

Naval Audit Service



Audit Report



Controls Over Medical Supplies and Equipment

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N2009-0018

19 February 2009

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19 Feb 09

MEMORANDUM FOR CHIEF, BUREAU OF MEDICINE AND SURGERY

Subj: **CONTROLS OVER MEDICAL SUPPLIES AND EQUIPMENT**
(AUDIT REPORT N2009-0018)

Ref: (a) SECNAV Instruction 7510.7F, "Department of the Navy Internal Audit."
(b) NAVAUDSVC letter 7510/N2007-NMC000-0062 of 21 August 2007.

- Encl. (1) Status of Recommendations
(2) FYs 2007 and 2008 Material Orders for NMCP and NDCN
(3) FYs 2007 and 2008 Material Orders for NEMSCOM (DMLSS)
(4) MSE Due-Ins for Naval Medical Treatment Facilities
(5) Background
(6) Scope and Methodology
(7) Management Response From the Bureau of Medicine and Surgery

1. **Introduction.** In accordance with reference (a) and as announced in reference (b), we have completed the subject audit. Paragraph 7 provides a summary of audit results. The Bureau of Medicine and Surgery (BUMED) is the action command for the recommendations, which address the conditions found. The full text of the BUMED response is in Encl. (7). BUMED concurred with Recommendation 1 and concurred with comments for Recommendations 2 and 3. For Recommendation 2, concerning cancellation of invalid material orders, the BUMED response cited planned follow-up actions to ensure that recommended cancellations were made. However, Paragraphs 7.b. and 7.c. show that Naval Medical Center Portsmouth (NMCP) and Naval Dental Clinic Norfolk (NDCN) cancelled the material orders based on our review. Therefore we consider this recommendation closed. Actions planned for Recommendations 1 and 3 meet the intent of the recommendations, which are open pending completion of corrective actions. Open recommendations are subject to monitoring in accordance with reference (b). Management should provide a written status report on the recommendations within 30 days after target completion dates. Please provide all correspondence to the Assistant Auditor General for Internal Control and Command Support Audits, Greg Sinclitico, gregory.sinclitico@navy.mil, with a copy to the Director, Policy and Oversight, Vicki McAdams, vicki.mcadams@navy.mil. Please submit

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correspondence in electronic format (Microsoft Word or Adobe Acrobat file), and ensure that it is on letterhead and includes a scanned signature.

2. **Reason for Audit.** The audit objective was to verify that internal controls over medical supplies and equipment were effective. This audit was based on a risk area in the Navy's annual risk assessment. As noted in Enclosure 6, to satisfy our audit objective, our original intent was to evaluate internal controls related to both on-hand and in-transit Medical Supplies and Equipment (MSE). However, during initial meetings with Naval Medical Logistics Command (NMLC), Washington, DC, personnel, we found that substantial changes were in process concerning the on-hand inventory portion of the Defense Medical Logistics Standard Support (DMLSS) System. These changes were intended to improve internal controls and reporting over on-hand MSE. We therefore agreed with NMLC personnel to limit the scope of our effort to internal controls over monitoring of in-transit MSE, which was not affected by these DMLSS changes.

3. **Noteworthy Accomplishments.** Our limited review showed that the Navy Expeditionary Medical Support Command (NEMSCOM), Cheatham Annex, VA, personnel maintained effective internal controls over MSE that was due-in for material orders.¹ Enclosure 6 provides the scope and methodology for our NEMSCOM review and Paragraph 7 provides audit results.

4. **Background.** See Enclosure 5.

5. **Pertinent Guidance.** Fiscal Year (FY) 2007 NMLC Logistics Guidance requires that the age of open orders (due-ins) be monitored closely because timely delivery of material and services is crucial to the material management support for patients and health care providers. DMLSS reports used by MTFs to monitor due-ins show MSE that are due-in for more than 30 days after the material order date. In practice, MTF procedures are to monitor due-ins more than 30 days old and should be reviewed to determine delivery status of MSE and to determine if the MSE is still needed.

6. **Scope and Methodology.** See Enclosure 6.

