

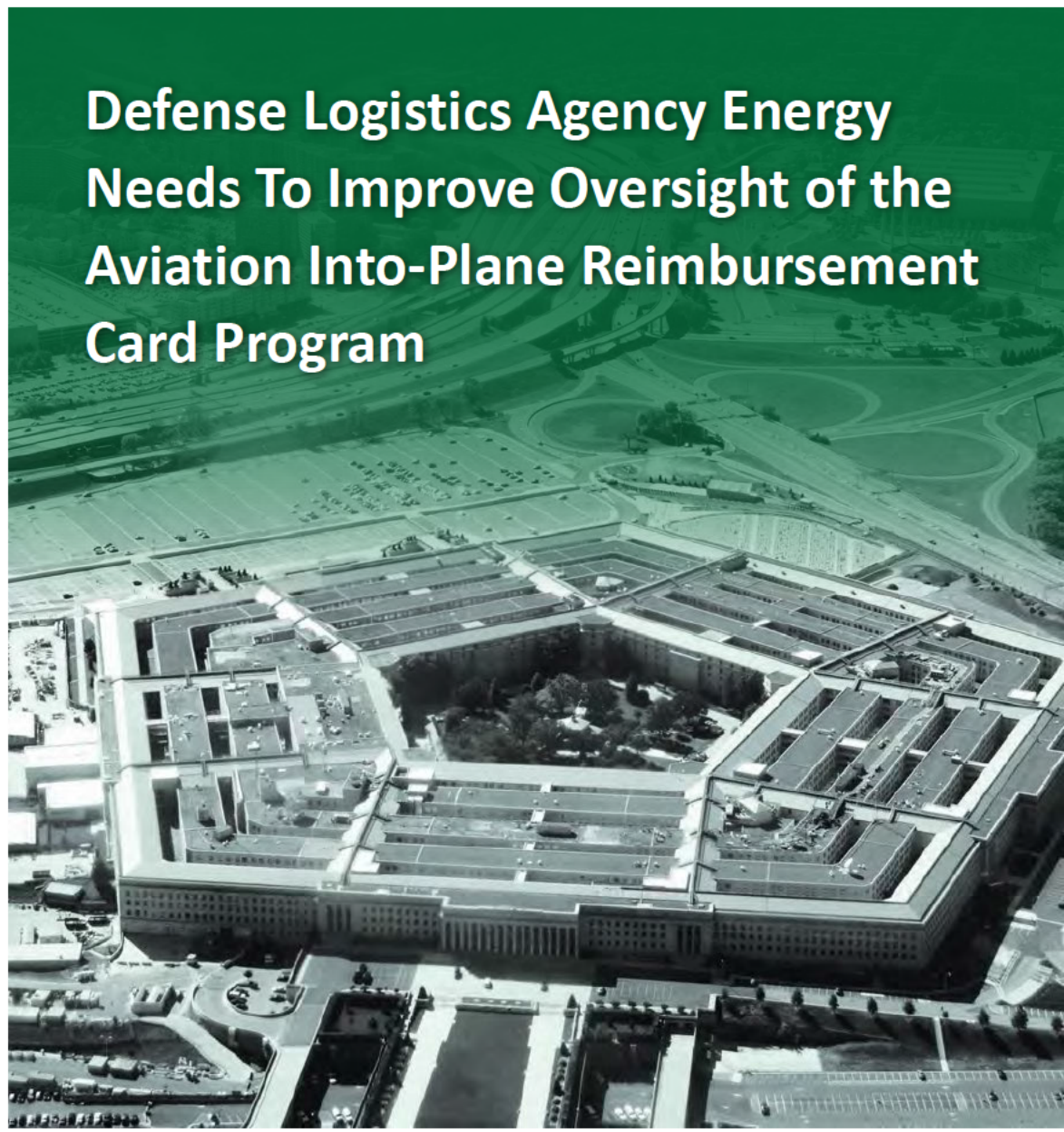
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INSPECTOR GENERAL

U.S. Department of Defense

NOVEMBER 7, 2014



Defense Logistics Agency Energy Needs To Improve Oversight of the Aviation Into-Plane Reimbursement Card Program

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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Results in Brief

Defense Logistics Agency Energy Needs To Improve Oversight of the Aviation Into-Plane Reimbursement Card Program

November 7, 2014

Objective

Our audit objective was to determine whether the DoD controls over use of U.S. Government Aviation Into-Plane Reimbursement (AIR) Cards were effective for identifying high-risk or questionable transactions.

Finding

Defense Logistics Agency (DLA) Energy officials could not provide reliable AIR Card transaction data for FY 2013; consequently, we were unable to test DLA Energy's controls over the use of the AIR Card to assess whether they identified and addressed high-risk or questionable transactions.

However, we had significant concerns related to DLA Energy's lack of oversight of AIR Card transactions. Specifically, DLA Energy program officials:

- identified and documented problems with the reliability, accuracy, and quality of the contractor's transaction data and took no corrective action to improve the data;
- allowed invoices to be paid without verifying that the invoices were accurate; DLA paid DoD OIG - (b)(4) in administrative fees from January 2005 through September 2010 and was not aware they paid the fees; and

Finding (cont'd)

- did not effectively oversee AIR Card transactions to ensure that DoD AIR Card Program guidance was effectively implemented by accountable officials.

Given the problems associated with the legacy AIR Card transaction processing system and the lack of real-time transaction data, a robust system of controls is critical to mitigate the risks associated with questionable transactions.

We provided evidence of the data unreliability to the officials and shared the discrepancies we found during our preliminary review; DLA Energy officials acknowledged the problems and identified actions they plan to take to strengthen controls over the AIR Card Program. These actions, if implemented effectively, should help to mitigate the risks associated with the AIR Card transactions.

Recommendations

We recommend that the Director, DLA, require DLA contracting officials to assess whether administrative fees were properly paid to the AIR Card contractor from January 1 through June 30, 2013; require the Deputy Director, Government Fuel Card Program Management Office, to address fuel transaction discrepancies; verify planned corrective actions to improve controls over the AIR Card are effective for reducing the risks associated with questionable transactions; and assess options available and implement appropriate actions in the event the AIR Card contractor fails to deliver the new system in September 2014.

Management Comments and Our Response

Comments from the Commander, Defense Logistics Agency Energy, addressed the recommendations, and no further comments were required. Please see the Recommendation Table on the back of this page.

Recommendations Table

| Management | Recommendations Requiring Comment | No Additional Comments Required |
|------------------------------------|--|--|
| Director, Defense Logistics Agency | | 1,2,3,4 |



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

November 7, 2014

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
DIRECTOR, DEFENSE LOGISTICS AGENCY**

**SUBJECT: Defense Logistics Agency Energy Needs To Improve Oversight of the Aviation
Into-Plane Reimbursement Card Program (Report No. DODIG-2015-032)**

We are providing this report for your information and use. Defense Logistics Agency Energy officials could not provide reliable Aviation Into-Plane Reimbursement (AIR) Card transaction data for FY 2013; consequently, we were unable to test Defense Logistics Agency Energy's controls over the use of the AIR Card to assess whether they identified and addressed high-risk or questionable transactions. However, we identified significant concerns related to Defense Logistics Agency Energy's lack of oversight of AIR Card transactions. For FY 2013, Defense Logistics Agency Energy reported about 302,000 AIR Card fuel transactions, valued at approximately \$760.6 million.

We considered management comments on a draft of this report when preparing the final report. Comments from the Commander, Defense Logistics Agency Energy, addressed all specifics of the recommendations and conformed to the requirements of DoD Directive 7650.3; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8905 (DSN 664-8905).

