Audit Report

REVIEW OF RELOCATION OF THE SYSTEM PROGRAM OFFICE AND LOGISTICS SUPPORT FOR THE F-117A STEALTH FIGHTER

Report No. 98-109 April 10, 1998

Office of the Inspector General
Department of Defense

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Acronym

LMSW	Lockheed Martin Skunk Works

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

April 10, 1998

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Review of Relocation of the System Program Office and Logistics Support for the F-117A Stealth Fighter (Report No. 98-109)

We are providing this final report for information and use. We performed the review in response to a congressional request. We considered management comments on the draft of this report in preparing this final report.

The actions that the Assistant Secretary of the Air Force (Acquisition) has taken since the issuance of our draft report or plans to take conform to the requirements of DoD Directive 7650.3 and left no unresolved issues. No further comments are required.

We appreciate the courtesies extended to the staff. Questions on the review should be directed to Mr. Brian M. Flynn, Program Director, at (703) 604-9051 (DSN 664-9051) or Ms. Delpha W. Martin, Project Manager, at (703) 604-9075 (DSN 664-9075), email <dwmartin@dodig.osd.mil>. See Appendix E for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 98-109 **April 10, 1998**
(Project No. 7AL-5042)

Relocation of the System Program Office and Logistics Support for the F-117A Stealth Fighter

Executive Summary

Introduction. This report addresses the relocation of the System Program Office and logistics support for the F-117A Stealth Fighter. The review was conducted in response to a congressional request. The Air Force has approved the F-117A acquisition plan to award a 5-year, cost-plus-incentive-fee contract for sustainment and depot-level modification of the F-117A aircraft to Lockheed Martin Skunk Works for $2 billion.

Review Objectives. The primary objective was to evaluate the process and documentation that the Air Force is using in deliberations involving the relocation of the F-117A System Program Office and the use of a contract for logistics support of the F-117A Stealth Fighter. We also assessed personnel practices used in realignment of the System Program Office. We reviewed management controls as they applied to the overall objectives.

Review Results. Air Force studies indicated that if the System Program Office organization was to remain unchanged, the most efficient option would be to transfer it in total to Hill Air Force Base. As an acquisition reform initiative, the Air Force determined that the Lockheed Martin Skunk Works contract would result in a streamlined Project Office and, therefore, would reduce administrative overhead. Therefore, acquisition streamlining initiatives to reduce personnel superseded the relocation studies.

Interviews with personnel currently working or having worked in the F-117A System Program Office showed that personnel rights were fully protected during the realignment process.

The Air Force may be implementing a contracting initiative, without adequate management controls, that emphasizes reducing the Government's program management infrastructure but may not achieve projected cost reductions. Specifically, the acquisition plan does not:

o identify and eliminate redundant tasks and positions currently in the System Program Office;

o identify the tasks and levels-of-effort required for contract purposes;

o provide for the increased risks associated with the change from predominately fixed-price contracts to a single cost-plus-incentive-fee contract;

o rely on $20 million in projected cost avoidance to be realized over the 5-year contract period, but instead it projects cost avoidance of $65 million over an 8-year period;

o identify $631,000 of warehouse racks and support equipment for reuse;

o provide an adequate cost tracking system to manage cost growth;

o consider the existing spares to be provided to the contractor in planning for contract funding; and

o make a provision for Government retention of competency in the area of low observable technology.

As a result, the Air Force has no assurance that the F-117A Program will achieve anticipated cost avoidance. See Part I for details. See Appendix A for details on the management control program.

Summary of Recommendations. We recommend that the Assistant Secretary of the Air Force (Acquisition) direct the F-117A System Program Office to take actions to address the concerns that we identified before issuing the contract and retain internal low observable technology competency.

Management Comments. The Assistant Secretary of the Air Force (Acquisition) concurred with the report recommendations to address all identified concerns before awarding the contract and retain internal low observable technology competency. The comments stated that many recommended actions have already been taken or are planned over the course of contract negotiations. The comments stated that contract effort, combined with relocation and streamlining of the System Program Office, is an exceptional opportunity to accomplish innovative acquisition reform initiatives at substantial savings to the Government. See Part I for a summary of management comments and Part III for the complete text.

Audit Response. We consider the management comments to be fully responsive, and we commend the Assistant Secretary of the Air Force (Acquisition) for responsive actions.

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Part I - Review Results

Review Background

Congressional Request. This review was initiated at the request of Utah Senators Orrin Hatch and Robert Bennett and Congressman James V. Hansen on April 17, 1997. The request was that we complete a review regarding relocation of the System Program Office and logistics support for the F-117A Stealth Fighter independent of the Air Force. We issued an announcement letter on June 4, 1997, and began an immediate review. Based on preliminary review results, we sent a letter to the Assistant Secretary of the Air Force (Acquisition) on September 5, 1997, requesting that the Air Force delay actions that could imply a commitment to the unsolicited logistics support contract until our review was complete. The Air Force responded to our letter that any further delay in development and expeditious implementation of the Lockheed Martin Skunk Works (LMSW) contract will jeopardize continued outstanding F-117A fleet support. The Air Force approved the Acquisition Strategy Plan on September 24, 1997, to award a 5-year, cost-plus-incentive-fee contract for sustainment and depot-level modification of the F-117A aircraft to LMSW for $2 billion.

