

Inspector General

United States
Department of Defense



Requiring Radio Frequency Identification
in Contracts for Supplies

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Acronyms and Abbreviations

DFARS	Defense Federal Acquisition Regulation Supplement
DLA	Defense Logistics Agency
DUSD(L&MR)	Deputy Under Secretary of Defense (Logistics and Materiel Readiness)
RFID	Radio Frequency Identification
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

September 29, 2008

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
COMMANDER, U.S. TRANSPORTATION COMMAND
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Requiring Radio Frequency Identification in Contracts for Supplies
(Report No. D-2008-135)

We are providing this report for review and comment. We considered client comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Assistant Secretary of the Army for Acquisition, Logistics, and Technology did not comment on the draft report issued on August 1, 2008. Comments from the Director of Acquisition Management at the Defense Logistics Agency, the Deputy Assistant Secretary for Contracting, Department of the Air Force, the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Assistant Secretary for Research, Development and Acquisition, Department of the Navy were partially responsive or nonresponsive. Therefore, we request additional comments as indicated in the recommendations table on page ii by October 29, 2008.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If possible, send your comments in electronic format (Adobe Acrobat file only) to AUDACM@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to Ms. Jacqueline Wicecarver at (703) 604-9077 (DSN 664-9077) or Ms. Karen J. Goff at (703) 604-9005 (DSN 664-9005). Team members are listed inside the back cover.

A handwritten signature in blue ink, reading "Bruce A. Burton".

Bruce A. Burton
Deputy Assistant Inspector General
Acquisition and Contract Management



Results in Brief: Requiring Radio Frequency Identification in Contracts for Supplies

What We Did

Our objective was to determine whether DoD Components are complying with policies on RFID. Specifically, we determined whether DoD Components implemented passive RFID. We also assessed whether DoD contracts include requirements for using passive RFID tags and whether suppliers are complying with those requirements. Although we announced that we planned to assess active RFID tags, we learned that the active RFID technology did not apply to supply contracts. Active RFID is discussed in an earlier report.

What We Found

The Defense Logistics Agency made progress implementing passive RFID in the DoD supply chain; however, additional work is needed. We visited four DLA distribution depots and judgmentally sampled shipments from various suppliers. Based on our evaluation of contracts and on our sample, we found that:

- contracting officers awarded 23 of 220 supply contracts (10 percent) without the required RFID clause;
- suppliers for 84 of 197 contracts (43 percent) with the required clause did not apply passive RFID tags to shipments they sent to the depots;
- DLA is not apt to realize a near-term return on investment from passive RFID.

What We Recommend

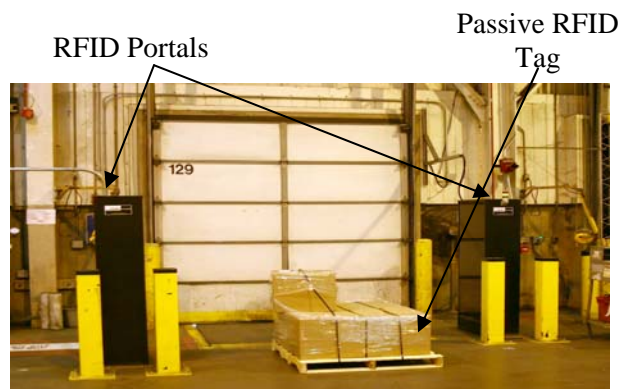
- The Director, Defense Logistics Agency and the Deputy Under Secretary of Defense (Logistics and Materiel Readiness)—in coordination with the Assistant Secretary of the Army for Acquisition, Logistics, and Technology; the Assistant Secretary (Research, Development and Acquisition),

Department of the Navy; and the Deputy Assistant Secretary for Contracting, Department of the Air Force—should establish responsibilities, develop metrics, conduct reviews, and establish consequences for contracting officers not complying with RFID requirements; issue policy requiring that contracting officers be formally trained in RFID; and identify penalties for noncompliant suppliers.

- The Director, Defense Logistics Agency should improve depot operations through formal training and reviews.

Client Comments and Our Response

The Assistant Secretary of the Army for Acquisition, Logistics, and Technology did not comment on the draft report issued on August 1, 2008. The comments provided by the Deputy Under Secretary of Defense (Logistics and Materiel Readiness); the Defense Logistics Agency; and the Departments of the Navy and the Air Force were responsive, partially responsive, or nonresponsive to the recommendations. Please see the recommendations table on the back of this page.



Portals Scanning Goods With Passive RFID Tag

Recommendations Table

Client	Recommendations Requiring Comment	No Additional Comments Required
Deputy Under Secretary of Defense (Logistics and Materiel Readiness)	1.a.	1.b.
Assistant Secretary of the Army for Acquisition, Logistics, and Technology	1.a., 1.b., 3.a., 3.b., and 3.c.	
Director, Defense Logistics Agency	1.a., 3.b., and 3.c.	1.b, 2.a., 2.b., and 3.a.
Assistant Secretary (Research, Development and Acquisition), Department of the Navy	1.a., 1.b, 3.a., 3.b., and 3.c.	
Deputy Assistant Secretary for Contracting, Department of the Air Force	3.b. and 3.c.	1.a., 1.b., and 3.a.

Please provide comments by October 29, 2008.

Table of Contents

Results in Brief	i
Introduction	1
Objectives	1
Background	1
Finding. Use of Passive Radio Frequency Identification in the DoD Supply Chain	3
Recommendations, Client Comments, and Our Response	8
Appendix	
A. Scope and Methodology	19
Review of Internal Controls	20
Prior Coverage	20
Client Comments	
Deputy Under Secretary of Defense (Logistics and Materiel Readiness)	23
Defense Logistics Agency	25
Department of the Navy	30
Department of the Air Force	33

Introduction

This is the second in a series of reports on radio frequency identification (RFID). The first report, DoD Inspector General Report No. D-2008-131, “Security of Radio Frequency Identification Information,” September 19, 2008, discussed the security of RFID information and the reuse of active RFID tags.

Objectives

The overall audit objective was to determine whether DoD Components are complying with policies on RFID. Specifically, we determined whether DoD Components implemented passive RFID. Additionally, we planned to assess whether DoD contracts issued since January 1, 2005, include requirements for using passive and active RFID tags and whether suppliers are complying with those requirements.

Although we announced that we planned to assess compliance with active RFID tag requirements, we later learned, from DLA officials, that the active RFID technology did not apply to supply contracts. Active RFID is discussed in DoD Inspector General Report No. D-2008-131, mentioned above. Additionally, we originally planned to review contracts for supplies issued since January 1, 2005; however, the RFID clause did not go into effect until November 14, 2005, for the Susquehanna and San Joaquin depots and May 19, 2006, for the Corpus Christi and San Diego depots. Therefore, we reviewed contracts for supplies issued after those dates. See Appendix A for a discussion of the scope and methodology, our review of internal controls, and prior coverage related to the objectives.

Background

According to the DoD Suppliers’ Passive RFID Information Guide (the Suppliers’ Guide), September 2007, the DoD goal is to implement mature and emerging technologies that will optimize the DoD supply chain. The Suppliers’ Guide states that RFID will provide the warfighter with “automated visibility and asset management.”

DoD considers the implementation of RFID a strategic necessity to deliver supplies to the warfighter more quickly and allow tracking of materiel throughout the supply chain. To create an automated and sophisticated end-to-end supply chain, DoD must initiate RFID technology at the point of origin, DoD commercial suppliers. Unless suppliers—as well as contracting officers, depot commanders, and depot personnel—comply with RFID policies, DoD cannot achieve a fully integrated, highly visible, automated end-to-end supply chain.