7. **Audit Results and Conclusions.** Our limited review showed that, while NEMSCOM had effective internal controls over monitoring of due-in MSE, NMCP, VA, and NDCN,

¹ Medical Treatment Facilities (MTFs) create "due-ins" for MSE when they requisition the MSE. These requisitions are referred to as "material orders" in this audit report, not to be confused with contract orders. Therefore, when we discuss internal controls over due-ins for material orders, we are discussing the process for tracking whether MTFs are following required procedures to track the overall status of the MTFs' open requisitions until assets are received; i.e., not just tracking shipments already made under contract. Accordingly, MTFs did not maintain databases of overdue contractor shipments, only of overdue requisitions for which MSE had not been shown as received on DMLSS.

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VA, needed some improvement to internal controls and oversight for monitoring MSE orders, made via DMLSS by purchase card holders, that were due-in for more than 30 days based on the material order date.² We found that the value of NMCP due-ins over 30 days old as of 31 January 2008, for FY 2007 and FY 2008 material orders through 31 January 2008, was only \$1.6 million, or 7.1 percent, of the \$22.1 million value of those orders. The value of NDCN due-ins over 30 days old as of 31 January 2008, for FY 2007 and FY 2008 material orders through 31 January 2008, was only \$60,000, or 5.6 percent of the \$1.1 million value of those orders (Paragraphs 7.b. and 7.c.). Therefore, although we identified some needed internal control improvements based on our limited samples at these two activities (Paragraphs 7.b.-7d.), we concluded that the issues were not material.³ Details follow.

a. **NEMSCOM.** Our limited review showed that NEMSCOM personnel maintained effective internal controls over due-in MSE for DMLSS and Standard Procurement System (SPS)⁴ material orders. NEMSCOM had followup procedures in place for overdue-material orders. Enclosure 3 provides details concerning universes and samples for our NEMSCOM review. Following are the sample results supporting our conclusion that internal controls appeared effective.

(1) **DMLSS Material Orders.** As of our 31 March 2008 review, of the 21 judgmentally sampled DMLSS material orders reviewed:

- For six orders, contracts had not yet been awarded; therefore, no overdue shipments were available on which to follow up.
- For five orders, MSE was received after our 31 March 2008 review.
- For four orders, the contracts were awarded after the 5 March 2008 DMLSS due-in database date; therefore, there were no overdue shipments as of that date.
- For four orders, NEMSCOM canceled them prior to our review.
- For one order, NEMSCOM had not received the MSE, but had performed sufficient followup.

² See Enclosure 6 for details on our scope and methodology. Note also that all of the DMLSS material orders were made using credit cards.

³ Due to the fact that we found several problems based on our limited sample reviews at NMCP and NDCN, but the overall values of over-aged due-ins were not material, we addressed these issues in this letter report instead of a standard Naval Audit Service report.

⁴ NEMSCOM also used SPS to process material orders. NEMSCOM personnel input SPS data into DMLSS to provide us the data.

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- For only one order, NEMSCOM had not received the MSE and had not performed sufficient followup on the overdue order.

(2) **SPS Material Orders.** As of our 19 March 2008 review, of the 25 SPS sample material orders reviewed:

- For 13 orders, contracts had not been awarded; therefore, no overdue shipments were available on which to follow up.
- For seven orders, the estimated shipping dates were between 19 March 2008 and 28 April 2008; therefore, shipments had not been made as of our 19 March 2008 review.
- For two invalid orders, NEMSCOM canceled them prior to our review. We determined that for one of those orders, NEMSCOM should have processed the cancellation more timely.
- For two orders, NEMSCOM had received the MSE in April and September 2007, respectively, but corrected the due-in database prior to our 19 March 2008 review.
- For one order, the shipment date was 13 March 2008 and NEMSCOM performed timely (6 days) follow up on 19 March 2008.

(3) Therefore, of the 25 sample SPS material orders we reviewed, we only identified one SPS order for which NEMSCOM should have followed up more timely. The value was not significant (\$288).

b. **NMCP.** Our limited review showed that NMCP needed some improvement to internal controls and oversight for monitoring MSE that was due-in for more than 30 days for DMLSS material orders. The value of NMCP due-ins over 30 days old as of 31 January 2008, for FYs 2007 and 2008 material orders through 31 January 2008, was only \$1.6 million, or 7.1 percent, of the \$22.1 million value of those orders. Our 28 February 2008 review of 75 judgmentally selected sample material orders with MSE due-ins more than 30 days old showed:

- Twenty-two material orders were not valid and should have been canceled. Invalid orders were those for which material was no longer needed. NMCP personnel canceled the 22 invalid material orders valued at \$6,189 based on our audit;

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- Nineteen material orders were for MSE that NMCP personnel had received as of the 31 January 2008 DMLSS due-in database date but NMCP personnel had not posted receipts to DMLSS to close out the due-in;
- For four material orders, NMCP personnel followed up on the due-ins based on our review and plan to receive the MSE in the future; and
- For an additional 30 material orders, the due-ins were also valid as of the date of our review, but NMCP personnel were not monitoring the status of the orders. They checked on the status based on our review.

c. **NDCN.** Our limited review showed that NDCN needed some improvement to internal controls and oversight for monitoring MSE that was due-in for more than 30 days for DMLSS material orders. The value of NDCN due-ins over 30 days old as of 31 January 2008, for FYs 2007 and 2008 material orders through 31 January 2008, was only \$60,000, or 5.6 percent of the \$1.1 million value of those orders. Our 3 April 2008 review of 33 judgmentally selected sample material orders with MSE due-ins more than 30 days old showed:

- The due-ins were valid for 14 material orders as of the 31 January 2008 DMLSS due-in database date. Shipments were due to arrive in April 2008; or were on backorder at the vendor. However, NDCN personnel were not monitoring the status of the 14 orders and the items were only shipped pursuant to our review.
- Thirteen material orders were for MSE that NDCN personnel had received as of the 31 January 2008 DMLSS due-in database date, but for which NDCN personnel had not posted receipts to DMLSS to close out the due-in.
- Six material orders were invalid. Only two orders still needed to be canceled based on our review and NCDN cancelled them based on our review.

d. **Reason for Insufficient Monitoring.** MTF personnel were required to monitor material orders for which MSE was shown on DMLSS as due-in (more than 30 days old), to ensure MSE was received and receipts were posted to DMLSS, and that any invalid orders were canceled. This condition occurred because NMCP and NDCN purchase cardholders stated that they believed their workload prevented them from checking DMLSS reports for MSE due-ins more than 30 days old. However, NMLC guidance requires that they monitor due-in material. Also, NMLC guidance, which requires MTF personnel monitor due-ins, did not establish specific monitoring timeframes for frequency of reviews or documentation requirements for these reviews.

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e. **Effect of Insufficient Monitoring.** Some improvement to internal controls and oversight over overaged due-ins for MSE is needed to ensure that (1) invalid material orders are canceled and loss of obligation authority is avoided, and (2) assets procured to meet mission requirements are received.

f. **Further Review Needed.** We obtained the scope of MSE due-ins more than 30 days old as of 30 June 2008 for 9 other BUMED MTFs.⁵ We found that due-ins more than 30 days old, 100 days old, and 300 days old for the 9 MTFs totaled \$1.7 million, \$577,000, and \$285,000 respectively. BUMED should require these MTFs review their over-aged due-ins, as well as improve internal controls at the two MTFs we reviewed.

g. The Federal Managers' Financial Integrity Act (FMFIA) of 1982, as codified in Title 31, United States Code, requires each Federal agency head to annually certify the effectiveness of the agency's internal and accounting system controls. In our opinion, the conditions noted in this report are not significant enough to be considered for inclusion in the Auditor General's annual FMFIA memorandum identifying management control weaknesses to the Secretary of the Navy.

8. **Communication with Management.** We issued the discussion draft report on 13 November 2008 and received informal NMCP comments on 20 November 2008. We had previously briefed audit results to the head of Materials Management at NMCP on 29 April 2008 and the Officer-in-Charge at NDCN on 4 June 2008.

9. **Recommendations.** We recommend that BUMED:

Recommendation 1. Provide MTFs with detailed guidance concerning the requirement to monitor MSE due-in for more than 30 days. At a minimum, the guidance should establish internal controls and oversight procedures to ensure compliance with requirements to:

- Perform due-in reviews quarterly;
- Maintain documentation to show that reviews were performed and the results of reviews;
- Cancel any unneeded orders and recapture unused funds; and
- Ensure MSE is received and receipts are posted to DMLSS in a timely manner.

⁵ We did not audit these MTFs or verify the scope data but obtained the data only to determine the extent of overaged due-ins at other MTFs. Further, we did not obtain this scope data for all MTFs but judgmentally selected those larger MTFs we believed would have more due-ins, such as other hospitals and Naval Medical Centers.