A handwritten signature in cursive script that reads "Amy J. Frontz".

**Amy J. Frontz
Principal Assistant Inspector General
for Auditing**

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Acronyms and Abbreviations

Introduction

Objectives

Our objective was to determine whether the Department's controls over the U.S. Government Aviation Into-Plane Reimbursement (AIR) Card Program were effective and improper payments were identified and recovered. Specific objectives were to determine whether:

- DoD controls over the use of AIR Cards were effective for identifying high-risk or questionable transactions,
- Defense Logistics Agency (DLA) Energy controls over fuel prices paid by DoD users at frequently visited noncontract locations were effective, and
- responsible units paid AIR Card invoices in accordance with the Prompt Payment Act.

This report addresses the first specific objective. We plan to announce the second and third objectives in a subsequent audit, depending on other audit priorities. See Appendix A for the scope and methodology and prior audit coverage related to the objective.

Background

DLA Energy is the designated Government Fuel Card Program Management Office with responsibility for the AIR Card Program oversight. The AIR Card Program provides the Military Services and Federal civilian agencies a means to procure aviation fuel and nonfuel services for U.S. Government-owned aircraft at a substantial cost savings. The AIR Card can be electronically swiped, mechanically imprinted, or hand scribed onto a commercial delivery ticket. One unique characteristic of the AIR Card is that it is assigned to an aircraft, not an individual.

Figure. U.S. Government AIR Card



Source: DLA Energy

The AIR Card is used worldwide at DLA Energy contract locations, commercial airports, and DoD military installations. The AIR Card Program supports DLA Energy into-plane contract refueling at more than 500 locations and is accepted at more than 4,000 noncontract locations worldwide.¹ The benefits of the card include 24/7 customer support, worldwide card acceptance, discounts from the posted airport prices, and significant savings when fueling at contract locations. DLA Energy guidance states that when AIR Cards are used to purchase fuel and nonfuel services (for example, ramp fees, parking fees, potable water), merchants will electronically or manually submit (email, mail, or fax) transaction records, such as receipts, to the AIR Card contractor. The guidance also states that the AIR Card contractor will send fuel invoices to DLA for payment by the Defense Finance and Accounting Service and invoice the responsible commands or agencies for the nonfuel charges purchased with the AIR Card. Accountable officials at the responsible commands or agencies will verify the accuracy of the fuel and nonfuel charges.

In FY 2013, the AIR Card contractors² electronically and manually processed approximately \$760.6 million of contract and noncontract fuel transactions³ for DLA Energy. Table 1 summarizes DLA Energy's contract and noncontract fuel transactions for FY 2013.

Table 1. Summary of DLA Energy's Contract and Noncontract Fuel Transactions for FY 2013

| Transaction Type | Method of Transmission | Number of Transactions | Total Fuel Cost (millions) |
|------------------|------------------------|------------------------|----------------------------|
| Contract Fuel | Electronic | 228,106 | \$452.8 |
| Contract Fuel | Manual | 19,112 | 139.5 |
| Noncontract Fuel | Electronic | 36,852 | 100.5 |
| Noncontract Fuel | Manual | 18,066 | 67.8 |
| Total | | 302,136 | \$760.6 |

¹ DLA Energy program officials stated this estimate of noncontract locations is more accurate than the number of noncontract locations cited in the DLA Energy FY 2013 Fact Book. A DLA Energy contract location is a commercial airport where DLA Energy has awarded an into-plane contract to a fuel merchant. Noncontract locations are commercial airports without an into-plane contract but where the AIR Card contractor has established a fuel agreement.

² Multi Service Corporation was responsible for AIR Card transactions through December 31, 2012, and Kropp Holdings, Inc., was responsible as of January 1, 2013.

³ We did not validate the dollar value of the fuel transaction data because DLA Energy data were unreliable.

Aviation Into-Plane Reimbursement Card Contract History

Multi Service Corporation (MSC) was the AIR Card contractor from January 2005 through December 31, 2012. On June 19, 2012, DLA Energy awarded Kropp Holdings, Inc. (KHI), a fixed-price contract to provide transaction processing services starting January 1, 2013. The contract was effective July 1, 2012, and authorized a 6-month transitional period from July 1, 2012, through December 31, 2012, to provide KHI time to implement the terms and conditions of the AIR Card contract. MSC protested the contract award to KHI, which delayed KHI's contract start date (and therefore, the transitional period start date) to January 1, 2013. The KHI contract included requirements for developing a new transaction processing system that will deliver to DLA Energy real-time access to AIR Card transaction data.⁴ Table 2 provides the AIR Card contract history.

Table 2. AIR Card Contract History

| Date | Event |
|----------------|---|
| September 2004 | DLA Energy officials awarded the AIR Card contract to MSC for the period January 1, 2005, through December 31, 2012 (3-year base with 5 option years). |
| June 2012 | DLA Energy officials awarded the AIR Card contract to KHI for the period July 1, 2012, through December 31, 2021 (includes a 6-month transitional period, 4-year base, and 5 option years). MSC protested the contract award which delayed KHI's contract start date until January 1, 2013. |
| December 2012 | KHI's parent company, World Fuel Services Corporation, acquired MSC's transaction processing system. DLA Energy modified KHI's contract to start processing transactions under the terms and conditions of MSC's contract from January 1 through June 30, 2013. |
| January 2013 | KHI began its 6-month transitional period and processing AIR Card transactions using MSC's transaction processing system through June 30, 2013. |
| May 2013 | KHI requested and DLA Energy approved an extension date (from July 1, 2013, to December 1, 2013) for delivery of the new transaction processing system. In return for the extension, DLA Energy reduced KHI's service fee by 50 percent for the period July 1 through December 31, 2013. |
| July 2013 | KHI's 6-month transitional period ended, and KHI began processing AIR Card transactions under the terms and conditions of KHI's contract. |
| December 2013 | KHI missed the delivery date for the new transaction processing system, and DLA Energy officials denied KHI's request for another extension. DLA Energy officials stated they reduced KHI's monthly service fee by 100 percent. |

⁴ The KHI contract also included requirements for the Ship Bunkers Easy Acquisition (SEA) Card Program, including a SEA Card transaction processing system.

Guidance

DoD Manual 4140.25-M, Volume II, Chapter 16, “Government Fuel Card Program Management Office DoD Fleet Card, AIR Card, and SEA Card,” February 26, 2009, states that DLA Energy⁵ has overall program management responsibility for the AIR Card Program. Specifically, DLA Energy must:

- provide operational control and oversight of the AIR Card Program,
- coordinate extensively within DoD on the AIR Card Program, and
- administer the AIR Card contract.

In addition, DoD Manual 4140.25-M, Volume II, Chapter 16, requires the Military Services and Federal civilian agencies to appoint officials to execute the AIR Card Program. Those officials include:

- component program managers to provide Military Service or agency-specific program management;
- agency program coordinators to maintain AIR Card accounts and ensure local AIR Card Programs are executed in accordance with guidance;
- certifying officers to receive invoices, obligate funds, and certify vouchers for payment; and
- accountable officials to support the certifying officers by validating transactions and providing accurate information to ensure proper and timely payments.

Review of Internal Controls

DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. DLA Energy could not provide reliable AIR Card transaction data; therefore, we could not determine whether the program was operating as intended. We will provide a copy of the final report to the senior official responsible for internal controls at the Defense Logistics Agency.

⁵ The manual refers to DLA Energy by its former name, the Defense Energy Support Center.

