



June 2023

DOD BULK FUEL

Improved
Management over
Transactions Could
Lead to More Reliable
Financial Reporting

GAO Highlights

Highlights of [GAO-23-105531](#), a report to congressional committees

Why GAO Did This Study

DLA manages DOD's bulk fuel program. Auditors reported a material weakness in fiscal year 2022 relating to DLA's inability to provide documentation supporting the balances of fuel inventory held in pipelines and fuel in transit.

This report was developed in connection with GAO's audit of the U.S. government's consolidated financial statements. This report examines the extent to which DOD policies for recording and reporting bulk fuel purchase data are consistent with relevant guidance, and selected components' procedures for recording and reporting bulk-fuel purchase data are consistent with DOD policies.

GAO reviewed relevant reports, guidance, and documentation; interviewed DOD officials; conducted site visits; and selected four DOD components for the review: the Departments of the Air Force, Army, and Navy and the U.S. Transportation Command. These four components accounted for approximately 89 percent of DOD's total fuel purchased in fiscal year 2021.

What GAO Recommends

GAO is making 21 recommendations to DOD, including that the components document their end-to-end business processes and that DOD develop a plan to delineate the rights and responsibilities of each party responsible for DOD bulk fuel functions. DOD concurred with all 21 recommendations and stated that it will ensure that the recommendations are addressed.

View [GAO-23-105531](#). For more information, contact Kristen Kocielek at (202) 512-2989 or kocielekk@gao.gov.

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DOD BULK FUEL

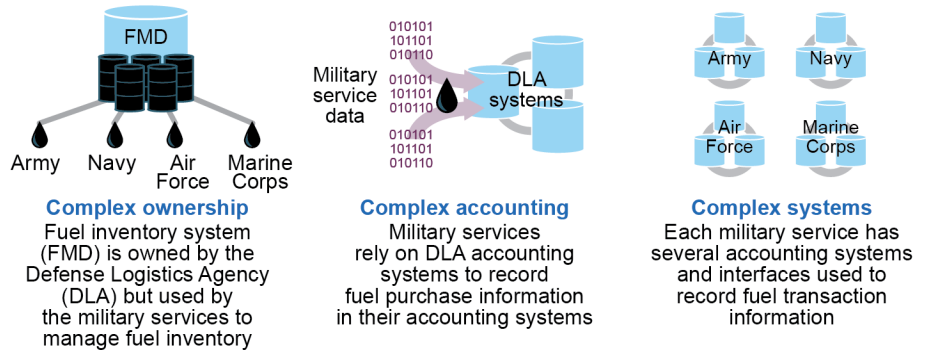
Improved Management over Transactions Could Lead to More Reliable Financial Reporting

What GAO Found

The Department of Defense (DOD) is the U.S. government's largest purchaser and consumer of bulk fuel, expenditures for which totaled \$10.3 billion in fiscal year 2022. DOD's fuel process is complex in that it includes a variety of process owners, stakeholders, locations, and systems and a large volume of transactions from a variety of entities. This complexity makes it important for management to create and maintain documentation that accurately depicts the end-to-end business process, including all relevant internal controls.

However, GAO found that the military services and selected DOD components have not fully documented their end-to-end business process for purchasing, selling, and recording fuel transactions in their financial accounting systems. The components have documented several aspects of the process in various procedure documents, but the existing documentation is outdated and incomplete. Without accurate bulk fuel end-to-end business process documentation, there is an increased risk that entities will not appropriately design and implement control activities for purchasing bulk fuel, affecting DOD's ability to ensure accountability and control costs. This could result in policy makers not having reliable information about how DOD is using the resources it is provided.

Complexities with DOD Bulk Fuel Process



Source: GAO analysis of DOD information. | GAO-23-105531

The military services and the Defense Logistics Agency (DLA) have not established memorandums of agreement (MOA) in a number of cases to delineate the rights and responsibilities of the parties in using the military services' Defense Fuel Support Points to store and manage DLA-owned bulk fuel. A March 2019 policy required that the military installations establish MOAs with any DOD component (e.g., DLA) using the real property assets the military services owned. As of October 2022, though it needed MOAs with about 500 military installations that store fuel, DLA had established 10 MOAs and had no plan for establishing the additional MOAs. Having a plan to guide its work establishing MOAs with the different military installations would help DOD accomplish this effort, which will clarify the rights and responsibilities of the parties at each installation.

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Abbreviations

DFAS	Defense Finance and Accounting Service
DFSP	Defense Fuel Support Point
DLA	Defense Logistics Agency
DOD	Department of Defense
FMD	Fuels Manager Defense
MILSTRIP	Military Standard Requisitioning and Issue Procedure
MOA	memorandum of agreement
OIG	Office of Inspector General
OMB	Office of Management and Budget
OSD	Office of the Under Secretary of Defense
PCM	Process Cycle Memorandum
USTRANSCOM	U.S. Transportation Command

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June 22, 2023

Congressional Committees

The Department of Defense (DOD) is the U.S. government's largest purchaser and consumer of bulk fuel, for which it and its customers paid a total of \$10.3 billion in fiscal year 2022.¹ DOD purchases fuel in bulk and sells it to a variety of DOD entities (e.g., the military services) and non-DOD entities (e.g., foreign governments and other federal government entities).² Annually, DOD's fuel customers estimate the amount of fuel they will consume, and DOD sets a standard price per barrel that it will charge its fuel customers.³ The Defense Logistics Agency (DLA) is responsible for managing DOD's bulk fuel program, including procuring fuel on the open market, storing and transporting the fuel, and selling the fuel to DOD customers. DLA uses its money from its working capital fund to finance bulk fuel purchases and reimburses the fund when it receives payment from its customers.⁴

In its audit report on DLA's fiscal year 2022 working capital fund financial statements, DLA's auditor reported a material weakness in internal control over financial reporting relating to DLA's inventory processes, including the agency's inability to support fuel inventory held in pipelines and fuel in transit. DLA developed a plan to address the material weakness. However, according to DLA, the plan could take until fiscal year 2025 to fully implement. Both the DOD Office of Inspector General (OIG) and GAO have issued reports highlighting issues with DOD's bulk fuel program. For example, in June 2021, the OIG reported that the

¹The Defense Logistics Agency (DLA) and some components use the term bulk fuel to refer to the fuel DLA sells to the components. Some components use the term fuel instead of bulk fuel. For the purpose of this report, we will use the term bulk fuel to refer to fuel that DLA sells.

²For purposes of this report, the military services consist of the Air Force, Army, Navy, and Marine Corps. Space Force is not included as it did not purchase any bulk fuel in fiscal year 2021.

³The standard fuel price per barrel may be changed during the fiscal year to ensure that the fuel program remains solvent.

⁴GAO, *Defense-Wide Working Capital Fund Agencies Apply Most Key Operating Principles but Should Improve Pricing Transparency*, [GAO-20-65](#) (Washington, D.C.: Nov. 1, 2019).

military departments incurred \$250.5 million in questioned costs related to DOD's aviation fuel card program.⁵

In September 2016, we reported on DOD's and the military services' bulk fuel budget estimates.⁶ We found that DOD did not fully reconcile differences in the military services' reported actual fuel consumption data, and it did not reconcile the military services' reported actual fuel information and DLA fuel sales data to identify potential discrepancies and resolve them.⁷ DOD has not yet taken action on a GAO recommendation to report complete fuel consumption information to Congress.

Sound financial management practices and reliable, useful, and timely financial information are important for ensuring accountability over DOD's extensive resources, such as bulk fuel, and for efficiently and effectively managing the department's assets and budgets. Since 1995, GAO has designated DOD financial management as high risk because of pervasive weaknesses in its financial management systems, business processes, internal controls, and financial reporting.⁸ These weaknesses have adversely affected DOD's ability to prepare auditable financial statements, which is one of the three major impediments preventing us from expressing an audit opinion on the U.S. government's consolidated financial statements.⁹

⁵Department of Defense, Office of Inspector General, *Audit of Military Departments' Purchases of Aviation Fuel and Non-Fuel Services Using the Aviation Into-Plane Reimbursement (AIR) Card*, DODIG-2021-096 (Washington, D.C.: June 25, 2021).

⁶GAO, *Bulk Fuel: Actions Needed to Improve DOD's Fuel Consumption Budget Data*, [GAO-16-644](#) (Washington, D.C.: Sept. 12, 2016).

⁷These reconciliations consist of comparing the military services' reported fuel consumption spending and DLA fuel sales' data.

⁸GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, [GAO-21-119SP](#) (Washington, D.C.: Mar. 2, 2021).

⁹Since the federal government began preparing consolidated financial statements, for fiscal year 1997, the other two impediments preventing us from rendering an audit opinion on the federal government's consolidated financial statements are (1) the federal government's inability to account for intragovernmental activity and balances between federal entities adequately and (2) the weaknesses in the federal government's process for preparing the consolidated financial statements. See GAO, *Financial Audit: FY 2022 and FY 2021 Consolidated Financial Statements of the U.S. Government*, [GAO-23-105837](#) (Washington, D.C.: Feb. 16, 2023).

We performed this audit in connection with our audit of the U.S. government's consolidated financial statements, which cover all accounts and associated activities of executive branch agencies, including DOD.

