace” commercial items.³ In addition, FedMall supported 33,000 active customers from DoD agencies; Federal, state, and local governments; and DoD contractors under contractor logistics support agreements. Customers placed orders valued at \$302 million in FY 2020.

FedMall launched in June 2017 as the technical refresh of DoD Electronic Mall (EMALL), a web-based ordering platform created in 1998. It has the same functionality that DoD EMALL provided, but with an updated interface. FedMall fulfills a requirement of the National Defense Authorization Act for FY 1999, which required a single point of entry and ordering capability for all DoD electronic catalogs.⁴

² FAR Part 2, “Definition of Words and Terms,” Subpart 2.1, “Definitions.”

³ An NSN is a unique item identifier applied to an item of supply that is repeatedly procured, stocked, stored, issued, and used throughout the Federal supply system. The FedMall “MarketPlace” allows eligible suppliers to upload their catalogs to FedMall without a contract, and sell items under \$10,000 to holders of government purchase cards.

⁴ Public Law 105-261, “The Strom Thurmond National Defense Authorization Act (NDAA) for Fiscal Year 1999,” section 332, “Defense-wide electronic mall system for supply purchases,” October 17, 1998.

Offices Involved with FedMall

The Office of the Principal Director, Defense Pricing and Contracting (DPC), and the Defense Logistics Agency (DLA) are responsible for directing, administering, and providing policy guidance for the FedMall program. The DPC Principal Director is the Principal Staff Assistant, responsible for monitoring requirements, performing program reviews, and advocating the use of FedMall throughout the DoD and U.S. Government. The DLA is the Executive Agent for FedMall and manages the operations of the program. Both DPC and the DLA are within the Office of the Under Secretary of Defense for Acquisition and Sustainment.

The DLA is a combat logistics support agency that manages the global defense supply chain for the Military Services; 11 combatant commands; other Federal, state, and local agencies; and partner and allied nations. The DLA also manages a variety of military and Federal-level programs and services, including FedMall. Within the DLA, several organizations have responsibilities related to FedMall.

- DLA Logistics Operations (J3) is responsible for the integrated material management of FedMall items. The DLA J3 works with DLA procuring organizations to review and approve categories of items for FedMall contracts. J3 also facilitates FedMall system changes related to order fulfillment.
- The FedMall Program Management Office within DLA Information Operations (J6) is responsible for providing life cycle management of FedMall, and managing the definition, design, development, and implementation of system requirements. The Program Management Office is also responsible for information assurance for the FedMall program.
- The DLA Contracting Services Office (DCSO) is responsible for awarding and administering the DLA-managed contracts for FedMall.

DPC and DLA J3 officials co-chair the FedMall Executive Configuration Control Board and the FedMall Operational Requirements Committee, which are the oversight bodies that manage and govern FedMall requirements. These groups also include officials from the Military Services and the GSA, and a representative for the Defense agencies.

FedMall Access and Ordering

FedMall customers register for online access using a Common Access Card or a Personal Identity Verification card. Once registered, customers may use FedMall to purchase commercial products from a variety of sources. Products can include clothing, office supplies, and tools. Customers may pay for items with a government purchase card, Military Standard Requisitioning and Issue Procedures (MILSTRIP), or an approved DoD contractor corporate credit card. MILSTRIP is a process that all Military Services, Defense agencies, and participating Federal agencies use to requisition, issue, and dispose of materiel.

Review of FedMall Purchases

The transaction data that the DLA provided for FY 2019 and FY 2020 show that the Army, Navy, and Air Force made 599,356 requisitions in FedMall, totaling \$521.9 million. A requisition is a single line of transaction data, associated with the purchase of a specific quantity of an item. We reviewed 10 activities with FedMall purchases valued at \$160.5 million, which is about 31 percent of the total of \$521.9 million in requisitions the three Military Services made in FY 2019 and FY 2020. Of these 10 activities, 8 are DoD activities, and 2 are contractors affiliated with the Air Force. The DoD activities requisitioned both commercial items and NSN items, while the contractors requisitioned only NSN items.

For these 10 activities, we reviewed 568 requisitions totaling \$9.1 million. Our review included 210 requisitions for contract purchases of 157 commercial items, and 358 requisitions for 324 NSN items.⁵ For Finding A, we reviewed the controls over FedMall catalogs and ordering procedures for 210 contract requisitions from eight activities.⁶ For Finding B, we reviewed all 568 requisitions from the 10 selected activities. See Appendix A for information about how we selected the activities and requisitions. Table 1 shows the number of requisitions, number of unique items, and the dollar amounts reviewed for the 10 selected activities.

Table 1. FY 2019 and FY 2020 FedMall Purchases Reviewed

Activity	Contract Purchases		NSN Purchases		
	Dollar Value ¹	Requisitions	Dollar Value	Requisitions	Total Unique Items
Norfolk Naval Shipyard	\$886,977	12	\$0	0	7
Puget Sound Naval Shipyard	1,996,337	25	0	0	17
Portsmouth Naval Shipyard	1,033,248	20	0	0	16

⁵ Some activities had multiple requisitions for the same items; therefore, the number of items is less than the number of requisitions.

⁶ FedMall includes contracts that are awarded and managed by the DCSO, the GSA, and other contracting organizations. The 210 contract requisitions that we reviewed were all from contracts managed by the DCSO.

Table 1. FY 2019 and FY 2020 FedMall Purchases Reviewed (cont'd)

Activity	Contract Purchases		NSN Purchases		
	Dollar Value ¹	Requisitions	Dollar Value	Requisitions	Total Unique Items
Naval Special Warfare Development Group	384,925	20	0	0	20
Naval Explosive Ordnance Disposal Group 1	796,913	21	0	0	10
Air Force Academy	476,345	16	936,161	20	16
AAR Government Services, Inc. ²	0	0	836,167	52	46
S&K Aerospace, LLC ³	0	0	851,783	286	270
Army 1st Battalion, 9th Field Artillery Regiment	420,644	37	0	0	34
Army 407th Brigade Support Battalion	431,514	59	0	0	45
Total	\$6,426,902	210	\$2,624,111	358	481

¹ Total does not equal the actual sum because of rounding.

² AAR Government Services is a contractor for the Air Force Sustainment Center.

³ S&K Aerospace is a contractor for the Air Force Life Cycle Management Center.

Source: The DoD OIG.

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.⁷ We identified internal control weaknesses related to FedMall vendor catalogs, price reasonableness determinations, communication of FedMall ordering requirements, compliance with Army purchasing regulations, and Army oversight of FedMall purchases. Specifically, we identified the following internal control weaknesses.

- The DLA did not establish proper controls over vendor catalogs in FedMall, and the system allowed vendors to make changes to their catalogs without contracting office approval. During our audit, DLA officials implemented controls to require contracting officer approval for vendor catalog submissions and catalog updates.
- DLA contracting officials based their price reasonableness determinations on vendor discounts offered instead of reviewing other commercially available prices for the same items, which is the preferred method for performing price reasonableness determinations according to the FAR.

⁷ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013, (Incorporating Change 1, June 30, 2020).

- The DLA did not communicate the requirement for purchasers to obtain multiple vendor quotes before placing an order on FedMall.
- Army activity leadership was unaware of Army purchasing regulations prohibiting the use of MILSTRIP for FedMall purchases, and did not know that activities made the purchases.
- Army officials did not have effective procedures in place to identify potentially unallowable FedMall purchases.

We provided a copy of the report to the senior official responsible for internal controls in the DLA and the Department of the Army.

Finding A

Controls over FedMall Catalogs and Ordering Procedures Were Inadequate

We reviewed 157 items that eight activities purchased on FedMall and found that vendors added items to their FedMall catalogs and increased prices without DCSO approval. Specifically, activities purchased 13 of 157 items that vendors added to FedMall without approval from DCSO officials. Activities purchased an additional 12 of 157 items at prices that DCSO officials never approved. This occurred because before December 2021, DLA program and contracting officials did not establish proper controls over vendor catalogs in FedMall.

Additionally, the eight activities purchased items on FedMall at prices that were higher than other commercially available prices for the same items. Specifically, activities purchased 52 of 145 items at prices that were up to 533 percent higher than other commercially available prices.⁸ Activities paid higher prices because DCSO officials made price reasonableness determinations based on vendors' proposed catalog prices and discounts offered instead of other commercially available prices for the same items. In addition, DCSO officials expected that purchasers would conduct price comparisons before placing an order on FedMall; however, FedMall program officials did not communicate this requirement to purchasers.

As a result, we identified \$367,081 in questioned costs related to vendors that increased prices for 12 items without DCSO approval, in violation of contract terms.⁹ Additionally, we identified \$603,335 of wasted funds for 52 items where lower prices were available from sources outside of FedMall.

FedMall Catalog Background

The DCSO issued a FedMall solicitation in March 2015 to establish indefinite-delivery indefinite-quantity contracts for various commercial-off-the-shelf items.¹⁰ Interested vendors proposed catalogs of items that fell within the categories of items listed within the solicitation, and DCSO officials evaluated the proposals separately.

⁸ From our sample of 157 items, we researched prices for 145 items. Specifically, we reviewed 84 items that the DCSO approved for purchase, 13 items that the DCSO never approved for purchase, and 48 items with unknown approval status. We excluded the 12 items with unapproved price increases because we had already quantified the monetary impact of those items. We are only reporting on items with price differences greater than 10 percent.

⁹ See Appendix B for a discussion of potential monetary benefits, including how we calculated questioned costs.

¹⁰ An indefinite-delivery indefinite-quantity contract provides for an indefinite quantity, within stated limits, of supplies or services during a fixed period. Under this type of contract, the Government places orders for individual requirements.

Officials determined whether the items fell within the approved categories and whether the offered items complied with various requirements related to country of origin, trade agreements, and unit of issue. DCSO officials also evaluated the vendor's prices and discounts offered to determine whether they were consistent with the vendor's commercial practices. DCSO officials awarded contracts to vendors that complied with the technical requirements at prices that the officials considered to be fair and reasonable.¹¹ As of August 2020, the DCSO had awarded contracts to 68 vendors to sell items on FedMall. We reviewed 157 items from 210 requisitions that eight activities purchased on 11 FedMall contracts. Table 2 shows the contract breakout for the 157 items we reviewed.

Table 2. Contract Breakout of Sample Items Reviewed

Contract Number	Vendor Name	Number of Requisitions Reviewed	Number of Items Reviewed	Purchase Amount Reviewed*
SP47W1-15-D-0002	GMS Industrial Supply	35	32	\$416,559
SP47W1-15-D-0006	Amron International	8	8	270,790
SP47W1-16-D-0009	Sands Business Equipment Supplies	15	13	596,528
SP47W1-18-D-0010	Campbell, Inc.	7	6	554,354
SP47W1-18-D-0031	Caprice Electronics	12	7	695,870
SP47W1-18-D-0042	Blue Water Sales	15	13	573,356
SP47W1-19-D-0007	1 Source Solutions	7	3	650,908
SP47W1-19-D-0008	Shore Solutions Inc.	28	18	694,329
SP47W1-19-D-0011	Coronado Distribution Company	17	8	423,042
SP47W1-19-D-0017	Campbell, Inc.	14	9	1,215,110
SP47W1-20-D-0009	NCH Corporation	52	40	336,055
Total		210	157	\$6,426,902

* Total does not equal the actual sum because of rounding.
Source: The DoD OIG.

When the DCSO awards a FedMall contract, part of the negotiation process involves approving the vendor's catalog, which is a list of specific items that the vendor can sell on FedMall and the approved prices for those items. The contract's statement of work specifies that the vendor must submit all requests for catalog changes, such as adding or deleting items or increasing prices, to the contracting officer for review and approval.

¹¹ A fair and reasonable price is a price that is fair to both the buyer and the seller, and an amount that a prudent and competent buyer would be willing to pay, based on market conditions such as supply and demand, competition, and available alternatives.

FedMall Included Unapproved Items and Prices

We found that vendors added items to their FedMall catalogs and increased prices without DCSO approval, which is a violation of contract terms. Of the 157 items reviewed, we determined that DCSO officials:

- approved 84 items for sale on FedMall, and vendors sold these items at the approved prices;
- did not approve 13 items for sale on FedMall; and
- approved 12 items for sale on FedMall, but vendors sold the items at higher prices than approved.

DCSO officials could not provide information to show the approval status for the remaining 48 items because the catalog approvals were performed using a tool in the EMALL system and officials were unable to access the catalog files from the system after the transition to FedMall.

Unapproved Items

Activities purchased 13 items (16 total requisitions), at a cost of \$606,314, that vendors added to FedMall without DCSO approval. In addition to our sample, we reviewed all FY 2019 and FY 2020 FedMall transactions to determine whether the respective activities purchased additional quantities of the unapproved items. We identified that the eight activities in our sample made 10 additional requisitions for 7 of the 13 unapproved items, at a cost of \$312,321. In total, the activities spent \$918,635 on these items with no assurance that the prices were fair and reasonable because DCSO officials had never reviewed the items and the prices before the vendors added the items to FedMall. Activities purchased the unapproved items on 4 of the 11 DCSO contracts we reviewed. Table 3 shows, for the eight activities in our sample, the number of unapproved items and dollar impact by contract.

Table 3. Total Dollar Impact of Unapproved Items

Contract	Unapproved Items	Dollar Impact from Sample	Dollar Impact from Additional Purchases	Total Dollar Impact
SP47W1-18-D-0031	4	\$89,861	\$59,213	\$149,074
SP47W1-18-D-0042	7	413,251	138,466	551,717
SP47W1-19-D-0008	1	68,640	80,080	148,720
SP47W1-19-D-0011	1	34,562	34,562	69,125
Total	13	\$606,314	\$312,321	\$918,635

Note: Totals may not equal the actual sum because of rounding.
Source: The DoD OIG.

The following are examples of unapproved items that activities purchased on FedMall.

- The Air Force Academy purchased 600 Camelback Mule hydration packs on contract SP47W1-19-D-0008 for \$114.40 each. However, the hydration packs were not in the vendor's approved FedMall catalog. When we asked DCSO officials about the hydration packs, they confirmed that they had not approved this vendor to sell the item on FedMall. Therefore, the Air Force Academy paid \$68,640 for the 600 hydration packs with no assurance that the vendor's price represented a fair and reasonable price. In addition to our sample, the Air Force Academy purchased 700 more hydration packs, for an additional \$80,080, with no assurance that the vendor's price was fair and reasonable.
- Portsmouth Naval Shipyard purchased 100 protective coveralls on contract SP47W1-18-D-0031 for \$125.39 each. When asked, DCSO officials stated that they had not approved this item for sale in the vendor's FedMall catalog. Therefore, the shipyard had no assurance that the \$12,539 paid for these items represented a fair and reasonable price. In addition to our sample, the shipyard purchased 100 additional coveralls for \$12,539, with no assurance that the vendor's price was fair and reasonable.

Items with Unapproved Prices

Activities purchased 12 items (22 total requisitions), where they paid \$67,520 above the approved prices because vendors had increased prices without DCSO approval. In addition to our sample, we reviewed all FY 2019 and FY 2020 FedMall transactions to determine whether the respective activities purchased additional quantities of the items with unapproved price increases. We identified that the activities made 64 additional requisitions for 8 of the 12 items with unapproved price increases and paid \$299,561 more than the approved prices. In total, the activities paid \$367,081 more than the approved prices for these 12 items, with prices up to 51 percent higher than the approved prices. The activities purchased the 12 items with unapproved prices on 5 of the 11 DCSO contracts we reviewed. Table 4 shows, for the eight activities in our sample, the number of items with unapproved prices and the dollar impact by contract.

Table 4. Total Dollar Impact of Items with Unapproved Prices

Contract	Items with Unapproved Prices	Dollar Impact from Sample*	Dollar Impact from Additional Purchases*	Total Dollar Impact* (Overpayment)
SP47W1-15-D-0002	2	\$644	\$285	\$929
SP47W1-18-D-0031	2	1,815	1,598	3,413
SP47W1-18-D-0042	2	2,092	24,068	26,160
SP47W1-19-D-0008	4	6,673	13,526	20,199
SP47W1-19-D-0011	2	56,296	260,084	316,380
Total	12	\$67,520	\$299,561	\$367,081

* Dollar impact is the difference between the price paid and the approved price.