Air Force studies indicated that if the System Program Office organization was to remain unchanged, the most efficient option would be to transfer it in total to Hill Air Force Base. However, as an acquisition reform measure the Air Force determined that the LMSW contract would result in a streamlined Project Office and therefore would reduce administrative overhead. Therefore, acquisition streamlining initiatives to reduce personnel superseded the relocation studies.

The F-117A Stealth Fighter System Program Office has no maintenance positions. So, relocation decisions were not impacted by Defense base realignment and closure provisions. Interviews with personnel currently working or having worked in the F-117A Stealth Fighter System Program Office showed that personnel rights were fully protected during the realignment process. (See Appendix B for details.)

History of the F-117A Aircraft. On November 10, 1988, the Secretary of Defense announced the existence of a secret wing of F-117A combat capable stealth fighter aircraft. The Air Force transitioned the aircraft from acquisition to sustainment management in 1989 and received the last production aircraft in 1990. The Sacramento Air Logistics Center was designated the System Program Office for the aircraft. In 1995, a Defense base realignment and closure decision was made to close the Sacramento Air Logistics Center. At the time of our review, the System Program Office had 226 approved personnel positions, of which 186 were filled. The 49th Fighter Wing personnel located at Holloman Air Force Base perform F-117A maintenance at organization and intermediate levels. LMSW, the prime contractor for F-117A production, provides the majority of depot-level maintenance (approximately 75 percent).

On December 20, 1995, LMSW approached Air Force management with an unsolicited proposal claiming to save the Air Force approximately $80 million over the next 8 years by taking responsibility for total system maintenance of

the F-117A aircraft. Air Force Materiel Command declined the offer in March 1996. The Air Force Materiel Command response to the unsolicited LMSW proposal stated that LMSW did not take into account several Air Force cost areas critical to making the proposal a feasible business option. However, the Air Force used the opportunity presented by the concept of the LMSW unsolicited proposal to implement acquisition streamlining initiatives to reduce administrative overhead, especially in light of anticipated reductions in the Federal acquisition workforce. The Air Force requested that LMSW present another proposal that would streamline the overall program. The goal was to reduce program oversight consistent with other unclassified programs.

Review Objectives

The primary objective was to evaluate the process and documentation that the Air Force was used in deliberations involving the relocation of the F-117A System Program Office and the use of a contract for logistics support of the F-117A Stealth Fighter. We also assessed personnel practices used in realignment of the System Program Office. See Appendix A for a discussion of review scope, methodology, and prior coverage.

Selected Contract Approach

The Air Force did not thoroughly consider all issues before approving an acquisition plan to award a $2 billion sole-source, cost-plus-incentive-fee contract for sustainment and depot-level maintenance of the F-117A aircraft. Specifically, the acquisition plan does not:

o identify and eliminate redundant tasks and positions currently in the System Program Office;

o identify the tasks and levels-of-effort that a sustainment contractor should perform;

o provide for the increased risks associated with the change from predominately fixed-price contracts to a single cost-plus-incentive-fee contract;

o rely on $20 million in projected cost avoidance to be realized over the 5-year contract period, but instead it projects cost avoidance of $65 million over an 8-year period;

o identify $631 thousand of warehouse racks and support equipment for reuse;

o provide adequate cost tracking to manage cost growth;

o consider the existing spares to be provided to the contractor in planning for contract funding; and

o make a provision for Government retention of competency in low observable technology.

The flaws in the Air Force plan were caused by the accelerated pace with which the contract with LMSW is being implemented. As a result of those flaws, the Air Force has no assurance that the F-117A Program will achieve anticipated cost avoidance. The Air Force may overstate the contract baseline as much as $100 million for Government-furnished spares. Further by not identifying existing warehouse rack and support equipment, the Air Force could spend $.6 million unnecessarily.

Declassification of the F-117A Program

The F-117A Program was declassified on November 10, 1988. The Manpower and Quality Group, McClellan Air Force Base, performed a most efficient organization study of support for the F-117A. The study, issued on February 14, 1997, concluded that McClellan Air Force Base, Holloman Air Force Base, and the depot maintenance facility operated by LMSW at Palmdale, California, provided adequate program support. However, the study did not consider the declassification of the F-117A or the effect that the declassification of the program should have on the tasks performed by the System Program Office. Our review of the organization showed that since the program was declassified, the Air Force has not considered the elimination of redundant functions and positions relating to declassification of the program. Specifically, after the program was declassified, the System Program Office:

o retained 63 warehousing and item management personnel that perform tasks readily transferable to the Air Force logistic community, and

o added two security personnel after the declassification of the program when security tasks should have been declining.

As a result, the F-117A System Program Office has more than 200 authorized positions rather than reducing in size as is typical when a program transitions into unclassified sustainment.

System Program Office Tasks

The Air Force indicated that the reduction in workload and management achievable by the contract would result in a cost avoidance of $65 million over an 8-year period. The projected cost avoidance was based on a reduction of 200 System Program Office personnel from 220 to 20 people. The most efficient organization study issued by the Manpower and Quality Group on February 14, 1997, concluded that a staffing level of 186 was appropriate for the full range of tasks that the System Program Office performed. The System Program Office is presently staffed at that level. Of the 186 positions, the most efficient organization study found that only 52 were required to perform inherently Governmental functions in areas such as contracting, financial management, program execution, budget oversight, and program security. (See Appendix C.) Therefore, the anticipated avoided personnel costs of $65 million attributed to a reduction of 200 personnel may not be realized.