Finding

Defense Logistics Agency Energy's Aviation Into-Plane Reimbursement Card Transaction Data Were Unreliable

DLA Energy program officials could not provide reliable AIR Card transaction data for FY 2013; consequently, we were unable to test DLA Energy controls over the use of the AIR Card to assess whether they identified and addressed high-risk or questionable transactions.

From October through December 2013, we made three requests to DLA Energy for the universe of FY 2013 AIR Card transaction data. Each of the three data sets provided to us by DLA Energy contained data that were materially different from the other data sets. For example:

- AIR Card numbers were missing the last digit;
- aircraft tail numbers were incorrect;
- aircraft models and national stock numbers were incomplete; or
- required data fields were blank for items such as merchant/transaction location, unit price paid for fuel, and total price paid for fuel and nonfuel items.

We met with DLA Energy program, contracting, and senior counsel officials on several occasions to discuss the transaction data and the AIR Card contract and to obtain an understanding of DLA Energy's overall system of controls. We had significant concerns related to DLA Energy's lack of oversight of AIR Card transactions. Specifically, DLA Energy program officials:⁶

- identified and documented problems with the reliability, accuracy, and quality of KHI's transaction data from July 2013 through December 2013, but took no corrective action to improve the data. Program officials attributed these problems to the legacy AIR Card transaction processing system, which is supposed to be replaced in September 2014;
- allowed invoices to be paid without verifying that the invoices were accurate; specifically, DLA paid DoD OIG (b)(4) in administrative fees from January 2005 through September 2010 and was not aware they paid the fees. Program officials attributed this problem to the legacy AIR Card transaction processing system and their lack of real-time access to the data; and

⁶ The DLA Energy AIR Card Program Manager was also the designated contracting officer's representative (COR) for the KHI contract and is referred to as a program official in this report.

- did not effectively oversee AIR Card transactions to ensure accountable officials effectively implemented DoD AIR Card Program guidance.

Given the problems associated with the legacy AIR Card transaction processing system and the lack of real-time transaction data, a robust system of controls is critical to mitigate the risks associated with questionable transactions.

DLA Energy officials disagreed with our conclusion that the KHI data are unreliable, even though the COR reports provided extensive documentation on KHI data unreliability. (See Table 3) DLA Energy program officials obtained all three data sets from KHI and acknowledged that the KHI transaction data had errors. Program officials offered to provide a fourth data set, this time from the DLA Fuels Automated Systems Enterprise Server (FES). However, AIR Card transaction data are provided electronically to FES by KHI. Program officials stated that FES identifies errors such as duplicate transactions and does not contain blank data fields. The officials stated they were not concerned about other errors in the data, such as incorrect aircraft tail numbers and aircraft models, because these data fields “were irrelevant.”

However, these data fields are both relevant and significant because each data field serves as a quality control to ensure that the Government pays for only those fuel purchases that are accurate and proper. For example, fuel capacity is determined by the model of aircraft being refueled. DoD regulations specifically cite as an example of fraud AIR Card transactions for fuel quantities that exceed aircraft capacity. Therefore, invoices for fuel purchases should reflect an amount of fuel consistent with the capacity of the aircraft model being refueled, and documentation for fuel purchases should be reviewed to ensure that fuel purchases are consistent with the fuel capacity of the model of aircraft being refueled. Invoices for excessive fuel quantities should be identified and properly reviewed. In a 2009 DoD Inspector General (DoD IG) report,⁷ auditors analyzed transactions in the AIR Card database and found that 57 military units made 215 fuel purchases that exceeded the capacity of the aircraft by at least 2.3 million gallons, valued at \$3.8 million. The auditors also reported that FES included 118 active AIR Cards for retired aircraft and that 5 of the retired aircraft incurred 74 charges for approximately \$457,000 after the aircraft were retired. Finally, the report concluded that both the contractor-maintained AIR Card system and FES, which is updated by DLA Energy to maintain the contractor’s card data, were inaccurate.

⁷ DoD IG Report No. D-2009-059, “Air Force Management of the U.S. Government Aviation Into-Plane Reimbursement Card Program,” March 6, 2009.

Consequently, we did not review data from the FES because the data came from the KHI transaction data, which we already determined to be unreliable. In addition, transaction data errors, whether related to card numbers, merchant locations, transaction dates, or tail numbers, should be investigated to identify whether the error is an anomaly or truly questionable, and correct it, if necessary.

Contracting Officer’s Representative Identified Contractor Data Reliability Problems

DLA Energy’s COR prepared monthly surveillance reports that specifically and consistently documented problems with the reliability, accuracy, and quality of KHI data. The COR monthly surveillance reports from July through December 2013 showed KHI failed to meet contract requirements for providing transaction processing services in support of the AIR Card contract. Examples of problems documented in the monthly surveillance reports included invalid card numbers, incorrect merchant locations, and wrong national stock numbers. Table 3 provides examples of KHI problems identified and documented by the COR.

DLA Energy’s COR prepared monthly surveillance reports that specifically and consistently documented problems with the reliability, accuracy, and quality of KHI data.

Table 3. KHI Problems Identified and Documented by the COR

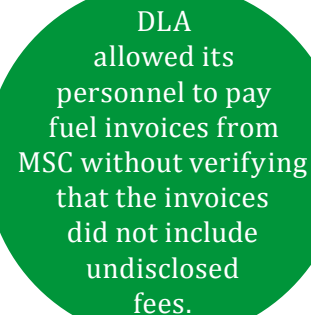
| Report Date | Examples of Problems Found |
|-------------|---|
| July 2013 | Product codes had wrong national stock numbers; KHI failed to generate fuel and nonfuel item discounts; wrong merchant locations provided; duplicate and faulty transactions submitted. |
| Aug. 2013 | Fuel transactions had invalid card numbers; duplicate fuel billings submitted; no card number verification process. |
| Sept. 2013 | Validation of manual transactions not performed; office building coded as a commercial airport; card file contained data format errors; merchant report contained inconsistencies. |
| Oct. 2013 | Incorrect date manually keyed on customer bills; merchant report contained empty cells; wrong accounts listed on electronic access system. |
| Nov. 2013 | Duplicate fuel transaction reported; incorrect AIR Card numbers listed; customer not able to review invoices. |
| Dec. 2013 | Electronic access system displays incorrect information; Service lists contained outdated and incorrect information; KHI failed to meet contract delivery date. |

DLA Energy contracting officials did not take any actions to improve the contractor's data quality. DLA Energy program officials attributed the problems with data accuracy and reliability to the legacy system that KHI uses to process AIR Card transactions. They stated that the quality of the data has not improved since KHI assumed responsibility for data transactions because KHI has not been able to deliver the new transaction processing system. They stated that KHI's focus was on developing the Ship Bunkers Easy Acquisition (SEA) Card transaction processing system, and after that system is operational, KHI will focus on the AIR Card system.⁸ DLA Energy officials stated the new AIR Card system will provide the visibility and real-time access that program and contracting officials need to improve oversight.

During the audit, DLA Energy officials identified actions they will take to strengthen controls over the AIR Card Program; the controls should address the problems associated with the legacy system that KHI uses to process AIR Card transactions. These actions are discussed later in this report under DLA Energy Planned Corrective Actions.

Defense Logistics Agency Paid Invoices That Included Undisclosed Fees

DLA allowed its personnel to pay fuel invoices from MSC without verifying that the invoices did not include undisclosed fees. DLA Energy officials stated DLA paid MSC DoD OIG - (b)(4) from January 2005 through September 2010 for administrative fees, and officials were unaware they were paying these fees.⁹ Specifically, DLA Energy officials stated they were unaware that MSC added an administrative fee to the unit price paid for fuel on invoices billed to DLA Energy. DLA Energy paid the fees for almost 6 years before officials identified and questioned the discrepancy.