Source: The DoD OIG.

The following are examples of items with unapproved price increases that activities purchased on FedMall.

- The Navy's Explosive Ordnance Disposal Group 1 purchased 275 combat shirts and 400 combat pants from our sample requisitions on contract SP47W1-19-D-0011. For FY 2019 and FY 2020, the activity purchased an additional 680 shirts and 2,063 pants. The activity paid \$211.49 each for the shirts, which was \$40.99 (24 percent) more than the approved price of \$170.50. The activity paid \$334.76 each for the pants, which was \$112.56 (51 percent) more than the approved price of \$222.20. From our sample requisitions, Explosive Ordnance Disposal Group 1 overpaid \$56,296.25, and the activity overpaid \$260,084.48 for the additional FY 2019 and FY 2020 purchases of the shirts and pants.
- The Naval Surface Warfare Development Group purchased 80 watches on contract SP47W1-18-D-0031 for \$77.01 each, which was \$17.75 (30 percent) more than the approved price of \$59.26. The activity also purchased an additional 90 watches in FY 2019 and FY 2020. Therefore, the Naval Surface Warfare Development Group overpaid \$1,420.24 from our sample requisitions, and the activity overpaid \$1,597.77 for the additional watches purchased in FY 2019 and FY 2020.

FedMall Vendors Violated Contract Terms

It is a violation of contract terms for vendors to sell items on FedMall without DCSO approval, or to increase prices without approval. The FedMall contracts state that vendors are responsible for ensuring that their catalogs comply with the terms of the contract, and catalogs are subject to removal if vendors add unauthorized items. Therefore, DCSO officials should review all FedMall transactions from FY 2019 through FY 2021 and determine whether any vendors violated the terms of their contracts by adding items or increasing prices without approval. If so, contracting officials should determine whether any actions against the vendor, such as catalog removal or recoupment of excess costs, are appropriate, and carry out these actions. In addition, officials should initiate action to recover the \$367,081 in questioned costs from five FedMall vendors that violated contract terms by increasing prices without approval.

The DLA Did Not Have Proper Controls over FedMall Catalogs

Although the terms of the DCSO's FedMall contracts prohibit vendors from adding items to their catalogs or increasing prices without approval from the contracting officer, FedMall user guides do not convey this requirement. Specifically, the FedMall website includes a guide for vendors, which provides information about a portal that vendors use to add, edit, and remove catalog items. The guide provides technical instructions for various ways to manage items, but does not specifically mention a requirement for contracting officer approval to add or edit catalog items. The guide states that the system will automatically approve any changes and include them in the next version of the FedMall catalogs.

FedMall's predecessor system, EMALL, included a change detection process and a workflow requirement for contracting officers to approve all catalog changes. However, FedMall officials did not implement these features when EMALL transitioned to FedMall. Therefore, the FedMall system automatically uploaded any vendor catalog changes. DLA officials recognized the deficiency related to FedMall catalogs and began working to address it in October 2017. In December 2021, during our audit, DLA FedMall program officials implemented a system update that notifies contracting officers of catalog submissions and updates pending their review, and it provides contracting officers with the ability to download vendor catalogs, review pricing and other attributes, and approve or reject the catalog. If contracting officers approve the catalog, the system automatically lists

the catalog on FedMall. If contracting officers reject the catalog, the system will notify the vendor to make changes to the catalog and submit it again for approval. In March 2022, FedMall program officials implemented additional system updates to provide more robust catalog validation tools. For example, the system verifies whether all data fields contain proper characters, and it identifies whether catalogs include prohibited or improperly categorized items. It also compares proposed catalog updates to a master version of the approved catalog to identify new items and items with price increases. Because DLA program officials have updated the FedMall system to require contracting officer approval for vendor catalogs and updates, we are not making a recommendation regarding controls over FedMall catalogs.

FedMall Prices Were Higher than Other Commercially Available Prices

DoD activities purchased items on FedMall at prices that were higher than other commercially available prices for the same items. We researched prices for 145 items purchased from 188 FedMall requisitions totaling \$6.1 million. Specifically, we researched three categories of items—items that the DCSO approved for purchase, items that the DCSO never approved for purchase, and items with unknown approval status.¹² We compared the FedMall prices for these 145 items to other commercially available prices. We used non-sale prices for the same items that were available from manufacturer websites, vendor websites, and GSA Advantage.¹³ Of the 145 items we reviewed, activities purchased 102 items on FedMall at prices that were \$647,340 higher than commercially available prices. We were unable to find commercial prices for 34 items from manufacturer websites, vendor websites, or GSA Advantage, and we identified that FedMall was the lowest price for the remaining 9 items. For the 102 items that had higher prices in FedMall, 52 items had differences that were greater than 10 percent, for a total potential overpayment of \$603,335.¹⁴ Table 5 shows a breakout by approval status of the 52 items with FedMall prices that were more than 10 percent higher than other available prices.

¹² From our sample of 210 requisitions, we excluded 22 requisitions for 12 items with unapproved price increases because we have already quantified the monetary impact of those items.

¹³ The GSA provides centralized procurement services for the U.S. Government. GSA Advantage is an online shopping system that provides access to millions of products and services, including office products, tools, hardware, and furniture.

¹⁴ We focused our review on items with price differences greater than 10 percent, because the DLA adds a 10-percent cost recovery rate to FedMall items to recover operating costs associated with purchasing and selling items to the customer.

Table 5. Potential Overpayment for FedMall Items

Catalog Status	Number of Items Reviewed	Items with Higher Prices in FedMall ¹	Potential Overpayment ²
Approved Items	84	28	\$302,562
Unapproved Items	13	7	124,311
Unknown Approval Status	48	17	176,461
Total	145	52	\$603,335

¹ FedMall prices were more than 10 percent higher than other available prices.

² Total does not equal the actual sum because of rounding.

Source: The DoD OIG.

All eight activities purchased items on FedMall at prices that were higher than commercially available prices. Specifically, we determined that FedMall prices were up to 533 percent higher than the other available prices. The following are examples of FedMall purchases that activities made at prices that were higher than other commercial prices.

- The 1st Battalion, 9th Field Artillery Regiment (1-9 Field Artillery Battalion) purchased four 8-foot stepladders via FedMall for \$786.47 each, for a total dollar value of \$3,145.88. However, GSA Advantage had the same stepladders available for \$124.22 each. The FedMall price is \$662.25 (533 percent) higher, for a total potential overpayment of \$2,649.00.
- The 1-9 Field Artillery Battalion purchased eight portable evaporative coolers via FedMall for \$5,929.75 each, for a total dollar value of \$47,438.00. However, GSA Advantage had the coolers available for \$1,949.99. The FedMall price is \$3,979.76 (204 percent) higher, for a total potential overpayment of \$31,838.08.
- The Naval Special Warfare Development Group purchased 80 Pelican brand protective storage cases via FedMall for \$431.26 each, for a total dollar value of \$34,500.80. However, GSA Advantage had the cases available for \$222.07. The FedMall price is \$209.19 (94 percent) higher, for a total potential overpayment of \$16,735.20.
- Explosive Ordnance Disposal Group 1 purchased 15 tactical kits via FedMall for \$19,909.25 each, for a total dollar value of \$298,638.75. However, GSA Advantage had the tactical kits available for \$14,543.02 each. The FedMall price is \$5,366.23 (37 percent) higher, for a total potential overpayment of \$80,493.45. Furthermore, the activity purchased the item on FedMall from Blue Water Sales, which is the same vendor that offered the item for a lower price on GSA Advantage.

- The Air Force Academy purchased 299 cold weather jackets via FedMall for \$370.52 each, for a total dollar value of \$110,785.48. However, GSA Advantage had the same jacket available for \$314.35 each. The FedMall price is \$56.17 (18 percent) higher, for a total potential overpayment of \$16,794.83.

For 52 items where we found lower prices available outside of FedMall, we identified that the eight activities potentially overpaid \$603,335. This amounts to a waste of funds that the activities could have avoided, and the activities could have used the funds to support other mission priorities.

Price Reasonableness Determinations Did Not Focus on Commercially Available Prices

DCSO officials made price reasonableness determinations based on vendors' proposed catalog prices and discounts offered instead of other commercially available prices for the same items. Officials documented an approach for evaluating FedMall proposals in an acquisition plan. Officials also prepared a price negotiation memorandum (PNM) for each FedMall contract, which documented their proposal reviews, any negotiations with the vendor, and a final determination that all prices were fair and reasonable. Both the acquisition plan and the PNMs emphasized reviewing a vendor's catalog prices, commercial pricing practices, and discounts offered. The acquisition plan outlined that officials would evaluate proposals separately rather than with head-to-head competition between proposals, and they would determine whether the pricing and discounts offered were consistent with a vendor's commercial practices.

FAR 15.404-1 states that the contracting officer is responsible for evaluating the reasonableness of offered prices, and FAR 15.404-1(b)(2) outlines various price analysis techniques that contracting officers can use to ensure a fair and reasonable price.¹⁵ The techniques include comparing proposed prices to:

- other proposed prices received in response to the solicitation (competition),
- historical prices paid,
- published price lists and discount or rebate arrangements,
- independent government cost estimates, and
- prices obtained through market research for the same or similar items.

¹⁵ FAR Part 15, "Contracting by Negotiation," Subpart 15.4, "Contract Pricing," Section 15.404, "Proposal Analysis," Subsection 15.404-1, "Proposal Analysis Techniques."

The PNMs for the 11 contracts in our sample all cited FAR 15.404-1(b)(2)(iv) and documented the contracting officer's determination that the proposed FedMall prices were in line with the vendor's commercial prices or the offered discount. While this is an allowable method for determining price reasonableness, FAR 15.404-1(b)(3) establishes the use of competitive pricing or historical pricing as the preferred price analysis techniques. DCSO officials stated that while they considered this type of information in their proposal reviews, they did not use competitive or historical pricing as the basis for their overall price reasonableness determinations.

For the FedMall items that we reviewed, using competitive or historical pricing information as part of DCSO officials' price reasonableness determinations may have resulted in lower prices. For example, for 52 of our sample items, we found lower prices available from manufacturer websites and GSA Advantage, and DCSO officials had approved the FedMall prices for 28 of these items. Of the \$603,335 potential overpayment that we calculated for the 52 items, \$302,562 was attributed to the 28 DCSO-approved items. If DCSO officials had considered other available prices when evaluating vendor proposals, officials may have been able to negotiate lower prices for these items, or they may have decided not to approve certain items because the price was not fair and reasonable.

While the acquisition plan for FedMall contracts states that DCSO officials will evaluate proposals separately, it also states that no award will be made to any offeror whose pricing is not competitive with existing contractors providing the same supplies. However, we identified instances where DCSO officials approved multiple vendors to sell the same item on FedMall, but at different prices. Specifically, of the 84 approved items from our sample, DCSO officials approved 41 of these items in at least one of the other 11 vendor catalogs we reviewed, with price differences ranging from 3 percent to 48 percent.¹⁶ For example, in July 2019, DCSO officials approved two vendors to sell the same roll-out bag for \$331 and \$543, which is a 48 percent price difference. In another example, DCSO officials approved NCH Corporation to sell a hydraulics storage container for \$4,240 in March 2020, but in August 2020, the DCSO approved Shore Solutions to sell the same item for \$5,804, which is a 31 percent price difference. In all cases, DCSO officials did not consider the other vendor prices as part of their price evaluations, and instead determined that prices were fair and reasonable based on the commercial pricing practices and discounts that the respective vendors offered.

¹⁶ We used a price difference formula, which is the absolute value of the difference between two prices, divided by the average of the two prices. We used a price difference formula instead of price increase and price decrease formulas in order to present the comparisons consistently. Otherwise, the calculations would differ for each comparison based on the dates DCSO officials approved the items for sale.

DCSO officials explained that when they review proposals and approve items for sale on FedMall, they are determining that prices are fair and reasonable, which does not necessarily mean that an approved price is the lowest price available. The FAR does not define the term “fair and reasonable price,” but according to a contract pricing reference guide from the Defense Acquisition University, the term implies two tests—what is fair and what is reasonable.¹⁷ The reference guide further states that a fair and reasonable price is a price that is fair to both the buyer and the seller, and an amount that a prudent and competent buyer would be willing to pay, based on market conditions such as supply and demand, competition, and available alternatives. While there are multiple ways to determine a fair and reasonable price, the previous scenarios demonstrate that FedMall users and taxpayers could benefit from lower prices if DCSO officials incorporated more commercial price comparisons into their price reasonableness determinations, rather than just relying on independent, non-competitive reviews of a vendor’s catalog and discounts offered. According to FAR 15.404-1(b)(3), the preferred price analysis methods are comparison to competitive prices or comparison to historical prices. Therefore, when performing and documenting their price analysis and price reasonableness determinations, DCSO officials should prioritize competitive price comparisons, particularly among existing FedMall vendors, in order to comply with FAR 15.404-1(b)(3).

The DLA Did Not Communicate FedMall Ordering Requirements

DCSO officials expected that FedMall purchasers would conduct price comparisons before purchase; however, FedMall program officials did not communicate this requirement to FedMall users. The acquisition plan for FedMall contracts and the contract solicitation state that purchasers should compete orders by reviewing prices from three vendors and placing orders that represent best value.¹⁸ However, we reviewed FedMall user guides and various trainings that the DLA offers, and none of these sources provided any instruction for purchasers to review multiple quotes before making a purchase.

FAR 8.404 and 8.405 identify ordering procedures for Federal supply schedules, such as GSA Advantage.¹⁹ For orders between \$10,000 and \$250,000, purchasers are required to compare prices from three vendors and place orders with the

¹⁷ Defense Acquisition University, Contract Pricing Reference Guides, Volume 1, “Price Analysis,” September 9, 2014.

¹⁸ To determine best value, ordering activities may consider price, as well other factors, such as a vendor’s past performance, special features of the item required for effective mission performance, warranty considerations, environmental and energy efficiency considerations, and delivery terms.

¹⁹ FAR Part 8, “Required Sources of Supplies and Services,” Subpart 8.4, “Federal Supply Schedules,” Section 8.404, “Use of Federal Supply Schedules,” and Section 8.405, “Ordering Procedures for Federal Supply Schedules.”

vendor that provides the best value. FedMall is not a Federal supply schedule, so these ordering procedures are not applicable to FedMall purchases. However, because FedMall and GSA Advantage both offer the same or similar items from the same vendors, it is important for FedMall to have similar ordering procedures and guidance that instructs purchasers to review multiple quotes and make a best value decision.

In December 2021, FedMall program officials implemented a short-term solution by posting a notice that displays each time a user logs into FedMall, instructing purchasers to review the schedules from three FedMall contractors and place orders with the contractor representing the best value. FedMall program officials stated that they are developing a permanent solution that will include a pop-up or similar notification in FedMall that shows the ordering guidance when a user begins shopping or places an order. Officials plan to implement this functionality by August 2022. While such notifications are a good step, officials could do more to communicate this requirement to FedMall users and help them make informed purchasing decisions. Specifically, officials should update FedMall user guides and training to instruct ordering activities to compare prices from three vendors and place orders with the vendor that provides the best value.

Conclusion

FedMall provides a convenient way for DoD users to acquire products to meet their missions; however, we found that users purchased unapproved items and paid higher prices than those available outside of FedMall. Due to a lack of effective controls, vendors listed items for sale on FedMall that did not have DCSO approval, and vendors also raised prices for items without DCSO approval. Specifically, we identified \$367,081 in questioned costs where vendors increased prices without DCSO approval, in violation of contract terms. DLA program and contracting officials have implemented actions to improve controls over FedMall vendor catalogs.

We identified \$367,081 in questioned costs where vendors increased prices without DCSO approval.

However, DCSO officials should review all FedMall transactions from FY 2019 through FY 2021 and take appropriate action against vendors that made unapproved catalog changes, including initiating action to recover \$367,081 from vendors that increased FedMall prices without approval.