This report examines the extent to which (1) DOD established documentation and guidance for recording and reporting bulk fuel purchase data, (2) selected DOD components' procedures for recording and reporting bulk fuel purchase data were consistent with DOD policies, (3) procedures for recording and reporting bulk fuel purchase data were consistent among selected components, and (4) DOD performed bulk fuel reconciliations consistent with DOD policies and procedures.¹⁰

For our objectives, we selected four DOD components, which, in fiscal year 2021, accounted for approximately 89 percent of DOD's total fuel purchased: the Departments of the Air Force, Army, and Navy and the U.S. Transportation Command (USTRANSCOM). We reviewed policies and procedures for recording, reporting, and reconciling fuel-purchase data in the financial accounting records at the DOD consolidated level and at the selected components. We also interviewed officials from the Office of the Under Secretary of Defense (OUSD) (Comptroller), Defense Finance and Accounting Service (DFAS), DLA, and selected components to obtain an understanding of the policies and procedures in place for recording, reporting, and reconciling bulk fuel transactions. For a detailed description of our scope and methodology, see appendix I.

We conducted this performance audit from November 2021 to June 2023 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.

Background

DOD Bulk Fuel Process

The process of purchasing and selling bulk fuel involves numerous officials and organizations within DOD, as seen in table 1. In 2004, the Secretary of Defense designated DLA as the executive agent for bulk

¹⁰For purposes of this report, we use the term DOD guidance when referring to department-wide guidance.

petroleum.¹¹ This authority granted DLA the responsibility to execute supply chain management for all DOD bulk fuel, in order to improve efficiency and minimize duplication and redundancy within the supply chain.¹² The National Defense Authorization Act for Fiscal Year 2022 designated USTRANSCOM as the entity responsible for bulk fuel management and delivery for DOD on a global basis.¹³ The act required DOD to fully implement the changes of responsibilities by February 1, 2023. However, as of March 2023, DOD was still in the process of implementing the required changes.

Table 1: DOD Officials with Fuel-Related Responsibilities

Official	Responsibilities
Under Secretary of Defense for Acquisition and Sustainment	Establishes policies, grants waivers, and approves changes in the management of energy commodities, including bulk fuel.
Under Secretary of Defense (Comptroller)	Establishes financial policies and guidance for the management of energy commodities and related services, in coordination with the Under Secretary of Defense for Acquisition and Sustainment.
Director, Defense Logistics Agency (DLA)	Serves as the integrated material manager for energy commodities and related services. Also, serves as DOD's executive agent for bulk petroleum, and coordinates with components to share and leverage DOD resources to reduce costs and avoid unnecessary redundancies.
DOD component and participating agency heads	Implement the procedures prescribed in DOD 4140.25-M, volume 1, <i>DOD Management of Energy Commodities: Overview</i> . Also, make maximum use of commercial and host-nation sources of supply to meet peacetime and wartime requirements.
Secretaries of the military departments	Minimize government-owned fuel infrastructure on military installations to the maximum extent possible through the use of commercial assets and privatization of existing infrastructure, except those systems needed for unique security reasons or when privatization is uneconomical. Also, ensure that real property assets that store and transfer DLA energy commodities necessary for the support and operations of storage and distribution facilities are properly coded in the host military department's real property database, among other things.
Chairman of the Joint Chiefs of Staff	Advises the DOD bulk fuel executive agent regarding matters of DOD military contingency and wartime planning and execution.
Combatant commanders	Carry out combatant commander responsibilities for fuel distribution within a theater of operations.

¹¹The term bulk petroleum is used interchangeably with "bulk fuel" and includes the different types of fuel products that DLA sells, such as natural gas, fossil fuel, jet fuel, and marine diesel. For purposes of this report, we will use the term bulk fuel when referring to petroleum products sold by DLA and purchased by its clients.

¹²Supply chain management involves activities to maximize customer value and achieve a sustainable competitive advantage.

¹³Pub. L. No. 117-81, div. A, § 352, 135 Stat. 1541, 1654 (Dec. 27, 2021), *codified at* 10 U.S.C. § 2927.

Official	Responsibilities
Commander, U.S. Transportation Command (USTRANSCOM)	Plans for and provides air, land, and sea transportation, other than service-unique or theater-assigned assets, of energy commodities for DOD during peacetime and wartime, which supplements the primary responsibilities assigned to the military departments and DLA. Performs other responsibilities as delegated.

Source: GAO analysis of Department of Defense (DOD) policies. | GAO-23-105531

Note: The responsibilities listed in the table are prior to and do not reflect DOD's implementation of changes resulting from the National Defense Authorization Act for Fiscal Year 2022 designating USTRANSCOM as the element responsible for bulk fuel management and delivery for DOD globally.

DLA Energy is responsible for managing DOD's Bulk Fuel Program, including procuring fuel, storing and transporting it, and selling it to DOD customers.¹⁴ DOD fuel customers include the military services; other DOD components, such as USTRANSCOM; other federal entities; and foreign governments. DLA uses the Defense-wide Working Capital Fund—which finances activities at DFAS, the Defense Information Systems Agency, and DLA—to purchase bulk fuel. DLA Energy sells fuel to the military services and other customers at standard prices and reimburses the fund for the fuel it sells.¹⁵ DLA Energy stores bulk fuel at Defense Fuel Support Points (DFSP), which are real property assets owned by either the military services or contractors. DFSPs are located on military installations, at contractor facilities, and on floating vessels (e.g., afloat DFSPs) across the world.

The different types of DFSPs are

- government-owned, government-operated;
- government-owned, contractor operated;
- contractor-owned, contractor-operated;
- commercial pipeline;
- floating storage; and
- foreign government.

The military services own the real property at most DFSPs. Military personnel, contractors, or civilian personnel typically manage them,

¹⁴DLA Energy manages and sells several types of products—jet fuels, missile fuels, aviation and automotive gasoline, heating oil, and lubricants—in addition to coal, natural gas, electricity, and alternative fuels.

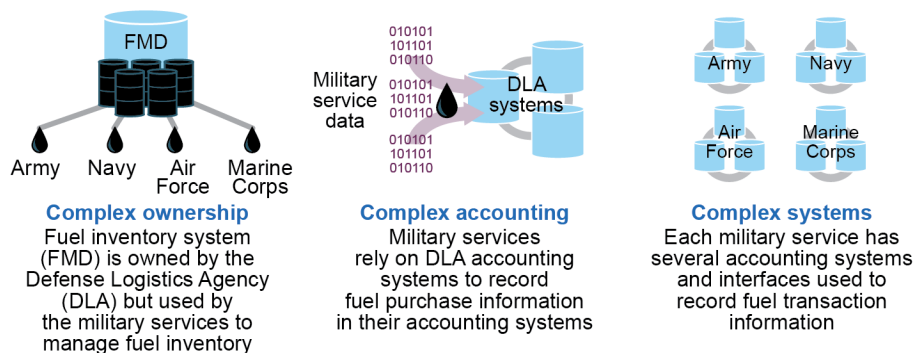
¹⁵Standard price is the price per gallon of fuel DLA charges its customers. OUSD (Comptroller) sets the standard fuel prices annually based on estimated costs of refined fuel and operating costs.

depending on the type of DFSP. DLA reported that in fiscal year 2022, there were more than 500 DFSPs worldwide.¹⁶

DOD, DLA, the Military Services, and USTRANSCOM Bulk Fuel Guidance

The process of recording, reporting, and reconciling fuel transactions at the DFSPs is complex and involves multiple organizations that issue relevant guidance, as seen in figure 1.

Figure 1: Complexities with DOD Bulk Fuel Process



Source: GAO analysis of DOD information. | GAO-23-105531

DOD has issued guidance for managing energy commodities, including bulk fuel, natural gas, coal, and electricity, to support peacetime and wartime missions and to permit successful and efficient deployment and employment of forces. Its overarching policy on managing energy commodities establishes policy for efficient use of fuel sources, minimizing fuel inventory levels, and maximizing use of fuel sources from host nations and commercial sources.¹⁷

In addition, DLA, the military services, and USTRANSCOM have issued guidance for the operations, financial management, and reporting of DLA-owned fuel inventory stored in the DFSPs. For example, in April 2019, DLA Energy issued DLA Energy P-1, *Recording and Processing Inventory Transactions*, to provide guidance to DFSP personnel on the daily recording, processing, and reconciliation of DFSP fuel inventory.

¹⁶Defense Logistics Agency, *Defense Logistics Agency Energy Fiscal Year 2022 Energy Fact Book*, 45th ed. (Fort Belvoir, V.a.).

¹⁷DOD Instruction 4140.25, *DOD Management Policy for Energy Commodities and Related Services* (Dec. 31, 2019). Other fuel-related policy documents include DOD Directive 5101.8E, *DOD Executive Agent for Bulk Petroleum* (Sept. 19, 2017), and Joint Chiefs of Staff, Joint Pub. 4-03, *Joint Bulk Petroleum and Water Doctrine* (Nov.30, 2017).

DOD's Financial Reporting and Accounting Process

Financial statements provide information about an organization's financial position—such as assets (what it owns) and liabilities (what it owes)—as of a certain point in time. They also provide the financial results of an organization's operations—such as revenues (what came in) and expenses (what went out)—over a period of time, such as a fiscal year. Financial statements are prepared based on the summarized, or consolidated, financial information from an organization's accounting systems. Their reliability depends on there being accurate financial information in the accounting systems.