DLA allowed its personnel to pay fuel invoices from MSC without verifying that the invoices did not include undisclosed fees.

For example, documentation for one transaction showed that Army personnel purchased 253 gallons of noncontract fuel for an aircraft. The fuel merchant submitted an invoice to MSC requesting payment at a price of DoD OIG - (b)(4) per gallon. MSC increased the price per gallon to DoD OIG - (b)(4) when MSC invoiced DLA Energy. The difference between the fuel merchant's invoiced price per gallon and MSC's invoiced price per gallon was identified as MSC's administrative fee. See Appendix B for these invoices.

⁸ The scope of the AIR Card contract with KHI also includes developing a new transaction processing system for the SEA Card.

⁹ We did not validate the dollar value of the administrative fees because DLA Energy data were unreliable.

Administrative Fees Paid to MSC

During our review of the FY 2013 AIR Card transaction data, we identified a file named “Non-Contract Admin Fees” which covered October 1, 2012, through June 30, 2013. When we asked about the fees, DLA Energy program officials stated that they first discovered they were paying the fees to MSC in October 2010 while reviewing a quarterly report from MSC. A DLA Energy program official stated her review of the quarterly report indicated a difference between the price MSC paid its fuel merchants and the price MSC billed to DLA Energy for noncontract fuel transactions. DLA Energy officials stated that they contacted MSC on October 19, 2010, and requested that MSC explain the difference between the price MSC paid its merchants and the price MSC billed to DLA Energy.

MSC Defends Administrative Fees

MSC responded to DLA Energy in a letter, dated October 29, 2010, stating that MSC did not hide its fees or markups from DLA. In addition, the letter outlined MSC’s basis for charging the fees in accordance with the contract solicitation, performance work statement, statement of objectives, performance metrics for a performance-based services acquisition, and communications between the parties. In summary, MSC defended the legitimacy of the administrative fees, stating:

- DLA Energy’s 2004 solicitation sought a totally commercial solution to significantly improve service to its customers; written communications between MSC and the Government documented the need for assistance in negotiating better prices and passing the savings on to the Government;
- a written clarification to the solicitation¹⁰ acknowledged the common commercial practice to compensate the offeror for negotiating a better price and passing on the savings;
- an email from the program office documented DLA Energy’s approval for MSC’s merchant fees related to processing noncontract fuel transactions;
- DLA agreed with, and MSC exceeded, contract performance metrics, which included “average noncontract fuel savings per gallon is at least 13 percent per gallon...where discount savings are obtained” and “a minimum of 33 percent of noncontract fuel transactions quantity obtained a discounted price;” and

¹⁰ Under clarification number 118 to the solicitation, the contracting officer clarified contractor compensation for Statement of Objectives number 26, which addressed obtaining and passing on negotiated fuel discounts or savings. The same written clarification acknowledged that DLA Energy did not want to dictate how the compensation would be determined.

- the “MSC Discounted Price is our price to DLA Energy and cannot be read to be the fuel supplier’s price to MSC” and “the difference between [these prices] is our fee, something clearly contemplated by DLA Energy in [clarification 118 to the solicitation].”

~~(FOUO)~~ When we asked the contracting officer whether DLA Energy attempted to recoup the administrative fees from MSC, she responded that DLA did not attempt to recoup the fees because ^{DLA - (b)(5)} [redacted]

[redacted]
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 [redacted]
 [redacted]
 [redacted]
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¹¹ ~~(FOUO)~~ Specifically, ^{DLA - (b)(5)} [redacted] indicated: (1) DLA Energy sought a “totally commercial solution,” and the solicitation and MSC contract were structured to award a performance-based acquisition. The solicitation was based on a two-page list of 31 statements of objectives, and many were overly general and unclear, particularly with regard to fees; and (2) the performance metric for discount savings and noncontract fuel transactions was based on “posted fuel prices,” which were not published, tracked, or documented and, therefore, almost impossible to track as a means of measuring contractor performance. We reviewed the solicitation and found ^{DLA - (b)(5)} [redacted] comments to adequately describe the statement of objectives and performance metrics; we did not attempt to track posted fuel prices.

(FOUO) DLA - (b)(5) [Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]

Our review of the contract documentation¹² related to administrative fees did not disclose a reasonable basis to question the observations or conclusions reached by the DLA Energy senior counsel.

KHI AIR Card Contract Language More Clear, Detailed, and Specific

DLA - (b)(5) [Redacted] stated that DLA Energy incorporated lessons learned from the MSC contract into the current AIR Card contract with KHI and included much more detail as a result of the problems related to administrative fees that arose in the MSC contract. She stated that the KHI contract included a very detailed performance work statement specific to the AIR Card Program, restricted credit card transaction processing fees to a specific range, and prohibited administrative fees. She also stated that DLA Energy officials ensured the new AIR Card contract:

- required KHI to pass through all merchants fuel discounts without any additional fees or markups by KHI;
- established an acceptable range of transaction processing fees that KHI can charge merchants;
- included a clear, specific, and detailed performance work statement (70 pages long);
- required KHI to provide all AIR Card contractor invoices and merchant receipts as a PDF file for DLA Energy’s review; and
- did not include posted fuel prices as a performance metric for fuel discounts.

In addition, DLA Energy program officials stated that the new contract required KHI to provide DLA Energy a transaction processing system that will allow DLA Energy to have direct access to AIR Card transaction data and provide DLA Energy the ability to improve its oversight of the AIR Card Program.¹³

¹² We reviewed the solicitation and its amendments, the statement of objectives, clarification number 118 to the objectives, and MSC’s letter justifying its charge for the administrative fees.
¹³ DLA Energy officials stated that the new contract also includes 17 performance work requirements that establish metrics against which the COR can evaluate contractor performance specific to the AIR Card. DLA Energy officials stated that the performance work requirements provide DLA Energy with the opportunity to oversee KHI’s performance on a monthly basis and to hold KHI accountable for failure to perform.

We reviewed KHI's contract and confirmed that DLA Energy addressed these concerns in the contract language. The contract required KHI to provide transaction processing services at a firm fixed-price monthly rate. The contract also specifically included language to address administrative fees and record-keeping, stating in particular that:

- Discounts offered by merchants, vendors, or fuel suppliers shall be passed to the Government without any additional fees or markup made by KHI. KHI may charge merchants a transaction processing fee, but the fee may not exceed industry standards or be in a range where it does not promote merchant acceptance of the program.
- The AIR Card customer shall require KHI to negotiate, obtain, and pass on fuel discounts or savings, but KHI "shall never act or presume [sic] the responsibilities of pricing or adjusting the price" of a product or service purchased using the AIR Card.
- KHI shall ensure the merchant base is aware of the procedures for authorizing and settling AIR Card transactions for both fuel and nonfuel purchases, and record and document all captured savings and provide to DLA Energy quarterly.

DLA Continued to Pay Administrative Fees to KHI

DLA continued to pay administrative fees after the new contract was awarded to KHI. KHI's initial contract start date was July 1, 2012, and included a transition period through December 31, 2012, the date the MSC contract was scheduled to expire. During this 6-month overlap between the two contracts, MSC was supposed to continue processing AIR Card transactions, and KHI was supposed to develop their new transaction processing system, due to be delivered in December 2012, and be ready to process AIR Card transactions on January 1, 2013. However, during this same 6-month timeframe, MSC protested the KHI award, and MSC merged¹⁴ with KHI. As a result, DLA Energy delayed the start date of the KHI contract and the transition period to January 1, 2013. Consequently, on January 1, 2013, the MSC contract expired, and KHI began its transition period but had not yet developed the new transaction processing system. The due date for delivery of the system was also delayed as a result of the delayed contract start date.

