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The Special Counsel

May 7, 2018

The President
The White House
Washington, D.C. 20500

VIA ELECTRONIC MAIL

Re: OSC File No. DI-16-2721

Dear Mr. President:

Pursuant to 5 U.S.C. § 1213(e)(3), I am forwarding to you a report from the Department of the Navy (Navy) based on disclosures of wrongdoing at the Naval Sea Systems Command, Port Hueneme, California. John ██████ who consented to the release of his name, is a former supply systems analyst at the Naval Sea Logistics Center at Port Hueneme. Mr. ██████ alleged that Navy officials grossly mismanaged the inventory of the facility's operating materials and supplies (OM&S). OSC has reviewed the agency report and, in accordance with 5 U.S.C. § 1213(e), provides the following summary of the report, the whistleblower's comments, and my findings.¹

Mr. ██████ alleged that Port Hueneme warehouse employees failed to properly maintain and record inventory over a number of years and that classified inventory items were not identified and stored in a secure manner in accordance with Department of Defense (DoD) and Navy regulations. Mr. ██████ further alleged that management failed to remedy these inventory shortcomings, resulting in a loss of over \$20 million for the Navy and creating readiness issues for Navy ships requesting parts.

The agency substantiated the majority of Mr. ██████ allegations. Specifically, the Navy found that inventory totaling approximately \$32,250,000 was unaccounted for because employees failed to properly maintain and record it as required by agency instructions.² However, the agency could not determine the total amount or value of unaccounted-for material until wall-to-wall inventories of all Port Hueneme warehouses were completed.³ The agency further determined that, prior to March 2016, up to 50% of

¹ Mr. ██████ allegations were referred to former Secretary Ray L. Mabus for investigation pursuant to 5 U.S.C. § 1213(c) and (d). The Office of Inspector General (OIG) investigated the allegations, and former Acting Secretary Sean J. Stackley reviewed and signed the report.

² SECNAVINST 4440.33A

³ The agency highlighted specific items that were unaccounted for, including two "Amplifiers" totaling \$1,200,000, and twenty-three "Displays" totaling \$2,016,170.

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all parts requests in a given week went unfilled because the requested materials could not be located. The agency acknowledged that it is likely there were instances where requested material was not located, but noted that it could not determine if this affected readiness, since such data is not collected. The agency highlighted that since March 2016, the percentage of unfilled requests has dropped significantly.

The agency also substantiated Mr. [REDACTED] allegation that classified materials were stored improperly in the Port Hueneme warehouses.⁴ The agency determined that Mr. [REDACTED] had identified a number of improperly stored items during his tenure. The agency investigation included a complete inventory of all items identified as classified or "SubSafe"⁵ in 2017 and accounted for all 402 individual items. Of those 402 items, approximately 26 items were improperly stored. At the time of the agency's report, all classified material was stored appropriately, and personnel were informed of the issues related to storage of classified material. However, the agency found that the Port Hueneme security manager failed to initiate a required Preliminary Inquiry when he learned of improperly stored and unaccounted for classified material.⁶ In its report, the agency recommended that the security manager initiate the Preliminary Inquiry, which was completed in February 2017 and found no loss or compromise of classified information.

The agency also found that the Naval Sea Logistics Center (NSLC) took control of two of the Port Hueneme warehouses in 2015, and a third off-facility warehouse in 2016, with the intention of increasing oversight of the inventory process. After NSLC took control of the warehouses, the number of unaccounted-for line items began to decrease significantly, indicating that its inventory oversight has been effective. Thus, the agency did not substantiate the allegation that management failed to address the inventory concerns at Port Hueneme. The agency noted that NSLC completed a full inventory of all material and equipment in one of the Port Hueneme warehouses in November 2017, resulting in updated records for all items and new records for all previously unaccounted-for items. In addition, NSLC hired additional employees to conduct warehouse operations and entered into contracts to increase contractor support.

In his comments on the agency's report, Mr. [REDACTED] questioned the independence of the agency's investigation with respect to the accuracy of the data it obtained. Specifically, Mr. [REDACTED] noted discrepancies with the number of inventory line items the agency found to be corrected during his tenure. However, Mr. [REDACTED] stated his belief that the agency's investigation was professional and competent.

⁴ Department of Defense Manual (DoDM) 4140.01, Vol. 11; DoDM 5200.01, Vol. 3.

⁵ The Navy's Submarine Safety Program (SUBSAFE) is a quality assurance program for nuclear submarines. The goal of SUBSAFE is to provide maximum reasonable assurance of watertight integrity and recovery capability, and incorporates strict certification of design, material, fabrication, and testing.

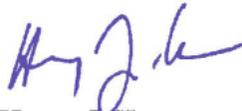
⁶ SECNAV M-5510.36, Ch. 12.

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I have reviewed the original disclosure, the agency report, and Mr. [REDACTED] comments. I appreciate Mr. [REDACTED] focus on the accuracy of the data uncovered by the agency's investigation. However, the specific data at issue does not appear to have a bearing on the agency's substantiation of Mr. [REDACTED] allegations, which resulted in improved inventory processes and oversight. Thus, I have determined that the report meets all statutory requirements and the findings appear reasonable. As required by 5 U.S.C. § 1213(e)(3), OSC has sent a copy of this letter, the agency report, and Mr. [REDACTED] comments to the Chairmen and Ranking Members of the Senate and House Committees on Armed Services. I have also filed redacted copies of these documents in our public file, which is available at www.osc.gov. This matter is now closed.

Respectfully,



Henry J. Kerner
Special Counsel

Enclosures