The process of recording fuel transactions in accounting systems occurs at individual DOD components (e.g., military services, DLA, or USTRANSCOM). These components use multiple accounting systems to record and summarize their financial transactions.¹⁸ For example, the Navy uses the Enterprise Resource Planning system and the Standard Accounting, Budgeting, and Reporting System to record and report fuel purchase transactions.

Components regularly send summarized fuel transaction information to DFAS,¹⁹ the DOD agency that provides accounting support for DOD.²⁰ DOD's core financial reporting system consolidates the summarized financial information from individual components into DOD's department-wide financial information.

Previously Identified Deficiencies in DOD's Bulk Fuel Program

Over the years, the DOD OIG and the military services' and DLA's financial statement auditors have reported issues with DOD's bulk fuel program. In the fiscal year 2022 audit of the working capital fund financial statements, DLA's auditor reported a material weakness relating to DLA's inability to provide documentation supporting the balances of fuel inventory held in pipelines and fuel in transit.²¹ The auditor also found

¹⁸Most components have several accounting and financial systems that capture accounting information. For example, the General Fund Enterprise Business System is the Army's primary accounting system used to record the majority of its transactions, and the Enterprise Business System is DLA's primary accounting system.

¹⁹The one exception at DOD is the U.S. Army Corps of Engineers, which prepares its own financial statements without DFAS assistance and submits its financial information for DOD consolidation purposes.

²⁰There are three main DFAS sites, in Cleveland, Ohio; Columbus, Ohio; and Indianapolis, Indiana. DFAS-Cleveland supports the Navy and Marine Corps, whereas DFAS-Columbus supports the Air Force. DFAS-Indianapolis provides most of the Army's accounting support, but DFAS-Columbus also provides a small portion.

²¹DLA has developed a plan to address the material weakness; the plan indicates that it could take until fiscal year 2025 to complete.

deficiencies in policies, procedures, and internal controls surrounding documentation of (1) fuel purchases and disbursements, (2) tracking of inventory by owner, (3) validating the perpetual inventory systems by performing periodic physical counts, (4) accumulating cost of inventory, and (5) supporting inventory balances and transactions.

We have also reported issues with DOD's bulk fuel program. In September 2016, we reported that DOD had taken some steps to report fuel consumption data in annual budget requests, but did not (1) fully reconcile differences in the military services' reported actual fuel consumption data or (2) include some fuel consumption data that could be used to evaluate funding requests for fuel.²² DOD did not concur with our recommendation to report to Congress complete fuel consumption information that includes actual and estimated fuel volume and actual operations and maintenance base obligations for fuel consumption, and has not taken action to address it.

DOD Documentation and Guidance for Recording and Reporting Fuel Purchases Are Incomplete

DOD, DLA, and the selected components have issued guidance for recording, reporting, and reconciling fuel purchases. However, the military services, DLA, and USTRANSCOM have not fully documented the end-to-end fuel business process. DOD guidance also lacks sufficient detail for managing and processing fuel transactions. For example, the guidance does not define the roles and responsibilities of military service personnel in managing and overseeing fuel stored at the military installations. In addition, DOD reporting guidance lacks details for reconciling yearly fuel purchases and sales.

Military Services, DLA, and USTRANSCOM Have Not Fully Documented the Fuel Business Process

The military services and USTRANSCOM have not fully documented the end-to-end fuel business process, including relevant internal control activities, for purchasing, and recording fuel transactions in their financial accounting systems.²³ Also, DLA has not fully documented the end-to-end fuel business process, including relevant internal control activities, for procuring, selling, and recording fuel transactions in its financial accounting systems. While they have recorded several aspects of the process in various procedure documents, the majority of the existing documentation is incomplete, as shown in table 2.

²²[GAO-16-644](#).

²³End-to-end business process documentation includes all the steps performed in a particular task, such as when entities purchase goods and services and record the transactions in their accounting systems. Entities typically document these steps as they are performing them.

Table 2: Department of Defense (DOD) Selected Component End-to-End Fuel Business Process Documentation Deficiencies

Organization	Bulk fuel end-to-end business process documentation	Issued/ effective date	GAO-identified deficiencies
Air Force	<ol style="list-style-type: none"> 1. <i>Military Standard Requisitioning and Issue Procedures (MILSTRIP) Business Process Cycle Memorandum (PCM)</i>^a 2. <i>Military Standard Requisitioning and Issue Procedures Business Process Flow</i> 	<ol style="list-style-type: none"> 1. 9/30/2019 2. 9/30/2022 	<p>Air Force officials stated that the documentation does not include process descriptions, supporting narratives, and process flows for purchasing bulk fuel. The Air Force expects to include the specific processes related to purchasing fuel in the fiscal year 2023 MILSTRIP PCM update.</p>
Army	<ol style="list-style-type: none"> 1. MILSTRIP Process Details 2. Procure-to-Pay MILSTRIP 3. Army Technical Publication (ATP) 4-43 Petroleum Supply Operations 4. Army Regulation 710-2, <i>Inventory Management</i> 	<ol style="list-style-type: none"> 1. 6/30/2022 2. 6/30/2022 3. 4/2022 4. 3/28/2008 	<p>The documentation does not align with the requisition process for recording point-of-sale fuel transactions that we observed during our walk-throughs at Ft. Bliss and Ft. Hood. Further, the documentation does not describe key aspects of purchasing fuel through the MILSTRIP process, such as the entities involved in creating the requisition and assigning the document numbers (i.e., the Defense Logistics Agency or the Army) that conform to requirements set forth in Defense Logistics Manual (DLM) 4000.25, volume 2, <i>Supply Standards and Procedures</i>.</p>
Marine Corps	<ol style="list-style-type: none"> 1. <i>United States Marine Corps Installations and Logistics Military Standard Requisition and Issue Procedures (MILSTRIP): Fuel</i> 2. <i>Interim Manual Payment Packages for Wide Area Workflow-Miscellaneous Payment</i> 3. <i>USMC DEFENSE AGENCIES INITIATIVE TRANSITION P2P: Enter a WAWF MISC Pay Requisition Scenario Instructions</i> 	<ol style="list-style-type: none"> 1. FY 2022 (no specific date provided) 2. 12/1/2021 3. 2021 (no specific date provided) 	<p>The documentation does not describe key aspects of the Marine Corps' process for purchasing fuel through the MILSTRIP process. For example, there is no description of the process for assigning document numbering to entities external to the Marine Corps that are responsible for creating and assigning the MILSTRIP document number (i.e., DLA), per the requirements set forth in DLM 4000.25, volume 2, <i>Supply Standards and Procedures</i>. In addition, the documentation does not discuss the Marine Corps' process for recording fuel purchased in expense accounts or the specific general ledger expense accounts that the different types of fuel purchases affect.</p>
Navy	<p><i>The Department of the Navy MILSTRIP PCM</i></p>	<p>10/15/2018</p>	<p>The PCM is not specific to fuel and does not describe the steps the Navy follows for non-MILSTRIP transactions, such as transactions for fuel purchased with government purchase cards, corporate contractor cards, or fuel cards. In addition, Navy officials acknowledged that, due to the age of the PCM, they could not guarantee the accuracy of the documented process and controls in it.</p>

Organization	Bulk fuel end-to-end business process documentation	Issued/ effective date	GAO-identified deficiencies
Defense Logistics Agency (DLA)	1. <i>P_O2C_33_Standard Sales Order Processing PCM</i>	1. 7/31/2021	DLA officials stated that other than the sales order processing PCM, which is a process within the order-to-cash business cycle, there is no specific process documentation for the DLA end-to-end bulk fuel business process. According to these officials, DLA is currently documenting certain processes within the order-to-cash business cycle. DLA did not provide the documents because it has not finalized them and the process flowcharts are still in draft form. According to these officials, the process flowcharts document DLA Energy processes for receipt of fuel inventory purchased from contractors on the open markets and sales of fuel to the military services.
	2. <i>Swim Lane Process Flow Map for Fuel Exchange Agreements</i>	2. 6/16/2022	
	3. <i>DLA Energy Inventory Flowchart – Inventory Management</i>	3. 7/8/2021	
	4. <i>DLA Energy Inventory Flowchart – Receipt of Goods</i>	4. 7/7/2021	
	5. <i>DLA Energy Fuel Card Program – Flowchart</i>	5. 7/19/2022	
U.S. Transportation Command (USTRANSCOM)	1. <i>Navy Fuels Management and Accounting Afloat Standard Operating Procedures</i>	1. 1/4/2019	The documentation does not address USTRANSCOM end-to-end business processes for purchasing and accounting for bulk fuel in the financial accounting systems.
	2. <i>Military Sealift Command Quality Management System Procedures Manual</i>	2. 5/2/2014	
	3. <i>Air Force Financial Improvement & Audit Remediation Military Standard Requisitioning and Issue Procedures Business PCM</i>	3. 9/30/2019	

Source: GAO analysis of DOD military services, DLA, and USTRANSCOM end-to-end bulk fuel business processes. | GAO-23-105531

^aThe MILSTRIPs are intended to streamline DOD components' processes of procuring common materials and supplies, and involve the requisition for goods and services from suppliers. Customers may pay for items with government purchase cards, through a requisition process (MILSTRIP), or approved DOD contractor corporate credit cards.