In addition, DoD activities paid prices for items purchased on FedMall that were up to 533 percent higher than other commercially available prices for the same items. Activities paid higher prices because DCSO officials made price reasonableness determinations based on vendors' proposed catalog prices and discounts offered instead of other commercially available prices, and because FedMall program

officials did not adequately communicate the requirement for purchasers to review multiple quotes before placing an order on FedMall. Of the 145 items we reviewed, activities purchased 52 items on FedMall at prices that were higher than other commercially available prices. We identified \$603,335 of wasted funds for items where lower prices were available from sources outside of FedMall. Without improvements to price reasonableness determinations and better communication about the need to perform price comparisons, activities are at risk of spending more than necessary on their purchases, which means less funding available to support other mission priorities.

Unsolicited Management Comments

A summary of unsolicited management comments on the finding and recommendations, and our response, is in Appendix C.

Recommendations, Management Comments, and Our Response

Recommendation A.1

We recommend that the Director of the Defense Logistics Agency Contracting Services Office:

- a. Review all FedMall transactions from FY 2019 through FY 2021 and determine whether any vendors violated the terms of their contracts by adding items or increasing prices without approval. If so, contracting officials should determine whether any actions against the vendor, such as catalog removal or recoupment of excess costs, are appropriate, and carry out these actions. The Director should provide us the results of the review.**

Defense Logistics Agency Comments

The Deputy Director for DLA Information Operations, responding for the DCSO Director, partially agreed and proposed an alternative to reviewing all FedMall transactions from FY 2019 through FY 2021. The Deputy Director stated that there are approximately 287,000 FedMall orders from FY 2019 through FY 2021 and it would not be feasible to review all of the transactions in a reasonable time due to the labor-intensive nature of the review. The Deputy Director stated that DLA officials will review a statistical sample of transactions for each FedMall contract that had transactions from FY 2019 through FY 2021. If officials identify any unauthorized items or items with unauthorized price increases, they will review

additional orders for that particular vendor or contract. DCSO officials will then determine whether any actions against the vendors are necessary and carry out those actions. The estimated completion date is February 28, 2023.

Our Response

Although the Deputy Director partially agreed, the proposed actions meet the intent of the recommendation; therefore, the recommendation is resolved but open. We acknowledge the time required to review all FedMall transactions from FY 2019 through FY 2021 and consider a review of a statistical sample of transactions acceptable to identify the vendors that have violated the terms of their contract. We will close the recommendation once we obtain the results of the review. The results should include a discussion of the sampling methodology, the number of unauthorized items or unauthorized price increases identified, and a summary of actions taken against vendors, including any monetary benefits realized.

- b. Initiate action to recover the \$367,081 in questioned costs from five FedMall vendors that violated contract terms by increasing prices without approval.**

Defense Logistics Agency Comments

The Deputy Director for DLA Information Operations, responding for the DCSO Director, agreed, stating that the DLA will issue demand letters for reimbursement to the Government from the five vendors that violated their contract terms by increasing prices without approval.

Our Response

Comments from the Deputy Director addressed the specifics of the recommendation; therefore, the recommendation is resolved but open. We will close the recommendation once we obtain documentation to support the actions taken to recover the \$367,081 in questioned costs. The Deputy Director should report on the final resolution of the demand letters, including the amount of any funds recovered.

- c. Direct contracting officials to prioritize competitive price comparisons, particularly among existing FedMall vendors, in their price analysis and price reasonableness determinations, in order to comply with Federal Acquisition Regulation subpart 15.404-1(b)(3).**

Defense Logistics Agency Comments

The Deputy Director for DLA Information Operations, responding for the DCSO Director, partially agreed, stating that while the DLA recognizes the need to reevaluate how contracting officials conduct price analysis and price reasonableness determinations for FedMall, the DLA does not agree with using competitive pricing for FedMall. The Deputy Director explained that the DLA solicits specific categories of items, not individual items, and it is not feasible to base the price analysis on price competition because each offeror may be proposing different items. The Deputy Director also explained that DCSO officials do consider commercial price comparisons as part of their evaluation of the offerors' catalogs. Specifically, DCSO contracting officers use an analytical tool called Price Point, which helps compare proposed catalog prices to other pricing benchmarks, including other FedMall prices, GSA schedule prices, and a database of other commercial prices for the same or similar items. The Deputy Director stated that the DCSO will revise the price analysis techniques used for the FedMall program, to include:

- FAR 15.404-1(b)(2)(iv) – comparison with competitive published price lists, published market prices of commodities, similar indexes, and discount or rebate arrangements;
- FAR 15.404-1(b)(2)(vi) – comparison of proposed prices with prices obtained through market research for the same or similar items; and
- FAR 15-404-1(b)(2)(vii) – analysis of data other than certified cost or pricing data provided by the offeror.

Our Response

Although the Deputy Director partially agreed, the proposed actions meet the intent of the recommendation; therefore, the recommendation is resolved but open. With regard to the three FAR price analysis techniques that the Deputy Director referenced, we determined that DCSO officials already rely on one of these methods, because the PNMs that we reviewed all cited published price lists and discounts. We believe that the two other price analysis techniques—market research and analysis of other than certified cost or pricing data—will help contracting officers ensure price reasonableness. Particularly, market research should help reduce instances like those we identified where lower prices were available from other commercial sources. We will close this recommendation once we verify that DCSO contracting officials have incorporated these additional price analysis techniques into their price reasonableness determinations for FedMall contracts.

Recommendation A.2

We recommend that the Director of the Defense Logistics Agency direct the FedMall Program Manager to update FedMall user guides and training to instruct ordering activities to compare prices from three vendors and place orders with the vendor that provides the best value.

Defense Logistics Agency Comments

The Deputy Director for DLA Information Operations, responding for the DLA Director, partially agreed, stating that training courses provide a comprehensive overview of FedMall and are offered twice each month. The Deputy Director stated that instructors work closely with the FedMall program office to provide the most current information and the instructors can customize the training based on the customers' requirements. During the regularly scheduled FedMall training sessions, the instructor provides a live system demonstration and demonstrates the "compare products" feature within FedMall that allows shoppers to select and compare four items and make a best value determination for their purchase. The Deputy Director agreed that printed training materials should be updated to specifically instruct ordering activities to compare prices from three vendors and place orders with the vendor that provides the best value.

Our Response

Comments from the Deputy Director partially addressed the recommendation; therefore, the recommendation is unresolved. The Deputy Director agreed to update printed training materials; however, he did not specifically mention updates to FedMall user guides, which are self-help materials posted on the FedMall website. The requirement to compare prices from three vendors should be included in these user guides as well as in the FedMall training sessions and the materials that go along with the training. We request that the Deputy Director provide additional comments on the final report that describe the actions planned or taken to update FedMall user guides and training materials.

Finding B

Army FedMall Purchases Violated Policy

Army activities used MILSTRIP to purchase 79 items (from 96 requisitions), valued at \$852,158, which violated Army policies regarding the use of MILSTRIP for FedMall purchases.²⁰ Additionally, while the Navy and Air Force activities had documentation to support requirements for FedMall purchases, the two Army activities did not. Specifically, the 407th Brigade Support Battalion and the 1-9 Field Artillery Battalion could not provide documentation supporting a valid requirement for 45 and 34 items purchased, respectively. This occurred because Army activity officials were unaware of the regulation prohibiting the use of MILSTRIP for FedMall purchases, and did not know that Army activity personnel made FedMall purchases. Additionally, Army officials did not have a process to identify FedMall purchases funded through MILSTRIP. As a result, we identified \$852,158 in questioned costs for all 96 FedMall requisitions the 407th Brigade Support Battalion and the 1-9 Field Artillery Battalion made. Additionally, we found that the Army made 43,062 requisitions for \$23.1 million in additional FedMall purchases in FY 2020 with prohibited MILSTRIP payments, which were not included in our sample review. Therefore, we identified an additional \$23.1 million in questioned costs for Army FedMall purchases in FY 2020. See Appendix B for a discussion of potential monetary benefits, including how we calculated questioned costs.

Army Command Organizational Structure

Headquartered at Fort Bragg, North Carolina, U.S. Army Forces Command (FORSCOM) is the largest U.S. Army command and trains, mobilizes, deploys, sustains, transforms, and reconstitutes assigned conventional forces, providing relevant and ready land power to combatant commanders. U.S. Army Forces Command, Deputy Chief of Staff, G4 (Logistics), (FORSCOM G4) is responsible for developing FORSCOM logistics and supply policy. U.S. Army Forces Command, Deputy Chief of Staff, G8, (FORSCOM G8) is responsible for financial management. As part of our review, we evaluated FedMall purchases from two Army activities, the 407th Brigade Support Battalion and the 1-9 Field Artillery Battalion, which both fall under FORSCOM. The 407th Brigade Support Battalion is assigned to Fort Bragg, North Carolina, and the 1-9 Field Artillery Battalion is assigned to Fort Stewart, Georgia. The 407th Brigade Support Battalion is part of the 2nd Brigade Combat Team, 82nd Airborne Division. The 1-9 Field Artillery Battalion is part of the 2nd Brigade Combat Team, 3rd Infantry Division.

²⁰ Army Regulation 710-2, "Inventory Management: Supply Policy Below the National Level," March 28, 2008.
"U.S. Army Forces Command Guidance for Off-Line Purchases," June 2, 2016.

FedMall Purchases Violated Army Regulations

The 407th Brigade Support Battalion and the 1-9 Field Artillery Battalion's FedMall purchases violated Army Regulation 710-2 and FORSCOM policy, which do not permit the use of MILSTRIP for FedMall purchases. These units used the MILSTRIP process to pay for all 79 items included in our review. MILSTRIP, like the government purchase card, is one of the payment options available on FedMall. MILSTRIP is a process that all Military Services and Defense agencies use to requisition, issue, and dispose of materiel. Specifically, MILSTRIP payments use a unique customer funding code to bill and route purchased items to the customer electronically.

However, Army Regulation 710-2, chapter 2-6, paragraph m(3)(b) prohibits the use of MILSTRIP payments for Internet or FedMall orders. Furthermore, the FORSCOM Deputy Chief of Staff, G3, issued guidance in June 2016 to reinforce those requirements. Specifically, the guidance states that all Army requisitions for supplies and equipment should be processed in accordance with Army Regulation 710-2, chapter 2-6. According to Army officials, the FORSCOM Deputy Chief of Staff issued guidance to help provide oversight of Army funds and to ensure that there was an auditable trail for "off-line" purchases. FORSCOM G4 officials described an off-line purchase as any Internet order placed through a system other than Global Combat Support System-Army (GCSS-Army). GCSS-Army is the U.S. Army's Enterprise Resource Planning solution for automating and streamlining its tactical and nontactical logistics activities in support of Active Army, National Guard, and the U.S. Army Reserve Components. The Army describes GCSS-Army as the Army's accountable property system of record, and it enables Soldiers to order, move, track, account for, and maintain equipment from the beginning to the end of the supply chain. In GCSS-Army, a record of transactions enables full auditability, unit readiness, and stewardship.

The FORSCOM guidance reiterates that GCSS-Army is the primary system for ordering supplies and equipment. Additionally, Army officials stated that the items in our review were available and Army activity personnel should have purchased items through GCSS-Army, and not FedMall. Officials explained that purchasing the items through GCSS-Army would have allowed officials to approve, track, and account for supplies ordered.

Navy and Air Force Activities Had Documentation to Support Requirements

Officials from the Navy and Air Force activities we reviewed provided documentation supporting a valid need for items purchased in FedMall. Additionally, the two contractors we reviewed provided documentation showing a valid need for the NSN items they purchased to support their respective Air Force contracts. However, personnel from the 407th Brigade Support Battalion and the 1-9 Field Artillery Battalion were unable to provide any documentation supporting a valid need for the items they purchased in FedMall. Table 6 shows the number of requisitions we reviewed for supporting documentation, the documentation provided, and the total value of the transactions.

Table 6. Availability of Supporting Documentation for Sampled Requisitions

Activity	Number of Requisitions Reviewed	Number of Items Reviewed	Purchase Amount	Requisitions with Requirements Documentation Provided	Requisitions with No Requirements Documentation
Norfolk Naval Shipyard	12	7	\$886,977	12	0
Puget Sound Naval Shipyard	25	17	1,996,337	25	0
Portsmouth Naval Shipyard	20	16	1,033,248	20	0
Naval Special Warfare Development Group	20	20	384,925	20	0
Naval Explosive Ordnance Disposal Group 1	21	10	796,913	21	0
Air Force Academy	36	16	1,412,506	36	0
AAR Government Services, Inc.	52	46	836,167	52	0
S&K Aerospace, LLC	286	270	851,783	286	0
Army 1st Battalion, 9th Field Artillery Regiment	37	34	420,644	0	37
Army 407th Brigade Support Battalion	59	45	431,514	0	59
Total	568	481	\$9,051,014	472	96

Source: The DoD OIG.

No Requirements Documentation for Army Purchases

Army officials could not provide any documentation supporting a valid need for all 79 items (from 96 FedMall requisitions) purchased by the 407th Brigade Support Battalion and the 1-9 Field Artillery Battalion. We requested that officials from the 407th Brigade Support Battalion and the 1-9 Field Artillery Battalion provide documentation to show a valid need for 79 items purchased through FedMall. Officials from the 407th Brigade Support Battalion stated that they were unaware of FedMall purchases made before our audit, and were therefore unable to provide documentation showing a valid need for 45 items (from 59 requisitions), valued at \$431,514. Additionally, officials from the 407th Brigade Support Battalion stated that there were no documentation requirements for FedMall orders, when MILSTRIP was used as a payment method. Officials added that users would determine their requirements and order through the FedMall website without any pre-approvals. Officials from the 1-9 Field Artillery Battalion stated that the unit does not maintain records for FedMall purchases, because they are unauthorized. Therefore, officials from the 1-9 Field Artillery Battalion could not provide any documentation showing a valid need for the 34 items (from 37 requisitions), valued at \$420,644.

Both the 407th Brigade Support Battalion and the 1-9 Field Artillery Battalion purchased a variety of items from FedMall.

- The 407th Brigade Support Battalion purchased a shop cabinet for \$23,792, two other shop cabinets for \$19,864 each, and a welding container drawer for \$9,398.
- The 1-9 Field Artillery Battalion purchased a golf cart for \$19,454, four 8-foot stepladders for \$786 each, and two sets of welding tools for \$9,687 each.

Valid requirements are important to ensure that the Army is acquiring items that will meet its needs. Documenting requirements at the beginning of the purchase process can be an effective control to protect against unneeded, wasteful, and possibly fraudulent purchases, especially in instances where purchases occur outside of the normal established purchasing process.

Army Officials Had No Knowledge of FedMall Purchases

Army officials from the 407th Brigade Support Battalion and the 1-9 Field Artillery Battalion stated that they were unaware of the regulation prohibiting the use of MILSTRIP for FedMall purchases and did not know that personnel from each activity made FedMall purchases. Additionally, FORSCOM officials did not have effective procedures in place to identify the potentially unallowable FedMall MILSTRIP purchases.

407th Brigade Support Battalion

Officials from the 407th Brigade Support Battalion explained that they were unaware that the Battalion made FedMall purchases in FY 2019 and FY 2020. Battalion officials stated that the Army has no procedures in place to retain documentation when purchasing through FedMall and using MILSTRIP for payment. Additionally, Battalion officials added that there is no centralized or controlled process to approve user access in FedMall. Without those types of controls, Battalion officials stated that they were unaware of purchases made through FedMall. Battalion officials stated that GCSS-Army is the approved system for purchasing items for the Army and that the system internally tracks requirements documentation, purchase approvals, and receipt of ordered items.

Officials stated that they were unaware of purchases made through FedMall.

During our audit, in January 2021, the Commander of the 2nd Brigade Combat Team, 82nd Airborne Division, issued guidance to establish procedures for subordinate units to request authority to purchase items through FedMall to ensure purchases were consistent with the Commander's budgetary priorities.²¹ The 407th Brigade Support Battalion officials stated that the Brigade Commander issued the guidance because leadership was unaware of FedMall purchases until payment for the items was required. Battalion officials said that the intent of the policy was to make Brigade leadership aware of the purchases, to confirm and approve that there is a valid need for the items. According to 407th Brigade Support Battalion officials, before the January 2021 guidance, users would determine their requirements and order through the FedMall website without any additional approvals. Since the January 2021 policy letter, Brigade leadership must pre-approve all orders, and the resource manager must be aware of the pending obligation. The audit team reviewed FY 2021 FedMall purchases and found that the 407th Brigade Support Battalion made no purchases after the January 2021 issuance of the guidance. Additionally, in January 2022, Battalion officials explained that the Commander had not approved any FedMall purchases since the issuance of the guidance in January 2021.