Passive RFID

On July 30, 2004, the Acting Under Secretary of Defense for Acquisition, Technology and Logistics (USD[AT&L]) issued a policy memorandum, “Radio Frequency Identification (RFID) Policy,” requiring that DoD Components implement RFID throughout DoD. The RFID policy required that contracting officers include the RFID clause mandated by the Defense Federal Acquisition Regulation Supplement (DFARS) in

contracts for supplies such as weapon system components, equipment, petroleum, clothing, rations, medical material, and repair parts. The RFID clause requires that suppliers sending shipments containing those supply items to Defense Logistics Agency (DLA) depots and Air Mobility Command Terminals apply a passive RFID tag to the case or pallet being sent. The passive RFID tag enables DLA depot personnel, using the DLA shipping system, to automatically identify the contents of the shipment. DLA provides worldwide logistics support for DoD and, according to DoD supply chain experts, is the primary user of passive RFID in the DoD supply chain.

Defense Logistics Agency

According to DLA officials, DLA uses the Distribution Standard System (DLA shipping system) to record, track, and issue supplies to the warfighter. As DLA officials explained, the contracting officer is responsible for establishing the initial request in the DLA shipping system for a supply item. The initial request provides important information about a shipment that DLA depot personnel use to determine whether RFID is required and, in turn, whether suppliers are meeting the terms of their contracts by applying passive RFID tags to shipments.

Finding. Use of Passive Radio Frequency Identification in the DoD Supply Chain

DLA made progress implementing passive RFID in the DoD supply chain; however, additional work is needed. We visited four DLA distribution depots and judgmentally sampled supplies that suppliers shipped to the depots. Based on our evaluation of contracts and on our sample, we found that contracting officers awarded 23 of 220 supply contracts (10 percent) without the required RFID clause. Additionally, we found that suppliers for 84 of 197 contracts (43 percent) with the required clause did not apply passive RFID tags to shipments they sent to DLA depots. If RFID is not fully implemented across DoD as intended, DLA will have spent \$12.2 million on an automated process that must be supplemented by manual input, surveillance, and corrective measures. Additionally, suppliers' willful noncompliance violates the DFARS and minimizes the intended benefits of faster, more efficient shipment of supplies to the warfighter. Therefore, it is unlikely that DLA will realize a near-term return on investment from implementing passive RFID, either monetarily or in the form of faster, more efficient shipments of supplies to the warfighter. To improve passive RFID implementation, the Director, DLA and the Deputy Under Secretary of Defense (Logistics and Materiel Readiness) (DUSD[L&MR]) should do the following.

- Establish responsibilities, develop measurable metrics, conduct quarterly reviews, and establish consequences for contracting officers and suppliers not complying with RFID requirements.
- Develop a training program for depot personnel that explains RFID technology and its intended benefits.
- Require that depot managers review, report, and resolve problems integrating passive RFID into depot operations and procedures.

RFID Policy

USD(AT&L) issued RFID policy requiring that DoD Components implement passive RFID in the DoD supply chain. The RFID policy states that the RFID clause is required in supply contracts issued after October 1, 2004, for delivery of materiel on or after January 1, 2005. The RFID policy further states that contracts with DoD require that passive RFID tags be applied to the case, pallet, and item packaging. The DUSD(L&MR), who reports to the USD(AT&L), is responsible for advancing the integration of the DoD supply chain and RFID implementation. The USD(AT&L) updated the DFARS to mandate that contracting officers include an RFID clause in supply contracts, thus requiring suppliers to apply passive RFID tags to shipments they send DoD. Although DLA is the primary user of passive RFID and made considerable efforts to implement it in the DoD supply chain, the Military Departments are also required to follow RFID requirements.

The USD(AT&L) issued two updates to the DFARS. The first, DFARS 252.211-7006, “Radio Frequency Identification,” November 14, 2005, requires that contracting officers awarding supply contracts for the Susquehanna and San Joaquin depots include the RFID clause in supply contracts. On May 19, 2006, the USD(AT&L) issued a second, interim DFARS rule requiring contracting officers for additional DLA depots (including, among others, San Diego and Corpus Christi) to begin including the RFID clause in supply contracts. The interim rule was effective in May 2006.

RFID Compliance

Supply contracts are used to purchase such items as weapon system components, equipment, petroleum, clothing, rations, medical material, and repair parts. When the contracting officer includes the RFID clause in a contract, it requires that suppliers apply a passive RFID tag to each shipment they send to DoD. We visited four DLA distribution depots—Susquehanna, San Joaquin, San Diego, and Corpus Christi—to review compliance with the passive RFID requirements.

For the contracts we reviewed,¹ DLA and Navy contracting officers complied with passive RFID requirements more often than Army contracting officers did. We reviewed 281 contracts that contracting officers issued to procure the 327 shipments we judgmentally selected for our sample. See Appendix A for details about the scope and methodology of our review. Of those 281 contracts reviewed, 220 either required or should have required the RFID clause mandated by DFARS 252.211-7006. Of the 220 contracts, 23 supply contracts (10 percent) did not include the passive RFID clause. Table 1 shows the number of contracts reviewed, contracts that should have required passive RFID tagging, and contracts that did not include the clause in a supply contract.

Table 1. Contracting Officers’ Compliance With Passive RFID Requirements

DoD Component	Contracts Reviewed	Contracts Requiring RFID Clause	Contracts Without the Required RFID Clause	
			Number	Percent*
Army	18	9	7	78
Navy	30	17	3	18
Air Force	1	0	0	0
DLA	232	194	13	7
Total	281	220	23	10

* The percentage of contracts without RFID requirements is based on the 220 contracts we reviewed that required the RFID clause.

¹ We reviewed one Air Force contract; however, the contract did not require that the contracting officer include RFID requirements because it was issued before the requirements went into effect.

Table 2 shows the number of contracts reviewed, contracts requiring a tag, and the number of contracts for which suppliers did not comply with passive RFID requirements. Of the 197 contracts containing the RFID clause, 84 of those contracts (43 percent) had suppliers that did not comply with the terms of their contracts by applying a passive RFID tag to the shipment.

Table 2. Suppliers' Compliance With Passive RFID Requirements

DoD Component	Contracts Requiring RFID Clause	Contracts With RFID Clause	Contracts With Noncompliant Suppliers	
			Number	Percent*
Army	9	2	2	100
Navy	17	14	4	29
DLA	194	181	78	43
Total	220	197	84	43

* The percentage of contracts with suppliers not applying passive tags to shipments is based on the 197 contracts we reviewed that required the DFARS RFID clause.

DLA officials stated that, until they made changes to DLA business processes in February 2008,² they were not able to readily identify those suppliers that were not applying tags to required shipments. DLA officials stated that since they changed their business processes, contracting officers can use the DLA Automated Best Value System, among other contractual remedies,³ to penalize suppliers not applying passive RFID tags to shipments as required by their contracts. The Automated Best Value System is a past performance system that provides the contracting officer with a numeric score on a supplier's performance history. DLA officials stated that a contracting officer can use the Automated Best Value System as a tool to improve supplier compliance with RFID requirements by reducing the supplier's score in the system. A lower score in the system reduces a supplier's competitiveness for future DoD contracts.

For passive RFID implementation to succeed in the DoD supply chain, suppliers and contracting officers from all Components must comply with RFID policy. Therefore, to provide the emphasis needed to fully implement RFID in the DoD supply chain, DLA officials should assign responsibilities, develop measurable metrics, conduct quarterly reviews, and establish consequences for noncompliance. The DLA and the DUSD(L&MR), in coordination with the Military Departments, should prescribe penalties for suppliers that do not comply with RFID requirements and begin imposing those penalties in the first quarter of FY 2010. Additionally, the Military Departments and the DLA should hold contracting officers accountable when they do not comply with

² Further discussion of the changes DLA officials made to their business processes appears later in this report.