The Secretary of Defense is required by law to develop and maintain a blueprint to guide the development of integrated business processes within the department.²⁴ Office of Management and Budget (OMB) Circular No. A-123 requires agency management to assess internal

²⁴This blueprint is known as the Business Enterprise Architecture, which guides system alignment to end-to-end processes, as title 10, section 2222, of the *United States Code* requires.

controls and to determine the appropriate level of documentation needed to support this assessment.²⁵

Federal internal control standards require management to design control activities²⁶ to achieve objectives and respond to risks.²⁷ Specifically, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives. Such objectives would provide reasonable assurance that the end-to-end fuel business process for purchasing, and for recording fuel transactions in the financial accounting systems, is fully documented. In addition, management implements control activities through policies. Specifically, management documents in policies for each unit its responsibility for an operational process's objectives and related risks and control activity design, implementation, and operating effectiveness. Each unit, with guidance from management, determines the policies necessary to operate the process based on the objectives and related risks for the operational process.

Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity. Those in key roles for the unit may further define policies through day-to-day procedures, depending on the rate of change in the operating environment and complexity of the operational process.

The DOD fuel end-to-end business process is complex in nature and includes a variety of process owners, stakeholders, locations, and systems and represents a large volume of transactions with various entities. This complexity makes it important for management to create and maintain documentation that accurately depicts an end-to-end business process that includes all relevant internal controls.

Without accurate fuel end-to-end business process documentation, there is an increased risk that entities will not appropriately design and implement control activities for purchasing fuel, affecting DOD's ability to ensure accountability and control costs. In addition, not documenting the fuel end-to-end business process increases the risk that the military

²⁵Office of Management and Budget, *Management's Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular No. A-123 (July 15, 2016).

²⁶Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.

²⁷GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 2014).

services, DLA, and USTRANSCOM follow different processes to record fuel transactions, which could result in management and policymakers not having reliable information about how DOD is using the resources it is provided.

DOD, DLA, and Military Service Guidance Lacks Sufficient Detail for Managing and Overseeing Fuel Transactions

Military Services and DLA Have Not Clarified Roles and Responsibilities for the Management and Oversight of Fuel at DOD Military Installations

DOD, DLA, and military service guidance lacks sufficient detail for recording, reporting, and reconciling fuel transactions. DLA has not documented in its guidance the roles and responsibilities at military installations for recording and reconciling transactions in DLA's Fuels Manager Defense (FMD) system.²⁸ In addition, DOD reporting guidance does not contain sufficient details for reconciling yearly fuel purchase and sale data.

The military services use DLA's FMD system to record and reconcile the quantity of fuel purchased from DLA. DLA guidance requires DFSP personnel to (1) reconcile fuel purchases in the FMD system, (2) verify the accuracy of fuel transactions prior to processing the information in FMD, and (3) clear all rejected transactions within 2 business days.²⁹ However, the guidance does not specify the DFSP personnel (e.g., military service employees, DLA employees, or contractors) who perform these functions. Although the military services and DLA have issued guidance relating to fuel activities, the guidance does not define the roles and responsibilities of the military service personnel in managing and overseeing fuel inventory stored at the DFSP facilities.

DOD Manual 4140.25, volume 6, *DOD Management of Energy Commodities: Defense Fuel Support Point (DFSP) Management*, requires DFSPs to segregate duties and assign separate roles for personnel who take part in managing and overseeing fuel to support management controls for operations and financial reporting.³⁰ Federal internal controls

²⁸FMD is DLA's system for supporting and facilitating inventory management and daily accounting of fuel transactions at DFSPs worldwide. Inventory transactions recorded in FMD are sent via various interfaces to the Enterprise Business System, DLA's financial system of record. The Invoicing, Receipt, Acceptance, and Property Transfer system is primarily used by third-party vendors and supports fuel purchasing processes. In certain circumstances, personnel may also enter purchase transactions manually into DLA's financial system of record.

²⁹Defense Logistics Agency, DLA Energy, *Recording and Processing Inventory Transactions*, P-1 (Apr. 2019), 14.

³⁰DOD Manual 4140.25, vol. 6, *DOD Management of Energy Commodities: Defense Fuel Support Point (DFSP) Management* (Aug. 2018), 53.

DOD Guidance for Reporting
Fuel-Transaction Information
Lacks Necessary Detail

standards state that segregation of duties helps prevent fraud, waste, and abuse in an internal control system.

As previously stated, federal internal control standards require management to design control activities to achieve objectives and respond to risks.³¹ Such objectives would include providing reasonable assurance that the roles and responsibilities at military installations for recording and reconciling transactions in DLA's FMD system are defined. In addition, as previously stated, management implements control activities through policies.

According to DLA officials, DOD Manual 4140.25, in combination with DLA policies and procedures, sets out the requirements for accountability of DLA energy products stored at the different types of DFSPs (e.g., Government-owned, Government-operated, Contractor-owned, contractor-operated, etc.). Specifically, they said that the type of DFSP would determine who would be performing the work, such as a military service member, military service civilian, or contractor. We agree that the DOD guidance provides a general description of the roles and responsibilities of the different organizations involved. However, it does not establish roles and responsibilities for the personnel responsible for the day-to-day bulk fuel management and oversight activities.

Without clearly defined roles and responsibilities for the personnel associated with DOD's fuel program, there is an increased risk that DOD will not ensure accountability over the funds spent to purchase fuel. Further, not clearly defining roles and responsibilities could result in DOD's assets being vulnerable to fraud, waste, and abuse.

DOD reporting guidance provides DLA with a Fund-15 Fuel Data budget exhibit for use in reconciling yearly fuel purchase and sale data for each of its customers, and at a consolidated level.³² This type of reconciliation is a key control activity in the bulk fuel transaction process because it identifies differences between the DOD component fuel purchase information and DLA's sale information. However, the guidance lacks necessary detail for completing the template. Specifically, the guidance does not define certain data inputs, such as (1) *Procured from DLA Energy* and (2) *Procured by Service*. The guidance also requires DLA to include a *Stabilized Price*; however, there is no definition of *Stabilized Price*, its components, or how to compute it.

³¹GAO-14-704G.

³²Department of Defense, *Financial Management Regulation* 7000.14R, vol. 2B, ch. 9, "Defense Working Capital Fund Budget Justification Analysis," (Aug. 2022), 114-115.

In reviewing DLA's Fund-15 Fuel Data budget exhibits prepared for fiscal years 2019 through 2021 for petroleum and aerospace fuel, we found that they contained the data input for *Procured from DLA Energy* but not the columns for *Procured by Service and Stabilized Price*. As previously stated, federal internal control standards require management to design control activities to achieve objectives and respond to risks.³³ Such objectives would include providing reasonable assurance that the key data inputs of the Fund-15 Fuel Data budget exhibit are defined.

The OUSD (Comptroller) officials did not provide a reason why the guidance did not explain key attributes of the template. Not establishing clear guidance over the information to be reported in the fuel budget reconciliation exhibits increases the risk that management and policymakers will not have reliable information about how DOD is using the resources it is provided.

Selected Components' Procedures Generally Followed DOD Policies and Guidance, but Actions Are Needed to Address Deficiencies

Over the years, DOD, DLA, and the selected DOD components have issued various guidance to record and report fuel purchases. Most of the guidance includes procedures for DLA, USTRANSCOM, and military service personnel to follow in managing and overseeing DLA-owned fuel stored at the DFSPs.

The selected components had procedures for recording and reporting fuel purchases that generally followed and complied with existing DOD policies. For example, military services' personnel followed procedures to record and report the quantity of fuel purchased from DLA, in accordance with DOD-wide policies.³⁴ In addition, military services' personnel followed procedures to process inventory transactions daily, in accordance with DOD-wide policies. However, we found that (1) the military services and DLA did not follow DOD-wide policy on the use of real property assets, (2) the military services did not review and validate fuel purchases, and (3) the military services and USTRANSCOM lack a process that facilitates tracing transactions recorded in the financial accounting system to supporting documentation generated at the time fuel is purchased.

³³[GAO-14-704G](#).

³⁴The selected components documented the purchase of fuel in forms DD Form 1898, Energy Sales Slip, or DD 1149, Requisition and Invoice/Shipping Document, and provided the information to the DFSP fuel handler, as required by DODM 4140.25, vol. 10, *DOD Management of Energy Commodities: Sales Accountability and Documentation Management*.

Military Services and DLA Did Not Follow DOD-Wide Policy on the Use of Real Property Assets

The military services, DLA, and USTRANSCOM have taken steps to address deficiencies in their fuel processes that GAO, the DOD OIG, and DOD component financial statement auditors have identified in the past. For example, as previously stated, DLA established a corrective action plan to address findings that financial statement auditors identified relating to DLA's inability to provide documentation supporting the balances of fuel inventory held in pipelines and fuel in transit. However, we found the following:

- DLA and the military services did not establish a memorandum of agreement (MOA) to delineate the rights and responsibilities of parties in the use of the military services' DFSPs to store and manage DLA-owned bulk fuel.³⁵
- DLA does not have a plan to establish MOAs with the military installations that are storing DLA-owned fuel in the DFSPs.

In March 2019, DOD-wide policy required DOD components to transfer financial responsibility for each real property asset to the military service that owns the installation where the asset was located.³⁶ The policy also required that the military installations establish MOAs with DOD components (e.g., DLA) that were using the real property assets that the military services owned. An MOA is used to delineate the rights and obligations of each party and the respective maintenance and other operational responsibilities of the host and tenant.

According to DLA officials, as of October 2022, DLA was using 513 DFSPs located on military installations to manage and store bulk fuel. According to these officials, DLA established 10 MOAs with the military services, and is working with the military services on establishing 10 more.³⁷ According to these officials, DLA is currently working with each of the military services to develop an MOA that will cover all DFSPs, including the 10 MOAs currently in place with the services. They expect this process to be completed by the end of 2023.