DLA Energy officials stated that in order to continue processing AIR Card transactions after December 31, 2012, DLA Energy modified the KHI contract (modification P00002) to require KHI to process transactions from January 1, 2013,

¹⁴ On December 17, 2012, World Fuel Services Corporation (parent company of KHI) announced its purchase of select MSC assets. DLA Energy officials used the term "merged" to describe the event.

through June 30, 2013, “in accordance with the terms and conditions” of the prior MSC contract. The contract modification did not expressly prohibit administrative fees, and DLA Energy officials stated they continued to pay administrative fees for noncontract fuel transactions through June 30, 2013. DLA Energy officials stated that they paid about DoD OIG - (b)(4) in administrative fees to KHI, even though the new KHI contract prohibited the contractor from passing to the Government any fees or markup made by KHI. DLA - (b)(5) acknowledged that although the terms and conditions of KHI’s contract prohibited administrative fees, they did not consider addressing administrative fees in contract modification P00002.

We have concerns about whether DLA Energy contracting and legal officials have adequately considered the terms of contract modification P00002 and the contractor’s entitlement to administrative fees at Government expense during the 6-month transition period beginning January 1, 2013. Specifically, the modification revised the contractor’s performance requirements for the transition period by requiring it to “process transactions” in accordance with the terms and conditions of the prior MSC contract. In return, the Government agreed that, “for the increased work, the contractor will be paid DoD OIG - (b)(4) per month for the six month transition period.” In addition, the modification stated that all other terms and conditions of the new KHI contract remain unchanged. Although the DLA - (b)(5) [REDACTED] stated they did not consider addressing administrative fees in contract modification P00002, the modification established an additional fixed monthly price in return for the contractor’s performance of transaction processing services. The modification also incorporated by reference and without change, most of the terms and conditions of the new KHI contract. As indicated above, the new contract permitted KHI to charge merchants a transaction processing fee but did not permit fees or markups made by KHI to pass to the Government.

Based on these findings involving the contract modification, we are not certain that DLA Energy contracting and legal officials adequately assessed whether the requirement that KHI “process transactions in accordance with the terms and conditions” of the prior MSC contract included an entitlement by KHI to continue charging administrative fees to be paid by the Government.

Furthermore, DLA Energy officials acknowledged that they do not have controls in place to ensure that KHI has not billed administrative fees since KHI became responsible for processing transactions since conclusion of the transition period

on June 30, 2013. The Director, DLA, should require DLA Energy contracting officials, in consultation with legal counsel, to assess whether the Government properly paid administrative fees to the AIR Card contractor during the transition period, beginning January 1, 2013, under the terms of modification P00002 to contract SP0600-12-C-0359, and implement appropriate contract actions if payment was improper.

DLA Energy Program Officials Relied on Accountable Officials to Validate Fuel Transactions

DLA Energy officials did not effectively oversee AIR Card transactions to ensure that DoD AIR Card Program guidance was effectively implemented by accountable officials. DLA Energy officials stated that they generally relied on other, non-DLA officials to oversee AIR Card transactions and to identify and address questionable transactions, even though DoD Manual 4140.25-M charges DLA Energy with operational control and oversight of the AIR Card Program. Specifically, DLA Energy program officials relied on Military Service accountable officials to validate the accuracy of fuel transactions for payment, as required by AIR Card Program guidance, but program officials were not aware that some accountable officials were not following program guidance. DLA Energy program officials stated they expected accountable officials at the responsible commands to use supporting documentation (such as invoices and receipts) to substantiate the accuracy of fuel transactions. However, we contacted eight accountable officials,¹⁵ and they stated they did not validate fuel transactions to ensure the transactions were accurate for payment. In our discussions with these accountable officials:

- one stated he did not review fuel transactions because his unit did not pay the fuel charges;
- one stated he did not verify the fuel price because he did not believe the prices were important to the military;
- one stated he only compared the fuel charges against aircraft flight hours to determine whether aircraft flew on the days the squadron was charged;
- two delegated their responsibilities to a subordinate but did not state whether they verified that the subordinates validated the transactions; and
- three did not validate fuel transactions and did not explain why.

DoD IG Report No. D-2009-059 identified significant concerns with Air Force controls over AIR Card management. The report stated that the Air Force

¹⁵ We contacted eight accountable officials in the Military Services: Army (2), Air Force (2), and Navy (4).

component program manager did not provide sufficient administration and oversight of subordinate commands because he believed DLA Energy training and policy were adequate. Recommendations were made to the U.S. Air Force; however, the report did not make any recommendations to DLA Energy program officials.

DLA Energy program officials stated that although they rely on accountable officials to identify problem transactions, DLA Energy performs monthly reviews of five percent of manual contract fuel transactions based on random sampling in accordance with DLA Energy internal standard operating procedures.¹⁶ If DLA Energy personnel properly random sampled five percent of the manual contract fuel transactions for FY 2013, then the analyst would have reviewed approximately 956 transactions of the total 302,136 fuel transactions for FY 2013 (manual and electronic, contract and noncontract fuel transactions).

In addition, DLA Energy program officials stated that they did not perform any reviews of electronic fuel transactions or noncontract fuel transactions, which represent 283,024 transactions, valued at \$621.1 million, for FY 2013. Therefore, we nonstatistically selected three noncontract fuel transactions and compared the AIR Card transaction data from DLA Energy to the merchants' receipts and AIR Card contractors' invoices. We found inconsistencies in all three transactions. Specifically, for transaction:

- No. 1 (valued at \$7,577), the aircraft tail number was different on the merchant receipt, KHI's invoice, and the transaction data provided to us;
- No. 2 (valued at \$1,378), the aircraft model was different on the merchant receipt and transaction data provided to us;
- No. 3 (valued at \$10,283), the military unit provided three different merchant receipts for the same transaction. One receipt indicated an electronic fuel purchase, and two receipts indicated a manual fuel purchase; one of the manual receipts was imprinted with the credit card and one was hand-written. The manually imprinted receipt included an aircraft tail number and sale date that were different from the MSC invoice and the transaction data provided to us. In addition, the hand-written receipt indicated the fuel was sold to Lockheed Martin.

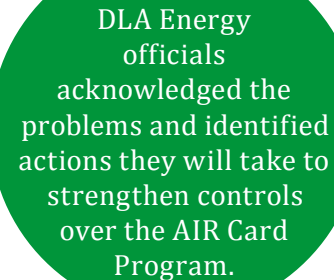
In response to our concerns about these types of discrepancies in fuel transaction documentation, DLA Energy officials stated that the tail number and model number were not relevant to the review. They also stated that there was nothing

¹⁶ We did not verify the sampling methodology or the results of the reviews. DLA Energy's internal standard operating procedure for performing the monthly reviews of manual transactions also requires that personnel summarize and document the results of the monthly reviews. DLA officials provided worksheets which did not summarize results of the reviews as required by their internal standard operating procedures.

wrong with the third transaction. However, these types of inconsistencies can be indicators of potential fraud and should be investigated. For example, the multiple aircraft tail numbers and aircraft models for transactions number 1 and 2, respectively, prevent accountable officials from detecting fraud by verifying that only authorized aircraft were refueled and by verifying that the quantity of fuel purchased did not exceed the fuel capacity of the type of aircraft.¹⁷ Similarly, the only receipt that identified the customer for transaction number 3 stated that the fuel was sold to Lockheed Martin instead of the military unit that had responsibility for the AIR Card, and MSC billed the fuel transaction to DLA. Overall, these transactions are questionable at best and raise concerns that AIR Cards were potentially used to refuel unauthorized aircraft at DoD's expense. DLA Energy should have controls in place to identify and correct, if necessary, discrepancies in the documentation for fuel transactions. The Director, DLA, should require the Deputy Director, Government Fuel Card Program Management Office, to develop a plan to assess the accuracy of fuel-transaction documentation so that discrepancies similar to those in this report can be identified and addressed.