³ DLA officials stated that increased oversight of a supplier and including penalties in contracts for noncompliant suppliers are other ways to improve RFID compliance.

Defense RFID policies, and appropriately reflect that performance in the contracting officers' performance ratings.

RFID Implementation

The DLA has made progress implementing passive RFID in the DoD supply chain. The DLA has made changes to its business processes and updated the systems it uses to contract for and accept supplies. According to DLA officials, the DLA spent \$12.2 million implementing passive RFID. However, RFID awareness and training are still needed at the DLA depots.

Business Processes and Systems

To improve the implementation of passive RFID, DLA officials updated the automated contract bidding system (bidding system) in January 2007, which contracting officers use to generate supply contracts valued under \$100,000. DLA officials stated that when DLA contracting officers generate a contract, the bidding system now includes the RFID clause in the list of mandatory clauses. DLA officials stated that by making the RFID clause mandatory, DLA increased suppliers' and contracting officers' awareness of RFID requirements. DLA officials also added the RFID clause to the list of mandatory clauses that contracting officers use when they cannot use the bidding system and for contracts over \$100,000. DLA officials stated, however, that the update to the bidding system does not provide them with the capability to determine whether suppliers intended to apply RFID tags to shipments. Therefore, DLA officials required suppliers to indicate in the bidding system whether or not they intend to comply with the RFID clause. DLA officials explained that any supplier indicating it will not comply with RFID requirements is excluded from the competition for the contract. DLA officials stated, however, that DLA did not establish a verification process to determine the accuracy of the contractor's self-reporting.

DLA officials stated that, in February 2008, they updated the DLA shipping system to readily identify suppliers not applying passive RFID tags to required shipments. Specifically, DLA officials stated that the update enables contracting officers to indicate in the system whether a passive RFID tag is required for the shipment. In turn, depot personnel stated that the update enables them, at the time of their item acceptance inspection, to send an automatic discrepancy report to the contracting officer, signaling the supplier's noncompliance. DLA officials stated that the contracting officer should notify the supplier of the noncompliance and seek compensation.

DFARS 252.211-7006, "Radio Frequency Identification," February 2007, requires that suppliers electronically send DoD an advance shipping notice before they ship a supply item. The DLA integrated this requirement into the passive RFID process. DLA officials stated that the advance shipping notice provides depot personnel a description of each shipment's contents and its passive RFID tag number and links the tag number to the initial request for material in the DLA shipping system.

Suppliers of the shipments we reviewed did not send DoD an advance shipping notice for 114 of 327 shipments (35 percent) of supplies they sent. DLA officials stated that

without an advance shipping notice, depot personnel must manually acknowledge and accept a supply item in the DLA shipping system, eliminating the efficiency of the passive RFID technology in the DoD supply chain. Of the 327 shipments we sampled, Table 3 shows the number for each Component whose suppliers did not send DoD an advance shipping notice.

Table 3. Supplier Compliance With Advance Shipping Notice Requirements

DoD Component	Shipments Sampled	Shipments for Which Suppliers Did Not Send an Advance Shipping Notice	
		Number	Percent [*]
Army	24	18	75
Navy	46	28	61
Air Force	1	1	100
DLA	256	67	26
Total	327	114	35

^{*} The percentage of suppliers that did not send DoD an advance shipping notice is based on the 327 shipments we reviewed.

Without the advance shipping notice, the DoD supply chain will not fully benefit from the use of passive RFID tags. DLA officials stated that this impediment is due, in part, to depot personnel having to manually record receipt of shipments and manually send the supplier an acknowledgment of receipt for the shipment. The advance shipping notice would automate these manual functions. The manual receipt of shipments slows the supply chain process and could reduce the accuracy of DLA shipping information.

RFID Awareness Among Depot Personnel

The DLA must implement a more effective and thorough awareness and training program to emphasize the importance of passive RFID in the DoD supply chain. As part of the DLA effort to implement passive RFID in the DoD supply chain, the DLA installed passive RFID equipment, also known as “portals,” on the receiving doors at 19 DLA distribution depots. The portals read the passive RFID tag attached to shipments entering the depots and send that information to the DLA shipping system. While depot personnel at the Susquehanna and San Joaquin depots were aware of the need to monitor passive RFID information in the DLA shipping system to ensure that tags are being read, personnel at the Corpus Christi and San Diego depots were not. For example, at the Corpus Christi and San Diego depots, we found that the portals were not reading tags or transferring passive RFID tag information to the DLA shipping system. A San Diego analyst was not aware he had to review the passive RFID information in the DLA shipping system to ensure the equipment was working. Depot personnel at Corpus Christi and San Diego were not aware of the problems until we alerted them to the situations.

Also, some depot personnel at Corpus Christi stated that they had never seen a passive RFID tag and did not know the intent of the portals. If the passive RFID tag information does not transmit to the DLA shipping system, depot personnel must manually record the receipt and payment process, negating the benefit and reducing the efficiency of using passive RFID tags. Further, at two of the four depots visited, depot officials stated that they did not see any return on investment from using passive RFID. Lastly, at the Corpus Christi depot, the depot commander allowed delivery trucks to drive into the warehouse. The passive RFID portals cannot read the tags on shipments inside the trucks. Not only did this practice impede RFID implementation, but it was also a security risk to depot personnel and assets.

Although DLA officials made progress implementing passive RFID technology in the DoD supply chain, additional changes are needed. Because DLA officials included mechanisms in their business processes to monitor the compliance of suppliers and contracting officers with RFID requirements, they must begin conducting formal reviews of the information. The DUSD(L&MR), the DLA, and the Military Departments should issue policy requiring that contracting officers take formal RFID training on the procedures, use, and benefits of passive RFID implementation. Additionally, the Commander, Defense Distribution Center, responsible for the oversight of the DLA depots, should conduct formal training of depot personnel using and implementing passive RFID and require that depot managers review, report, and resolve problems integrating passive RFID into depot operations and procedures.

Conclusion

The goal of passive RFID implementation is to support the warfighter by optimizing the efficiency of the DoD supply chain. The DLA has made progress implementing passive RFID in the DoD supply chain and making business process changes. However, noncompliance of suppliers and contracting officers with the RFID clause mandated by DFARS slows the depots' automation of the receiving process, delaying DoD's return on investment from the implementation of passive RFID. If RFID is not fully implemented across DoD as intended, DLA will have spent \$12.2 million on an automated process that must be supplemented by manual input, surveillance, and corrective measures. Additionally, suppliers' willful noncompliance violates the DFARS mandate and minimizes the intended benefits of faster, more efficient shipment of supplies to the warfighter. As a result, the intent of passive RFID to support the warfighter by providing an automated end-to-end supply chain is not fully achieved.

Recommendations, Client Comments, and Our Response

1. We recommend that the Director, Defense Logistics Agency and the Deputy Under Secretary of Defense (Logistics and Materiel Readiness), in coordination with the Assistant Secretary of the Army for Acquisition, Logistics, and Technology; the Assistant Secretary (Research, Development and Acquisition), Department of the Navy; and the Deputy Assistant Secretary for Contracting, Department of the Air Force:

a. Develop measurable metrics, conduct quarterly reviews, and establish consequences for contracting officers not complying with radio frequency identification requirements.

DUSD(L&MR) Comments

The Assistant Deputy Under Secretary of Defense for Logistics, Plans and Studies commenting for the Under Secretary of Defense (Acquisition, Technology and Logistics) partially agreed. He stated that the Services should continue to work with contracting officers to emphasize the importance of applying the RFID clause for DoD to realize the benefits of RFID. The Assistant Deputy stated that a system-generated check for appropriate contracting clauses is not possible and conducting manual reviews quarterly would be a burden. However, the Assistant Deputy said that compliance with RFID requirements should be a part of the Services and DLA contracting and review process to ensure that contracting officers apply the clause appropriately. Lastly, the Assistant Deputy said that consequences for not complying with RFID requirements should be the same as those for failing to comply with other contractual requirements.