According to DLA officials, in 2021, DLA and the military services provided language to OUSD (Comptroller) for a template that the military service installations could use to establish individual MOAs with DLA.

³⁵DFSPs are real property assets the military services own and DLA and the military services use to store fuel.

³⁶Department of Defense, Office of the Undersecretary of Defense (Comptroller), *Real Property Financial Reporting Responsibilities Policy Update*, FMP# 19-05 (Mar. 2019).

³⁷DLA has established six MOAs with the Army, two with the Navy, and two with the Marine Corps.

However, OUSD (Comptroller) ultimately left it to DLA and the military services to establish their own individual MOAs. As a result, DLA worked with the Army and the Air Force to develop an MOA template. According to DLA officials, DLA approached the Navy and the Marine Corps to establish a similar template, but neither responded. According to these officials, despite not having an MOA template, DLA worked with the Navy and the Marine Corps to establish four MOAs with different military installations storing DLA-owned fuel.

DLA officials confirmed that they have no existing plan for working with the military services to establish MOAs with military installations. Having a plan to establish MOAs with the different military installations would help DOD accomplish this effort, which will clarify the rights and responsibilities of the parties at each installation.

Military Services Did Not Review and Validate Fuel Purchases

Based on our analysis of certain fuel transactions and related guidance, we found that the military services did not fully review and validate fuel purchases recorded in the financial accounting records. Also, the Air Force lacks a process for verifying that military installations that purchase aviation fuel consistently review and validate fuel purchases, as required by Air Force guidance.³⁸

To document certain types of fuel purchases, the military services and USTRANSCOM use DD Form 1149, Requisition and Invoice/Shipping Document, or DD Form 1898, Energy Sales Slip. These forms require fuel customers to provide information on fuel purchases, such as the quantity in gallons purchased, the price per gallon, the vehicle number, and the dollar amount paid for the fuel.

Air Force guidance requires Air Force personnel at the military installations to validate the accuracy of certain aspects of all fuel aviation transactions, including comparing transaction and quantity amounts of fuel DLA billed with supporting Air Force documentation, and to work with DLA to correct any identified errors. However, existing Army, Navy, and Marine Corps guidance does not require comparison of the dollar amounts recorded in their accounting records with amounts DLA billed with supporting military service documentation, such as DD Form 1149 or DD Form 1898.³⁹

³⁸Air Force Instruction 11-253, *Managing Purchases of Aviation Fuel and Ground Services* (May 17, 2021).

³⁹Transaction information from DLA's financial accounting system is uploaded to Army, Navy, and Marine Corps accounting systems manually or through automatic interfaces.

As part of our analysis of individual fuel transactions processed during the third and fourth quarters of fiscal year 2022 at selected Army, Navy, and Marine Corps installations, we found that the services included in DD Form 1149 and DD Form 1898 some of the required information. They also reviewed certain aspects of the forms, such as the quantity of fuel purchased and the vehicle number. However, most of the forms we reviewed did not include the price per gallon or the total dollar amount paid, information that personnel could use to validate the dollar amounts of the individual fuel transactions. We confirmed that the services were not performing these validations of total dollar amounts, and that DOD guidance did not require such validations. Instead, the services relied on seller-side information that DLA recorded.

OMB Bulletin No. B-22-01, *Audit Requirements for Federal Financial Statements*, states that internal controls over financial reporting include an objective that transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements, in accordance with generally accepted accounting principles.⁴⁰ In addition, federal internal control standards require management to design control activities to achieve the entity's objectives and respond to risks.⁴¹ Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. Common categories of control activities include accurate and timely recording of transactions.

As previously stated, federal internal control standards also require management to implement control activities through policies. Such control activities would include those that provide reasonable assurance that fuel purchases recorded in the financial accounting records are fully reviewed and validated. According to an Air Force official, the individual who had been performing certain review and validation procedures at Luke Air Force Base retired over a year ago, and the position remains vacant. At Nellis Air Force Base, an official said that he was unaware of who was responsible for performing these procedures. The Army, Navy, and Marine Corps have not established procedures for reviewing and validating key aspects of fuel transactions recorded in their financial accounting records.

⁴⁰Office of Management and Budget, *Audit Requirements for Federal Financial Statements*, OMB Bulletin No. B-22-01 (Washington, D.C.: revised Aug. 26, 2022).

⁴¹[GAO-14-704G](#).

Without a review of the validity and accuracy of fuel transactions, including the dollar amounts of recorded transactions, there is increased risk of DOD components paying inaccurate amounts for fuel purchased from DLA, hindering DOD's ability to effectively manage costs and ensure accountability of its resources.

Military Services and USTRANSCOM Lack a Process for Identifying Fuel Transaction Supporting Documentation from Information in the Financial Accounting Systems

The military services and USTRANSCOM have not established a process to readily identify documentation supporting fuel transactions from information included in the financial accounting systems. For example, they do not have a unique identification code that can be used to trace the transactions from the accounting systems to source documentation and provide the information to officials responsible for overseeing and managing fuel purchases in a timely manner. As part of our audit, we requested supporting documentation for 10 fuel transactions recorded in the financial accounting systems of the Air Force, Army, Navy, Marine Corps, and USTRANSCOM.

The Air Force, Army, Navy, Marine Corps, and USTRANSCOM encountered challenges in readily identifying the source documentation of fuel transactions from information included in the financial accounting systems. Also, the Air Force, Army, Navy, and Marine Corps encountered challenges in providing the information requested in a timely manner. For example, Air Force and Marine Corps officials took over 3 months to trace three fuel transactions from their financial accounting systems to supporting documentation and provide the information we requested.

The military services and USTRANSCOM used a variety of methods to trace the transactions from the accounting systems to source documentation. For example:

- An Army official stated that Army officials trace fuel purchases from the Army's accounting systems to supporting documentation by using their judgment and a combination of attributes available in the accounting systems, such as the DOD Activity Address Code, Agency Program Code, and the date range of the transaction. However, even after using these attributes to trace transactions from the financial accounting systems to supporting documentation, the official stated that they still had difficulties distinguishing between fuel transactions processed during the same day for the same amount of fuel purchased.
- A Navy official stated that to trace fuel purchase from the Navy's accounting system to supporting documentation, officials use a combination of attributes available in the accounting system, such as

Military Standard Requisitioning and Issue Procedures (MILSTRIP) number, transaction date, fund code, and signal code.⁴²

- A USTRANSCOM official stated that to trace fuel purchase from the accounting system to supporting documentation, officials use a combination of attributes available in the accounting systems, such as Julian date, vehicle number, quantity of fuel purchased, MILSTRIP number, and DOD Activity Address Code.

As previously stated, federal internal control standards state that management should implement control activities through policies. Such control activities would include those that provide reasonable assurance that documentation supporting fuel transactions can be identified from information in the financial accounting systems. Management documents in policies for each unit its responsibility for an operational process's objectives and related risks and for control activity design, implementation, and operating effectiveness.

The military services and USTRANSCOM lack a process that facilitates tracing transactions recorded in the financial accounting systems to supporting documentation generated at the time fuel is purchased. According to Marine Corps officials, the delay in providing the information in a timely manner was due to a transition from the Standard Accounting Budgeting and Reporting System accounting system to the Defense Agency Initiative accounting system. Having a process in place that would facilitate tracing transactions from the financial accounting system to supporting documentation would strengthen the ability of management and others to review and validate the accuracy of transactions recorded in the financial accounting systems, and the reliability of the related information provided in accounting and financial reports.

⁴²MILSTRIP numbers are used to track individual transactions processed under the MILSTRIP process. The MILSTRIPs are intended to streamline DOD components' process of procuring common materials and supplies, and involve the requisition for goods and services from suppliers. Customers may pay for items with government purchase cards, through a requisition process (MILSTRIP), or with approved DOD contractor corporate credit cards.

Military Service and USTRANSCOM Procedures Were Similar but Varied for Recording and Reporting Bulk Fuel Purchases

The military services and USTRANSCOM procedures for recording and reporting fuel transactions had certain similarities, but they varied when appropriate. A procedure for buying fuel that was consistent among the selected components requires the military services and USTRANSCOM to validate a fuel sale document. Some other procedures we found were consistent among the services and not applicable to USTRANSCOM since it does not own DFSPs. For example, DFSPs should ensure that a source document exists for each DOD-wide Working Capital Fund inventory transaction processed. Finally, other procedures were specific to each military service or USTRANSCOM. For example, the Navy transfers fuel between ships and uses Navy-specific procedures and systems to record fuel purchases.

Officials from the Navy, Marine Corps, and USTRANSCOM stated that they use the purchases method of accounting to record fuel purchased from DLA, so fuel is expensed when purchased and not recorded as inventory.⁴³ The fuel transaction recording varied among the military services and USTRANSCOM.

- Based on documentation provided, the Air Force records transactions at the account and subaccount levels.⁴⁴
- According to officials, the Army records transactions at the account level or subaccount level. Documentation the Army provided demonstrated transactions recorded at the subaccount level.
- The Navy records transactions at the subaccount level, according to officials, but the initial documentation provided showed only transactions recorded at the account level. Navy officials explained and demonstrated that the financial accounting system automatically adds the subaccount data to each transaction when it is recorded.
- According to documentation, the Marine Corps and USTRANSCOM record transactions at the subaccount level.