Staffing Levels

The System Program Office has not identified the functions that the F-117A declassified program should perform in its sustainment phase; identified tasks that other existing Air Force organizations should perform; and identified the tasks and levels-of-effort that a sustainment contractor should perform.

Item Management. As systems mature or transition out of the classified environment, item management responsibility is normally assumed by Air Logistics Center personnel. During program declassification, the Air Force reviewed but did not act to transition item management from the System Program Office to an Air Logistics Center and commensurately reduce personnel. Item management could be more efficiently performed at an Air Logistics Center. The System Program Office currently has 36 personnel assigned to item management.

Warehousing and Transportation. The main F-117A warehouse is operated in facilities located at the Sacramento Air Logistics Center with supporting warehouse facilities maintained by LMSW in Palmdale, California, and by the Air Combat Command at Holloman Air Force Base. The System Program Office has 27 personnel that provide warehousing and transportation functions. Warehousing and transportation is not a typical function for a System Program Office. The F-117A originally provided its own warehousing and transportation as a result of the classified nature of the program.

Contract Management. The System Program Office had aggressively pursued competitive breakout procurement practices and currently has 6 of the 9 contract personnel managing approximately 180 breakout contracts. The Air Combat Command has realized a 23 percent savings in operational costs because of spares breakout and competitive procurements. The proposed reorganization of the System Program Office recommends a reduction of six contract management personnel. Three contract management personnel would be retained to manage the proposed LMSW contract. The items that were previously broken out would be placed under the LMSW contract. LMSW would assume responsibility for procurement and management of spares. Elimination of the six contract management positions would decrease Air Force costs by the six salaries (6 x $50,000 = $300,000), but the decrease would be more than offset by the increased LMSW material handling charges (as much as $7 million) for the 180 breakout contracts that would be turned over to LMSW for administration.

Production Management. The System Program Office has 20 production management personnel to track depot maintenance work. Nine additional personnel are assigned to the LMSW facility in Palmdale to monitor contractor performance. The F-117A has been out of production for 8 years. The number of production management positions appears to be excessive and not in keeping with the acquisition reform initiative of reducing quality assurance overhead. System Program Office quality assurance staff appears to duplicate Defense Contract Management Command quality assurance oversight.

Development and Engineering. The System Program Office has engineering and associated personnel. Additional engineering support is provided by the Development System Office located at the Aeronautical Systems Center, Dayton, Ohio. The System Program Office has 44 engineering and reliability personnel for contractor oversight, while the Development System Office has 36 such personnel. Duplication of engineering functions appears to exist between the System Program Office and the Development System Office.

Contract Risk

DoD Regulation 5000.2-R, "Mandatory Procedures for Major Defense Acquisition Programs (MDAPs) and Major Automated Information System (MAIS) Acquisition Programs," March 15, 1996, requires that each program develop and document an acquisition strategy that will serve as the roadmap for program execution from its initiation through post-production support. A primary goal in developing an acquisition strategy is to minimize the time and cost of satisfying a validated need, consistent with common sense and sound business practices.

The Air Force acquisition strategy for the F-117A is to reduce the System Program Office oversight and size and consolidate most functions into a single contract to LMSW. That strategy moves away from multiple competitive contracts, which are predominantly fixed-price, to essentially a cost-plus-incentive-fee contract. Moving from fixed-price to cost-plus-incentive-fee contracting increases the risk to the Government. The risk to the Government is further magnified by the fact that the management and oversight provided by the System Program Office will be significantly reduced. By removing competitive procurement practices and traditional System Program Office oversight, the Air Force has increased the risk to the Government. The Air Force strategy has not recognized the added risk and has not implemented management controls necessary to manage the risk.

Budgetary Cost Avoidance

LMSW initially indicated to the Air Force that the proposed contract would result in annual cost avoided in excess of $10 million over the proposed 8-year contract period. In essence, the original proposal of LMSW projected cost avoidance of approximately $80 million over an 8-year period. Air Force management could not fully explain or provide supporting data for the total $80 million cost avoidance.

The Air Force provided documentation to us indicating that reducing the total requested budget for the program by $65 million over an 8-year period is possible if the LMSW proposal was accepted. Specifically, the program would reduce the requested budget by $20 million during the 5-year contract period and $45 million during the following 3 option years. However, the Air Force

plan is to renegotiate the contract at the end of 5 years before exercising the 3 option years and, because the Air Force has historically received less than the total requested budget, we question the use of the budget as the basis for calculating avoided cost.

The Air Force plan to consolidate several contract functions under a single source expands the scope of the present contract of LMSW. The analyses supporting the acquisition strategy should be explicit as to the underlying assumptions. The acquisition strategy should clearly delineate anticipated future benefits and costs.

The data in Appendix C, Table 1, show that total program cost was declining based on the traditional System Program Office oversight with corresponding contractor involvement. The declining cost reflects that management was able to maintain the program below the inflation factor, as supported and verified by the user, the Air Combat Command. Appendix C, Table 2, shows that the LMSW proposed contracting approach will increase overall program cost. As shown in the figure in Appendix C, the contracting approach returns the program to cost increases reflective of normal inflation. No cost avoidance can be truly realized if the overall cost of the program is increasing.