Our Response

The Assistant Deputy Under Secretary of Defense comments were partially responsive. If quarterly reviews and system-generated checks are not feasible, we request that the Assistant Deputy Secretary provide comments on the final report indicating how often reviews should be performed. Further, we request that he indicate the types of metrics that would be appropriate for measuring RFID compliance.

Army Comments

The Assistant Secretary of the Army for Acquisition, Logistics, and Technology did not provide comments on the draft report issued on August 1, 2008.

Our Response

We request that the Assistant Secretary of the Army for Acquisition, Logistics, and Technology provide comments on the final report by October 29, 2008.

DLA Comments

The DLA Director of Acquisition Management agreed. She stated that DLA has made contracting officer compliance with passive RFID policies part of DLA's review processes and procedures. The Director also stated that reviews conducted by DLA include in-process contract reviews, internal and external procurement management reviews, and contracting quality management plans. Additionally, the Director stated that contracting officers and their managers receive feedback from the reviews, highlighting contracting officers' performance. She stated that corrective actions are initiated as appropriate and may include employee counseling, additional training, or negative performance appraisals.

Further, the Director stated that DLA has taken measures to ensure that contracting officers comply with the passive RFID requirements and that the measures have

increased awareness of passive RFID requirements among contracting officers and suppliers. Specifically, the Director said that in December 2006 DLA reprogrammed its automated procurement systems to automatically include the RFID clause in solicitations and awards. The Director also stated that DLA revised its automated quote form by requiring suppliers to indicate whether they planned to comply with passive RFID.

Our Response

The DLA Director of Acquisition Management comments were partially responsive. We request that the Director provide comments on the final report indicating how often DLA conducts the in-process contract reviews, internal and external procurement management reviews, and contract quality management plans. We also request that the Director indicate whether the processes and procedures established for complying with passive RFID requirements are formally documented in DLA policies.

Navy Comments

The Director, Program Analysis and Business Transformation, commenting for the Assistant Secretary of the Navy (Research, Development and Acquisition), partially agreed. He stated that the Navy is working with the other Services to develop metrics that will measure the effects of passive RFID implementation on the logistics system. The Director stated that one of the metrics would monitor DoD's effectiveness in writing contracts that contain the RFID clause. The Director stated, however, that quarterly reviews would impose an administrative burden considering that the reviews would be done manually and the audit report did not conclude that a systemic problem exists. The Director stated that less frequent reviews would be more appropriate. In addition, the Director stated that, instead of establishing consequences for contracting officers not complying with RFID requirements, the contracting activities should emphasize the importance of the clause and request that contracting officers be diligent in complying with RFID requirements.

Our Response

The comments from the Director, Program Analysis and Business Transformation were partially responsive. Although the Director stated that less frequent reviews would be more appropriate for monitoring contracting officers' compliance with RFID, the Director did not propose an alternative time frame to conduct such reviews. Additionally, the Director did not provide a completion date for the development of metrics the Navy will use to measure passive RFID implementation. Lastly, the Director did not explain how contracting activities plan to emphasize the importance of the RFID clause to contracting officers to ensure compliance with RFID requirements.

We request that the Director provide comments on the final report describing the frequency of reviews that would be more appropriate for ensuring RFID compliance. We also request that the Director indicate a completion date for the RFID implementation metrics and, once complete, provide us with a copy. Lastly, we request that the Director indicate how the contracting activities will ensure contracting officers are diligent in complying with RFID requirements and what measures they plan to take to emphasize the importance of the clause.

Air Force Comments

The Deputy Assistant Secretary for Contracting agreed. He stated that the Air Force will work with DLA and DUSD(L&MR) to support the development of actions to ensure compliance with RFID policies.

Our Response

The comments from the Deputy Assistant Secretary were responsive, and no further comments are required.

b. Issue policy requiring that contracting officers take formal training that includes procedures for applying passive radio frequency identification tags to shipments and highlights the use and benefits of radio frequency identification in the DoD supply chain.

DUSD(L&MR) Comments

The Assistant Deputy Under Secretary of Defense for Logistics, Plans and Studies commenting for the Under Secretary of Defense (Acquisition, Technology and Logistics) agreed. He stated that the Defense Acquisition University offers an RFID training class for contracting officers. The Assistant Deputy Under Secretary stated that the training instructs contracting officers on how to properly apply the passive RFID clause and highlights the contracting officers' role in enabling DoD to realize the benefits of RFID. Additionally, the Assistant Deputy Under Secretary stated that the Office of the Secretary of Defense, the Services, and DLA should reemphasize the importance of the training to its contracting officers.

Our Response

The Assistant Deputy Under Secretary's comments were responsive, and no further comments are required.

Army Comments

The Assistant Secretary of the Army for Acquisition, Logistics, and Technology did not provide comments on the draft report issued on August 1, 2008.

Our Response

We request that the Assistant Secretary of the Army for Acquisition, Logistics, and Technology provide comments on the final report by October 29, 2008.

DLA Comments

The DLA Director of Acquisition Management agreed. She stated that by September 15, 2008, she will implement an on-line RFID learning module with the Defense Acquisition University. The Director stated that the RFID module will be mandatory for the DLA contracting workforce.

Our Response

The DLA comments were responsive, and no further comments are required.

Navy Comments

The Director, Program Analysis and Business Transformation, commenting for the Assistant Secretary (Research, Development and Acquisition), disagreed. He stated that the Defense Acquisition University continuous learning module offers training for contracting officers. According to the Director, the training provides contracting officers with the knowledge they need to properly insert the passive RFID DFARS clause in contracts. The Director stated that the training also covers the RFID technology and implementation strategies and stresses the contracting officer's role in realizing the benefits of RFID in the DoD supply chain.

Our Response

The Director's comments were nonresponsive. The Director did not state whether the Navy requires that contracting officers complete the training offered through the Defense Acquisition University or how the contracting activities monitor when the contracting officers complete the training. We request that the Director provide comments on the final report indicating how the contracting activities monitor when the contracting officers take the training.

Further, the intent of the recommendation was to have the Navy work with DLA and DUSD(LM&R) to issue policy that would require formal training on passive RFID requirements. The Director did not indicate whether he would work with DLA and DUSD(L&MR) to issue policy requiring contracting officers to complete formal training on procedures for applying passive RFID tags and highlighting the use and benefits of RFID in the DoD supply chain. Therefore, we request that the Director provide comments indicating whether he will work with DLA and DUSD(L&MR) on issuing formal training requirements.

Air Force Comments

The Deputy Assistant Secretary of the Air Force for Contracting agreed. He stated that the Air Force will work with DLA and DUSD(L&MR), as required, to support the development of actions to ensure compliance with RFID policies.

Our Response

The Deputy Assistant Secretary's comments were responsive, and no further comments are required.

2. We recommend that the Director, Defense Logistics Agency require that the Commander, Defense Distribution Center:

- a. Conduct formal training for depot personnel using and implementing passive radio frequency identification.**

Client Comments

The Executive Deputy Director for Materiel Policy, Process and Assessment, commenting for the Director, DLA agreed. She stated that RFID systems training is conducted with information technology support personnel and that training enhancements are planned when the RFID technology is included in DLA distribution operations.

Our Response

The Executive Deputy Director's comments were responsive, and no further comments are required.

b. Require that depot managers review, report, and resolve problems integrating passive radio frequency identification into depot operations and procedures.

Client Comments

The Executive Deputy Director for Materiel Policy, Process and Assessment, commenting for the Director, DLA agreed. She stated that the DLA integration of passive RFID is in process. The Executive Deputy Director stated that the initial implementation of passive RFID requires systems monitoring and resolution by the information technology staff. The Executive Deputy Director stated that DLA plans to enhance and improve depot operations and increase management awareness, enabling managers to report and resolve issues.