Defense Logistics Agency Energy Planned Corrective Actions

We discussed the unreliable transaction data and lack of oversight with DLA Energy officials and shared the discrepancies we found during our preliminary review. DLA Energy officials acknowledged the problems and identified actions they will take to strengthen controls over the AIR Card Program. Specifically, the Deputy Director, Government Fuel Card Program Management Office, stated she will:



DLA Energy officials acknowledged the problems and identified actions they will take to strengthen controls over the AIR Card Program.

- redistribute fuel card policies and procedures to accountable officials to ensure adequate management controls are in place and proper processing procedures followed;
- develop a standard operating procedure to review AIR Card open-market transactions and begin reviewing AIR Card transactions manually in April 2014 until the new electronic access system is activated;
- select two or three card accounts on a quarterly basis from the universe of AIR, SEA, and DoD Fleet cards and conduct a review of each account with the responsible accountable official;

¹⁷ DoD Manual 4140.25-M, Volume II, Chapter 16, states that AIR Card transactions for fuel quantities in excess of aircraft fuel capacities are examples of fraud.

- provide newly assigned accountable officials with hands-on training within their first billing cycle;
- collaborate with component program managers and select accountable officials to create a Service-specific desk guide that can be used by accountable officials from each Service;
- host a component program managers' open forum to review current guidance and develop Service-specific supplement guidance; and
- conduct market research and begin discussions with General Services Administration SmartPay contracting officers to explore future options for AIR Card transaction processing in the event the new transaction processing system fails after the "go-live date" of September 1, 2014.¹⁸

These actions, if implemented effectively, should help mitigate the high risks associated with the AIR Card transactions. The Director, DLA, should verify that the planned corrective actions to improve controls over the AIR Card Program are assessed and implemented to reduce the risk of questionable transactions and improper payments and direct the development of any additional actions necessary to improve program oversight. In addition, the Director, DLA, should assess options available to DLA Energy and implement appropriate actions, in the event the AIR Card contractor fails to deliver the new transaction processing system in September 2014.

Conclusion

DLA Energy officials could not provide reliable AIR Card transaction data for FY 2013. DLA Energy contracting officials stated they are limited in actions they can take against KHI for failing to provide accurate, reliable transaction data because KHI has not yet delivered the new transaction processing system. As a result of the delayed delivery, DLA Energy continues to rely on the legacy system KHI acquired from the previous AIR Card contractor.

Given the problems associated with the legacy system and the lack of real-time access to the transaction data by DLA Energy officials, a robust control program is critical to mitigate risks associated with questionable transactions. DLA Energy officials report that they are taking action to improve their oversight of the AIR Card Program.

¹⁸ One senior DLA Energy program official stated that although the contractor is in technical default on delivery of the new system, DLA doubts that another contractor can provide transaction processing services for the AIR Card Program. DLA Energy officials acknowledge they are assuming the risk of another missed delivery date but believe KHI will deliver the new system in September 2014.

Recommendations, Management Comments, and Our Response

We recommend that the Director, Defense Logistics Agency, direct the Commander, Defense Logistics Agency Energy, to:

Recommendation 1

Require Defense Logistics Agency Energy contracting officials, in consultation with legal counsel, to assess whether the Government properly paid administrative fees to the Aviation Into-Plane Reimbursement Card contractor during the transition period, beginning January 1, 2013, under the terms of modification P00002 to contract SP0600-12-C-0359, and implement appropriate contract actions if payment was improper.

Defense Logistics Agency Comments

The Commander, Defense Logistics Agency Energy, responding for the Director, Defense Logistics Agency, agreed with the recommendation. The Commander stated that Defense Logistics Agency Energy contracting officials and legal counsel reviewed the terms and conditions of the contract again and found the administrative fees were properly paid.

Our Response

Comments from the Commander, Defense Logistics Agency Energy, addressed all specifics of the recommendations, and no further comments are required.

Recommendation 2

Require the Deputy Director, Government Fuel Card Program Management Office, to develop a plan to assess the accuracy of fuel-transaction documentation so that discrepancies similar to those in this report can be identified and addressed.

Defense Logistics Agency Comments

The Commander, Defense Logistics Agency Energy, responding for the Director, Defense Logistics Agency, agreed with the recommendation. The Commander stated that reliability, quality, and accuracy of data are relevant. He also stated random sample reviews are conducted for items on the invoice and in the system to measure and ensure transaction accuracy; that program officials followed up with the component program managers and accountable officials with regard to the discrepancies noted in the audit; and the newly delivered Electronic Access System will provide some additional tools for expansion of their Random

Sampling Program. Furthermore, the Commander stated that the program office, in collaboration with the component program managers and accountable officials, is conducting random sampling of processes and procedures to improve data accuracy and completeness; added a new management control item to “evaluate the accuracy of card contractor billing and ensure transactions charges are correct and appropriate;” will continue a monthly review of report samples; and will finalize control and standard operating procedures by the third quarter of FY 2015.

Our Response

Comments from the Commander, Defense Logistics Agency Energy, addressed all specifics of the recommendations, and no further comments are required.

Recommendation 3

Verify that the planned corrective actions to improve controls over the Aviation Into-Plane Reimbursement Card Program are assessed and implemented to reduce the risk of questionable transactions and improper payments and direct the development of any additional actions necessary to improve program oversight.

Defense Logistics Agency Comments

The Commander, Defense Logistics Agency Energy, responding for the Director, Defense Logistics Agency, agreed with the recommendation. The Commander stated Defense Logistics Agency Energy would implement the methodologies mentioned in the “Defense Logistics Agency Energy Planned Corrective Actions” section of this report in early 2015. He also stated the program office will coordinate with the Defense Logistics Agency Energy Auditability Office to establish new management controls that are assessed annually. He added that the program office is working with the component program managers, and accountable and certifying officials to have greater tools, checklists, and validation processes in place. Further, the Commander stated that Defense Logistics Agency Energy will increase its engagements and collaborative events to ensure clarity on the accountable officials’ duties, roles, and responsibilities; and is developing a new control to support the accountable officials’ awareness of their inherent responsibility by randomly selecting and intensively reviewing those invoices from the transaction to the reconciliation. The Commander stated the Aviation Into-plane Reimbursement Card desk guide will be updated and disseminated by the second quarter of FY 2015.

Our Response

Comments from the Commander, Defense Logistics Agency Energy, addressed all specifics of the recommendations, and no further comments are required.

Recommendation 4

Assess options available to Defense Logistics Agency Energy, and implement appropriate actions, in the event the Aviation Into-Plane Reimbursement Card contractor fails to deliver the new transaction processing system in September 2014.

Defense Logistics Agency Comments

The Commander, Defense Logistics Agency Energy, responding for the Director, Defense Logistics Agency, agreed with the recommendation. The Commander stated that the contractor delivered the new Aviation Into-Plane Reimbursement Card system and put it into production on September 1, 2014. He stated that Defense Logistics Agency Energy will continue to conduct market research to see if competition for the follow-on contract can be enhanced either through the GSA SmartPay@3 contracts or another DLA Energy Request for Proposal.