1-9 Field Artillery Battalion

Officials from the 1-9 Field Artillery Battalion stated that they were unaware of the purchases made on FedMall before our audit. Battalion officials added that they became aware of the purchases only when we requested documentation supporting the transactions. Additionally, 1-9 Field Artillery Battalion officials stated that they were unaware of the Army regulation prohibiting the use of MILSTRIP for

²¹ The 407th Brigade Support Battalion is a subordinate of the 2nd Brigade Combat Team, 82nd Airborne Division.

payment on FedMall. The 1-9 Field Artillery Battalion was unable to provide any documentation supporting a valid need for any of the items purchased on FedMall that we selected for review. As a result of our audit, the 1-9 Field Artillery Battalion conducted an internal review of the FedMall purchases identified in our audit. Following the review, officials stated that there is no paper trail documenting need or purchase authorization for items purchased on FedMall. The supply clerk who made the purchases stated that leadership verbally directed him to order items through FedMall. According to the supply clerk, he purchased items to improve the safety and efficiency of the Brigade.²² The supply clerk stated that due to a lack of experienced personnel in his detachment, he ordered items through FedMall to support the needs of his entire Brigade. The internal review did not find any evidence to validate the supply clerk's statement that he received verbal or direct orders to purchase items through FedMall.

The supply clerk also had access to the command's funding and used that to pay for purchases using the MILSTRIP process. Additionally, officials from the 1-9 Field Artillery Battalion stated that they were unaware that the supply clerk purchased items through FedMall until the audit team requested documentation to support specific FedMall purchases. We referred this matter to the Defense Criminal Investigative Service and the U.S. Army Criminal Investigative Division.

Establishing FedMall Purchasing Procedures Provides Leadership Awareness of Purchases

The guidance the Commander of the 2nd Brigade Combat Team put in place demonstrates that establishing procedures and controls to request authority to make FedMall purchases can be an effective solution to provide leadership awareness and oversight of FedMall purchases. Army leadership needs to be aware of off-line FedMall purchases to ensure that the items being procured are needed, and that funds are available to cover those purchases. If the 1-9 Field Artillery Battalion had a similar policy, 1-9 Field Artillery Battalion officials may have been aware of FedMall purchases, and whether those items being bought were truly needed, before our audit. Additionally, we reviewed all FY 2020 Army FedMall purchases and found that the Army made 43,062 requisitions for \$23.1 million in additional FedMall purchases with prohibited MILSTRIP payments, which were not included in our sample review. All these FedMall purchases violated Army policy, which does not permit the use

The Army made 43,062 requisitions for \$23.1 million in additional FedMall purchases with prohibited MILSTRIP payments.

²² The 1-9 Field Artillery Battalion falls under the 3rd Infantry Division, 2nd Armored Brigade Combat Team. A Brigade Combat Team consists of seven battalions, each with about 1,000 soldiers.

of MILSTRIP for FedMall purchases. The Deputy Chief of Staff of the Army, G4, is responsible for establishing policy for all Army logistics personnel. Therefore, the Deputy Chief of Staff of the Army, G4, should develop guidance that requires the ordering activity commander to review and approve all Army FedMall orders, before order, and should require purchasers to document a valid need for items they plan to purchase and verify that funds are available for use. Additionally, the guidance should require purchasers to review the Army accountable property system of record, GCSS-Army, for available items before purchase, and train purchasers on valid and prohibited FedMall payment methods.

Army Procedures Not Effective in Identifying FedMall Purchases for Review

FORSCOM G8 officials did not identify FedMall purchases as improper, despite command personnel using a prohibited payment method. FORSCOM G8 officials stated that they perform monthly purchase reviews for FORSCOM subordinate units to identify off-line purchases, and provide the results to the FORSCOM Deputy Chief of Staff, G8, and accounting support center. Specifically, FORSCOM G8 officials stated that the reviews began in early FY 2020 as part of FORSCOM G8 financial management readiness reporting. FORSCOM G8 officials added that the accounting support center contacted the subordinate units to gain background information on the purpose of any questionable purchases identified during the review. However, FORSCOM G8 officials stated that their monthly reviews did not identify any of the 79 items (from 96 requisitions) as off-line purchases, from our FedMall sampled transactions, for further research and questioning. Additionally, FORSCOM G8 officials stated that before meeting with us in December 2021, officials were unaware of Army policy that prohibits the use of MILSTRIP as payment for FedMall purchases. Officials explained that they adjusted the methodology for selecting off-line purchases since 2020, which might explain why the transactions we reviewed were not identified using the identification criteria available when the purchases were made in FY 2019 and FY 2020.

The FORSCOM G8 monthly reviews do not effectively identify all off-line purchases, which resulted in Army leadership not identifying \$852,158 in FedMall purchases that violated Army policy. A lack of awareness of off-line purchases by FORSCOM G8 and subordinate activities could make it difficult for the Army to pay invoices and accurately account for property, and could put the Army at risk for fraudulent or unnecessary purchases. Therefore, the FORSCOM Commanding General should establish and implement procedures to identify, monitor, track, and review all off-line transactions, specifically, those that violate Army purchasing regulations.

Conclusion

Army officials at FORSCOM G8, the 407th Brigade Support Battalion, and the 1-9 Field Artillery Battalion were unaware of the regulation prohibiting the use of MILSTRIP for FedMall purchases and did not know that Army activities purchased 79 items, from 96 FedMall requisitions, in violation of Army Regulation 710-2. Additionally, Army officials did not have effective procedures in place to identify the unallowable FedMall purchases. Furthermore, officials could not provide any documentation supporting a valid requirement for all FedMall purchases we reviewed. Without requirements documentation, Army activity officials could not show that the items purchased supported an actual need. Army purchasers circumvented established supply chain management controls when purchasing items on FedMall, and Army officials at FORSCOM G8, the 407th Brigade Support Battalion, and the 1-9 Field Artillery Battalion were unaware of the unallowable purchases until after we discussed the purchases during our audit work. As a result, we identified \$852,158 in questioned costs for all 96 FedMall requisitions made by the 407th Brigade Support Battalion and the 1-9 Field Artillery Battalion in our sample. The FORSCOM Commanding General should review all 96 requisitions, valued at \$852,158, and determine whether a valid need existed for the items purchased and whether the requisitions violated Army policy.

Army purchasers circumvented established supply chain management controls when purchasing items on FedMall.

Additionally, we found that the Army made 43,062 requisitions for more than \$23.1 million in additional FedMall purchases in FY 2020 with prohibited MILSTRIP payments, which were not included in our sample review. Therefore, we identified an additional \$23.1 million in questioned costs for all 43,062 requisitions the Army made in FY 2020. The Deputy Chief of Staff of the Army, G4, in coordination with ordering Army Commands, should review all 43,062 FedMall requisitions made in FY 2020, validate whether the transactions occurred, determine whether a valid need existed for the items purchased, and determine whether the requisitions violated Army policy.

Management Comments on the Finding and Our Response

U.S. Army Forces Command Comments

The Supply, Maintenance, and Contracting Division Chief, responding for the FORSCOM Commanding General, disagreed with the finding that MILSTRIP off-line requisitioning is not allowed for FedMall purchases. The Division Chief stated that while the current version of Army Regulation 710-2 does not authorize MILSTRIP

for Internet or EMALL orders, an April 2022 memorandum from the Office of the Deputy Chief of Staff of the Army, G4, allows the use of MILSTRIP.²³ The Division Chief also stated that a draft version of a new Army Regulation authorizes the use of MILSTRIP, and that Army Regulation 725-50 addresses MILSTRIP procedures.²⁴ Finally, the Division Chief stated that FORSCOM's 2016 guidance for off-line purchases allows limited off-line purchases with MILSTRIP as a payment method.

Our Response

We disagree with the Division Chief's position on the finding. Army Regulation 710-2, chapter 2-6, paragraph m(3)(b) explicitly states that MILSTRIP requisitions are not authorized for Internet or EMALL orders. In addition, the 2016 FORSCOM guidance states that all Army requisitions for supplies and equipment should be processed in accordance with Army Regulation 710-2, chapter 2-6. The April 2022 memorandum that the Division Chief cites was not in effect for the FY 2019 and FY 2020 transactions that we reviewed, and draft versions of Army regulations are also not applicable. Army Regulation 725-50 addresses MILSTRIP procedures in general, but the regulation was published in 1995, before the existence of FedMall or its predecessor EMALL. The FORSCOM guidance does allow limited exceptions to the off-line purchasing requirements for emergency situations; however, such exceptions did not apply to the transactions that we reviewed.

Deputy Chief of Staff of the Army, G4 Comments

The Director of Supply Policy, responding For the Deputy Chief of Staff of the Army, G4, expressed concerns with the methodology used to identify the samples for this audit, stating that the evidence obtained does not provide a reasonable basis for the audit findings or conclusions based on the audit objectives.

The Director stated that unlike the data for the other Military Services, the Army data were not provided through statistical analysis from the DoD OIG Quantitative Methods Division. The Director stated that nonstatistical sample results are self-representing and cannot be projected or extrapolated to a population and results cannot be presented as percentages.

Our Response

We disagree with the Director's statement that the evidence does not provide a reasonable basis for the audit findings or conclusions based on the audit objective. As we describe in Appendix A, we selected activities to review by focusing on activities with the highest dollar value of transactions for each Military Service.

²³ "Military Standard Requisition and Issue Procedures (MILSTRIP) Policy for Offline Systems," April 7, 2022.

²⁴ Army Regulation 725-50, "Requisitioning, Receipt, and Issue System," November 15, 1995.

While we initially selected statistical samples of transactions to review for the five Navy and three Air Force activities, we later adjusted the selection to nonstatistical samples based on the top 10 DLA contracts with the highest dollar value. For the two Army activities, we also nonstatistically selected transactions to review based on the top two DLA contracts with the highest dollar value. Therefore, our method to select sample transactions was consistent across the Military Services.

We agree with the Director's statement that nonstatistical sample results cannot be projected or extrapolated to a population, and accordingly, we did not make projections in this report. We identified that the 407th Brigade Support Battalion and the 1-9 Field Artillery Battalion violated Army policy by using MILSTRIP to purchase 79 items on FedMall, and furthermore, the activities could not provide documentation supporting a valid requirement for the items. We reviewed all FY 2020 Army FedMall purchases and found that the Army made 43,062 requisitions for \$23.1 million in additional FedMall purchases with prohibited MILSTRIP payments. As stated in Appendix A of this report, we believe that the sampling methodology used, and the evidence obtained, provides a reasonable basis for our findings and conclusions.

Recommendations, Management Comments, and Our Response

Recommendation B.1

We recommend that the Deputy Chief of Staff of the Army, G4:

- a. **Develop and implement guidance for making purchases on FedMall. At a minimum, the guidance should require the ordering activity commander to review and approve all FedMall orders, before order, and should require purchasers to document a valid requirement and verify that funds are available for use. Additionally, the guidance should require purchasers to review the Army accountable property system of record, Global Combat Support System–Army, for available items before purchase, and train purchasers on valid and prohibited FedMall payment methods.**

Deputy Chief of Staff of the Army, G4 Comments

The Director of Supply Policy, responding for the Deputy Chief of Staff of the Army, G4, disagreed, stating that the Army is currently revising Army Regulation 725-50, which will outline processes and procedures for off-line purchases. The Director acknowledged that Army Regulation 710-2 prohibits MILSTRIP for Internet purchases such as FedMall, but stated that revisions to the two regulations will allow MILSTRIP. In addition, the Director stated that

the Army published an interim policy memorandum to outline the guidance that will be included in the revised regulations, and this interim policy allows the use of MILSTRIP.

Our Response

Comments from the Director did not address the specifics of the recommendation; therefore, the recommendation is unresolved. We reviewed the April 2022 interim policy memorandum cited by the Director, which clarifies requirements for Army customers using MILSTRIP for off-line ordering. The interim policy requires activities that submit MILSTRIP orders through off-line systems to be customers of GCSS-Army, so that obligations are properly validated before a requisition is processed. However, the interim policy does not specifically mention FedMall purchases, and it does not outline requirements for command review and approval, documenting a valid requirement, verifying that funds are available for use, or requiring purchasers to search for the item in GCSS-Army before purchasing it in FedMall. Furthermore, we discussed the interim policy with Army G4 officials in May 2022, and they acknowledged that the policy did not fully satisfy the intent of the recommendation because it does not require command-level approval prior to FedMall purchases. We request that the Director provide additional comments on the final report that describe the actions planned or taken to develop and implement guidance on FedMall purchases.

- b. Review all 43,062 FedMall requisitions made in FY 2020, valued at \$23.1 million, in coordination with ordering Army Commands, to validate whether the transactions occurred, determine whether a valid need existed for the items purchased, and determine whether the purchases violated Army policy. The Deputy Chief of Staff should provide us the results of the review.**

Deputy Chief of Staff of the Army, G4 Comments

The Director of Supply Policy, responding for the Deputy Chief of Staff of the Army, G4, disagreed, stating that the Army does not have access to all the purchasing information that would allow a transparent analysis of the requisitions down to the user level. The Director stated that the Army has taken steps to maintain visibility of purchases by requesting monthly extracts of data from FedMall.

The Director also reported that these purchases did not violate Army policy. The Director referenced Army Regulation 725-50, although he noted that that the regulation was published in 1995, and the Army did not have access to online ordering capabilities, such as EMALL (FedMall's predecessor) until 1998. The Director referenced the April 2022 interim policy memorandum, which states that all off-line purchases must be placed via MILSTRIP through GCSS-Army.

Our Response

Comments from the Director did not address the specifics of the recommendation; therefore, the recommendation is unresolved. We disagree that the Army does not have access to FedMall purchase information at the user level. We obtained data for the 43,062 FedMall requisitions from the DLA during our audit, and the data included a purchaser name, purchase date, and item description. We offered to provide this detailed requisition information to Army G4 officials in May 2022, to assist them in addressing the recommendation; however, the Army G4 officials never responded to our offer. However, we believe that the Army's requests to the DLA for monthly FedMall data extracts are a positive step toward improving visibility over FedMall purchases.

We also disagree with the Director's statement that FedMall purchases did not violate policy. While Army Regulation 725-50 may allow MILSTRIP purchases in general, the policy does not cover off-line FedMall transactions, because such a system did not exist when the policy was developed. As explained in this report, Army Regulation 710-2 specifically prohibits MILSTRIP for FedMall purchases. While the Army's April 2022 interim policy may provide some clarification regarding MILSTRIP use for off-line purchases, it does not provide any specific guidance regarding FedMall. Furthermore, the interim policy was not in effect for FY 2020 transactions.

Additionally, as we discussed in the report, Army officials could not provide documentation supporting a valid requirement for the 79 items we reviewed. Without requirements documentation, Army activity officials could not show that the items purchased supported an actual need. Valid requirements are important to ensure that the Army is acquiring items that will meet its needs, and can be an effective control to protect against unneeded, wasteful, and possibly fraudulent purchases.

We request that the Director provide additional comments on the final report, describing a plan to review the Army's 43,062 FedMall requisitions made in FY 2020, and determine whether a valid requirement existed for the items purchased. Furthermore, the Director did not provide comments on the potential monetary benefits; therefore, we request comments on the \$23.1 million in questioned costs. If the Director disagrees with the potential monetary benefits, we request that he identify the amount and the reason why he disagrees.

Recommendation B.2

We recommend that the Commanding General of the U.S. Army Forces Command:

- a. Establish and implement procedures to identify, monitor, track, and review off-line transactions. At a minimum, the procedures should include methods to identify off-line transactions that use Military Standard Requisitioning and Issue Procedures payments in the monthly transaction reviews.**

U.S. Army Forces Command Comments

The Supply, Maintenance, and Contracting Division Chief, responding for the FORSCOM Commanding General, disagreed, stating that FORSCOM does have a process to identify, monitor, track, and review off-line transactions. The Division Chief stated that the process is currently being accomplished as part of the FORSCOM Commander's monthly Financial Management Readiness Report.