Our Response

The Executive Deputy Director's comments were responsive, and no further comments are required.

3. We recommend that the Assistant Secretary of the Army for Acquisition, Logistics, and Technology; Deputy Director, Automatic Identification Technology, Department of the Navy; the Chief, Policy and Implementation Division, Department of the Air Force; and the Director, Defense Logistics Agency:

a. Conduct formal reviews of suppliers to identify those not complying with passive radio frequency identification requirements.

Army Comments

The Assistant Secretary of the Army for Acquisition, Logistics, and Technology did not provide comments on the draft report issued on August 1, 2008.

Our Response

We request that the Assistant Secretary of the Army for Acquisition, Logistics, and Technology provide comments on the final report by October 29, 2008.

DLA Comments

The DLA Director for Acquisition Management agreed. She stated that DLA has taken action to ensure that noncompliant suppliers are subject to the full range of contract

enforcement procedures. The Director stated that DLA implemented system changes in February 2008 that enabled the Defense Distribution Center to identify shipments that require passive RFID tags. The Director stated that the Defense Distribution Center uses the supply discrepancy report to provide notice of noncompliance to the buyer for resolution. The contractor's past performance record reflects verified nonconformance, making the contractor less competitive or ineligible for future awards.

Our Response

The DLA Director for Acquisition Management comments were responsive, and no further comments are required.

Navy Comments

The Director, Program Analysis and Business Transformation, commenting for the Assistant Secretary of the Navy (Research, Development and Acquisition) disagreed. He stated that processes are already in place to track and monitor supplier compliance with passive RFID requirements. The Director said that the receiving activities are responsible for preparing and transmitting a discrepancy report to the ordering activity when any contractual requirement is not met, including RFID requirements.

Our Response

The Director's comments were partially responsive. While we recognize the usefulness of the discrepancy report, the report is only a step in the monitoring process. The Director did not indicate, however, how contracting officers use the discrepancy reports as part of a formal process to identify trends and patterns of those suppliers not complying with RFID requirements. Further, the Director did not describe the processes the Navy uses to monitor supplier compliance. We request that the Director comment on the final report explaining how contracting officers use the discrepancy reports during formal process reviews to identify compliance with passive RFID requirements. We also request that the Director describe the formal processes used to monitor supplier compliance.

Air Force Comments

The Deputy Assistant Secretary of the Air Force for Contracting agreed. He stated that the Air Force plans to participate with DLA and DUSD(L&MR) in the development of metrics and the quarterly review process for RFID. Once DLA and DUSD(L&MR) establish the review process and metrics, the Deputy Assistant Secretary stated that the Air Force will determine how they will be implemented throughout the Air Force. The Deputy Assistant Secretary also noted that the audit did not identify any noncompliant Air Force contractors.

Our Response

The Deputy Assistant Secretary's comments were responsive, and no further comments are required.

b. Identify penalties for suppliers that do not comply with radio frequency identification requirements and begin imposing those penalties in supply contracts beginning the first quarter of FY 2010.

Army Comments

The Assistant Secretary of the Army for Acquisition, Logistics, and Technology did not provide comments on the draft report issued on August 1, 2008.

Our Response

We request that the Assistant Secretary of the Army for Acquisition, Logistics, and Technology provide comments on the final report by October 29, 2008.

DLA Comments

The DLA Director of Acquisition Management agreed. She stated that the buyer pursues appropriate contractual remedies, which can include correction or replacement of nonconforming items or reimbursement from the contractor. The Director stated that when DLA suspects that a contractor is committing fraud, DLA may recommend the contractor be suspended, debarred, or referred for potential criminal or civil action.

Our Response

The DLA Director of Acquisition Management comments were partially responsive. The Director did not discuss whether DLA planned to impose penalties for noncompliance with RFID requirements in the first quarter of FY 2010. Therefore, we request that the Director comment on the final report on her actions to impose penalties on suppliers not complying with RFID requirements.

Navy Comments

The Director, Program Analysis and Business Transformation, commenting for the Assistant Secretary of the Navy (Research, Development and Acquisition), disagreed. He stated that current processes compensate the Government when a supplier does not comply with contractual requirements.

Our Response

The Director's comments were nonresponsive. The Director did not indicate the penalties the Navy imposes on suppliers that do not comply with RFID requirements. We request that the Director comment on the final report, identifying the penalties for suppliers that do not comply with passive RFID requirements and how the Navy enforces the penalties.

Air Force Comments

The Deputy Assistant Secretary of the Air Force for Contracting agreed. He stated that DFARS 252.211-7006 does not provide specific remedies for RFID noncompliance. The Deputy Assistant Secretary stated that FAR Part 49 contains procedures for contractor noncompliance and recommended that we work with the Defense Procurement

Acquisition Policy Office to revise the DFARS to establish a specific remedy for noncompliance with passive RFID.

Our Response

The Deputy Assistant Secretary's comments were nonresponsive. FAR Part 49 establishes policy for the termination of contracts, not for remedies of supplier nonconformance. The Deputy Assistant Secretary did not indicate the penalties that will be imposed on a supplier not complying with RFID requirements. Therefore, we request that the Deputy Assistant Secretary work with DLA and DUSD(L&MR) to establish, then impose, penalties in supply contracts for noncompliant suppliers by the first quarter of FY 2010. We request that the Deputy Assistant Secretary provide comments on the final report indicating whether he will work with DLA and DUSD(L&MR) on establishing and imposing penalties for suppliers not complying with passive RFID requirements.

c. Include poor performance in contracting officers' performance ratings when they do not comply with DoD RFID policies.

Army Comments

The Assistant Secretary of the Army for Acquisition, Logistics, and Technology did not provide comments on the draft report issued on August 1, 2008.

Our Response

We request that the Assistant Secretary of the Army for Acquisition, Logistics, and Technology provide comments on the final report by October 29, 2008.

DLA Comments

The DLA Director of Acquisition Management agreed. She stated that DLA has made contracting officer compliance with passive RFID policies part of DLA's review processes and procedures. The Director also stated that reviews conducted by DLA include in-process contract reviews, internal and external procurement management reviews, and contracting quality management plans. Additionally, the Director stated that contracting officers and their managers receive feedback from the reviews, highlighting contracting officers' performance. Lastly, the Director stated that corrective actions are initiated as appropriate and may include employee counseling, additional training, or negative performance appraisals.

Our Response

The DLA Director of Acquisition Management's comments were partially responsive. The Director did not indicate whether poor performance would be included in contracting officers' performance ratings when they do not comply with RFID policies. Therefore, we request that the Director provide comments on the final report indicating whether poor performance will be included in contracting officers' ratings.

Navy Comments

The Director, Program Analysis and Business Transformation, commenting for the Assistant Secretary (Research, Development and Acquisition), disagreed. He stated that instead of establishing consequences for noncompliant contracting officers, the contracting activities should emphasize the importance of including the clause, when required, and request that contracting officers be diligent in complying with the RFID regulatory requirements.

Our Response

The Director's comments were nonresponsive. To hold contracting officers accountable for not complying with DoD policy, managers should factor poor performance into contracting officers' performance ratings. Therefore, we request that the Director provide comments on the final report indicating how the contracting activities will deal with contracting officers who do not comply with RFID policies.

Air Force Comments

The Deputy Assistant Secretary of the Air Force for Contracting disagreed. He stated that the purpose of the annual performance reports is to provide a reliable, cumulative record of performance and potential. The Deputy Assistant Secretary stated that reports assist promotion boards and other personnel managers with promotions. The Deputy Assistant Secretary stated that it is not appropriate to judge performance solely on compliance with RFID because the RFID clause is only one of the required terms that contracting officers place in contracts. The Deputy Assistant Secretary also stated that the audit found no fault with the Air Force contracting officer's compliance with RFID policies. However, the Deputy Assistant Secretary stated that he plans to include the RFID requirement on the Air Force compliance checklist for contracting officers.