Warehouse Support Equipment

The Air Force has procured architectural and engineering drawings to refurbish and modify a Government-owned contractor-operated warehouse facility located in Palmdale, California. The facility would be used to replace the existing F-117A warehouse facilities at the Sacramento Air Logistics Center and those already maintained by LMSW in Palmdale. Estimates to modify the Government-owned contractor-operated facility are about $2.5 million. The Air Force plan to relocate the warehouse does not consider using the racks and support equipment in the Sacramento Air Logistics Center warehouse. By relocating the racks and support equipment to Palmdale, the Air Force could realize a cost avoidance of $631,000. If the warehouse racks and support equipment are not transferred to Palmdale, then they should be identified as available to the Defense base realignment and closure reuse authority.

Cost Tracking

Contract Historical Data. The System Program Office stated in the draft sole-source justification and approval letter for the contract with LMSW that fair and reasonable prices can be negotiated based on supporting information and documents from the Defense Contract Audit Agency and Defense Contract

Management Command offices when applicable. According to historical data, System Program Office contract personnel and cost analysts documented that:

> . . . the contractor demonstrated minimal concern for cost control; had a marginal cost tracking system; made minimal effort to initiate cost reduction programs, and had a record of cost overruns.

Through the Defense Contract Management Command, the Air Force is implementing some controls with LMSW. The Defense Contract Management Command has assisted LMSW in setting up an earned value accounting system that should provide some cost monitoring. Further, the Defense Contract Management Command has requested that the Air Force allow it to have a greater oversight role in the F-117A program. The Defense Contract Management Command's greater role is a step in the right direction to control cost growth.

Budget Data Provided to LMSW. In an effort to develop a partnership with the contractor, the Program Executive Officer provided the Government's total budget data to LMSW. System Program Office personnel recognized that providing total budget data to the contractor will complicate the Government's negotiation position. LMSW representatives attended the Acquisition Strategy Panel meeting on September 24, 1997. At the meeting, F-117A System Program Office personnel informed LMSW that the budget had been increased. As a result of the potential budget increase, LMSW verbalized that it would correspondingly increase its tentative proposal. As a result, the LMSW proposal appears to be based on the F-117A budget data rather than on actual anticipated workload. We are further concerned that the Air Force has established the contract baseline based on funds budgeted instead of a detailed analysis of expected workload.

Spares Consumption

As part of the Air Force acquisition strategy, existing spares will be turned over to LMSW for use in the contract. The Air Force has not considered a reduction in the contract baseline commensurate with the level of projected use of existing spares.

The F-117A program has three warehouses that contain approximately $100.8 million worth of expendable spares that support the aircraft. The spares are in addition to readiness pack-out boxes. So, depletion of existing spares would not affect the readiness capability of the aircraft. Warehousing of F-117A spares at Sacramento Air Logistics Center is redundant to those functions currently performed at Holloman Air Force Base and LMSW. The System Program Office plans to move the Sacramento Air Logistics Center warehouse to an LMSW warehouse in Palmdale, California. In addition, the Air Force justification and approval for the LMSW contract delineates that the Air Force will provide incentives for LMSW to deplete existing spares. We commend the System Program Office for taking efforts to eliminate warehouse function redundancy and for depletion of existing spares. However, because the spares are Government-furnished materiel, the contract cost baseline should be

reduced equivalent to the amount that will be realized through depletion of spares. Our review of the existing spares showed that the F-117A program has spent an average of $21 million a year for expendable spares. Our statistical analysis of the existing spares and historical use showed that through contractor depletion, the program could save at least $8 million the first year and an additional $4 million the second year of the contract. The depletion of the remaining existing spares would result in additional cost avoidance.

Low Observable Technology

The acquisition plan of the Air Force has not made provisions to retain in-house low observable technology capabilities. The System Program Office was able to reduce costs by using in-house repair instead of prime contractor replacement of low observable components. System Program Office engineering, in cooperation with the Advanced Composite Shops at Sacramento Air Logistics Center, were able to design, analyze, repair, manufacture, and test low observable components. The System Program Office developed low observable component, level III drawing packages for competitive procurement (See Appendix D for details). The Air Force needs to recognize the value that engineering oversight has provided in maintaining the System Program Office as a smart customer. The Air Force needs to maintain low observable engineering and fabrication capabilities at the appropriate air logistics organization for future use.

Accelerated Pace

Based on preliminary review results, we sent a letter to the Assistant Secretary of the Air Force (Acquisition) on September 5, 1997, requesting that the Air Force delay actions that could imply a commitment to the unsolicited logistics support contract until our review was complete. The Air Force responded to our letter that any further delay in development and expeditious implementation of the LMSW contract would jeopardize continued outstanding F-117A fleet support. The Air Force approved the Acquisition Strategy Plan on September 24, 1997, to award a 5-year, cost-plus-incentive-fee contract for sustainment and depot-level modification of the F-117A aircraft to LMSW for $2 billion. As a result, the Air Force may be implementing a contracting initiative, without adequate management controls, that emphasizes reducing the Government's program management infrastructure over reducing costs.

Conclusion

The Air Force plan is to consolidate contract functions under a contract that would reduce the System Program Office infrastructure that provides oversight for F-117A aircraft sustainment. Our review of the program showed that the

Air Force did not streamline functions and personnel as a result of program declassification. The Air Force has not provided a baseline for the logistic support contract. The Air Force has not identified $631,000 worth of warehouse racks and support equipment for reuse. Management controls have not been implemented to address the added risk of establishing a sole-source, cost-plus-incentive-fee contract. Projected cost avoidance resulting from the proposed LMSW contract are not realistic. The contractor's cost tracking system needs to be verified and monitored. The Air Force is providing the contractor approximately $100 million worth of expendable spare parts with an incentive to reduce spares inventory without a commensurate reduction to the contract baseline. The Air Force has no plans to retain in-house low observable technology capabilities.