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Management response to Recommendation 1. Concur. BUMED M-4 will provide written guidance to its Echelon 3, 4, and 5 commands that meet the requirements delineated in this recommendation. To ensure compliance, BUMED will add an appropriate Assessable Unit (AU) to the Manager's Internal Control Program (MICP) for oversight. The planned completion date for the guidance is August 2009.

Naval Audit Service comment on response to Recommendation 1. The BUMED planned action meets the intent of the recommendation.

Recommendation 2. Cancel 23 invalid material orders we identified at NMCP and NDCN valued at \$6,269.

Management response to Recommendation 2. Concur with comments. BUMED does not provide acquisition execution support to its field activities and is only responsible for guidance and oversight of policies. The respective activities, NMCP and NDCN, are responsible for cancelling their respective orders. BUMED will task the appropriate Echelon 3 activity (Navy Medicine East) for followup and status on the efforts in this area. Planned completion date for tasking to Echelon 3 activity is March 2009, with response of actions completed by April 2009.

Naval Audit Service comment on response to Recommendation 2. Paragraphs 7.b. and 7.c. show that NMCP and NDCN cancelled material orders based on our review. Therefore we consider this recommendation closed effective 28 January 2009.

Recommendation 3. Require that the other nine MTFs we identified as having over-aged due-ins perform a one-time review to ensure that MSE has been received and receipts are posted to DMLSS; invalid material orders are canceled and any obligation authority recouped; and that any needed followup is performed to ensure that MSE will be received timely. If there are invalid orders, report to Naval Audit Service the value of those invalid orders cancelled based on these reviews.

Management response to Recommendation 3. Concur with comments. BUMED concurred with Recommendation 1 and will require all activities to perform this review on a quarterly basis. This one-time review is redundant and reporting requirements for the Naval Audit Service can be satisfied with the policy that will be developed by BUMED M4. The planned completion date for the guidance is August 2009.

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Naval Audit Service comment on response to Recommendation 3. In a separate 12 February 2009 E-mail, BUMED personnel stated, “To clarify, the Bureau of Medicine and Surgery (BUMED) response to Naval Audit Service Draft Report N2007-NMC000-0062, BUMED will report to Naval Audit Service the value of those invalid orders cancelled, based on its first quarterly review done as part of recommendation 1. BUMED's deadline for guidance on this action is August 2009 and the first quarterly review will be completed by 30 September 2009.” The BUMED planned action, along with the supplementary E-mail, meets the intent of the recommendation.

10. Any requests for this report under the Freedom of Information Act must be approved by the Auditor General of the Navy, as required in reference (a). This audit report is subject to followup in accordance with reference (a).

11. We appreciate the cooperation, courtesies, and professional assistance extended to our auditors during this audit effort.



FOIA (b)(6)

XXXXXXXXXXXXXXXXXXXXX
Assistant Auditor General
Internal Control and Command Support Audits

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Enclosure 1:**Status of Recommendations**

RECOMMENDATIONS						
Finding ⁶	Rec. No.	Page No.	Subject	Status ⁷	Action Command	Target or Actual Completion Date
1	1	6	Provide MTFs with detailed guidance concerning the requirement to monitor MSE due-in for more than 30 days. At a minimum, the guidance should establish internal controls and oversight procedures to ensure compliance with requirements to: <ul style="list-style-type: none">• Perform due-in reviews quarterly;• Maintain documentation to show that reviews were performed and the results of reviews;• Cancel any unneeded orders and recapture unused funds; and• Ensure MSE is received and receipts are posted to DMLSS in a timely manner	O	BUMED	8/31/2009
1	2	7	Cancel 23 invalid material orders we identified at NMCP and NDCN valued at \$6,269.	C	BUMED	1/28/2009
1	3	7	Require that the other nine MTFs we identified as having over-aged due-ins perform a one-time review to ensure that MSE has been received and receipts are posted to DMLSS; invalid material orders are canceled and any obligation authority recouped; and that any needed followup is performed to ensure that MSE will be received timely. If there are invalid orders, report to Naval Audit Service the value of those invalid orders cancelled based on these reviews.	O	BUMED	9/30/2009

⁶ + = Indicates repeat finding

⁷ O = Recommendation is open with agreed-to corrective actions; C = Recommendation is closed with all action completed;