Our Response

The Deputy Assistant Secretary's comments were nonresponsive. While we recognize that the RFID clause is only one of many contractual terms contracting officers are required to include, the Deputy Assistant Secretary did not state how the Air Force documents the contracting officer's noncompliance with passive RFID requirements. We request that the Deputy Assistant Secretary provide comments on the final report explaining what actions the Air Force will take to deal with contracting officer noncompliance with passive RFID requirements.

Appendix A. Scope and Methodology

We conducted this performance audit from October 2007 through August 2008 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 visited four DLA distribution depots—Susquehanna, Pennsylvania; San Joaquin, California; San Diego, California; and Corpus Christi, Texas—from December 2007 to January 2008 to obtain a judgmental sample of supplies that suppliers shipped to DLA depots. We visited the Susquehanna and San Joaquin depots because they receive the largest amount of supplies and were the first depots required to use passive RFID. We visited the San Diego and Corpus Christi depots because they were collocated with a Navy and an Army depot, respectively. During our visits, we observed the DLA receiving process for supply items and judgmentally selected items being shipped to the depots. We obtained the contract and national stock numbers and the passive RFID tag number, if applied, from 327 shipments sent by suppliers to the depots on the days of our visit. We could not determine the total shipments processed at those four depots on the days we visited.

We used the information taken from the shipments to identify the contract used to procure it. We used the shipping information and the corresponding contract to determine whether the contracting officer included the RFID clause in required contracts. In turn, we determined whether the supplier applied a passive tag to the shipment in accordance with the terms of the contract. The 327 shipments corresponded to 281 contracts, of which 220 contracts required the RFID clause. Specifically, we reviewed:

- supply contracts to identify the supplier and type of supplies purchased, and to determine whether contracting officers included the RFID clause in contracts issued after November 14, 2005, for Susquehanna and San Joaquin and after May 19, 2006, for San Diego and Corpus Christi;
- passive RFID tag numbers, in conjunction with the contract, to determine whether the suppliers applied passive tags to required shipments; and
- contract and national stock numbers to obtain shipping reports from the DLA shipping system to determine whether the supplier sent DoD an advance shipping notice and whether the contracting officer recorded the initial request in the system.

We also reviewed RFID implementation plans developed by the Military Departments and DLA. We compared the documents with the requirements in the RFID policy, DFARS clauses 252.246-7000 and 252.211-7006, and DFARS section 211.275. We

interviewed RFID and contracting officials from the DUSD(L&MR) Office of Supply Chain Integration and DLA. We also interviewed DLA depot commanders or their deputies, along with depot analysts and receivers.

Review of Internal Controls

We determined that an internal control weakness in the implementation of passive RFID existed as defined by DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” January 4, 2006. We visited four DLA distribution depots and judgmentally sampled supplies that suppliers shipped to the depots. Based on our sample, we determined that contracting officers awarded 10 percent of supply contracts without the required RFID clause, and suppliers for 43 percent of the contracts did not apply passive RFID tags to shipments they sent to DLA depots. For more specific results of the weakness, see the Finding section of the report. Implementing Recommendations 1. through 3. will improve controls. We will provide a copy of this report to the senior officials responsible for internal controls at USD(AT&L) and DLA.

Use of Computer-Processed Data

To achieve the audit objectives, we relied on computer-processed data from the Distribution Standard System (the DLA shipping system). We did not perform a formal reliability assessment of the computer-processed data. However, we reduced our audit risk to an acceptable level by manually comparing information we copied from the shipments entering the warehouse on the days we visited with the reports in the DLA shipping system for those shipments. We believe that those steps were adequate to support the findings and conclusions made in this report.

Prior Coverage

During the last 5 years, the DoD Inspector General (IG), the Government Accountability Office (GAO), and the Department of the Army issued four reports discussing passive RFID. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>.

DoD IG

DoD IG Report No. D-2008-131, “Security of Radio Frequency Identification Information,” September 19, 2008

GAO

GAO Report No. GAO-07-807, “Efforts to Improve Distribution and Supply for Joint Military Operations Could Benefit from a Coordinated Management Approach,” June 2007

GAO Report No. GAO-05-345, “Better Strategic Planning Can Help Ensure DOD’s Successful Implementation of Passive Radio Frequency Identification,” September 2005

Army

A-2003-0192-AML, "Development and Integration of Automatic Identification Technology Into Logistics Processes," March 12, 2003

Deputy Under Secretary of Defense (Logistics and Materiel Readiness) Comments



ACQUISITION
TECHNOLOGY
AND LOGISTICS

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

SEP 09 2008

MEMORANDUM FOR PROGRAM DIRECTOR, ACQUISITION AND CONTRACT
MANAGEMENT, OFFICE OF THE INSPECTOR
GENERAL, DEPARTMENT OF DEFENSE

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS *7/2 9/9/08*

SUBJECT: Response to DoDIG Draft Report Requiring the Use of Radio Frequency
Identification (RFID) in Contracts for Supplies (Report No. D2008-D000AS-
0022 .0000)

As requested, the following are responses to the recommendations contained
in the subject report on the use of RFID in contracts for supplies.

Recommendation 1: The Director, Defense Logistics Agency and the Deputy Under
Secretary of Defense (Logistics and Materiel Readiness), in coordination with the
Director, Army Contracting Agency, Review and Outreach Directorate, Department of
the Army; Deputy Director, Automatic Identification Technology, Department of the
Navy; and the Chief, Policy and Implementation Division, Department of the Air Force:

- a. Develop measurable metrics, conduct quarterly reviews, and establish
consequences for contracting officers not complying with radio frequency
identification requirements.
- b. Issue policy requiring that contracting officers take formal training that includes
procedures for applying passive radio frequency identification tags to shipments
and highlights the use and benefits of radio frequency identification in the DoD
supply chain.

AT&L Response:

Response to a: Partially concur. The Military Departments should continue to work with
contracting officers to emphasize the importance of applying this clause appropriately for
the Department to realize the true benefits of RFID. A system-generated check for
appropriate contracting clauses is not possible and conducting quarterly manual reviews
would be burdensome. However, compliance with RFID requirements should be a part
of each of the Services and DLA's systemic contracting and review process to ensure this
and other critical contract clauses are being applied as appropriate.



Consequences for not complying with the requirement to apply the passive RFID requirement should be no different than failure to comply with applying other contractual requirements.

Response to b: Concur. There is already a Defense Acquisition University (DAU) training course on RFID implementation for contracting officers. The Continuous Learning Module (CLM 044) "*Radio Frequency Identification*" is provided for Continuing Learning credits that contracting officers are required to obtain. The training instructs contracting officers on the application of the passive RFID clause to appropriate contracts and highlights the vital role that contracting officer's play in enabling the Department to realize the benefits of RFID. OSD, the Military Departments and DLA should reemphasize the importance of this training to its contracting officers.

Please contact Ms. Kathy Smith, 703-604-0098, Kathleen.Smith@osd.mil if additional information is required.