Recommendations, Management Comments, and Audit Response

We recommend that the Assistant Secretary of the Air Force (Acquisition):

1. Direct that the F-117A System Program Office take the following actions before implementation of the acquisition plan:

a. Identify functions within the System Program Office that are no longer required in the unclassified environment and those functions that could be more economically and effectively performed by other Government organizations and determine, based on the resultant System Program Office staffing, whether sufficient reductions exist to warrant the acquisition plan.

b. Identify specific tasks and levels-of-effort appropriate for the contract.

c. Identify risks associated with the acquisition plan, implement a management control plan to manage those risks, and ensure that options exist to recover costs if the contractor does not control cost.

d. Validate the cost avoidance that can be realized through the approved acquisition plan during the contract term by establishing a baseline for the cost avoidance and metrics to determine progress in achieving the baseline.

e. Verify that the contractor cost tracking system is in place, and that the Defense Contract Management Command will be able to monitor cost associated with the F-117A Program.

f. Reformulate the contract baseline to include the cost avoidance that the contractor will realize as a result of depletion of Government-furnished spares.

g. Use the existing warehouse equipment for cost reduction or identify it to the Defense base realignment and closure reuse authority.

2. Retain within the remaining Air Logistics Centers the internal low observable technology competency.

Management Comments. The Assistant Secretary of the Air Force (Acquisition) concurred with the recommendations and stated that the F-117A System Program Office would take or has taken the following actions:

o properly sizing itself to support the current method of doing business;

o completing a zero-based analysis of all Government and contractor tasks, including levels of effort;

o incorporating options to manage the risk in the acquisition plan;

o negotiating and validating annual target prices through the normal proposal process, which will avoid $80 million stated in the Government's projected budget and $90 million associated with the reduction of system program office personnel over the 8-year period;

o instituting a contractor cost tracking system, with which the Defense Contract Management Command will monitor cost associated with the F-117A Program;

o revising the contract baseline to reflect the anticipated reduction in purchased spares; and

o identifying the racks to the Local Reuse Authority.

In addition, the Air Force is establishing a Low Observable Center of Excellence at Wright-Paterson Air Force Base.

Part II - Additional Information

Appendix A. Review Process

Scope

We conducted this review from June through December 1997, and we reviewed data dated from April 1984 through September 1997. To accomplish the objective, we reviewed the Federal Acquisition Regulations. In addition, we reviewed documentation received from the Air Force Audit Agency, the Program Executive Officer, the F-117A System Program Office, the Air Combat Command, the 49th Fighter Wing, and Lockheed Martin Skunk Works. Documentation included:

- 1996 and 1997 organic workload performed at Sacramento Air Logistics Center,
- budget data,
- flying hour cost,
- legal opinions,
- the transition plan, and
- a justification and approval.

Further, we discussed issues relating to sole sourcing and locations of workloads and personnel with Department of Defense and Air Force acquisition officials from programs, technical, and contracting. We also talked with contractor personnel on program issues.

Methodology

We conducted this program review in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, and accordingly included such tests of management controls as we deemed necessary. Technical experts from the Engineering Branch, Technical Assessment Division, in the Analysis, Planning, and Technical Support Directorate of the Inspector General, DoD, assisted in the analysis of relocation of the program office and logistics support for the F-117A Stealth Fighter. We used statistical sampling procedures to determine depletion of existing expendable spares that can reduce the contract baseline up to $100 million. Our analysis is based on a 95-percent confidence level that 12,411 to 13,185 line items of expendable spares exist that are valued between $96,846,662 to $103,169,670. Because the items will be required to support the F-117A aircraft, a potential cost avoidance can be achieved by depletion of

the items. We have calculated that depletion of the line items can provide funds for better use up to $8 million in the first year and $4 million in the second year with cost avoidance in future years based on future depletion. The auditor calculation is done prospectively and is not subject to confidence bounds because the events have not happened, and we have no control over the Air Force action to deplete the spares. To respond to the congressional requirement in the most timely manner, management controls were not reviewed. The review did not place material reliance on the evaluation of computer-processed data to support the finding and recommendations.

Contacts During the Review. We visited or contacted individuals and organizations within the DoD. Further details are available upon request.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD managers to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of Management Control Program. In accordance with DoD Directive 5000.1, "Defense Acquisition," March 15. 1996, and DoD Regulation 5000.2-R, Mandatory Procedures for Major defense Acquisition Programs (MDAPS) and Major Automated Information System (MAIS) Acquisition Programs," March 15, 1996, acquisition managers are to use program cost, schedule, and performance parameters as control objectives to carry out the DoD Directive 5010.38 requirements. Accordingly, we limited our review to management controls directly related to the decisions involved in relocation of the system program office and logistics support for the F-117A Stealth Fighter.

Adequacy of Management Controls. We identified a material management control weakness, as defined by DoD Directive 5010.38, in the management control process for relocation and outsourcing logistics maintenance functions. The Air Force acquisition strategy did not recognize the added risk and has not implemented management controls necessary to manage the risk. Corrective actions taken on Recommendation 1.c. will correct the management control weakness. A copy of the report will be provided to the senior official in charge of management controls for the Air Force.

Adequacy of Management's Self-Evaluation. The F-117A System Program Office had not identified contract administration and management as an assessable unit and, therefore, did not identify or report the management control weakness identified by the audit.