U = Recommendation is undecided with resolution efforts in progress

Enclosure 2:

Fiscal Years 2007 and 2008 Material Orders for NMCP and NDCN

BUMED Activity	Material Orders FY 2007 and FY 2008 to 31 Jan 2008		Orders With Material Due In >30 Days Old as of 31 Jan 2008		Sample of Orders with Material Due In >30 Days Old as of 31 Jan 2008	
	Number of Orders	Value	Number of Orders	Value of Due In Material	Number of Orders	Value of Due In Material
NMCP (DMLSS)	18,531	\$22,077,693	1,175	\$1,562,166	75	\$33,375
NDCN (DMLSS)	1,036	\$1,077,154	227	\$60,006	33	\$9,904
Total NMCP and NDCN (DMLSS)	19,567	\$23,154,847	1,402	\$1,622,172		
Other NMCP Subordinate Activities (DMLSS)	3,424	\$1,948,734	145	\$120,611	N/A	N/A
Totals	22,991	\$25,103,581	1,547	\$1,742,783		
NMCP and NDCN of Total NMCP and Subordinate Activities (DMLSS)	85.1%	92.2%	90.6%	93.1%		

Enclosure 3:

Fiscal Years 2007 and 2008 Material Orders for NEMSCOM (DMLSS)

BUMED Activity	Material Orders FY 2007 and FY 2008 to 31 January 2008		NEMSCOM Universe and Samples	Material Orders FY 2007 and FY 2008 to 31 Jan 2008 with Material Due In > 30 Days Old		Material Orders FY 2007 and FY 2008 to 31 Jan 2008 Sample of Orders with Material as of 5 Mar 2008	
	Number of Orders	Value		Number of Orders	Value of Due In Material	Number of Orders	Value of Due In Material
NEMSCOM (DMLSS) FY 07	13,766	\$13,029,865	NEMSCOM (DMLSS)	732	\$2,055,447	21	\$898,704
NEMSCOM (DMLSS) FY 08	1,260	\$1,383,256	NEMSCOM (SPS)	196	\$829,202	25	\$162,657
NEMSCOM (DMLSS and SPS)	15,026	\$14,413,121		928	\$2,884,649	46	\$1,061,361

(1) As shown in Enclosure 6, SPS orders are included in DMLSS by NEMSCOM for tracking purposes so we obtained all DMLSS data from this system, including SPS orders.

Enclosure 4:**MSE Due-Ins for Naval Medical Treatment Facilities**

Medical Treatment Facility	MSE Due-In > 30 Days Old-Number of Material Orders	MSE Due-In >30 Days Old-Value of Material Orders	MSE Due-In > 100 Days Old-Number of Material Orders	MSE Due-In > 100 Days Old-Value of Material Orders	MSE Due-In > 300 Days Old-Number of Material Orders	MSE Due-In > 300 Days Old-Value of Material Orders
Naval Medical Center Bethesda, MD	513	\$224,278	13	\$8,287	0	0
Naval Hospital Bremerton, WA	82	\$162,827	32	\$76,736	1	\$11,654
Naval Hospital Camp Pendleton, NC	71	\$69,292	15	\$15,126	0	0
Naval Hospital Pearl Harbor, HI	65	\$33,617	25	\$20,014	15	\$18,486
Naval Hospital Camp Lejeune, NC	362	\$717,498	93	\$345,853	16	\$230,456
Naval Hospital Jacksonville, FL	207	\$85,418	92	\$45,020	37	\$22,410
Naval Hospital Pensacola, FL	34	\$7,956	0	0	0	0
Naval Medical Center San Diego, CA	311	\$307,418	72	\$62,579	8	\$1,047
Naval Hospital Twentynine Palms, CA	42	\$109,799	8	\$4,307	1	\$361
Total Values	1687	\$1,718,103	350	\$577,922	78	\$284,414

*MSC - Materials Supplies and Equipment

Background

NMLC. NMLC provides and coordinates medical and dental material management and logistic support to the operating forces and shore activities. This includes NEMSCOM and Navy MTFs, such as medical centers, hospitals, and clinics.

NEMSCOM. NEMSCOM, through the Fleet Hospital program, provides comprehensive medical support to U.S. and allied forces in the event of contingency operations. This effort includes provisioning for scalable, modular, rapidly erectable Expeditionary Medical Facilities (EMFs) that can be pre-positioned throughout the world and complement and expand the organic medical capabilities of the fleet.