Our Response

Comments from the Commander, Defense Logistics Agency Energy, addressed all specifics of the recommendations, and no further comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit, from October 2013 through September 2014 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 objective.

DLA Energy could not provide reliable FY 2013 AIR Card transaction data. From October through December 2013, we made three requests to DLA Energy for the universe of FY 2013 AIR Card transaction data. DLA Energy officials obtained the data from KHI. The data we received in response to the first request included incomplete card numbers; specifically, the last digit was missing from each card number. DLA responded that this was a standard security measure and that the official responsible for pulling the data for us should have ensured we received complete card numbers. The data we received in response to our second and third requests were materially different from the data already provided by DLA Energy, and we determined that data were unreliable. DLA Energy officials attributed the problems to KHI, and in January 2014, offered to provide the data from DLA Energy's FES. However, DLA Energy officials acknowledged that KHI was the source of FY 2013 AIR Card transaction data in the FES. As a result, we could not test DLA Energy's controls to assess whether the program was operating as intended. However, this report addresses significant concerns relating to the lack of DLA Energy oversight of the AIR Card transactions.

We reviewed DoD governing regulations to gain an understanding on the AIR Card Program. Specifically, we reviewed DoD Manual 4140.25-M, Volume II, Chapter 16, "Government Fuel Card Program Management Office DoD Fleet Card, AIR Card, and SEA Card," February 26, 2009. We also reviewed key documents such as AIR Card contracts (contracts SP0600-04-C-0427 and SP0600-12-C-0359); monthly COR surveillance reports; merchant receipts; and contractors' invoices, memorandums and emails. We interviewed DLA Energy AIR Card program, contracting, and General Counsel officials to understand their roles and responsibilities for governing the AIR Card Program and using the AIR Card. We also interviewed eight AIR Card accountable officials from the U.S. Army, U.S. Navy, and U.S. Air Force to understand their responsibilities and processes for validating AIR Card transactions.

Use of Computer-Processed Data

We collected computer-processed data to determine whether DoD controls over the use of AIR Cards were effective for identifying high-risk or questionable transactions. Specifically, we obtained three sets of FY 2013 AIR Card transaction data from KHI via DLA Energy. We tested the three FY 2013 AIR Card transaction data sets using electronic testing procedures and found material inconsistencies between all three sets. Therefore, we concluded that the FY 2013 AIR Card transaction data received from DLA Energy were not reliable and could not be used as the basis for testing DLA Energy controls.

Use of Technical Assistance

The DoD IG Quantitative Methods Division performed data analysis on the initial set of FY 2013 AIR Card transaction data. During the analysis, we determined that the data set was inaccurate and incomplete, and the Quantitative Methods Division stopped its analysis. Quantitative Methods Division personnel assisted by obtaining two additional AIR Card transaction data sets, but each data set was different than the others. In consultation with the Quantitative Methods Division, we determined that a reliable universe of FY 2013 AIR Card transaction data was not available to perform this audit.

Prior Coverage

During the last 5 years, the DoD IG and Air Force Audit Agency issued four reports discussing the AIR Card Program. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

Unrestricted Air Force Audit Agency reports can be accessed from <https://www.foia.af.mil/palMain.aspx> by clicking on Freedom of Information Act Reading Room and then selecting audit reports.

DoD IG

Report No. D-2009-059, "Air Force Management of the U.S. Government Aviation Into-Plane Reimbursement Card Program," March 6, 2009

Air Force

Report No. F2013-0066-RWN000, "Aviation Fuels Management 168th Air Refueling Wing Air National Guard Eielson AFB AK," July 25, 2013

Report No. F2009-0063-FBN000, "Aviation Fuel Card Program 173d Fighter Wing Air National Guard Kingsley Field OR," June 9, 2009

Report No. F2008-0067-FDS000, "Off-Station Aviation Fuel Purchases 159th Fighter Wing Naval Air Station Joint Reserve Base New Orleans LA," July 24, 2008


Appendix B

(FOUO) A Merchant Fuel Invoice Submitted to Multi Service Corporation at **DoD OIG - (b) (4)** Per Gallon and Multi Service Corporation Invoice to DLA Energy that Revised the Fuel Price to **DoD OIG - (b) (4)** Per Gallon

Figure 1. (FOUO) Merchant Invoice Billing Multi Service Corporation at **DoD OIG - (b) (4)** Per Gallon

| | | | | | |
|---|---------------------------------|---|-------------------------------------|---|--|
| WORLD FUEL SERVICES COMPANY, INC-SUCURSAL COLOMBIA | | | | [REDACTED] | |
| [REDACTED] | | [REDACTED] | | INVOICE / FACTURA CUSTOMER NO./ NO. DE CLIENTE [REDACTED] INVOICE NO./ NO. DE FACTURA [REDACTED] INVOICE DATE/ FECHA DE FACTURA 23-NOV-12 PAGE NO./ NO. DE PAGINA 1 - 1 Tel: [REDACTED] Internet: www.wfscorp.com REMIT TO/REMITIR A: WORLD FUEL SERVICES [REDACTED] WIRE TO/TRANSFERIR MONTO A: [REDACTED] | |
| US GOVERNMENT / AIRCARD | | | | | |
| [REDACTED] | | | | | |
| DATE UPLIFTED/ FECHA DE SUMINISTRO | FUEL TICKET/ NO. DE REVISION | AIRCRAFT TYPE/ TPO DE AERONAVE McD Douglas KC-19 Extensor | FLIGHT NO/ NO. DE VUELO 46151 | PO NO/CONTRACT NO. NO. DE CONTRATO N/A | TERMS/ TERMINOS DE CREDITO 35 D FROM INV |
| TAIL NO/ MATRÍCULA DoD OIG - (b) | LOCATION/ AEROPUERTO | TERRITORY/ PAIS | DESTINATION/ DISTRITO N/A | | CONTACT/ CONTACTO |
| DISCRPTION/ DESCRIPCION | | QUANTITY/ CANTIDAD | UNIT PRICE/ PRECIO UNITARIO | EXTENDED AMOUNT/ SUBTOTAL | TAX AMOUNT/ IMPUESTOS |
| JET FUEL | | 253.00 US\$ | DoD OIG - (b) | DoD OIG - | 0.00 |
| | | | | | 0.00 |
| INVOICE AMOUNT/ TOTAL FACTURADO DoD OIG - | | | | | |
| COMMENTS/NOTAS | | | | | |
| Des (former Card No): [REDACTED] | | | | | |
| UNIT PRICE PRECIO UNITARIO (FOUO) DoD OIG - (b)(4) | | | | | |
| RECEIVED DEC 14 2012 | | | | | |
| This transaction is subject to the terms and conditions of sale set forth at http://www.wfscorp.com/wfscorp/doca/gto-avintem.pdf WE WILL ASSUME THIS INVOICE TO BE CORRECT UNLESS WE RECEIVE WRITTEN NOTICE FROM YOU WITHIN 14 DAYS FROM THE INVOICE DATE. Esta transacción está sujeta a los términos y condiciones de venta establecidos en el sitio de Internet: http://www.wfscorp.com/wfscorp/doca/gto-avintem.pdf ASUMIREMOS QUE ESTA FACTURA ES CORRECTA A NO SER QUE SE RECIBA UNA NOTIFICACION SUYA POR ESCRITO EN UN TERMINO NO MAYOR A 14 DIAS DE LA FECHA DE ESTA FACTURA. | | | | | |
| MAIL INSTRUCTIONS/ MODO DE ENVIO ELECTRONIC | | AMOUNT/IMPORTE DoD OIG - (b)(4) | | SALBS ORDER NO/ ORDEN DE PAGOS DoD | PLEASE REMIT THIS AMOUNT/ POR FAVOR PAGAR ESTE MONTO DoD OIG - (b) |
| Received by [REDACTED] at 12/13/2012-20:42 (3856) [11/14] | | | | | |