Summary of Prior Coverage

During the last 5 years, the General Accounting Office and the Inspector General, DoD, have not issued audit reports on the relocation and contracting procedures relating to the F-117A Stealth Fighter. The Inspector General, DoD, issued Audit Report No. 97-164, "Defense Base Realignment and Closure Budget Data for the Realignment of the System Program Office From McClellan Air Force Base, California, to Wright-Patterson Air Force Base, Ohio," June 18, 1997. The audit reviewed the accuracy of Defense base realignment and closure military construction budget data related to the F-117A program. The Air Force had not developed the required documentation; therefore, the report recommended that the Under Secretary of Defense (Comptroller) place the funding for project PRJY921012R1 on administrative withhold until the Air Force resubmits data to support the military construction project. The Air Force Audit Agency issued an Installation Report of Audit 41597017, "Financial Management of Aircraft Maintenance Contractor Logistics Support Operations, Sacramento Air Logistics Center, McClellan Air Force Base," April 1, 1997. The audit was centrally directed to evaluate the financial management of the F-117A aircraft maintenance contractor logistics support operations. The audit found that the F-117A Program Office managed the operations well; therefore, the report contained no findings or recommendations.

Appendix B. Other Matters Addressed in the Review

Air Force relocation studies indicated that if the System Program Office organization were to remain unchanged, it should be moved, in total, to Hill Air Force Base. The Air Force had two independent teams review the F-117A program to determine whether the LMSW sole-source contract proposal cost would be fair and reasonable. Both teams found that the cost would not be fair and reasonable. The studies were based on the move of all functions that are currently being performed by the System Program Office to an Air Logistics Center. During the time that the relocation studies were being accomplished, acquisition streamlining initiatives were developed to reduce administrative overhead. Acquisition streamlining initiatives to reduce personnel superseded the relocation studies.

System Program Office Location

The F-117A Stealth Fighter System Program Office has no positions designated for maintenance. Because the relocation of the System Program Office did not affect maintenance positions, coordination with the Defense Depot Maintenance Council to facilitate relocation decisions was not required. The Assistant Secretary of the Air Force (Acquisition) made the decision to collocate the F-117A System Program Office with like systems at the Aeronautical Systems Center. The Assistant Secretary of the Air Force (Acquisition) implemented oversight through the Program Executive Officer for Strategic Programs. The decisions appeared valid based on the Assistant Secretary of the Air Force (Acquisition) authority.

Personnel

Interviews were conducted with personnel currently working or having worked in the F-117A System Program Office. The interviews showed that personnel rights were fully protected during the realignment process. Personnel interviewed were aware of Government downsizing initiatives. The personnel interviewed recognized that Defense base realignment and closure decisions made in 1995 were the driving factors to move the F-117A System Program Office. Personnel interviewed recognized that their positions, as they exist, may no longer be required at any location because of the downsizing.

Appendix C. Budgetary Cost Avoidance

LMSW stated to the Air Force that the proposed contract would result in an annual cost avoidance to the program in excess of $10 million. Over the proposed 8-year contract period, the projected cost avoidance would total approximately $80 million. The Air Force stated that the projected cost avoidance was based on:

o downsizing the System Program Office by 200 positions from 220 to 20, and

o estimating a total cost avoidance of $50,000 per year for each position reduced.

Neither LMSW nor Air Force management could fully explain or provide supporting data for the total $80 million cost avoidance.

The most efficient organization study of the System Program Office concluded that 186 personnel were sufficient to provide the workload baseline. At present, the System Program Office is staffed to the 186 position level. Of the 186 positions, the most efficient organization study found that only 52 were required to perform inherently Governmental functions in areas such as contracting, financial management, program execution, budget oversight, and program security. That assessment would equate to a reduction of 134 positions in the System Program Office. Applying the Air Force estimated annual cost avoidance of $50,000 per position to the 134-position reduction would result in an annual cost avoidance of $6.7 million. Over the proposed 8-year contract period, the projected cost avoidance would total approximately $53.6 million.

The System Program Office provided actual cost data as shown in Table C-1. The data show operation and maintenance declining in real dollars each year. Those data support the Air Combat Command's statement that aggressive management by the System Program Office has reduced operating cost.

Table C-1. Actual Program Cost

Year	1995	1996	1997
Operation and Maintenance[1]	$190.5	$182.6	$183.9
Spares/equipment	17.8	28.5	19.3
System Program Office personnel	8.2	8.7	8.2
System Program Office burden[2]	0.5	0.5	0.5
Total program cost	**$217.0**	**$220.3**	**$211.9**

The System Program Office also provided the total projected F-117A program budget for the 8-year period of the proposed contract with LMSW, as shown in Table C-2.

[1] Operation and Maintenance cost included logistics contracts and program operational cost less System Program Office personnel cost.

[2] System Program Office burden, the overhead rate, was added by the auditors to make total System Program Office costs comparable with contractor costs.