MTFs. MTFs provide force health protection through quality health care for our beneficiaries and through education and training for MTF staff.

DMLSS. DMLSS was developed and deployed to enhance health care delivery in peacetime and to promote wartime readiness and sustainability. DMLSS provides automation support of reengineered medical logistics business practices and delivers a comprehensive range of material, equipment, and facilities management information systems. DMLSS includes the full suite of medical logistics capability to include stock fund level inventory management, quality assurance, medical technology management, and management of readiness materiel.

Standard Procurement System (SPS). SPS was created to automate and standardize the procurement process throughout DoD. The Joint SPS program office has developed, tested, and deployed a suite of software products for use by contracting professionals in the Army, Navy, Air Force, Marine Corps, and other defense agencies. SPS is designed specifically for the Federal Government to streamline and automate the end-to-end procurement and acquisition process, including requirements definition, solicitation, bid evaluation, contract award, and contract administration.

Scope and Methodology

We conducted this performance audit 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. Our audit was conducted from 4 January 2008 to 15 January 2009 at:

- NMLC, Washington, DC;
- Navy Medicine (NAVMED) East, Portsmouth, VA;
- NMCP, Portsmouth, VA;
- NDCN, Norfolk, VA; and
- NEMSCOM, Cheatham Annex, VA.

General. To satisfy our audit objective, our original intent was to evaluate internal controls related to both on-hand and in-transit MSE. However, during initial meetings with NMLC personnel, we found that substantial changes intended to improve internal controls and reporting over on-hand MSE were in the process of being implemented. Specifically, during Fiscal Year (FY) 2008, BUMED, in an effort to improve controls and accountability, planned to transition the reporting and tracking of all personal property assets from multiple accounting systems to DMLSS. In support of this transition, BUMED required its medical activities to conduct and reconcile inventories of all capital, minor, and pilferable personal property assets during the 2nd quarter FY 2008. We therefore agreed with NMLC personnel to limit the scope of our effort to internal controls over monitoring of in-transit MSE, which were not affected by these DMLSS changes.

Further, for our audit survey phase, we decided to focus on local MTFs (NMCP and surrounding geographic areas). Therefore, the universe for our survey effort consisted of NMCP, eight subordinate MTFs for NMCP, and NEMSCOM. Due to the limited scope of the universes at these MTFs (Enclosures 1 and 2), a management decision was made to limit our audit efforts to these MTFs and not continue past the audit survey phase. Our efforts concerning other BUMED MTFs were limited to obtaining the scope of material orders for which MSE due-ins were more than 30 days old based on the material order date (Paragraph 4.a.).

Finally, Footnote 1 shows that, in our efforts to evaluate in-transit MSE, we had to review open over-aged material orders (requisitions) that were more than 30 days old based on the material order date. Medical activities did not specifically track or maintain databases on contractor shipments made. They only tracked these shipments as part of their overall efforts to track their requisitions.

NMCP and Eight Subordinate MTFs. NMCP personnel provided us with DMLSS databases which showed, for NMCP and eight subordinate MTFs:

- The number and value of material orders (all of which were orders made using credit cards) for MSE placed in FYs 2007 and 2008 up to 31 January 2008; and
- The number and value of these orders for which material was due-in for more than 30 days based on the material order date as of 31 January 2008.

We arbitrarily selected a judgmental sample of the orders due-in for more than 30 days as of 31 January 2008 for NMCP and NDCN (one of NMCP's subordinate MTFs). As shown in Enclosure 1, these 2 MTFs account for 92.2 percent of the total value of the material orders for NMCP and the 8 subordinate MTFs, and 93.1 percent of the total value of the due-ins more than 30 days old for 9 (we did not obtain due-in data for 3 subordinate MTFs not reviewed). Details of the NMCP and subordinate MTFs' universes and sample material orders are in Enclosure 1. For each sample order tested, we determined whether MTF personnel effectively tracked due-in orders and assessed related internal controls. We determined whether MSE shown as due-in under these orders was received and the receipt posted to DMLSS to close out the due-in, or was still in fact due-in. We also determined whether any invalid orders were canceled.