Figure 2. ~~(FOUO)~~ MSC Invoice to DLA Energy, Raising Fuel Price to ~~██████████~~ Per Gallon



MULTI SERVICE
US Government AIR Card®

Multi Service Corporation
AIR Card Invoice
Invoice Date: 20-Dec-2012
Billing Reference: --
Invoice Number: ██████████

Page:108

Transaction ID: ██████████
Transaction #: ██████████
Transaction Date: 23-Nov-2012
Fund Code: AA
Signal Code: A

Customer Acct #: ██████████
Customer Name: ██████████
Tail Number: ██████████
Air Card #: ██████████
APC/JSN/ORG: ██████████

FBO: World Fuel Svcs Inc
ICAO: ██████████
Location: ██████████
Phone: ██████████

Transaction Details

| CLIN | Item Description | Delivery Date | Quantity | Unit of Measure | Unit Price | Total(USD) |
|--------------------------|------------------|---------------|----------|-----------------|------------|------------|
| | Jet A1 | 29-Oct-2012 | 253.0 | US Gallon | DoD | DoD OIG |
| Transaction Detail Total | | | | | | DoD OIG |

~~(FOUO)~~ Unit Price

DoD OIG - (b)(4)

Authorized Certifying Officer (Print Name)

Signature

Signed Date

Contact us for support by email ██████████, call toll-free ██████████
or mail inquiries to ██████████

Management Comments

Defense Logistics Agency Energy



**DEFENSE LOGISTICS AGENCY
ENERGY
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6222**

October 14, 2014

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR
GENERAL

SUBJECT: Defense Logistics Agency Energy Needs to Improve Oversight of the Aviation Into-Plane Reimbursement Card Program (Project No. D2014-D000CI-0026.000)

DLA Energy has reviewed the DoD Office of the Inspector General Issuance of the Official Draft Report on the Audit of DLA Energy's Need to Improve Oversight of the Aviation Into-Plane Reimbursement Card Program (emailed September 16, 2014). DLA Energy concurs with comment on the four recommendations contained in the report.

A handwritten signature in black ink, reading "Mark Michael McLeod", is positioned above the typed name and title.

MARK MCLEOD
Brigadier General, USAF
Commander

Defense Logistics Agency Energy (cont'd)

Draft Response DoDIG Project No. D2014-D000CI-0026.000

Recommendation 1: Require Defense Logistics Agency Energy contracting officials, in consultation with legal counsel, to assess whether the Government properly paid administrative fees to the Aviation Into-Plane Reimbursement Card contractor during the transition period, January 1, 2013, under the terms of modification P00002 to contract SP0600-12-C-0359, and implement appropriate contract actions if payment was improper.

Concur/Complete. DLA Energy contracting officials and legal counsel have again reviewed the contract terms and conditions for the transition period and found the administrative fees were properly paid.

Recommendation 2: Require the Deputy Director, Government Fuel Card Program Management Office, to develop a plan to assess the accuracy of fuel transaction documentation so that discrepancies similar to those in this report can be identified and addressed.

Concur with comment. Reliability, accuracy, and quality of data are relevant. However, should errors or omissions in data elements occur (e.g. aircraft tail or model number, incorrect merchant number inputs, or truncated numbers as with the transaction referenced in the Audit), the correct information associated with the card is identified and corrected upon the transaction processing through the card transaction files. For this reason, a different tail number or model number would remain reflected on an invoice as compared to what appears in the system records. Random Sample reviews are conducted to include a review of multiple items on the invoice and in the system for comparison to measure and ensure transaction accuracy. DLA Energy Card Program managers followed up with the Component Program Managers (CPMs) and Accountable Officials (AOs) with regard to the discrepancies noted in the Audit. Correct invoices have been provided for the transactions. DLA Energy agrees that AOs need improved training covering proper review and maintenance of transactional data and evidentiary matter. The newly delivered Electronic Access System (EAS) will provide some additional tools for AOs as well as DLA Energy expansion of our Random Sampling program.

Corrective Action: Our Program Management Office now performs Random Sampling of processes and procedures, in collaboration with CPMs and AOs, to improve transactional data accuracy and completeness. A new management control item to "evaluate the accuracy of card contractor billing and ensure transactions charges are correct and appropriate" has been added. Two report samples were completed for the month of July and August and DLA did not find evidence of altered or erroneous charges to the merchant invoices. DLA Energy will continue this new monthly review process. The control activity will be refined as we move forward in our review of our processes and procedures. The control and standard operating procedure will be finalized by 3rd quarter, FY15. Additionally, the fuel card office will coordinate a comprehensive review process with AOs and CPMs to address aircraft equipment information to ensure update to the AIR Card® database.

Recommendation 3: Verify that the planned corrective actions to improve controls over the Aviation Into-Plane Reimbursement Card Program are assessed and implemented to reduce the

Defense Logistics Agency Energy (cont'd)

risk of questionable transactions and improper payments and direct the development of any additional actions necessary to improve program oversight.

Concur. As indicated on pages 17 and 18 of the subject report, DLA Energy has developed several new methodologies to assure program improvement. Implementation of these methodologies is underway and finalized application is expected in early 2015. In effort to "check the checker," the Fuel Card Program Office will also coordinate with the DLA Energy Auditability Office to establish new management controls that are assessed annually and reported up the chain of command. It is noted that the CPM offices are extremely short staffed. If only one person is assigned, the oversight of fuel cards is not a primary role for the CPM. For example, the Army (G4) and Air Force (A3) CPM offices consist of one person handling the entire fuel card program, to include many other job roles and responsibilities. The Fuel Card Program Office is working with the CPMs, AOs, and Certifying Officers have greater tools, checklists and validation processes in place. As to the IG finding that Accountable Officials were not informed or experienced in their duties, DLA Energy will be increasing our engagements and collaborative events to ensure clarity on the AO duties, roles and responsibilities. DLA will also update the training materials with standard procedures for validating transactions and account reconciliations.

DLA Energy is developing an additional management control to support AO awareness of the inherent responsibilities by randomly selecting accounts for intensive monthly review of AO invoices from transaction to reconciliation. This will enable DLA Energy Program Managers to identify if the AO has a thorough understanding of their responsibilities and to provide additional training or recommendations to the Component.

Additionally, the AIR Card desk guide will be updated and disseminated by the 2nd quarter of FY15 to include new procedures and guidance.

Recommendation 4: Assess options available to Defense Logistics Agency Energy, and implement appropriate actions, in the event the Aviation Into-Plane Reimbursement Card contractor fails to deliver the new transaction processing system in September 2014.

Concur/Complete. The new AIR Card Electronic Access System (EAS) was delivered by the contractor and went into production on September 1, 2014. However, DLA Energy will continue to conduct market research to see if there are opportunities to enhance competition for the follow-on contract, either through the GSA SmartPay@3 contract, or another DLA Energy Request for Proposal.

Acronyms and Abbreviations

- AIR** Aviation Into-Plane Reimbursement
- COR** Contracting Officer's Representative
- DLA** Defense Logistics Agency
- FES** Fuels Automated Systems Enterprise Server
- KHI** Kropp Holdings, Inc.
- MSC** Multi Service Corporation
- SEA** Ship Bunkers Easy Acquisition



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