Table C-2. Projected Program Cost

Year	1999	2000	2001	2002	2003	2004	2005	2006	Total
				(millions)					
Operation and Maintenance requested budget[3]	$227.7	$221.6	$221.0	$227.9	$228.9	$235.8	$242.9	$250.2	$1,856.0
System Program Office operational cost[4]	28.3	20.9	18.9	18.9	18.8	18.8	18.8	18.8	0.0
Budget dollars for LMSW proposed contract	199.4	200.7	202.1	209.0	210.1	217.0	224.1	231.4	1,693.8
LMSW tentative proposal	192.9	201.0	202.1	202.2	202.7	206.4	209.5	211.3	1,628.1
Difference between budget requested and LMSW proposal	**$ 6.5**	**$ -0.3**	**$ 0.0**	**$ 6.8**	**$ 7.4**	**$ 10.6**	**$ 14.6**	**$ 20.1**	**$ 65.7**

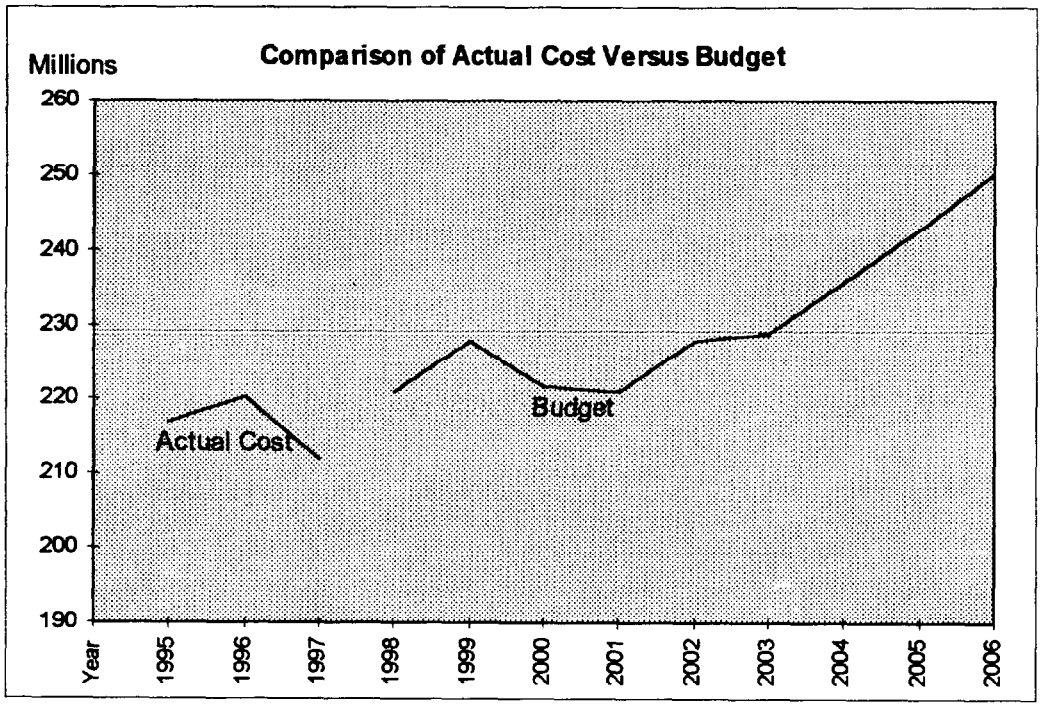
The projected cost of the F-117A program over the 8 years would be $1,856 million. Of the $1,856 million requested budget, $1,693.8 million would be available for the LMSW proposed contract. The LMSW proposal over the 8-year period is for $1,628.1 million. Therefore, cost avoidance based on the difference between the available requested budget and the LMSW proposal is $65.7 million. In the 5-year base period of the contract, only $20.4 million cost avoidance is projected. In the last 3 option years of the contract, $45.3 million cost avoidance is projected. The Air Force plans to renegotiate the contract before exercising the 3 option years. Therefore, the $45.3 million cost avoidance will be dependent on the renegotiation.

Actual program cost data in Table C-1 and the requested budget data in Table C-2 are reflected in the following figure. The figure indicates that total program cost was declining based on the traditional System Program Office oversight with corresponding contractor involvement. The declining cost reflects that management was able to maintain the program below the inflation factor, as supported and verified by the user, the Air Combat Command. The figure also indicates that the budget data in Table C-2 show that the LMSW proposed contracting approach will increase overall program cost. The contracting approach, as shown in the following figure, returns the program to

[3] Operation and Maintenance cost includes spares cost (accounted for separately in Table C-1).

[4] System Program Office operation cost includes Government contracts that cannot be included in the LMSW contract (such as the engine contract that is provided by Memorandum of Agreement with the Navy).

cost increases reflective of normal inflation. Therefore, no cost avoidance can be truly realized if the overall cost of the program is increasing.



Actual Cost Versus Budget

Appendix D. Cost Avoidance Derived From Repair Versus Manufacture of New Part

The System Program Office contacted the Advanced Composites Shop at the Sacramento Air Logistics Center to determine reparability of F-117A panels identified as non-reparable by LMSW. The System Program Office effectively used available engineering and fabrication resources inherent at the Sacramento Air Logistics Center to achieve $10 million in avoided cost. The data below show cost avoided, during the period of FYs 1993 through 1997, derived from repairing panels originally deemed non-reparable by LMSW.

Nomenclature	Cost of New Part	Repair Cost	Number Repaired	Avoided Cost
Wing platypus panel	$60,100	$4,500	10	$ 556,000
Lower rear door panel	72,200	7,000	48	3,129,600
Rear door trailing edge panel	76,000	6,000	2	140,000
Inboard platypus panel	56,000	4,200	46	2,410,400
Outboard platypus panel	80,800	6,500	20	1,486,000
Forward-looking infrared shroud	25,000	1,950	109	2,512,450
Bracket	348	100	90	22,320
Total				**$10,256,770**

Building on the success of the Advanced Composites Shop to engineer and produce repaired panels, the System Program Office requested further support to resolve an operational problem. The System Program Office, Advanced Composites Shop, and LMSW jointly developed a solution to an exhaust overheating problem. The Advanced Composites Shop's contribution to resolving the problem consisted of the redesign of the wing and inboard and outboard platypus panels. The Advanced Composites Shop developed level III drawing packages of the redesigned platypus panels that would allow the System Program Office the option to competitively procure the panels. The redesigned panels cost $147,000 to produce. The LMSW proprietary panels that they replaced cost $197,500 to produce. The Advanced Composites Shop produced 70 of the panels.