James D. Hall
Assistant Deputy Under Secretary of Defense
(Logistics, Plans & Studies)

Defense Logistics Agency Comments



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

IN REPLY
REFER TO J-7

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING,
ACQUISITION AND CONTRACT MANAGEMENT,
DEPARTMENT OF DEFENSE

THROUGH: CHIEF, AUDIT DIVISION, ACCOUNTABILITY OFFICE, DEFENSE
LOGISTICS AGENCY

SUBJECT: Department of Defense Inspector General Draft Audit Report, Requiring the Use
of Radio Frequency Identification (RFID) in Contracts for Supplies (Project No.
D2008-D000AS-0022.000) (FOR OFFICIAL USE ONLY)

This responds to your memorandum dated August 1, 2008, requesting comments from the Director, Defense Logistics Agency (DLA), on the recommendations in the subject report. The following responses are provided to address the recommendations related to acquisition policies and procedures:

1. We recommend that the Director, DLA and the Deputy Under Secretary of Defense (Logistics and Materiel Readiness), in coordination with the Director, Army Contracting Agency, Review and Outreach Directorate, Department of the Army; Deputy Director, Automatic Identification Technology, Department of the Navy; and the Chief, Policy and Implementation Division, Department of the Air Force:

a. Develop measurable metrics, conduct quarterly reviews, and establish consequences for contracting officers not complying with radio frequency identification requirements.

Director, Acquisition Management, DLA, agrees with these recommendations.

DLA has taken action to incorporate contracting officer compliance with passive RFID policies into its systemic contracting review processes and procedures, which meet or exceed these recommendations. Contracting reviews conducted by DLA include in-process contract reviews, internal and external procurement management reviews, and contract quality management plans. Feedback from these reviews is routinely provided to contracting officers and their managers, resulting in continuous visibility of contracting officers' performance. Corrective actions are initiated as appropriate, which may include employee counseling, additional training requirements, or negative reflection in performance appraisals.

~~FOR OFFICIAL USE ONLY~~

Additionally, DLA has taken actions specifically intended to ensure that contracting officers comply with requirements to use the clause at DFARS 252.211-7006, Radio Frequency Identification (RFID). As described in the draft audit report, DLA changed its automated procurement systems in December 2006 to identify the clause as "Mandatory," so it is automatically included in all DLA solicitations and awards. The clause is only removed when a contracting officer has determined the conditions for its use do not apply to a particular acquisition. The draft audit report also describes the revision DLA made to its automated quote form in December 2006, adding a requirement for suppliers to indicate if they intended to comply with passive RFID. This has increased visibility of passive RFID requirements among both contracting officers and suppliers.

b. Issue policy requiring that contracting officers take formal training that includes procedures for applying passive radio frequency identification tags to shipments and highlights the use and benefits of radio frequency identification in the DoD supply chain.

Director, Acquisition Management, DLA, agrees with this recommendation.

This Directorate will initiate action by September 15, 2008, to have the on-line Defense Acquisition University Continuous Learning Module entitled "*Radio Frequency Identification*" identified as mandatory for all members of the DLA contracting workforce.

3. We recommend that the Director, Army Contracting Agency, Review and Outreach Directorate, Department of the Army; Deputy Director, Automatic Identification Technology, Department of the Navy; the Chief, Policy and Implementation Division, Department of the Air Force; and the Director, Defense Logistics Agency:

a. Conduct formal reviews of suppliers to identify those not complying with passive radio frequency identification requirements.

b. Identify penalties for suppliers that do not comply with radio frequency identification requirements and begin imposing those penalties in supply contracts beginning the first quarter of Fiscal Year 2010.

Director, Acquisition Management DLA, agrees with these recommendations.

DLA has taken action to ensure that non-compliant suppliers are subject to the full range of contract enforcement procedures, which meet or exceed these recommendations. The draft audit report describes a systems change implemented in February 2008, which has enabled incoming shipments that require passive RFID tags to be identified to the Defense

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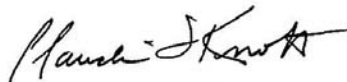
Distribution Center (DDC). DDC uses the Supply Discrepancy Report process to provide notice of the apparent non-conformance to the buying activity for resolution. Verified, non-conformances are reflected in a contractor's past performance record, making that contractor less competitive or ineligible for future awards. The buying activity also pursues appropriate contractual remedies, such as correction or replacement of non-conforming items, or reimbursement from the contractor. A contractor suspected of committing fraud may be recommended for suspension or debarment or referred for potential criminal or civil action.

c. Include poor performance in contracting officers' performance ratings when they do not comply with DoD RFID policies.

Director, Acquisition Management, DLA, agrees with this recommendation.

DLA has taken action to incorporate contracting officer compliance with passive RFID policies into its systemic contracting review processes and procedures, which meet or exceed these recommendations. Contracting reviews conducted by DLA include in-process contract reviews, internal and external procurement management reviews, and contract quality management plans. Feedback from these reviews is routinely provided to contracting officers and their managers, resulting in continuous visibility of contracting officers' performance. Corrective actions are initiated as appropriate, which may include employee counseling, additional training requirements, or negative reflection in performance appraisals.

Thank you for the opportunity to comment. Please direct any questions to Ms. Anne Burleigh at (703) 767-1358, DSN 427-1358 or e-mail anne.burleigh@dla.mil.



CLAUDIA S. KNOTT
Director, Acquisition Management

~~FOR OFFICIAL USE ONLY~~



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


IN REPLY
REFER TO J-33

SEP 15 2008

MEMORANDUM FOR DLA-DA

SUBJECT: Contracts for Supplies Requiring Use of Radio Frequency Identification
Project No. D2008-D000AS-0022.000

In response to your memorandum dated July 18, 2008, we have reviewed the draft report and recommendations and our comments are attached. Our point of contact is Mr. Mark Lieberman, J-331, 703-767-1538 or mark.lieberman@dla.mil.


Lora Conrad
Executive Deputy Director
Material Policy, Process &
Assessment

Attachment

Contracts for Supplies Requiring Use of Radio Frequency Identification
Project No. D208-D000AS-0022.000

DOD-IG draft report recommendations assigned to J-33 for response.

- 2. Recommend that the Director, Defense Logistics Agency require that the Commander, Defense Distribution Center:
 - a. Conduct formal training for depot personnel using and implementing passive radio frequency identification.
 - b. Require that depot managers review, report, and resolve problems integrating passive radio frequency identification into depot operations and procedures.

- J-33 response to DOD-IG recommendations
 - 2.a, Concur. Current implementation of passive Radio Frequency Identification (RFID) equipment at DLA distribution depots is a technology based implementation. Our implementation to date is systems integration and prepositioning data in the warehouse management system. RFID systems training is conducted with our information technology support personnel. Enhancements to current depot personnel training plans will occur concurrent with expansion of RFID technology into DLA's distribution operations.

 - 2. b, Concur. Integration of passive RFID for DLA is a maturing process as we expand deeper into our Distribution Operations. Initial implementation of passive RFID requires systems monitoring and resolution by our information technology staff which does not enable depot managers to report problems. Our main goal for additional RFID installations is to enhance and improve depot operations with increased process visibility and management awareness enabling managers to report and resolve issues.

Attachment

Department of the Navy Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(RESEARCH, DEVELOPMENT AND ACQUISITION)
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

AUG 20 2008

MEMORANDUM FOR OFFICE OF THE INSPECTOR GENERAL DEPARTMENT OF DEFENSE

Subj: Draft Report Requiring the Use of Radio Frequency Identification in Contracts for Supplies (Project No. D2008-D000AS-0022.0000)

Ref: (a) DoD Office of Inspector General memo dated August 1, 2008, Same Subject

In accordance with reference (a), the DON provides the following response to the Draft Report Requiring the Use of Radio Frequency Identification in Contracts for Supplies.

DODIG Recommendations:

1. We recommended that the Director, Defense Logistics Agency and the Deputy Under Secretary of Defense (Logistics and Materiel Readiness), in coordination with the Director, Army Contracting Agency, Review and Outreach Directorate, Department of the Army; Deputy Director, Automatic Identification Technology, Department of the Navy; and the Chief, Policy and Implementation Division, Department of the Air Force:

a. Develop measurable metrics, conduct quarterly reviews, and establish consequences for contracting officers not complying with radio frequency identification requirements.