NEMSCOM. NEMSCOM personnel provided us with DMLSS databases for MSE ordered from the General Services Administration (GSA) and Defense Logistics Agency (DLA) (orders not exceeding \$3,000) which are tracked on DMLSS. They also provided us with databases for MSE ordered from the Fleet and Industrial Supply Center (FISC) Norfolk, VA, or NMLC (which represent orders requiring contractual authority more than \$3,000 and which were, therefore, ordered on SPS).⁸ The DMLSS databases showed, for the DMLSS and SPS orders separately:

- The number and value of NEMSCOM orders for MSE placed in FYs 2007 and 2008 up to 31 January 2008; and
- The number and value of these NEMSCOM orders for which material was due-in for more than 30 days based on the material order date as of 5 March 2008.

⁸ SPS was the source of the data but NEMSCOM personnel input this data into DMLSS to provide us the data.

We arbitrarily selected a judgmental sample of due-in orders more than 30 days old as of 5 March 2008 for DMLSS and SPS separately. Details of the NEMSCOM universes and sample orders for each system we selected for review are in Enclosure 2. For each sample order tested, we determined whether NEMSCOM personnel effectively tracked due-in orders and assessed related internal controls. We determined whether MSE shown as due-in under these orders was received or was still in fact due-in, and whether any invalid orders were canceled.

Data Reliability.

NMCP and NDCN-DMLSS. Our review of 75 judgmentally selected DMLSS material orders for NMCP and 33 judgmentally selected material orders for NDCN (Paragraph 7.c. and Enclosure 1) included verifying the accuracy of DMLSS for the sample material orders. Specifically, as noted, our review focused on determining if the order shown as due-in on the database had already been received, was still due-in, or was no longer valid. Annual maintenance contracts were deleted from our sample. We found that 41 of 75 sample due-in material orders for NMCP on DMLSS were not valid because the orders should have been canceled, or MSE had already been received but receipts were not posted to DMLSS (Paragraph 8.a.).⁹ Further, we found that 19 of 33 sample due-in material orders for NDCN on DMLSS were not valid. This was generally because the orders should have been canceled, or MSE had already been received but receipts were not posted to DMLSS (Paragraph 8.b.). Therefore, we concluded that DMLSS was substantially inaccurate for our sample material orders reviewed at NMCP and NDCN. Implementation of recommendations (Paragraphs 4.a. and 9.) should correct the database accuracy problem.

NEMSCOM-DMLSS and SPS. Our NEMSCOM review of 21 judgmentally selected DMLSS orders and 25 judgmentally selected SPS orders (Paragraph 7.d. and Enclosure 2) included verifying the accuracy of the respective databases for the sample orders. Specifically, as noted, our review focused on determining whether the order shown as due-in on the database had already been received, was still due-in, or was no longer valid. We found NEMSCOM had received MSE, but had not posted the receipt to SPS prior to the date of the due-in database, for only 2 of 25 SPS material orders (Paragraph 8.c.). Therefore, we generally found no inaccuracies in the SPS database. We found 1 occurrence of the 21 DMLSS orders that did not have sufficient followup, but it was not considered to be material in nature (the dollar value was \$128.73, or 2 percent of the \$6,447 sample value. Therefore the DMLSS database appeared accurate for 20 of our 21 sample material orders. Concerning database completeness, we reviewed a judgmentally selected sample of 10 material orders, valued at about \$5,639, from a

⁹ Note that our universe/sample was limited to material orders and did not include annual maintenance contracts.

universe of 11,450 orders, valued at \$9.6 million, which were shown on DMLSS¹⁰ as completed FY 2007 and FY 2008 orders as of 31 January 2008. We found DMLSS was accurate for the 10 sample orders reviewed, since receipt documentation showed that all MSE had been received as of 31 January 2008 for these orders.

Prior Audit Reports. There were no prior audit reports in this area on which to followup.

¹⁰ We excluded the SPS portion of DMLSS, which Enclosure 1 shows was substantially less than the DMLSS orders in terms of number and value of due-in orders, so was not reviewed for this database completeness test.