The military services record fuel transactions in their own financial accounting systems after the purchases are initially recorded in DLA's FMD system.

The funds used for fuel transactions varied among the military services and USTRANSCOM. Officials at each stated the following:

⁴³The Air Force and Army did not respond to our request for this information.

⁴⁴A subaccount is often used to compartmentalize larger accounts, thereby allowing for better tracking of various budget details and expenses. For ease of recordkeeping, an organization might set up subaccounts for each of its departments.

- The Air Force and Navy use both the General Fund and Working Capital Fund to record fuel transactions.
- The Army has used both funds, but in fiscal year 2021, it only used the General Fund.
- The Marine Corps only uses the General Fund.
- USTRANSCOM components—the Air Force’s Air Mobility Command and the Navy’s Military Sealift Command—only use the Working Capital Fund since they do not have a General Fund.

Selected Components Did Not Always Follow DOD Policies When Performing Reconciliations of Fuel Purchases

DOD and selected components established guidance for performing fuel reconciliations.⁴⁵ However, we found that (1) DLA did not follow all procedures for performing bulk fuel reconciliations at the consolidated and selected components levels and (2) the military services and USTRANSCOM did not follow guidance for reconciling fuel purchases.

The lack of fuel reconciliations at the selected component level and DOD consolidated level increases the risk that DOD’s financial accounting systems will contain inaccurate information. As a result, DOD management and Congress may not have reliable financial information to support their decision-making.

DLA Did Not Follow All Procedures for Performing Bulk Fuel Reconciliations at the Consolidated and Selected Component Levels

DOD *Financial Management Regulation*, 7000.14-R, volume 2B, chapter 9, requires DLA to prepare a yearly fuel budget exhibit to reconcile its recorded fuel sale information to DOD components’ fuel purchase information at a consolidated and at selected component levels (i.e., military services).⁴⁶ To perform the reconciliations, the policy provides a template for DLA to use in reconciling the fuel amounts.

Based on our review of fiscal years 2019 through 2021 fuel budget exhibits, we found that DLA did not reconcile the amount of fuel it sold to the military services, as DOD policy required. For fiscal years 2019 through 2021, DLA only included in the budget exhibits information from

⁴⁵A reconciliation consists of comparing two or more sets of records (i.e., amounts between two DOD components), researching and resolving any differences, and recording adjustments if necessary. The integrity of the data reported in financial statements for DOD components and at the DOD consolidated level depends on timely and accurate reconciliations.

⁴⁶DOD *Financial Management Regulation* requires DLA to prepare Exhibit Fund-15 Fuel Data, which is provided to Congress with the budget justification materials accompanying the President’s annual budget request. DOD, *Financial Management Regulation* 7000.14R, vol. 2B, ch.9, “Defense Working Capital Funds Budget Justification Analysis,” (Aug. 2022), 114-115.

its records on the fuel it sold to its customers and did not include purchase information from the customers' records that would permit DLA to perform the required reconciliations.

DLA officials stated that the guidance does not explicitly require that DLA prepare fuel budget exhibits for each military service. According to these DLA officials, OUSD (Comptroller) requested that DLA include information relating to DLA's fuel sales only and not purchase information for each military service (i.e., customer). However, without the fuel budget exhibits, including fuel purchase information for each military service, DOD would not be able to perform the yearly bulk fuel reconciliations, in accordance with established guidance.

Military Services and USTRANSCOM Did Not Follow Reconciliation Guidance

DOD policy requires all DOD reporting entities conducting business with one another or with other federal agencies to work together to reconcile all intergovernmental and intragovernmental transactions and balances⁴⁷ and resolve identified differences.⁴⁸ The services have additional guidance for reconciliation. Air Force guidance requires that the Air Force and USTRANSCOM reconcile the bulk fuel purchase amounts and quantities from receipts to the amounts billed in DLA's financial accounting system, and to amounts included in the DFAS interfund bill⁴⁹ each month.⁵⁰ Guidance for Navy afloat requires that weekly reconciliations be prepared for fuel quantities purchased afloat.⁵¹

We found that the Air Force, Navy, and USTRANSCOM did not perform these fuel reconciliations, as the applicable guidance required. Specifically:

⁴⁷Intragovernmental transactions occur when federal entities perform activity with one another. Intergovernmental transactions occur when trading partners within the same department engage in business activities—such as DLA as a seller and the Navy as a buyer within DOD.

⁴⁸Department of Defense, *Financial Management Regulation 7000.14R*, vol. 6B, ch. 13, "Adjustments, Eliminations, and Other Special Intragovernmental Reconciliation Requirements," (Oct. 2019), 8.

⁴⁹Interfund bills are notices to a customer that its funds have been charged and the bill paid. Interfund billings occurs once a week, four times a month on the 4th, 11th, 18th, and 25th days of each month.

⁵⁰Department of the Air Force, *Air Force Financial Improvement & Audit Remediation Military Standard Requisitioning and Issue Procedures Business Process Cycle Memorandum* (as of Sept. 30, 2019).

⁵¹DLAE-MOA-SP-18-02, *Memorandum of Agreement Between Defense Logistics Agency Energy and Deputy Chief of Naval Operations Fleet Readiness and Logistics Director, Supply, Ordnance, and Logistics Operations Division* (Oct. 24, 2018).

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- The Air Force did not perform monthly reconciliations of fuel purchases processed at Luke Air Force Base and Nellis Air Force Base during the months of May and June 2022, as required by Air Force guidance.
 - USTRANSCOM did not fully perform monthly reconciliations of fuel transactions processed at McGuire Air Force Base and McChord Air Force Base during the month of May 2022. While the monthly reconciliations between the DFAS interfund bill and the status of funds report were performed, USTRANSCOM did not compare fuel transaction amounts included in the DFAS interfund bill to receipts of fuel purchases or to DLA sale information, as Air Force guidance required.
 - The Navy could not provide evidence demonstrating weekly reconciliations for the week of June 13, 2022, or June 20, 2022, for fuel that USS Paul Hamilton purchased, as Navy guidance required.
 - The Air Force did not provide a reason for why it did not perform the required reconciliations.

We also found that the Air Force, Army, and Navy did not independently enter fuel purchase information into their accounting systems. If they had, they could use it to reconcile amounts of fuel purchased to amounts DLA reported as sold and billed to identify and resolve any intradepartmental difference. Further, Navy policy requires Navy ships to use seller-fuel quantity amounts when buying fuel from onshore or offshore DFSPs without reconciling with their own fuel information.⁵²

During our review of fuel transactions processed during the third and fourth quarters of fiscal year 2022 at selected Air Force, Army, and Navy installations, we observed that the fuel-sale-transaction information was imported to the military services' accounting systems from DLA's financial accounting system (seller-side). The services imported the transaction information instead of entering the fuel purchase transactions in their accounting systems that would then permit them to perform the required reconciliations.⁵³ Air Force and Army officials did not provide a reason for why their financial accounting systems rely on DLA "seller-side" fuel-

⁵²NAVSUP 4026.1A, *Fuel Management and Accounting Afloat* (May 20, 2019), requires Navy ships to record fuel quantities reported by the seller as the Navy's official amount when buying fuel from onshore or offshore DFSPs.

⁵³The procedures used to import the fuel-sale-transaction information varied across the services. For example, Navy officials manually uploaded the information into their accounting system, whereas the Air Force accounting system interfaces with DLA's financial accounting system and is programmed to import the information.

transaction information and do not have a consistent process or system in place to record fuel-purchase transaction information that is needed to perform the required reconciliations.

Conclusions

Accurate financial reporting in the federal government helps ensure accountability to the public and that decision makers have reliable information about how DOD is using its resources. In order to accurately present financial information in its financial statements, management designs and implements accounting policies, procedures, and controls to help ensure that all events affecting transactions are captured and accurately recorded.

It is critical that DOD address the recording, reporting, and reconciling issues identified so that accountability and internal controls are established and maintained. Whether DLA or USTRANSCOM has responsibility for DOD's bulk fuel, the issues identified in this report need to be addressed to ensure that DOD clearly establishes roles and responsibilities under the new bulk fuel management and oversight structure, and that it maintains proper accountability for fuel operations.

While DOD has issued guidance for recording and reporting fuel purchases, the guidance is insufficient and in some instances inconsistent with department-wide and government-wide guidance. Not having fully documented the end-to-end fuel business process, with clearly defined roles and responsibilities and processes to review and validate the accuracy of fuel purchases, increases the risk that entities will not appropriately design and implement control activities that help ensure accountability over DOD's bulk fuel and effectively manage and control costs.

Selected DOD components' procedures generally followed DOD policy and guidance, but deficiencies related to the need to

- document end-to-end fuel business process;
- define and document the roles and responsibilities of the organizations and personnel;
- update the guidance for reconciling fuel purchases;
- develop a plan for implementing MOAs for fuel functions, rights, and responsibilities;
- ensure that purchase aviation fuel reviews are performed;
- establish a process for reviewing and validating the accuracy of fuel transactions;

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- establish a process, such as using a unique identifier, to readily trace a bulk fuel transaction;
 - establish a process to ensure that the Director of DLA performs the yearly bulk fuel reconciliations; and
 - develop processes to ensure that reconciliations are performed.