Deputy Chief of Staff of the Army, G4 Comments

Although not required to comment, the Director of Supply Policy, responding for the Deputy Chief of Staff of the Army, G4, also disagreed and referenced FORSCOM's monthly Financial Management Readiness Report as a means to identify, monitor, track, and review off-line transactions. The Director stated that FORSCOM has requested support from the DLA to develop a process that allows the Army full visibility of all off-line requisitions.

Our Response

Comments from the Division Chief did not address the specifics of the recommendation; therefore, the recommendation is unresolved. During the audit, we reviewed results from FORSCOM's monthly Financial Management Readiness Report reviews and found no evidence that the monthly reviews were providing visibility of FedMall transactions. Specifically, we reviewed monthly off-line purchase reports that FORSCOM provided for December 2020 through April 2022, and we found that the reports did not identify all FedMall transactions that were included in data we received from the DLA. We provided FORSCOM officials with the results of our review in May 2022. As previously discussed, we believe that the Army's requests to the DLA for monthly FedMall data extracts are a positive step toward improving visibility over FedMall purchases.

We request that the Division Chief provide additional comments on the final report, describing procedures to identify, monitor, track, and review off-line FedMall transactions that use MILSTRIP as a payment method. We acknowledge the unsolicited comments provided by the Director, and thank him for commenting.

- b. Review all 96 requisitions, valued at \$852,158, and determine whether a valid need existed for the items purchased and whether the requisitions violated Army policy. The Commanding General should provide us the results of the review.**

U.S. Army Forces Command Comments

The Supply, Maintenance, and Contracting Division Chief, responding for the FORSCOM Commanding General, disagreed, stating it is not feasible to review requisitions that are older than 2 years because the paperwork and people involved in those transactions are no longer available or assigned to those units. The Division Chief stated that it would be more reasonable to review requisitions within 30 days of the order, which is something that FORSCOM currently attempts to do. The Division Chief stated that regardless of the review method used, off-line orders are not auditable because they are not subject to the Army's enterprise controls in areas such as roles and permissions.

Deputy Chief of Staff of the Army, G4 Comments

Although not required to comment, the Director of Supply Policy, responding for the Deputy Chief of Staff of the Army, G4, also disagreed, stating that the Army does not have access to all user data that identifies the exact individual who placed the order. The Director noted that for records older than two years, the personnel and documentation may not be available at the unit level. The Director stated that it would be more beneficial to review recent records provided by the DLA.

Our Response

Comments from the Division Chief did not address the specifics of the recommendation; therefore, the recommendation is unresolved. We acknowledge the challenges related to availability of personnel and transaction documentation and agree with the Division Chief that off-line orders are not auditable as they are not subject to the Army's enterprise controls. This statement highlights the need to develop policies and establish controls for off-line purchases, and we address this in Recommendation B.1.a. We also agree that the Army should continue to identify ways to identify, monitor, track, and review FedMall transactions, and we address this in Recommendation B.2.a.

We disagree that the Army does not have access to FedMall purchase information at the user level. We previously provided information to officials from the 407th Brigade Support Battalion, the 1-9 Field Artillery Battalion, FORSCOM, and Army G4 that identify the individual purchasers for the 96 requisitions we reviewed. Therefore, we request that the Division Chief provide additional comments on the final report, describing the actions planned or taken to review the 96 FedMall requisitions. Furthermore, the Division Chief did not provide comments on the potential monetary benefits; therefore, we request comments on the \$851,290 in questioned costs.²⁵ If the Division Chief disagrees with the potential monetary benefits, he should identify the amount and the reason why he disagrees. We acknowledge the unsolicited comments provided by the Director, and thank him for commenting.

Army Suggested Recommendation

Deputy Chief of Staff of the Army, G4, and U.S. Army Forces Command Comments

The Director of Supply Policy and the Supply, Maintenance, and Contracting Division Chief, responding for the FORSCOM Commanding General requested that we recommend that the DLA work with the Services to implement controls that can support the current requisitioning environment and allow the Services access to perform internal audits. The Director stated that the Army has pursued establishing controls at the DLA FedMall level, such as restricting purchases by certain activities or allowing only certain types of priority requisitions. The Director stated that the DLA has been reluctant to support the Army with these requests.

Our Response

We did not add a recommendation to the DLA because our review focused on whether activities had documentation supporting a requirement or need before making a purchase on FedMall. Specifically, we reviewed 568 requisitions from 10 selected activities. We found that while the five Navy and three Air Force activities had documentation to support requirements for FedMall purchases, the two Army activities did not. Therefore, we focused our finding and recommendations on controls at the Army level, such as policies and transaction reviews, to provide better visibility of FedMall MILSTRIP transactions.

²⁵ The questioned cost amount is the total value of all Army requisitions in our sample (\$852,158) minus the questioned costs identified from Recommendation A.1.b that are attributable to sample items purchased by Army activities (\$868).

We agree that the Army can work with the DLA to request additional controls at the FedMall level. Specifically, the Army has representatives on the FedMall Executive Configuration Control Board and the FedMall Operational Requirements Committee, which are the oversight bodies that manage and govern FedMall requirements. The purpose of these groups is to share information and process improvements to support joint initiatives and organizational missions, and the groups can provide recommendations and make decisions about FedMall capabilities.

Appendix A

Scope and Methodology

We conducted this performance audit from January 2021 through July 2022 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. We provided the contractors the opportunity to review and comment on relevant portions of the draft report, and we considered their comments when preparing the final report.

To determine whether the DoD made purchases through FedMall in accordance with Federal and DoD policies, we interviewed officials from DPC; the Office of the Deputy Chief of Staff of the Army, G4; and FORSCOM. Additionally, we interviewed and obtained documentation from DLA officials and DoD purchasing activities. Specifically, we obtained FedMall transaction data for all government entities from FY 2019 through FY 2020. We obtained solicitation and contract documentation, acquisition plans, PNMs, and vendor catalogs from DCSO officials. We also reviewed FedMall user guides and training materials. We obtained price data from vendor websites, manufacturer websites, and GSA Advantage. We obtained documentation supporting a valid need for items purchased on FedMall from DoD activities. In addition, we reviewed the following guidance.

- FAR Part 8, “Required Sources of Supplies and Services”
- FAR Part 15, “Contracting by Negotiation”
- Army Regulation 710-2, “Inventory Management: Supply Policy Below the National Level,” March 28, 2008
- “U.S. Army Forces Command Guidance for Off-Line Purchases,” June 2, 2016
- Memorandum for Subordinate Units, 2nd Brigade Combat Team, 82nd Airborne Division, “Policy and Procedure for Purchasing Items through FedMall,” January 30, 2021
- Defense Acquisition University, Contract Pricing Reference Guides, Volume 1, “Price Analysis,” September 9, 2014

Military Services Selected for Review

The DLA provided FedMall transaction data for 5,989 government entities, including DoD agencies; Federal, state, and local governments; and DoD contractors under contractor logistics support agreements, for a total dollar value of \$613.6 million for FY 2019 and FY 2020. The \$613.6 million in transactions was our audit universe. Our analysis focused on Army, Navy, and Air Force transactions. Of the three Military Services, we identified FedMall transactions for 4,453 activities for a total of \$521.9 million, or 85 percent, of total FedMall transactions.

DoD Activities Selected for Review

To select DoD activities to review, we focused on activities with the highest dollar values for each Military Service. We selected a total of 10 activities from the Army, Navy, and Air Force, for a total dollar value of \$160.5 million.

For the Army, we selected the top two Army ordering activities with the highest DLA contract purchase amounts for a total of \$2.8 million. For the Navy, we selected the top five Navy ordering activities with the highest purchase amounts for a total dollar value of \$108.2 million. For the Air Force, we selected three of the top four Air Force ordering activities with the highest dollar value in purchases for a total dollar value of \$49.5 million. Two of the activities are Air Force contractors. Table 7 shows the total value of FY 2019 and FY 2020 FedMall transactions for our 10 selected activities.

Table 7. FY 2019 and FY 2020 FedMall Transaction Values for Selected DoD Activities

Activity	Transaction Value (in millions) ¹
Norfolk Naval Shipyard	\$46.3
S&K Aerospace, LLC ²	28.3
Puget Sound Naval Shipyard	27.7
AAR Government Services Inc. ³	15.6
Portsmouth Naval Shipyard	15.3
Naval Special Warfare Development Group	10.3
Naval Explosive Ordnance Disposal Group 1	8.7
United States Air Force Academy	5.6
Army 1st Battalion, 9th Field Artillery Regiment	1.4
Army 407th Brigade Support Battalion	1.4
Total	\$160.5

¹ Total does not equal the actual sum because of rounding.

² S&K Aerospace is a contractor for the Air Force Life Cycle Management Center.

³ AAR Government Services is a contractor for the Air Force Sustainment Center.

Source: The DoD OIG.

Transactions Selected for Review

We initially selected statistical samples of transactions to review for the five Navy and three Air Force activities. These samples were based on FedMall “carts,” which we subsequently learned could be made up of multiple requisitions, which could include both NSNs and contract purchases. For the five Navy activities, we determined that the majority of requisitions were associated with DLA contract purchases; therefore, we decided to select a nonstatistical sample and focus on the top contracts. The Air Force Academy had both NSN and contract requisitions, so we decided to select nonstatistical samples for both types of purchases. We determined that the requisitions for S&K Aerospace and AAR Government Services were all NSNs, and we reviewed all transactions from the initial sample. Our review of NSN purchases included 358 requisitions from three activities.

We identified that the six Navy and Air Force activities made purchases from 54 DLA contracts, and we reviewed requisitions from the top 10 contracts with the highest dollar values. Next, we identified the top two DLA contracts used by the two Army activities. We nonstatistically selected requisitions to review from these two contracts, along with Army activity requisitions from the previously selected 10 contracts. These selections resulted in a nonstatistical sample of 239 requisitions from 12 contracts. However, we subsequently identified 29 requisitions that were canceled, and this eliminated one contract from our sample. Therefore, we reviewed 210 requisitions from 11 contracts.

In total, we reviewed 568 FedMall requisitions from 10 activities. See Table 1 in the report for details about the number of requisitions, number of unique items, and the dollar amounts reviewed.

Method Used to Review FedMall Contract Purchases

We reviewed 210 requisitions for contract purchases of 157 items to determine whether DCSO officials approved the items ordered on FedMall on the respective contracts. We obtained the DCSO-approved vendor catalogs for each of the 11 contracts. For each requisition, we determined whether the item was listed in the catalog, and whether it was sold at the approved price. If we were unable to locate an item in the catalog or if we identified a price discrepancy, we requested that DCSO officials confirm that they had not approved the items or that the vendor had raised prices without approval. Once we had identified a list of approved items from our sample, we reviewed the other approved vendor catalogs to determine whether items were listed in multiple catalogs, and if so, to identify any price differences.

Method Used to Conduct Pricing Research

We performed pricing research on 145 items from 188 requisitions from the Navy, Air Force, and Army activities to determine whether activities purchased items on FedMall at prices comparable to other commercial prices. Specifically, we researched three categories of items—items that the DCSO approved for purchase, items that the DCSO never approved for purchase, and items with unknown approval status.²⁶ For each item, we obtained prices from the manufacturer, vendor, and GSA Advantage. We identified the lowest price available from each source, but excluded sale or closeout prices.

To perform our analysis, we searched the manufacturer, vendor, and GSA Advantage websites using the manufacturer part number and any matching results against the manufacturer name or item name. In some instances, we could not locate an alternative price using the DLA product data alone. Therefore, we conducted our search using additional information such as the manufacturer part number or item name as found on the shipping documentation that the activity provided.

Method Used to Review FedMall Transaction Documentation

We reviewed documentation for 568 FedMall transactions from the Army, Navy, and Air Force activities to determine whether the activities had a valid, documented need for the items they purchased on FedMall. For each transaction, we obtained documents showing a valid need, such as job material lists, internal request documents, and contractually approved items lists.

To perform our analysis, we reviewed each document to determine whether it supported the transaction by comparing the document information, such as the requisition number, part numbers, NSN, and descriptions, to the FedMall transaction details from the DLA data. If the information on the documentation matched the data from the FedMall transaction details, we determined that the documentation supported the transaction. We removed canceled transactions from our review.

²⁶ From our sample of 157 items, we researched prices for 145 items; specifically, 84 items that the DCSO approved for purchase, 13 items that the DCSO never approved for purchase, and 48 items with unknown approval status. We excluded the 12 items with unapproved price increases because we have already quantified the monetary impact of those items.

Internal Control Assessment and Compliance

We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed the internal control components and underlying principles related to control environment, control activities, and monitoring. We reviewed the design and implementation control activities, such as documentation of responsibilities through policies. Additionally, we reviewed monitoring activities related to the reporting and evaluation of issues, along with corrective actions. Specifically, we reviewed policies and procedures, contract award and administration, user access controls, and program governance. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

Use of Computer-Processed Data

We used computer-processed data of FedMall transactions for FY 2019 and FY 2020 to perform this audit. The DLA provided the data in form of Excel spreadsheets. To determine the reliability of the computer-processed data, we compared the FedMall transaction data from the DLA against contract documentation and documentation provided by the ordering activities. We tested FedMall transaction data for 10 sample requisitions. In all instances, we were able to match the requisition to a valid delivery order, and we verified that the item, quantity, date, and price information in the delivery order document matched the FedMall transaction data. We consider the FedMall transaction data sufficiently reliable for the purposes of this audit.

Use of Technical Assistance

The DoD OIG Quantitative Methods Division provided us with statistical samples of FY 2019 and FY 2020 FedMall orders for five Navy and three Air Force activities. However, we did not use these samples to project our audit results. We used the transactions from the sample orders as a basis to select nonstatistical samples of NSN and contract purchases to review.

Prior Coverage

During the last 5 years, the Naval Audit Service issued two reports discussing FedMall or DoD EMALL, the predecessor system to FedMall. Naval Audit Service reports are not available over the Internet.

Navy

Report No. N2022-0016, "Department of Defense Electronic Mall and Federal Mall Purchases," April 21, 2022

The Naval Audit Service determined that Navy commands did not receive goods ordered at a fair market price from purchases made through the DoD EMALL and FedMall systems. Navy commands paid approximately 135 percent more than the fair market value for items, which may have resulted in the Navy overpaying \$248,685 for items received. In addition, Navy commands purchased items in kits and sets with no clear definition of what items were included, and did not maintain required documentation. The Navy lacked assurance that it received \$1,665,467 in goods ordered, and if the goods bundled in kits or sets were for official use.

Report No. N2017-0040, "Receipt and Acceptance of Goods and Services Purchased at Selected Commands within Marine Corps Installations–West," August 29, 2017

The Naval Audit Service could not validate the legitimate government need and proper receipt and acceptance of procured goods and services sampled. Marine Corps commands executed 43,740 EMALL MILSTRIP purchases, valued at \$48.2 million, in FY 2015 that were prohibited by Marine Corps policy.

Appendix B

Summary of Potential Monetary Benefits

Recommendation	Type of Benefit ¹	Amount of Benefit	Account
A.1.a	Questioned Costs	Undeterminable. Amount is subject to a review by the DCSO to identify any vendors that increased prices without approval.	Multiple accounts could be impacted.
A.1.b	Questioned Costs	\$367,081 from vendors that increased prices without DLA approval, in violation of contract terms.	Multiple accounts will be impacted.
B.1.b	Questioned Costs	\$23.1 million from Army purchasers that used MILSTRIP to make FedMall purchases, which is a violation of Army policy.	Multiple accounts will be impacted.
B.2.b.	Questioned Costs	\$851,290 from two Army activities that used MILSTRIP to make FedMall purchases, which is a violation of Army policy. ²	Multiple accounts will be impacted.

¹ Potential monetary benefits are funds put to better use or questioned costs.

² This is the total value of all Army requisitions in our sample (\$852,158) minus the questioned costs identified from Recommendation A.1.b that are attributable to sample items purchased by Army activities (\$868).

Source: The DoD OIG.

Appendix C

Unsolicited Management Comments and Our Response

Although not required to comment, the Defense Pricing and Contracting (DPC) Principal Director provided comments on Finding A and the recommendations. See the Management Comments section of the report for the full text of the Principal Director's comments.