Enclosure 7:

Management Response from Chief, Bureau of Medicine and Surgery



DEPARTMENT OF THE NAVY
BUREAU OF MEDICINE AND SURGERY
2300 E STREET NW
WASHINGTON DC 20372-7300

IN REPLY REFER TO

7510
Ser M4/E09UN093000040
28 Jan 09

From: Chief, Bureau of Medicine and Surgery
To: Director, Naval Audit Service

Subj: CONTROLS OVER MEDICAL SUPPLIES AND EQUIPMENT (NAVAL AUDIT
SERVICE DRAFT REPORT N2007-NMC000-0062)

Ref: (a) NAVAUDSVC Draft Report N2007-NMC000-0062

Encl: (1) BUMED Response to the Controls over Medical Supplies and Equipment
Draft Audit Report N2007-NMC000-0062

1. As requested in reference (a), enclosure (1) is provided in response to subject audit indicating the actions to be taken by the Bureau of Medicine (BUMED) and Surgery per the recommendations of the Naval Audit Service and the prescribed deadlines.
2. The Bureau of Medicine and Surgery concurs with all findings.
3. Under the guidelines of the Freedom of Information Act (FOIA), BUMED's responses to the recommendations within the Naval Audit Service Draft Report, Controls over Medical Supplies and Equipment, are releasable. Should any substantial rewrites occur between the draft audit report and final report, the report should be forwarded for additional FOIA review.
4. My point of contact for this matter is [REDACTED] Director, Medical Logistics (BUMED M42) at [REDACTED]

[REDACTED]
By direction

FOIA (b)(6)

FOIA (b)(6)

BUMED Response to the *Controls over Medical Supplies and Equipment Draft Audit Report N2007-NMC000-0062*

OVERVIEW

This enclosure is in response to the Naval Audit Service (NAS) Draft Audit Report on the *Controls over Medical Supplies and Equipment* dated 15 January 2009. The Bureau of Medicine and Surgery (BUMED) appreciates NAS for their review of our Logistics Operations. The Bureau of Medicine and Surgery recognizes that effective and efficient logistics operations are an essential component of any business operation. In FY 2008, BUMED spent approximately 942 million dollars using Operations and Maintenance appropriation on Medical Supplies and Equipment.

NAS RECOMMENDATIONS:

RECOMMENDATION 1:

- 1) Provide Military Treatment Facilities (MTFs) with detailed guidance concerning the requirement to monitor Medical Supplies and Equipment (MSE) due-in for more than 30 days. At a minimum, the guidance should establish internal controls and oversight procedures to ensure compliance with requirements to:
 - a. Perform due-in reviews quarterly;
 - b. Maintain documentation to show that reviews were performed and the results of reviews;
 - c. Cancel any unneeded orders and recapture unused funds; and
 - d. Ensure MSE is received and receipts are posted to Defense Medical Logistics Standard Support (DMLSS) System in a timely manner.

BUMED RESPONSE: Concur. BUMED M4 will provide written guidance to its Echelon 3, 4 and 5 commands that meet the requirements delineated in the recommendation. To ensure compliance, BUMED will add an appropriate Assessable Unit (AU) to the Manager's Internal Control Program (MICP) for oversight. The planned completion date for the guidance is August 2009.

RECOMMENDATION 2:

- 2) Cancel 23 invalid material orders we identified at Naval Medical Center, Portsmouth (NMCP) and Naval Dental Clinic, Norfolk (NDCN) valued at \$6,269.

BUMED RESPONSE: Concur, with comments. BUMED does not provide acquisition execution support to its field activities and is only responsible for guidance and oversight of policies. The respective activities, NMCP and NDCN, are responsible for cancelling their respective orders. BUMED will task the appropriate Echelon 3 activity (Navy

Medicine East), for follow-up and status on the efforts in this area. Planned completion date for tasking to Echelon 3 activity is March 2009, with response of actions completed by April 2009.

RECOMMENDATION 3:

- 3) Require that the other nine MTFs we identified as having over-aged due-ins perform a one-time review to ensure that MSE has been received and receipts are posted to DMLSS; invalid material orders are cancelled and any obligation authority recouped; and that any needed follow-up is performed to ensure that MSE will be received timely. If there are invalid orders, report to Naval Audit Service the value of those invalid orders cancelled based on these reviews.

BUMED RESPONSE: Concur, with comments. BUMED concurred with recommendation one (1) and will require all activities to perform this review on a quarterly basis. This one-time review is redundant and reporting requirements for the Naval Audit Service can be satisfied with the policy that will be developed by BUMED M4. The planned completion date for the guidance is August 2009.

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