Until corrected, these deficiencies increase the risk that fuel inventory and purchase and sale information are inaccurately recorded and reported in DOD's financial statements. Further, inconsistently performing or not performing the reconciliations increases the risk of DOD management and Congress not having reliable financial information about how DOD is using the resources it is provided.

Recommendations for Executive Action

We are making the following 21 recommendations to DOD.

The Secretary of the Air Force should fully document the Air Force's end-to-end fuel business process. (Recommendation 1)

The Secretary of the Army should fully document the Army's end-to-end fuel business process. (Recommendation 2)

The Secretary of the Navy should ensure that the Commandant of the Marine Corps fully documents the Marine Corps' end-to-end fuel business process. (Recommendation 3)

The Secretary of the Navy should fully document the Navy's end-to-end fuel business process. (Recommendation 4)

The Secretary of Defense should document the end-to-end process for purchasing fuel in the open market and selling to its customers. (Recommendation 5)

The Commander of the U.S. Transportation Command should fully document the command's end-to-end fuel business process. (Recommendation 6)

The Secretary of Defense should ensure that the roles and responsibilities of the organizations and personnel that manage and oversee the DOD fuel program at Defense Fuel Support Points are clearly defined and documented. (Recommendation 7)

The Under Secretary of Defense (Comptroller) should update the guidance for the Fund-15 Fuel Data budget exhibit to clearly define the

data inputs used in reconciling yearly fuel purchase and sale data.
(Recommendation 8)

The Secretary of Defense should develop a plan for implementing memorandums of agreement that delineate the rights and responsibilities of each party responsible for DOD fuel functions at all DOD sites where military service-owned real property assets are used to store bulk fuel.
(Recommendation 9)

The Secretary of the Air Force should establish a process to verify that Air Force military installations that purchase aviation fuel consistently perform the responsibilities outlined in Air Force Guidance Memorandum AFI 11-253. (Recommendation 10)

The Secretary of the Army should establish a process to review and validate the accuracy of fuel transactions recorded in the Army's financial accounting systems. (Recommendation 11)

The Secretary of the Navy should establish a process for reviewing and validating the accuracy of fuel transactions recorded in the Navy's and Marine Corps' financial accounting systems. (Recommendation 12)

The Secretary of the Army should establish a process, such as using a unique identifier, to readily trace a bulk fuel transaction from Army financial accounting systems to supporting documentation.
(Recommendation 13)

The Secretary of the Air Force should establish a process, such as using a unique identifier, to readily trace a fuel transaction from Air Force financial accounting systems to supporting documentation.
(Recommendation 14)

The Secretary of the Navy should establish a process, such using as a unique identifier, to readily trace a fuel transaction from Navy and Marine Corps financial accounting systems to supporting documentation.
(Recommendation 15)

The Commander of the U.S. Transportation Command should establish a process, such as using a unique identifier, to readily trace a fuel transaction from the command's financial accounting systems to supporting documentation. (Recommendation 16)

The Under Secretary of Defense (Acquisition and Sustainment) should develop a process to verify that the yearly bulk fuel reconciliations are performed in accordance with volume 2B, chapter 9, of the DOD *Financial Management Regulation*. (Recommendation 17)

The Secretary of the Air Force should develop a process to verify that (1) the Air Force consistently performs the monthly fuel reconciliations that Air Force guidance requires and (2) Air Force personnel retain and enter their own bulk fuel-purchase data in the Air Force's financial accounting systems. (Recommendation 18)

The Secretary of the Army should develop a process to verify that Army personnel retain and enter their own fuel-purchase data in the Army's financial accounting systems. (Recommendation 19)

The Secretary of the Navy should develop a process to verify that (1) the Navy consistently performs weekly reconciliations of fuel that its ships purchase and (2) Navy personnel retain and enter their own bulk fuel-purchase data in the Navy's financial accounting systems. (Recommendation 20)

The Commander of the U.S. Transportation Command should develop a process to verify that the command performs monthly fuel reconciliations that Air Force guidance requires. (Recommendation 21)

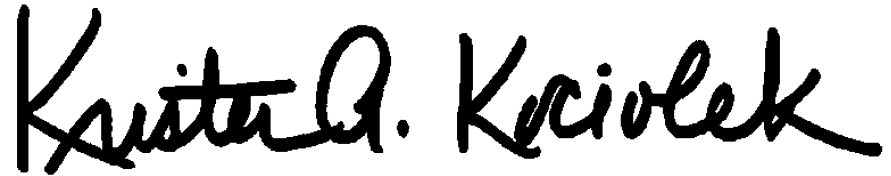
Agency Comments

We provided a draft of this report to DOD for review and comment. DOD concurred with all 21 of our recommendations and stated that it will ensure that the recommendations are addressed. DOD's comments are reproduced in appendix II.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, the Under Secretary of Defense (Comptroller), the Under Secretary of Defense (Acquisition and Sustainment), the Secretary of the Air Force, the Secretary of the Army, the Secretary of the Navy, the Commander of the U.S. Transportation Command, and other interested parties. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-2989 or kociolekk@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on

the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

A handwritten signature in black ink that reads "Kristen A. Kociolek". The signature is written in a cursive, flowing style.

Kristen Kociolek
Director, Financial Management and Assurance

List of Committees

The Honorable Jack Reed
Chairman
The Honorable Roger Wicker
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United States Senate

The Honorable Gary C. Peters
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The Honorable Rand Paul, M.D.
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Mike Rogers
Chairman
The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable James Comer
Chairman
The Honorable Jamie Raskin
Ranking Member
Committee on Oversight and Accountability
House of Representatives

Appendix I: Objectives, Scope, and Methodology

This report examines the extent to which (1) the Department of Defense (DOD) established documentation and guidance for recording and reporting bulk fuel purchase data, (2) selected components' procedures for recording and reporting bulk fuel purchase data are consistent with DOD policies, (3) procedures for recording and reporting bulk fuel purchase data are consistent among selected components, and (4) DOD performed bulk fuel reconciliations consistent with its policies and procedures.

To address our four objectives, we interviewed officials from the Office of the Under Secretary of Defense (Comptroller), Defense Finance and Accounting Service, Defense Logistics Agency (DLA), and selected components to obtain an understanding of the policies and procedures in place for recording, reporting, and reconciling bulk fuel transactions.

We also reviewed policies and procedures for recording, reporting, and reconciling fuel purchases in the financial accounting systems at the DOD consolidated level and at selected component levels and prior audit reports that GAO, the DOD Office of Inspector General (OIG), DOD financial statement auditors, and DOD military service auditors issued during fiscal years 2017 through 2021. In addition, we observed bulk fuel transactions processed by the Air Force, Army, Navy, and U.S. Transportation Command (USTRANSCOM), and participated in meetings of the DOD OIG and DLA's fiscal year 2022 financial statement auditors. Finally, we reviewed relevant audit documentation.

To address our first objective, we analyzed and compared DOD policies and procedures for recording and reporting bulk fuel purchase with department-wide and government-wide guidance, such as the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and our *Standards for Internal Control in the Federal Government*, and determined if they were consistent.¹

To address our second, third, and fourth objectives, we observed how the Air Force, Army, Navy, and USTRANSCOM processed individual bulk fuel transactions during the third and fourth quarters of fiscal year 2022 to determine (1) how and when bulk fuel purchases were recorded in financial accounting systems and (2) whether purchases were recorded

¹Office of Management and Budget, *Management's Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular No. A-123 (July 15, 2016), and GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 2014).

and reconciled consistent with established policies and procedures for recording, reporting, and reconciling bulk fuel transactions.

We selected four DOD components—the Departments of the Air Force, Army, and Navy and USTRANSCOM. In fiscal year 2021, these four purchased approximately 89 percent of DOD’s total fuel. We randomly selected two fuel transactions processed at each of the selected components. Specifically, we selected the eight fuel transactions from those processed among the top 10 Air Force, Army, and Navy Defense Fuel Support Points (DFSP) that purchased fuel from DLA in fiscal year 2021. For the Navy, we selected one fuel transaction processed at a military installation and one fuel transaction processed at an afloat DFSP onboard an aircraft carrier, based on the ship’s availability and communication capabilities. We selected two USTRANSCOM fuel transactions that the Air Mobility Command—USTRANSCOM’s largest purchaser of fuel in fiscal year 2021—processed.

To address our third objective, we compared and evaluated the procedures used to record bulk fuel purchases among selected components to determine if there were differences in how selected components process bulk-fuel transactions, as well as the effect any differences may have on DOD-wide financial statements.

To address our fourth objective, we obtained and reviewed documentation related to the extent to which DOD performed bulk fuel purchase reconciliations and the procedures the department used to reconcile bulk fuel purchases.

We conducted this performance audit from November 2021 to June 2023 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.

Appendix II: Comments from the Department of Defense



OFFICE OF THE UNDER SECRETARY OF DEFENSE
1 100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

June 2, 2023

Ms. Kristen Kociolek
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington DC 20548

Dear Ms. Kociolek:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report, GAO-23-105531, "DOD BULK FUEL: Improved Management over Transactions Could Lead to More Reliable Financial Reporting" dated April 26, 2023 (GAO Code 105531). Enclosed is our response to recommendations in the report.

My point of contact is Mr. Selester Copeland (selester.e.copeland.civ@mail.mil or 703-695-6519).