DPC Comments on Use of MILSTRIP Requisition Language

The DPC Principal Director stated that when activities use MILSTRIP, the action in FedMall is a requisition, not a purchase. The Director suggested we update report language accordingly.

Our Response

We disagree with the suggested revisions. In general, we refer to items ordered on FedMall as purchases; however, the language throughout the report indicates when we discuss specific requisitions where activities used MILSTRIP as a form of payment.

DPC Comments on FedMall Contract Responsibility

The DPC Principal Director stated that the report should clarify when we are referring to DCSO-issued and managed contracts. The Director stated that the DCSO is not the contracting office for all contracts on FedMall.

Our Response

We disagree with the suggested revisions. The report states that FedMall includes contracts that are awarded and managed by the DCSO, the GSA, and other contracting organizations. The report also states that the 210 contract requisitions that we reviewed were all from contracts managed by the DCSO. Therefore, no further clarification is necessary.

DPC Comments on Recommendation A.1.a

The DPC Principal Director stated that we should revise Recommendation A.1.a to require the DCSO to review FedMall transactions only from DCSO contracts, because the DCSO is not the contracting office for all contracts on FedMall.

Our Response

We acknowledge that the DCSO is not the contracting office for all FedMall contracts. However, DLA officials agreed to take corrective action that will address Recommendation A.1.a; therefore, we did not revise the recommendation.

DPC Comments on Recommendation A.2

The DPC Principal Director stated that we should revise Recommendation A.2 to make the DCSO responsible for developing ordering procedures and user guides, and then have the DLA add these procedures and guides to FedMall's online training resources. The Director explained that FedMall is a system used to facilitate online ordering, and the FedMall program management office staff does not have cognizance for the FedMall contracts. The Director further stated that as the contracting office, the DCSO is responsible for ensuring that the ordering procedures for its contracts are clear, and for communicating the requirements to ordering officials. Specifically, it is the DCSO's responsibility to ensure that the contracting requirements, such as any price comparisons needed, are completed. Therefore, the Director stated that the DCSO should draft the ordering instructions for its issued contracts hosted on FedMall.

Our Response

We realize the need for cooperation between the DCSO and the FedMall program office within the DLA regarding the development of ordering procedures and user guides. DLA officials partially agreed with the recommendation and acknowledged a need to update training materials to instruct ordering activities to compare prices from three vendors and place orders with the vendor that provides the best value. We requested that DLA officials provide additional comments that describe the actions planned or taken to update FedMall user guides and training materials; however, we did not revise Recommendation A.2.

Management Comments

U.S. Army Forces Command



DEPARTMENT OF THE ARMY
HEADQUARTERS, UNITED STATES ARMY FORCES COMMAND
4700 KNOX STREET
FORT BRAGG, NC 28310-5000

AFLG- SMC

17 August 2022

MEMORANDUM FOR Office of Inspector General, U.S. Department of Defense, 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Command Comments to DoDIG Draft Audit Report – Federal Mall Purchases. Project No. D2021-D00DLA0AT-0083.000

1. Reference HQDA G-4, DALO-SP memorandum (Military Standard Requisition and Issue Procedures Policy for Offline Systems), 7 April 2022 (encl1).
2. **Background.** DoDIG engaged with FORSCOM on 30 June 2021 and visited the 1st Battalion, 9th Field Artillery Regiment, Ft. Stewart, GA and the 407th Brigade Support Battalion (BSB), Ft. Bragg, NC from 19 July 2021 – 30 November 2021. They reviewed 568 FedMall requisitions made in FY 2019 and FY 2020 by 10 activities, of which 210 requisitions were for contract purchases of 157 commercial items.
3. **Objective.** The objective of this audit was to determine whether the DoD made purchases through Federal Mall (FedMall) in accordance with Federal and DoD policies. To answer this objective, DoDIG focused the audit on whether the DoD paid prices for FedMall purchases that were comparable with other commercially available prices for the same items. Additionally, we reviewed whether activities had documentation supporting a requirement or need before making a purchase on FedMall.
4. **Finding.** Army officials at FORSCOM G8, the 407th BSB, and the 1-9 Field Artillery Battalion were unaware of the regulation prohibiting the use of MILSTRIP for FedMall purchases and did not know that Army activities purchased 79 items, from 96 FedMall requisitions, in violation of Army Regulation 710-2. Additionally, Army officials did not have effective procedures in place to identify the unallowable FedMall purchases. Furthermore, officials could not provide any documentation supporting a valid requirement for all FedMall purchases reviewed. Without requirements documentation, Army activity officials could not show that the items purchased supported an actual need. Army purchasers circumvented established supply chain management controls when purchasing items on FedMall, and Army officials at FORSCOM G8, the 407th BSB, and the 1-9 Field Artillery Battalion were unaware of the unallowable purchases until after DoDIG discussed the purchases during the audit work. As a result, DoDIG identified \$852,158 in questioned costs for all 96 FedMall requisitions made by the 407th BSB and the 1-9 Field Artillery Battalion in the sample. The FORSCOM Commanding General should review all 96 requisitions, valued at \$852,158, and determine whether a valid need existed for the items purchased and whether the requisitions violated Army policy.

U.S. Army Forces Command (cont'd)

SUBJECT: Command Comments to DoDIG Draft Audit Report – Federal Mail Purchases. Project No. D2021-D0000AT-0083.000
AFLG- SMC

5. Recommendation B-2. DoDIG recommends that the Commanding General of U.S. Army Forces Command:

a. Establish and implement procedures to identify, monitor, track, and review off-line transactions. At a minimum, the procedures should include methods to identify off-line transactions that use Military Standard Requisitioning and Issue Procedures payments in the monthly transaction reviews.

b. Review all 96 requisitions, valued at \$852,158, and determine whether a valid need existed for the items purchased and whether the requisitions violated Army policy. The Commanding General should provide us the results of the review.

6. FORSCOM Command Reply: Non-concur. FORSCOM G-4/G-8 disagree with the findings/recommendations as stated.

a. The basis of findings that MILSTRIP off-line requisitioning is not allowed is not factual. FORSCOM agrees that the current version of Army Regulation (AR) 710-2 chapter 2-6, para m.(3)(b.) dated 2008, states "Military Standard Requisitioning and Issue Procedures (MILSTRIP) requisitions are not authorized for Internet or A-MART/E-MALL orders." However, HQDA G-4, DALO-SP memorandum (Military Standard Requisitioning and Issue Procedures Policy for Offline Systems), 7 April 2022 allow MILSTRIP to be used (Encl 1). Additionally, the draft copy of AR 710-4 authorizes the use of MILSTRIP. In addition, procedures for using MILSTRIP are addressed in AR 725-50.

726-FORSCOM's current guidance for off-line purchases (Encl 2) released in 2016 does allow limited (3.b.1 and 3.b.2), off-line purchases. Paragraph 3.g provides MILSTRIP as a means for payment.

c. In addition, FORSCOM does have a process to identify, monitor, track, and review off-line transactions. This is currently being accomplished as part of the FORSCOM Commander's Financial Management Readiness Report (FMRR) monthly.

d. It is not feasible to review requisitions that are older than two years. Although there could be a bona fide need, the paperwork and people involved in those transactions are no longer available or assigned to those units. It would be more reasonable to review requisitions within 30 days of the order; something we attempt to do today.

e. Regardless of the method we use, DoD should recognize that off-line orders are not auditable as they are not subject to the Army's enterprise controls in areas such as roles and permissions, authorizations, and various materiel management controls at echelon.

U.S. Army Forces Command (cont'd)

SUBJECT: Command Comments to DoDIG Draft Audit Report -- Federal Mail Purchases. Project No. D2021-D0000AT-0083.000
AFLG- SMC

f. To limit and manage MILSTRIP orders, FORSCOM has requested DLA to establish controls at the FEDMALL level. We believe restricting these transactions will help facilitate audits and financial management.

g. We ask that because of this audit, your office recommends DLA assist services to implement controls that support the current requisitioning environment and auditability. Furthermore, DoDIG should have found fault with DLA's lack of FedMail tools that would allow Services to track, monitor, and provide oversight of customers and their orders.

7. If you have any questions, comments, or desire additional information concerning this response please contact [REDACTED]

Encl 1
Encl 2



BRIAN R HAEBIG
GS-15

Chief, Supply, Maintenance, and
Contracting Division

U.S. Army Forces Command (cont'd)



DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF, G-4
500 ARMY PENTAGON
WASHINGTON, DC 20310-0500

DALO-SP (700A)

7 April 2022

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Military Standard Requisition and Issue Procedures (MILSTRIP) Policy for Offline Systems

1. References:

- a. Army Regulation (AR) 710-2, Supply Policy Below The National Level, 28 March 2008
- b. AR 725-50, Requisitioning, Receipt, And Issue System, 15 November 1995
- c. AR 25-1, Army Information Technology, 15 August 2019

2. Purpose. This memorandum clarifies requirements for Army customers utilizing systems for MILSTRIP offline ordering. It identifies roles and responsibilities of Army organizations for authorizing MILSTRIP ordering in offline systems, such as the Defense Logistics Agency (DLA) offline system program. This also clarifies AR 725-50, Chapter 4-70 in reference to the ship-to address for direct vendor deliveries for MILSTRIP requisitions. The information in this memorandum will be incorporated into the next revision of AR 725-50. When the revision is published, it will supersede this memorandum.

3. As of 1 January 2016, all Army MILSTRIP orders submitted through offline systems must be customers of GCSS-Army. GCSS-Army is the only available way to properly validate obligations prior to processing requisitions.

4. Units are required to maintain segregation of duties (SOD) (i.e. authorization, record keeping, and custody of property). However, customers are prohibited from shipping items purchased through offline systems to their residence under any circumstances in order to maintain proper SOD.

5. Accountable Officers will be required to approve, maintain and document offline purchases for items that are shipped to non-government addresses.

6. Customers are prohibited from purchasing Commercial Off-the-Shelf (COTS) Information Technology (IT) items through offline systems as outlined in AR 25-1, Army Information Technology.

U.S. Army Forces Command (cont'd)

DALO-SP (700A)

SUBJECT: Military Standard Requisition and Issue Procedures (MILSTRIP) Policy for Offline Systems

7. Customers will be required to submit MILSTRIPs for offline ordering by utilizing a Department of Defense Activity Address Code (DODAAC) through a GCSS-Army Supply Support Activity (SSA). Customers without an SSA relationship should utilize a Command designated SSA or seek support from a local installation SSA as a remote customer.
8. Commands should designate an SSA to provide transaction support for customers without a habitual SSA relationship. These should be loaded as remote customers, which will cause shipments to go directly to the customer address. The SSA will still be able to provide financial and supply visibility of offline system activity.
9. Program Executive Office and Program Managers should submit orders via the Logistics Modernization Program (LMP) or utilize the Army Purchase Card program to submit requisitions for DLA managed items.
10. Customers with mission essential orders, who cannot requisition through an SSA or LMP/GCSS-Army may submit exception requests through their Commands to the Office of the Deputy Chief of Staff, G-4, POC listed below. Approved exceptions will be temporary and will expire within 12 months. Requests should include:
 - a. Reason(s) for non-compliance.
 - b. Provide resolution for lack of supply controls and planned methods to mitigate accounts for financial and supply transactions.
 - c. Provide course of actions the unit will use to establish an auditable method to submit orders to wholesale.
11. The point of contact for this action is [REDACTED].

PETER B. BECHTEL
Director of Supply Policy

DISTRIBUTION:
(see next page)

U.S. Army Forces Command (cont'd)

DALO-SP (700A)

SUBJECT: Military Standard Requisition and Issue Procedures (MILSTRIP) Policy for
Offline Systems

DISTRIBUTION:

Principal Officials of Headquarters, Department of the Army
Commander

- U.S. Army Forces Command
- U.S. Army Training and Doctrine Command
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- U.S. Army North
- U.S. Army South
- U.S. Army Special Operations Command
- Military Surface Deployment and Distribution Command
- U.S. Army Space and Missile Defense Command/Army Strategic Command
- U.S. Army Cyber Command
- U.S. Army Medical Command
- U.S. Army Intelligence and Security Command
- U.S. Army Criminal Investigation Command
- U.S. Army Corps of Engineers
- U.S. Army Military District of Washington
- U.S. Army Test and Evaluation Command
- U.S. Army Human Resources Command
- Superintendent, U.S. Military Academy
- Director, U.S. Army Acquisition Support Center
- Superintendent, Arlington National Cemetery
- Commandant, U.S. Army War College
- Director, U.S. Army Civilian Human Resources Agency

CF:

Director of Business Transformation
Commander, Eighth Army

U.S. Army Forces Command (cont'd)

From: [CDR FORSCOM DCS G3 CENTRAL TASKING DIV FT BRAGG NC](#)
To: [Stansel, Jeffrey G CIV USARMY FORSCOM \(US\)](#)
Subject: FORSCOM GUIDANCE FOR OFF LINE PURCHASES
Date: Thursday, June 02, 2016 1:00:52 PM

PAAUZYUW RUJAAAA1298 1541659-UUUU--RUJAAAA.
 ZNR UUUUU ZUI RUEWMCE0104 1541659
 P 021658Z JUN 16
 FM CDR FORSCOM DCS G3 CENTRAL TASKING DIV FT BRAGG NC
 TO RUJAAAA/CDRICORPS G3 FT LEWIS WA
 RUJAAAA/CDRICORPS G3 FT LEWIS WA
 RUJAAAA/CDRIICORPS G3 FT HOOD TX
 RUJAAAA/CDRIICORPS G3 FT HOOD TX
 RUJAAAA/CDRXVIIIABNCORPS ACOFS G3 CURRENT OPNS FT BRAGG NC
 RUJAAAA/CDRXVIIIABNCORPS ACOFS G3 CURRENT OPNS FT BRAGG NC
 RUJAAAA/HQ FIRST ARMY-G3 ROCK ISLAND ARSENAL IL
 RUJAAAA/CDRUSARC G33 READ FT BRAGG NC
 RUJAAAA/CDRUSARC G33 READ FT BRAGG NC
 RUEPCBR/20TH CBRNE ABERDEEN PROVING GROUND MD
 RUJAAAA/CDR 32AAMDC G3 FT BLISS TX
 RUJAAAA/CDR164TH THEATER AIRFIELD OPS GROUP FT RUCKER AL
 RUJAAAA/CDR G3 DIV FT POLK LA
 RUJAAAA/CDR G3 DIV FT POLK LA
 RUJAAAA/CDRUSAG G3 PLANS FT POLK LA
 RUJAAAA/CDRUSAG G3 PLANS FT POLK LA
 RUJAAAA/G3 READINESS TRNG DIV FT IRWIN CA
 INFO RUJAAAA/CDR FORSCOM DCS G3 CENTRAL TASKING DIV FT BRAGG NC
 RUJAAAA/CDR FORSCOM DCS G3 CENTRAL TASKING DIV FT BRAGG NC
 RUJAAAA/CDR FORSCOM DCS G3 CURRENT OPS FT BRAGG NC
 RUJAAAA/CDR FORSCOM DCS G3 CURRENT OPS FT BRAGG NC
 RUJAAAA/CDR FORSCOM DCS G3 WATCH OFFICER FT BRAGG NC
 RUJAAAA/CDR FORSCOM DCS G3 WATCH OFFICER FT BRAGG NC
 RUJAAAA/CDR FORSCOM DCS G8 EXEC OFFICER FT BRAGG NC
 RUJAAAA/CDR FORSCOM DCS G8 EXEC OFFICER FT BRAGG NC
 BT
 UNCLAS FOR OFFICIAL USE ONLY
 SUBJ/FORSCOM GUIDANCE FOR OFF LINE PURCHASES
 MSGID/ORDER/FORSCOM AFLG-SMC/160649/MAY//
 AMPN/SUBJ: FORCES COMMAND OFF-LINE REQUISITIONING GUIDANCE//
 REF/A/REG/ARMY/28MAR2008//
 REF/B/REG/ARMY/15NOV1995//
 REF/C/GCSS-ARMY END USERS MANUAL PLUS 26 AUG 2015//
 NARR/REF A IS ARMY REGULATION (AR) 710-2, SUPPLY POLICY BELOW THE
 NATIONAL LEVEL, 28 MAR 2008. REF B IS AR 725-50, REQUISITIONING,
 RECEIPT AND ISSUE SYSTEM, 15 NOV 1995. REF C IS GLOBAL COMBAT
 SUPPORT SYSTEM-ARMY END USERS MANUAL PLUS, 26 AUG 2015.
 ORDTYP/OPORD/FORSCOM.160649//
 TIMEZONE/Z//
 GENTEX/SITUATION/1. WITH THE CONTINUED FIELDING OF THE GLOBAL COMBAT
 SUPPORT SYSTEM-ARMY (GCSS-A) UNITED STATES ARMY FORCES COMMAND
 (FORSCOM) NEEDS TO RE-EMPHASIZE PROCEDURES FOR ARMY OFF-LINE
 CUSTOMERS UTILIZING MILITARY STANDARD REQUISITIONING ISSUE
 PROCEDURES (MILSTRIP) ORDERING. THIS MESSAGE IDENTIFIES ROLES AND
 RESPONSIBILITIES OF ARMY ORGANIZATIONS FOR AUTHORIZING MILSTRIP
 ORDERING IN OFF-LINE SYSTEMS. THIS GUIDANCE WILL BE INCORPORATED

U.S. Army Forces Command (cont'd)

INTO THE NEXT REVISION OF ARMY REGULATION (AR) 725-50. ALL ARMY MILSTRIP ORDERS SUBMITTED THROUGH OFF-LINE SYSTEMS MUST BE CUSTOMERS OF GCSS-ARMY. THIS GUIDANCE WILL MINIMIZE BUSINESS PRACTICES THAT CIRCUMVENT ESTABLISHED CONTROLS IN THE SUPPLY CHAIN MANAGEMENT AND ACQUISITION PROCESSES. LACK OF CONTROLS COULD CAUSE VIOLATIONS OF THE ANTI-DEFICIENCY ACT.