NAVY COMMENT: Partially concur. Navy, in conjunction with the other services, is developing metrics to measure the effects of passive RFID implementation on the logistics system. One of these metrics will monitor DoD's effectiveness in writing contracts that contain the RFID clause, when required. However, we believe quarterly reviews would be an undue administrative burden, particularly since the audit report did not conclude that a systemic problem exists, and such reviews will be an entirely manual process for the Navy. Less frequent reviews would appear more appropriate. Additionally, instead of establishing consequences for contracting officers not complying with the RFID requirements, contracting activities should emphasize the importance of including the clause, when required, and request that contracting officers be diligent in complying with the RFID regulatory requirements.

Subj: Draft Report Requiring the Use of Radio Frequency Identification in Contracts for Supplies (Project No. D2008-D000AS-0022.0000)

b. Issue policy requiring that contracting officers take formal training that includes procedures for applying passive radio frequently identification tags to shipments and highlights the use and benefits of radio frequency identification in the DoD supply chain.

NAVY COMMENT: Non-Concur. Training is already available through the Defense Acquisition University, Continuous Learning Module (CLM 044)- *Radio Frequency Identification*. It is designed to provide Defense Contracting Officers (CO) with knowledge relevant to inserting the passive RFID DFARS clause into appropriate contracts, as well as covering RFID technology and DoD's RFID implementation strategies. Additionally, it highlights the CO's vital role in enabling the Department to realize the benefits of RFID in the DoD Supply Chain.

3. We recommended that the Director, Army Contracting Agency, Review and Outreach Directorate, Department of the Army; Deputy Director, Automatic Identification Technology, Department of the Navy; and the Chief, Policy and Implementation Division, Department of the Air Force; and Director, Defense Logistics Agency:

a. Conduct formal reviews of suppliers to identify those not complying with passive radio frequency identification requirements.

NAVY COMMENT: Non-concur. There are processes already in place to track/monitor supplier compliance with contractual requirements so no additional reviews are warranted. Receiving activities should prepare and transmit a Report of Discrepancy (SF364 form) to the ordering activity when any contractual requirement is not met, including RFID.

b. Identify penalties for suppliers that do not comply with radio frequency identification requirements and begin imposing those penalties in supply contracts beginning the first quarter of FY 2010.

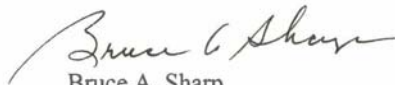
NAVY COMMENT: Non-concur. There are processes already in place for the government to be compensated when a supplier does not comply with contractual requirements.

c. Include poor performance in contracting officers' performance ratings when they do not comply with DoD RFID policies.

Subj: Draft Report Requiring the Use of Radio Frequency Identification in Contracts for Supplies (Project No. D2008-D000AS-0022.0000)

NAVY COMMENT: Non-Concur. As stated in response 1.a., instead of establishing consequences for contracting officers not complying with the RFID requirements, contracting activities should emphasize the importance of including the clause, when required, and request that contracting officers be diligent in complying with the RFID regulatory requirements.

Questions can be directed to Shanna Poole, IUID Lead, DASN(A&LM) at (703) 614-8000.



Bruce A. Sharp
Director, Program Analysis and
Business Transformation
Deputy Assistant Secretary of the Navy
(Acquisition & Logistics Management)

Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

OFFICE OF THE ASSISTANT SECRETARY

22 AUG 2008

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL
ATTN: DEPUTY INSPECTOR GENERAL FOR AUDITING

FROM: SAF/AQC

SUBJECT: Air Force Response to Department of Defense Inspector General (DoDIG)
Draft Report, Project No. D2008-D000AS-0022.000, Requiring the Use of Radio
Frequency Identification in Contracts for Supplies

This is in response to your memorandum requesting that the Assistant Secretary of the Air Force provide comments on the subject draft report dated 1 Aug 2008. The Air Force appreciates the opportunity to offer comments and recognizes the efforts of the DoDIG in its analysis and report preparation. We have reviewed the subject report, and our responses to recommendations 1. and 3. for the Assistant Secretary of the Air Force for Acquisition are found below:

DoDIG Recommendation 1. We recommend that the Director, Defense Logistics Agency and the Deputy Under Secretary of Defense (Logistics and Materiel Readiness), in coordination with the Director, Army Contracting Agency, Review and Outreach Directorate, Department of the Army; Deputy Director, Automatic Identification Technology, Department of the Navy; and the Chief, Policy and Implementation Division, Department of the Air Force:

a. Develop measurable metrics, conduct quarterly reviews and establish consequences for contracting officers not complying with radio frequency identification requirements.

Air Force Response: Concur with the intent. SAF/AQC will work with the Director, Defense Logistics Agency (DLA) and the Deputy Under Secretary of Defense (Logistics and Materiel Readiness) (DUSD(L&MR)) as required to support the development of actions to ensure compliance to RFID policies. We recommend including Defense Procurement, Acquisition Policy and Strategic Sourcing (DPAP) and Defense Contract Management Agency participation on such working groups.

b. Issue policy requiring that contracting officers take formal training that includes procedures for applying passive radio frequency identification tags to shipments and highlights the use and benefits of radio frequency identification in the DoD supply chain.

Air Force Response: Concur with the intent. SAF/AQC will work with DLA and DUSD(L&MR) as required to support the development of actions to ensure compliance to RFID policies.

DoDIG Recommendation 3. We recommend that the Director, Army Contracting Agency, Review and Outreach Directorate, Department of the Army; Deputy Director, Automatic Identification Technology, Department of the Navy; the Chief and Implementation Division, Department of the Air Force; and the Director, Defense Logistics Agency:

a. Conduct formal reviews of suppliers to identify those not complying with passive radio frequency identification requirements.

Air Force Response: Concur with the intent. Recommendation 1.a. directs DLA and DUSD(L&MR) to develop metrics and a quarterly review process for RFID compliance. SAF/AQC intends to participate in that process. Once metrics and a review process are established, AQC will determine how it might be implemented within the Air Force. It is important to note that the audit did not identify any Air Force contractor noncompliance with RFID procedures.

b. Identify penalties for suppliers that do not comply with radio frequency identification requirements and begin imposing those penalties in supply contracts beginning the first quarter of FY 2010.

Air Force Response: Concur with the intent. DFARS 252.211-7006, entitled "Radio Frequency Identification", establishes the DoD contract terms and conditions for contract RFID use. That clause provides no specific remedy for non-compliance. As such, normal procedures for contractor non-compliance as those under FAR 49 are available. Should a specific contract remedy be required for RFID non-compliance, such contract terms and conditions should be established within DFARS 252.211-7006 clause. In this case, the DoDIG should work with DPAP which would need to open a Defense Federal Acquisition Regulation Supplement change case with the Defense Acquisition Regulation Council.

c. Include poor performance in contracting officers' performance ratings when they do not comply with DoD RFID policies.

Air Force Response: Non-Concur. The purpose of our annual performance reports is to provide a reliable, long-term, cumulative record of performance and potential based on that performance. Additionally, these reports provide promotion boards and other personnel managers' sound information to assist in identifying the best qualified personnel. It would not be appropriate to make contracting officer performance evaluation key on RFID compliance as that is just one of a myriad of contract terms or conditions that contracting officers are responsible to oversee when placing contracts. Moreover, this audit found no fault with the AF contracting officer's compliance with RFID policies. However, we do intend to add the RFID requirement to the AF

compliance checklist as a consistent reminder and cross check for contracting officers to adhere to RFID policies.

Questions your staff may have concerning the responses to recommendations 1. and 3. may be directed to Capt Mike Jackson, SAF/AQCP, commercial (703) 588-7030 or DSN 425-7030.



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