Sincerely,

STEFFENS.THOMAS.C
HARLES.1029342870

Digitally signed by
STEFFENS.THOMAS.CHARLES.10
29342870
Date: 2023.06.02 17:01:40 -0400

Thomas C. Steffens
Deputy Chief Financial Officer

Enclosure:
As stated

**GAO DRAFT REPORT DATED APRIL 26, 2023
GAO-23-105531 (GAO CODE 105531)**

**“DOD BULK FUEL: IMPROVED MANAGEMENT OVER TRANSACTIONS COULD
LEAD TO MORE RELIABLE FINANCIAL REPORTING”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION**

RECOMMENDATION 1: The Secretary of the Air Force should fully document the Air Force’s end-to-end fuel business process.

DOD RESPONSE: Concur. The Department of the Air Force will ensure full documentation of the end-to-end fuel business process, to include compliance with the Federal Financial Management Improvement (FFMIA) Act of 1996.

RECOMMENDATION 2: The Secretary of the Army should fully document the Army’s end-to-end fuel business process.

DOD RESPONSE: Concur. The Department of the Army will ensure full documentation of the end-to-end fuel business process, to include compliance with FFMIA.

RECOMMENDATION 3: The Secretary of the Navy should ensure that the Commandant of the Marine Corps fully documents the Marine Corps’ end-to-end fuel business process.

DOD RESPONSE: Concur. The Department of the Navy will ensure full documentation of the end-to-end fuel business process, to include compliance with FFMIA.

RECOMMENDATION 4: The Secretary of the Navy should fully document the Navy’s end-to-end fuel business process.

DOD RESPONSE: Concur. The Department of the Navy will ensure full documentation the end-to-end fuel business process, to include compliance with FFMIA.

RECOMMENDATION 5: The Secretary of Defense should document the end-to-end process for purchasing fuel in the open market and selling to its customers.

DOD RESPONSE: Concur. The Office of the Under Secretary of Defense, Acquisition and Sustainment (A&S) will ensure full documentation the end-to-end fuel business process, to include compliance with FFMIA.

RECOMMENDATION 6: The Commander of the United States Transportation Command should fully document the Command’s end-to-end fuel business process.

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DOD RESPONSE: Concur. The Commander of the United States Transportation Command will ensure full documentation the end-to-end fuel business process, to include compliance with FFMA.

RECOMMENDATION 7: The Secretary of Defense should ensure that the roles and responsibilities of the organizations and personnel that manage and oversee the DOD fuel program at Defense Fuel Support Points are clearly defined and documented.

DOD RESPONSE: Concur. The Office of the Under Secretary of Defense for Acquisition and Sustainment (A&S) will ensure that the roles and responsibilities of the organizations and personnel that manage and oversee the DOD fuel program at Defense Fuel Support Points are clearly defined and documented.

RECOMMENDATION 8: The Under Secretary of Defense (Comptroller) should update the guidance for the Fund-15 Fuel Data budget exhibit to clearly define the data inputs used in reconciling yearly fuel purchase and sale data.

DOD RESPONSE: Concur. The Under Secretary of Defense (Comptroller) will validate the receipt of Fund-15 Fuel Data budget exhibit from all DoD Working Capital entities.

RECOMMENDATION 9: The Secretary of Defense should develop a plan for implementing Memoranda of Agreement that delineate the rights and responsibilities of each party responsible for DOD fuel functions at all DOD sites where military-service-owned real property assets are used to store bulk fuel.

DOD RESPONSE: Concur. The Office of the Under Secretary of Defense for Acquisition and Sustainment (A&S) will ensure the development of a plan for implementing Memoranda of Agreement/General Terms and Conditions that delineate the rights and responsibilities of each party responsible for DOD fuel functions at all DOD sites where military-service-owned real property assets are used to store bulk fuel.

RECOMMENDATION 10: The Secretary of the Air Force should establish a process to verify that Air Force military installations that purchase aviation fuel consistently perform the responsibilities outlined in Air Force Guidance Memorandum AFI 11-253.

DOD RESPONSE: Concur. The Secretary of the Air Force will ensure compliance with Air Force Guidance Memorandums on the purchase of aviation fuel.

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RECOMMENDATION 11: The Secretary of the Army should establish a process to review and validate the accuracy of fuel transactions recorded in the Army's financial accounting systems.

DOD RESPONSE: Concur. The Department of the Army will ensure Fuel business feeder systems interface directly with DoD accounting systems under FFMIA compliance implementing Standard Financial Information Structure (SFIS) Data Standards, thus increasing valid and accurate fuel transactions in DoD accounting systems.

RECOMMENDATION 12: The Secretary of the Navy should establish a process for reviewing and validating the accuracy of fuel transactions recorded in the Navy's and Marine Corps' financial accounting systems.

DOD RESPONSE: Concur. The Department of the Navy will ensure Fuel business feeder systems interface directly with DoD accounting systems under FFMIA compliance implementing Standard Financial Information Structure (SFIS) Data Standards, thus increasing valid and accurate fuel transactions in DoD accounting systems.

RECOMMENDATION 13: The Secretary of the Army should establish a process, such as using a unique identifier, to readily trace a bulk fuel transaction from Army financial accounting systems to supporting documentation.

DOD RESPONSE: Concur. The Department of the Army will ensure the establishment of a procedures and standards using a unique identifier end-to-end in the DoD fuel purchasing and selling process to readily trace a bulk fuel transaction from DoD financial accounting systems to supporting documentation.

RECOMMENDATION 14: The Secretary of the Air Force should establish a process, such as using a unique identifier, to readily trace a fuel transaction from Air Force financial accounting systems to supporting documentation.

DOD RESPONSE: Concur. The Department of the Air Force will ensure the establishment of a procedures and standards using a unique identifier end-to-end in the DoD fuel purchasing and selling process to readily trace a bulk fuel transaction from DoD financial accounting systems to supporting documentation.

RECOMMENDATION 15: The Secretary of the Navy should establish a process, such using as a unique identifier, to readily trace a fuel transaction from Navy and Marine Corps financial accounting systems to supporting documentation.

DOD RESPONSE: Concur. The Department of the Navy will ensure the establishment of a procedures and standards using a unique identifier end-to-end in the fuel purchasing and selling process to readily trace a bulk fuel transaction from DoD financial accounting systems to supporting documentation.

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of Defense**

RECOMMENDATION 16: The Commander of the United States Transportation Command should establish a process, such as using a unique identifier, to readily trace a fuel transaction from United States Transportation Command financial accounting systems to supporting documentation.

DOD RESPONSE: Concur. The Commander of the United States Transportation Command will ensure the establishment of a procedures and standards using a unique identifier end-to-end in the fuel purchasing and selling process to readily trace a bulk fuel transaction from DoD financial accounting systems to supporting documentation.

RECOMMENDATION 17: The Under Secretary of Defense (Acquisition and Sustainment) should develop a process to verify that the yearly bulk fuel reconciliations are performed in accordance with DOD 7000.14-R, Volume 2B, Chapter 9 of the DOD *Financial Management Regulation*.

DOD RESPONSE: Concur. The Office of the Under Secretary of Defense for Acquisition and Sustainment (A&S) will ensure a process is developed for the annual bulk fuel reconciliations are performed in accordance with the DoD FMR.

RECOMMENDATION 18: The Secretary of the Air Force should develop a process to verify that (1) the Air Force consistently performs the monthly fuel reconciliations that Air Force guidance requires, and (2) Air Force personnel retain and enter their own bulk fuel-purchase data in the Air Force's financial accounting systems.

DOD RESPONSE: Concur. The Department of the Air Force develop a process to verify that (1) the Air Force consistently performs the monthly fuel reconciliations that Air Force guidance requires, and (2) Air Force personnel retain and enter their own bulk fuel-purchase data in the Air Force's financial accounting systems.

RECOMMENDATION 19: The Secretary of the Army should develop a process to verify that the Army personnel retain and enter their own fuel-purchase data in the Army's financial accounting systems.

DOD RESPONSE: Concur. The Department of the Army will ensure fuel business feeder systems interface directly with DoD accounting systems under FFMIA compliance implementing Standard Financial Information Structure (SFIS) Data Standards, thus allowing more accurate and timely monthly systems validations/reconciliations.

RECOMMENDATION 20: The Secretary of the Navy should develop a process to verify that (1) the Navy consistently performs weekly reconciliations of fuel that its ships purchase, and (2) Navy personnel retain and enter their own bulk fuel-purchase data in the Navy's financial accounting systems.

DOD RESPONSE: Concur. The Department of the Navy will ensure fuel business feeder systems interface directly with DoD accounting systems under FFMIA compliance implementing

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Standard Financial Information Structure (SFIS) Data Standards, thus allowing more accurate and timely monthly systems validations/reconciliations.

RECOMMENDATION 21: The Commander of the United States Transportation Command should develop a process to verify that United States Transportation Command performs monthly fuel reconciliations that Air Force guidance requires.

DOD RESPONSE: Concur. The Commander of the United States Transportation Command will ensure fuel business feeder systems interface directly with DoD accounting systems under FFMIA compliance implementing Standard Financial Information Structure (SFIS) Data Standards, thus allowing more accurate and timely monthly systems validations/reconciliations.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Kristen Kociolek, (202) 512-2989 or kociolekk@gao.gov

Staff Acknowledgments

In addition to the contact named above, Kimberly McGatlin (Assistant Director), Chantel Bradley, Anthony Clark, Jason Kelly, Jason Kirwan, Diana Lee, John Lopez, Christie Pugnetti, and Stanley Yau made key contributions to this report.

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