1.A. OFF-LINE PURCHASES ARE MONITORED BY FORSCOM, CORPS AND MSC G8/G4. OFF-LINE PURCHASE PROCEDURES ARE AN AREA OF INTEREST IN THE COMMAND SUPPLY DISCIPLINE PROGRAM (CSDP). THIS DIRECTIVE CLARIFIES PROCESSES AVAILABLE TO ENABLE THE REQUISITIONING AND PURCHASE OF SUPPLIES AND EQUIPMENT.

1.B. THE GCSS-A REMAINS THE PRIMARY SYSTEM FOR ORDERING SUPPLIES AND EQUIPMENT, INCLUDING PART NUMBERED ITEMS //

GENTEXT/MISSION/2. FORSCOM DIRECTS CORPS AND MSC TO IMPLEMENT OFF-LINE REQUISITION PROCEDURES IMMEDIATELY AT ALL LOCATIONS IOT COMPLYING WITH REFERENCES.

GENTEXT/EXECUTION/3. EFFECTIVE IMMEDIATELY, ALL REQUISITIONS FOR SUPPLIES AND EQUIPMENT WILL BE PROCESSED IN ACCORDANCE WITH PARAGRAPH 2-6, REFERENCE A; PARAGRAPH 3-9, REFERENCE B AND GCSS/A FUNCTIONAL BUSINESS AREA FOR THE APPROPRIATE TRANSACTION NAME (T-CODE) FOR REQUISITIONS IN REFERENCE C. THIS ACTION WILL ESTABLISH AN AUDITABLE METHOD TO SUBMIT ORDERS TO WHOLESALE.

3.A. THIS DIRECTIVE APPLIES TO ALL SUPPLIES AND MATERIEL PROCURED VIA INTERNET, TELEPHONIC, OR FAX.

3.B. INTERNET, TELEPHONIC, AND FAX REQUISITIONS WILL BE SUBMITTED ONLY FOR PRIORITY DESIGNATORS 01, 02, AND 03 REQUISITIONS AND ONLY WHEN ONE OR MORE OF THE FOLLOWING SITUATION EXIST:

3.B.1. GCSS-A AND TACTICAL ENTERPRISE LOGISTIC SYSTEMS (TELS) CONNECTIVITY IS UNAVAILABLE.

3.B.2. PILOT (AIRCRAFT) PICKUP OF MATERIEL IS PLANNED WITHIN 24 HOURS.

3.B.3. EXCEPTION DATE IS ABSOLUTELY NECESSARY TO CONVEY THE TRUE URGENCY OF THE REQUIREMENT AND THE EXCEPTION DATA CANNOT BE TRANSMITTED.

3.C. ALL HIGH PRIORITY REQUISITIONS SUBMITTED THROUGH THE DEFENSE LOGISTICS AGENCY (DLA), GENERAL SERVICES ADMINISTRATION (GSA) CALL-IN CENTERS AND INTERNET PROGRAMS, (I.E. AIRCRAFT ON THE GROUND (AOG)/UNMANNED AERIAL SYSTEMS (UAS)/WATERCRAFT); MUST COMPLY WITH THESE PROCEDURES TO ENSURE RAPID AND UNINTERRUPTED REQUISITION PROCESSING IN ORDER TO MEET READINESS REQUIREMENTS.

3.D. CERTIFICATION OF AVAILABLE FUNDS WILL BE ACCOMPLISHED PRIOR TO SUBMITTING ANY TELEPHONIC OR INTERNET REQUISITION.

3.E. TELEPHONIC OR INTERNET REQUISITIONS WILL BE MADE BY AUTHORIZED PERSONNEL AFTER THE DIRECTOR OF RESOURCE MANAGEMENT (RM) OFFICE ON THE INSTALLATION HAS VERIFIED FUNDS AVAILABILITY FOR THE PURCHASE.

3.F. APPROVED OFF-LINE REQUISITIONS WILL BE SUBMITTED BY THE PERSON(S) AND AUTHORIZED DEPARTMENT OF DEFENSE ACTIVITY ADDRESS CODE (DODAAC) DESIGNATED BY THE APPROPRIATE COMMANDER, HISTORICALLY ACCOMPLISHED BY THE SUPPLY SUPPORT ACTIVITY PERSONNEL OR TACTICAL ENTERPRISE LOGISTICS SYSTEMS (TELS) I.E (SAMS-E/ULLS-A, PBUSE OR GCSS-A). DESIGNATION WILL BE MADE BY NAME, AND DODAAC IN WRITING AND RETAINED ON FILE FOR SIX YEARS AND THREE MONTHS FOR AUDITABILITY AND HISTORICAL TRACKING TO THE BATTALION S4/S8. COMMANDERS MUST LIMIT THE USE OF OFF-LINE PURCHASES TO EMERGENCIES AND AUTHORIZED PERSONNEL ONLY. COMMANDERS WILL ENSURE THAT PERSONNEL ARE AWARE OF THESE PROCEDURES.

3.G. REQUESTERS WILL ENSURE THEY PROVIDE ALL APPLICABLE DATA AS

U.S. Army Forces Command (cont'd)

DETERMINED BY MILITARY STANDARD REQUISITIONING ISSUE PROCEDURES (MILSTRIP) AND UPDATE THE UNIT TACTICAL ENTERPRISE LOGISTICS SYSTEM AND THE GCSS-A WITH REQUISITION STATUS AND DEMAND HISTORY ADD (DHA)/AUTHORIZE TO FORECAST (ATF) IMMEDIATELY AFTER COMPLETING THE TELEPHONIC CALL OR INTERNET PURCHASE TO ENSURE THAT PROPER DEMAND AND CONSUMPTION HISTORY IS CAPTURED, AS WELL AS BILLING AND SUPPLY AUDIT TRAIL ESTABLISHED.

3.H. ALL PREVIOUS ACCOUNTABILITY PROCESSES AND RESTRICTIONS REMAIN IN EFFECT. SEE AR 710-2, APPENDIX B, COMMAND SUPPLY DISCIPLINE PROGRAM (CSDP) ADDITIONAL CLARIFICATION OF REQUIREMENTS.//

GENTEX/SUSTAINMENT/4. N/A.//

GENTEX/COMMAND AND SIGNAL/H

5. POINTS OF CONTACT FORSCOM G-4 SMC.

5.A. FORSCOM G-4 SUPPLY BRANCH, [REDACTED]

[REDACTED]

5.C. FORSCOM G-4 SUPPLY BRANCH, [REDACTED]

[REDACTED]

GENTEX/AUTHENTICATION/THIS IS APPROVED BY [REDACTED], FORSCOM G-3/5/7.//

AKNLDG/YES/INST: CONTACT FORSCOM POCS UPON RECEIPT OF MESSAGE.//

BT
#1298

NNNN
Received from AUTODIN 021700Z Jun 16

Deputy Chief of Staff of the Army, G4



DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF, G-4
500 ARMY PENTAGON
WASHINGTON, DC 20310-0500

DALO-SP (700A)

31 August 2022

MEMORANDUM FOR Department of Defense Office of Inspector General, 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Official Army Position, Department of Defense Office of Inspector General (DODIG) Draft Report on the Audit of Department of Defense Federal Mall (FedMall) Purchases (D2021-D000AT-0083.000)

1. References:

a. Army Regulation 725-50, Requisitioning, Receipt and Issue System, 11 November 1996

b. Army Regulation 710-2, Supply Policy Below the National Level, 28 March 2008

2. This memorandum establishes an official Army position (OAP) on the Department of Defense Inspector General draft report (enclosed).

3. Headquarters Department of the Army (HQDA) G-4 reviewed the draft report and provides an OAP on the findings, conclusions, and command recommendations/replies as follows:

a. HQDA G-4 non-concurs with the findings and conclusions that led DODIG to make recommendation B.2.a to the Commanding General, U.S. Army Forces Command (FORSCOM). Under recommendation B.2.a, DODIG requested FORSCOM establish and implement procedures to identify, monitor, track, and review off-line transactions. FORSCOM already has a process to identify, monitor, track, and review off-line transactions. This is currently being done as part of the FORSCOM G8's Commander's Financial Management Readiness Report (FMRR) on a monthly basis. FORSCOM request support from Defense Logistics Agency (DLA)/FedMall to develop a process that allows the Army full visibility of all off-line requisitions.

b. HQDA G-4 non-concurs with the findings and conclusions that led DODIG to make recommendation B.2.b to the Commanding General, U.S. Army Forces Command (FORSCOM). Under recommendation B.2.b, DODIG requests FORSCOM review all 96 requisitions, valued at \$852,158 and determine whether a valid need existed for the items purchased and whether the requisitions violated Army policy. The Army does not have access to all the user data that identifies the exact individual who placed the order. With the records being older than 2 years old, the personnel and documentation could

Deputy Chief of Staff of the Army, G4 (cont'd)

DALO-SP (700A)

SUBJECT: Official Army Position, Department of Defense Office of Inspector General (DODIG) Draft Report on the Audit of Department of Defense Federal Mail Purchases (D2021-D000AT-0083.000)

possibly no longer be available at the unit level. FORSCOM recommends that it would be more beneficial to review recent records provided by DLA.

c. HQDA G-4 non-concurs with the findings and conclusions that led DODIG to make recommendation B.1.a. to the Deputy Chief of Staff (DCS) of the Army, G-4. Under recommendation B.1.a., DODIG requests the Army develop and implement guidance for making purchases on FedMall. DODIG also requested the ordering activity commander review and approve all FedMall orders and require purchasers to document a valid requirement and verify that funds are available for use. DODIG requested that purchasers review the Army accountable property system of record, Global Combat Support System-Army (GCSS-A), for available items before purchase, and train purchasers on valid and prohibited FedMall payment methods. The Army is currently revising Army Regulation 725-50, Requisitioning, Receipt and Issue System which will outline in detail the processes and procedures for offline purchases. The Army has published an interim policy memorandum which was requested as a result of a 2018 Army Audit Agency (AAA) recommendation which outlines the policy and guidance that will be included in the forthcoming regulation release. The Army recognizes that there is conflicting guidance under AR 710-2 chapter 2-6, para m.(3)(b.) which states "Military standard requisitioning and issue procedures (MILSTRIP) requisitions are not authorized for Internet or A-MART/E-MALL orders". However, the memorandum referenced above allows MILSTRIP to be used. Additionally, AR 710-2 and AR 725-50 will also allow MILSTRIP as the preferred method of ordering once published.

d. HQDA G-4 non-concurs with the findings and conclusions that led DODIG to make recommendation B.1.b. to the Deputy Chief of Staff (DCS) of the Army, G-4. Under recommendation B.1.b., DODIG requests the Army review all 43,062 FedMall requisitions made in FY 2020, valued at \$23.1 million, in coordination with ordering Army Commands, to validate whether the transactions occurred, determine whether a valid need existed for the items purchased, and determine whether the purchases violated Army policy. Additionally, DODIG requested the Deputy Chief of Staff (DCS) of the Army, G-4 provide results of the review. The Army does not have access to all the purchasing information that would allow a transparent analysis of the requisitions down to the user level. This level of access would need to be provided to Army staff personnel by DLA in order to extract this data. The Army has taken steps to maintain visibility of purchases by requesting monthly extracts of data from FedMall in order to allow commands visibility of items being requested. However, this does not allow the Army to see all user/unit level data to or additional comments related to the request. The Army has determined that these purchases did not violate Army policy. AR 725-50 does allow the use of MILSTRIP purchases. Under section 3-12, "Requisitioners should use available MILSTRIP capabilities to ensure automated processes are used to the maximum extent possible." Offline ordering capabilities (i.e. EMALL) were not made available to the Army until 1998. The last publication date for AR 725-50 was 1995. The Army has released numerous memorandums to clarify the policies and procedures

Deputy Chief of Staff of the Army, G4 (cont'd)

DALO-SP (700A)

SUBJECT: Official Army Position, Department of Defense Office of Inspector General (DODIG) Draft Report on the Audit of Department of Defense Federal Mall Purchases (D2021-D000AT-0083.000)

while the regulation is being updated. HQDA G4 recently published an interim policy clarification memo (encl) which states all offline purchases must be placed via MILSTRIP through the Supply System of Record, GCSS-Army. The memo serves as interim policy guidance while AR 710-2 and AR 725-50 are being updated to outline the proper procedures for using offline ordering systems.

4. The Army has concerns with the methodology used to identify the samples for this audit. The draft report states that the audit focused on activities with the highest dollar values for each service. Unlike the other services, the Army data was not provided through statistical analysis from the DoD OIG Quantitative Methods Division. Page 30, para 2 from the draft report states, "We non-statistically selected requisitions to review from these two contracts, along with Army activity requisitions from the previously selected 10 contracts". According to DoD 7600.07, DoD Audit Manual, " (a) Non-statistical sample results are self-representing and cannot be projected or extrapolated to a population and results cannot be presented as percentages". The Army has concerns over the scope and believes that the evidence obtained does not provide a reasonable basis for the audit findings or conclusions based on the audit objectives.

5. The Army has pursued establishing controls at the DLA/FEDMALL level on multiple occasions i.e. Restricting certain Defense Activity Address Code (DODAACs), only allow Issue Priority Group (IPG) I requisitions, etc. DLA and FedMall have been reluctant to support the Army with these request. The Army requests a recommendation to DLA to work with services to implement controls that can support the current requisitioning environment and allow the services access to perform internal audits.

6. The point of contact for this memorandum is [REDACTED].

BECHTEL.PETER.BR [REDACTED]

PETER B. BECHTEL
Director of Supply Policy

Encl

Deputy Chief of Staff of the Army, G4 (cont'd)



DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF, G-4
500 ARMY PENTAGON
WASHINGTON, DC 20310-0500

DALO-SP (700A)

7 April 2022

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Military Standard Requisition and Issue Procedures (MILSTRIP) Policy for Offline Systems

1. References:

- a. Army Regulation (AR) 710-2, Supply Policy Below The National Level, 28 March 2008
- b. AR 725-50, Requisitioning, Receipt, And Issue System, 15 November 1995
- c. AR 25-1, Army Information Technology, 15 August 2019

2. Purpose. This memorandum clarifies requirements for Army customers utilizing systems for MILSTRIP offline ordering. It identifies roles and responsibilities of Army organizations for authorizing MILSTRIP ordering in offline systems, such as the Defense Logistics Agency (DLA) offline system program. This also clarifies AR 725-50, Chapter 4-70 in reference to the ship-to address for direct vendor deliveries for MILSTRIP requisitions. The information in this memorandum will be incorporated into the next revision of AR 725-50. When the revision is published, it will supersede this memorandum.

3. As of 1 January 2016, all Army MILSTRIP orders submitted through offline systems must be customers of GCSS-Army. GCSS-Army is the only available way to properly validate obligations prior to processing requisitions.

4. Units are required to maintain segregation of duties (SOD) (i.e. authorization, record keeping, and custody of property). However, customers are prohibited from shipping items purchased through offline systems to their residence under any circumstances in order to maintain proper SOD.

5. Accountable Officers will be required to approve, maintain and document offline purchases for items that are shipped to non-government addresses.

6. Customers are prohibited from purchasing Commercial Off-the-Shelf (COTS) Information Technology (IT) items through offline systems as outlined in AR 25-1, Army Information Technology.

Deputy Chief of Staff of the Army, G4 (cont'd)

DALO-SP (700A)

SUBJECT: Military Standard Requisition and Issue Procedures (MILSTRIP) Policy for Offline Systems

7. Customers will be required to submit MILSTRIPs for offline ordering by utilizing a Department of Defense Activity Address Code (DODAAC) through a GCSS-Army Supply Support Activity (SSA). Customers without an SSA relationship should utilize a Command designated SSA or seek support from a local installation SSA as a remote customer.
8. Commands should designate an SSA to provide transaction support for customers without a habitual SSA relationship. These should be loaded as remote customers, which will cause shipments to go directly to the customer address. The SSA will still be able to provide financial and supply visibility of offline system activity.
9. Program Executive Office and Program Managers should submit orders via the Logistics Modernization Program (LMP) or utilize the Army Purchase Card program to submit requisitions for DLA managed items.
10. Customers with mission essential orders, who cannot requisition through an SSA or LMP/GCSS-Army may submit exception requests through their Commands to the Office of the Deputy Chief of Staff, G-4, POC listed below. Approved exceptions will be temporary and will expire within 12 months. Requests should include:
 - a. Reason(s) for non-compliance.
 - b. Provide resolution for lack of supply controls and planned methods to mitigate accounts for financial and supply transactions.
 - c. Provide course of actions the unit will use to establish an auditable method to submit orders to wholesale.
11. The point of contact for this action is [REDACTED]

PETER B. BECHTEL
Director of Supply Policy

DISTRIBUTION:
(see next page)

Deputy Chief of Staff of the Army, G4 (cont'd)

DALO-SP (700A)
SUBJECT: Military Standard Requisition and Issue Procedures (MILSTRIP) Policy for
Offline Systems

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Defense Logistics Agency



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

August 15, 2022

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL (ACQUISITION,
CONTRACTING AND SUSTAINMENT)

SUBJECT: Response to Office of Inspector General Draft Report "Audit of Department of
Defense Federal Mall Purchases" (Project No. D2021-D000AT-0083.000)

DLA appreciates the opportunity to review and comment on the draft report titled "Audit
of Department of Defense Federal Mall Purchases, Project No. D2021-D000AT-0083.000, dated
July 14, 2022. Detailed comments on the report recommendations are enclosed.

The point of contact for this audit is [REDACTED]

RUNSTROM.KAR [REDACTED]

KARYN A. RUNSTROM
Deputy Director
DLA Information Operations

Attachment:
Individual responses to each of the report recommendations

Defense Logistics Agency (cont'd)

**DOD OIG DRAFT REPORT DATED JULY 14, 2022 “Audit of
Department of Defense Federal Mall Purchases” (PROJECT NO. D2021-
D000AT-0083.000)**

**DEFENSE LOGISTICS AGENCY’S RESPONSE TO THE DOD OIG
RECOMMENDATIONS**

RECOMMENDATION A.1: We recommend that the Director of the Defense Logistics Agency Contracting Services Office:

RECOMMENDATION A.1.a: Review all FedMall transactions from FY 2019 through FY 2021 and determine whether any vendors violated the terms of their contracts by adding items or increasing prices without approval. If so, contracting officials should determine whether any actions against the vendor, such as catalog removal or recoupment of excess costs, are appropriate, and carry out these actions. The Director should provide us the results of the review.

DLA RESPONSE: Partially concur. DLA agrees with the recommendation for reviewing transactions from FY 2019 through FY 2021. DLA also concurs with taking appropriate actions for Vendors who are found to be in violation. However, DLA non-concurs with the suggested method of reviewing **all** transactions and instead, recommends an alternative. There are approximately 287,000 FedMall orders from FY 19 through FY 21. Reviewing all of the 287,000 transactions in a reasonable time period would not be feasible due to the labor-intensive nature of the recommendation. As an alternative, DLA suggests a random sampling of each FedMall contract with transaction during the timeframe of FY 2019 through FY 2021. DLA would determine the statistical sample for each contract by utilizing a 90% confidence level, a 10% confidence interval, and the population size (of each Contract’s transactions during the period) to calculate a sample size of items to review. This method is based on the MaCorr Sample Size calculator, in accordance with DLAD 15.402(a)(3)(iii)(C)(1). If any items in the statistical sample are determined to be unauthorized or to have an unauthorized price increase, DLA would review additional orders for that particular vendor and/or contract. After completion, DCSO would then determine whether any actions against the vendors are necessary and carry out those actions. The estimated completion date for this course of action is February 28, 2023.

RECOMMENDATION A.1.b: Initiate action to recover the \$367,081 in questioned costs from five FedMall vendors that violated contract terms by increasing prices without approval.

DLA RESPONSE: Concur. DLA will issue demand letters for reimbursement to the Government from the five (5) vendors who violated their contract terms by increasing prices without approval, resulting in \$367,081 in questioned costs. The estimated completion date for this course of action is October 1, 2022.

RECOMMENDATION A.1.c: Direct contracting officials to prioritize competitive price comparisons, particularly among existing FedMall vendors, in their price analysis and price reasonableness determinations, in order to comply with Federal Acquisition Regulation subpart 15.404-1(b)(3).

DLA RESPONSE: Partially concur. DLA recognizes the need for re-evaluating how DLA conducts price analysis and price reasonableness determinations for FedMall, DLA does not concur to utilizing competitive pricing for FedMall. DCSO FedMall catalog contracts are

Defense Logistics Agency (cont'd)

**DOD OIG DRAFT REPORT DATED JULY 14, 2022 “Audit of
Department of Defense Federal Mall Purchases” (PROJECT NO. D2021-
D000AT-0083.000)**

awarded against multiple-award-solicitations, to establish Fixed Price with Economic Price Adjustment (EPA) Indefinite Delivery/Indefinite Quantity (IDIQ) schedule type contracts for various commercially available off-the-shelf (COTS) items. The scope of the multiple-award-solicitations are limited to DLA Managed Federal Supply Classes (FSCs). DLA solicits for DLA managed FSCs, not individual items. Offerors must submit items for approval on their catalog, in accordance with the DLA managed FSCs listed in the solicitation. Each offeror may propose various COTS items for their catalog; therefore, it is not feasible to base the price analysis on price competition as each offeror may be proposing different COTS items.

In response to this recommendation, it is important to note that comparison with other commercial prices is a part of the process on how DCSO evaluates the items on the offerors' catalogs. DCSO Contracting Officers use an analytical tool called Price Point to aid in the evaluation of a review of proposed FedMall Catalog prices to other pricing benchmarks, including Other FedMall Prices, GSA schedule prices, NASA SEWP, and a database of other commercial prices for the same or similar items. DCSO will revise the price analysis techniques used for the FedMall program, to include 15.404-1(b)(2)(iv) Comparison with competitive published price lists, published market prices of commodities, similar indexes, and discount or rebate arrangements, (vi) Comparison of proposed prices with prices obtained through market research for the same or similar items, and (vii) Analysis of data other than certified cost or pricing data (as defined at 2.101) provided by the offeror. The estimated completion date for this course of action is October 1, 2022.

RECOMMENDATION A.2: We recommend that the Director of the Defense Logistics Agency direct the FedMall Program Manager to update FedMall user guides and training to instruct ordering activities to compare prices from three vendors and place orders with the vendor that provides the best value.

DLA RESPONSE: Partially Agree. Training courses, to include webinars, are available via the DLA Training Office to provide a comprehensive overview of FedMall. The instructors work closely with the FedMall program office to provide the most up to date information and can customize the training based on the customers' requirements. Training is offered via twice monthly webinars and ad-hoc classes as requested by system users. The webinar schedule is posted on the FedMall landing page and self-help page. During these regularly scheduled training sessions, the instructor provides a live system demonstration, pointing out various data points provided with each item (i.e., price, shipment time after receipt of order (ARO), supplier rating, minimum contract order dollar value and shipping locations). The trainer then demonstrates the “compare products” feature within FedMall which allows a shopper to select 4 items displayed side by side to make a best value determination for their purchase. DLA agrees that in addition, the printed training material should be updated to specifically instruct ordering activities to compare prices from three vendors and place orders with the vendor that provides the best value.

Defense Pricing and Contracting



ACQUISITION
AND SUSTAINMENT

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDIT,
ACQUISITION, CONTRACTING, AND SUSTAINMENT, OFFICE OF
THE INSPECTOR GENERAL

SUBJECT: Draft Audit Report of Department of Defense Federal Mail Purchases,
Project No. D2021-D000AT-0083.000, dated July 14, 2022

As requested, I am responding to the general content contained in the subject report.
Attached are the Defense Pricing and Contracting comments to the draft audit report.

My point of contact for this matter is [REDACTED]

TENAGLIA.
JOHN.M. [REDACTED]

John M. Tenaglia
Principal Director,
Defense Pricing and Contracting

Attachment:
As stated

Defense Pricing and Contracting (cont'd)

Attachment

DPC Comments to Draft Report D2021-D000AT-0083.000

1. Page i (3 of 45)

Consistent with the statement on page 3 of 45, "MILSTRIP is a process that all Military Services, Defense agencies, and participating Federal agencies use to requisition, issue, and dispose of materiel." Please note that when MILSTRIP is being used, the action in FedMall is not a purchase, it is a requisition. Recommend updating use of the term "purchase" to "requisition" throughout the audit accordingly.

2. First occurrence on page i (3 of 45) and any similar occurrences

Findings section, 1st paragraph, 1st sentence – please add a clarifying phrase to this sentence to be specific.

From: We reviewed 157 items that eight activities purchased on FedMall and found that vendors added items to their FedMall catalogs and increased prices without DCSO approval.

To: We reviewed 157 items that eight activities purchased on FedMall and found that vendors added items to their FedMall catalogs under DCSO-issued contracts and increased prices without DCSO approval.

Reason: DCSO does not have cognizance / is not the Contracting Officer for all contracts on FedMall.

3. First occurrence on page i (3 of 45) and any similar occurrences

Findings section, 2nd paragraph, 1st sentence – please add a clarifying phrase to this sentence to be specific.

From: In addition, DoD activities purchased items on FedMall at prices that were higher than other commercial sources.

To: In addition, DoD activities purchased items under DCSO contracts on FedMall at prices that were higher than other commercial sources.

Reason: DCSO does not have cognizance / is not the Contracting Officer for all contracts on FedMall. The rest of the paragraph goes on to talk about DCSO's practices; the start of the paragraph needs to clarify the discussion is specific to their contracts.

4. First occurrence on page i (3 of 45) and any similar occurrences

Findings section, 2nd paragraph, 4th sentence – please correct this sentence.

From: In addition, DCSO officials expected that purchasers would conduct price comparisons before placing an order on FedMall; however, FedMall program officials did not communicate this requirement to purchasers.

Defense Pricing and Contracting (cont'd)

Attachment

To: In addition, DCSO officials expected that purchasers would conduct price comparisons before placing an order on FedMall; however, DCSO officials did not communicate this requirement to purchasers.

Reason: DCSO is the contracting office; it is their responsibility to ensure the ordering procedures under their contracts are clear and communicate them to requirements officials. FedMall is the means of ordering, but it is DCSO's responsibility to ensure that the contracting requirements, such as any price comparisons needed, are conducted.

5. First occurrence on page ii (4 of 45) and any similar occurrences

Findings section, 4th paragraph, 1st sentence – please add a clarifying phrase to this sentence to be specific.

From: We identified \$367,081 in questioned costs related to vendors that increased prices without DCSO approval, in violation of contract terms.

To: We identified \$367,081 in questioned costs related to vendors that increased prices on DCSO issued contracts without DCSO approval, in violation of contract terms.

Reason: Clarification is necessary because DCSO is not the cognizant contracting officer for other FedMall hosted contracts.

6. First occurrence on page ii (4 of 45) and any similar occurrences

Recommendations section, 1st paragraph after the bulleted list, 1st sentence – Recommend changing the wording of this recommendation.

From: We recommend that the DLA Director direct the FedMall Program Manager to update FedMall user guides and training to instruct ordering activities to compare prices from three vendors and place orders with the vendor that provides the best value.

To: We recommend that the DLA Director direct the DCSO contracting office to develop ordering procedures and user guides for the contracts hosted at FedMall to instruct ordering activities to compare prices from three vendors and place orders with the vendor that provides the best value. We recommend that DLA add these developed procedures and guides to the online training materials and resources that FedMall hosts.

Reason: FedMall is only the system used to facilitate the on-line ordering and the FedMall program office is not a contracting office. The DLA Director should not direct the FedMall program manager to develop these guides for the DCSO contracts. DCSO should be the organization that drafts the ordering instructions for their issued contracts hosted on FedMall; as they are the cognizant contracting office. FedMall program management office staff are not trained procurement personnel, nor do they have cognizance for these contracts.

7. Page 11 (19 of 45) – first paragraph under “FedMall Vendors Violated Contract Terms” section - please add a clarifying phrase to this sentence to be specific.

Defense Pricing and Contracting (cont'd)

Attachment

Final
Report Reference

<p>From: Therefore, DCSO officials should review all FedMall transactions from FY 2019 through FY 2021 and determine whether any vendors violated the terms of their contracts by adding items or increasing prices without approval.</p> <p>To: Therefore, DCSO officials should review all FedMall transactions under DCSO contracts from FY 2019 through FY 2021 and determine whether any vendors violated the terms of their contracts by adding items or increasing prices without approval.</p> <p>Reason: DCSO does not have cognizance / is not the Contracting Officer for all contracts on FedMall.</p>
<p>8. Page 18 (26 of 45) – Recommendation A.1.a - please add a clarifying phrase to this sentence to be specific.</p> <p>From: Review all FedMall transactions from FY 2019 through FY 2021 and determine whether any vendors violated the terms of their contracts by adding items or increasing prices without approval.</p> <p>To: Review all FedMall transactions under DCSO contracts from FY 2019 through FY 2021 and determine whether any vendors violated the terms of their contracts by adding items or increasing prices without approval.</p> <p>Reason: DCSO does not have cognizance / is not the Contracting Officer for all contracts on FedMall.</p>
<p>9. Page 18 (26 of 45) Recommendation A.2 – Recommend changing the wording of this recommendation.</p> <p>From: We recommend that the Director of the Defense Logistics Agency direct the FedMall Program Manager to update FedMall user guides and training to instruct ordering activities to compare prices from three vendors and place orders with the vendor that provides the best value.</p> <p>To: We recommend that the Director of the Defense Logistics Agency direct the DCSO contracting office to develop ordering procedures and user guides for the contracts hosted at FedMall to instruct ordering activities to compare prices from three vendors and place orders with the vendor that provides the best value. We recommend that DLA add these developed procedures and guides to the online training materials and resources that FedMall hosts.</p>

Page 21

Acronyms and Abbreviations

DCSO	Defense Logistics Agency Contracting Services Office
DLA	Defense Logistics Agency
DPC	Defense Pricing and Contracting
EMALL	Electronic Mall
FAR	Federal Acquisition Regulation
FedMall	Federal Mall
FORSCOM	U.S. Army Forces Command
GCSS	Global Combat Support System
GSA	General Services Administration
MILSTRIP	Military Standard Requisitioning and Issue Procedures
NSN	National Stock Number
PNM	Price Negotiation Memorandum



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