In the 1996 Report to Congress, the Secretary of Defense stated that the policy, "will ensure that organic depots can compete with private sector sources or repair when there does not appear to be adequate competition for specific DoD workloads with the private sector."

The Air Force was able to implement DoD policy and establish low observable competency through the combination of System Program Office engineering and the Advanced Composites Shop. This competency includes low observable design, analyses, repair, manufacture, and test capability.

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Deputy Under Secretary of Defense (Acquisition Reform)
  Deputy Under Secretary of Defense (Logistics)
    Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
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Department of the Air Force

Assistant Secretary of the Air Force (Acquisition)
  Program Executive Officer Fighter and Bomber Programs
    System Program Director, F-117A System Program Office
  Assistant Secretary of the Air Force (Financial Management and Comptroller)
Commander, Air Combat Command
Auditor General, Department of the Air Force
Commander, Sacramento Air Logistics Center
Commander, Aeronautical Systems Center Detachment 5

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
  Director, Defense Contract Management Command
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Inspector General, Central Imagery Office
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
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Chairman and ranking minority member of each of the following congressional committees and subcommittees:

  Senate Committee on Appropriations
  Senate Subcommittee on Defense, Committee on Appropriations
  Senate Committee on Armed Services
  Senate Committee on Governmental Affairs
  House Committee on Appropriations
  House Subcommittee on National Security, Committee on Appropriations
  House Committee on Government Reform and Oversight
  House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform and Oversight
  House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
  House Committee on National Security
  Honorable Orrin Hatch, U.S. Senate
  Honorable Robert Bennett, U.S. Senate
  Honorable James V. Hansen, U.S. House of Representatives

Part III - Management Comments

Department of the Air Force Comments

DEPARTMENT OF THE AIR FORCE

WASHINGTON, DC

Office of the Assistant Secretary

16 MAR 1998

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING OFFICE OF THE INSPECTOR GENERAL DEPARTMENT OF DEFENSE

FROM: SAF/AQ

SUBJECT: DoDIG Draft Report, Relocation of System Program Office and Logistics Support for the F-117A Stealth Fighter, December 29, 1997, Project No. 7AL-5042

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force comments on subject report.

We have reviewed the subject DoDIG draft report. The attached response is a thorough F-117 System Program Office appraisal. In the Executive Summary, each IG Recommendation for Corrective Action is specifically addressed and the following detailed explanations serve to clarify the Air Force point of view.

The report recommends many actions already underway and we concur with most of the report recommendations. We anticipate a June 1998 contractor proposal calling for the delivery of improved F-117 logistics support at costs considerably lower than those currently projected. Adequate management and cost controls will be in place before award of a Total System Performance Responsibility (TSPR) contract for Logistics Support.

Every critical aspect of the contract, the Statement of Work, contract metrics, and Award Fee Plan, is on schedule. Based on the attached response to the draft report, I see no reason to deviate from this new and innovative contracting approach as presented to the Acquisition Strategy Panel on 24 September 1997.

George K. Muellner

GEORGE K. MUELLNER, Lt Gen, USAF
Principal Deputy, Assistant Secretary
of the Air Force (Acquisition)

Attachment:
F-117A SPO Response to DoDIG Report

Project No. 7AL-5042 9 March 1998

Relocation of the
F-117 System Program Office and Logistics Support for the
F-117 Stealth Fighter

Executive Summary

The DoD IG draft report, dated 29 December 1997, was reviewed by the F-117 System Program Office (SPO). The SPO objective was to evaluate the draft report, indicate areas of concurrence and nonconcurrence, establish a plan for corrective actions, identify monetary or anticipated benefits, and substantiate each response. The draft report, under "Recommendations for Corrective Actions", suggested specific actions be taken before implementing the F-117 Acquisition Plan, as approved at the 24 Sept 97 Acquisition Strategy Panel chaired by **Mrs. Darleen Druyun, Principal Deputy Assistant Secretary of the Air Force (Acquisition & Management). Most IG recommendations for action are taking place as part of the implementation of the acquisition strategy since the ASP. All actions will be completed by contract award of the Total System Performance Responsibility (TSPR) on 1 October 1998. Although the Air Force concurs with all the recommendations of the draft report, many of the statements in the draft report require clarification or correction before inclusion in the final report.**

The DoD IG recommendations quoted below are each followed by a synopsis of the SPO response. More detailed information is provided in the General Review section.

1a. ***Identify functions within the System Program Office that are no longer required in the unclassified environment and those functions that could be more economically and effectively performed by other Government organizations and determine, based on the resultant System Program Office staffing, whether sufficient reductions exist to warrant the acquisition plan.***

Concur: The F-117 SPO reevaluated staffing requirements in light of program security changes. The SPO is now properly sized to support the current method of doing business (pre-TSPR). Staffing adjustments have taken place as a result of changes in the security environment. The IG believes that reduced functional and security responsibilities might permit such a dramatic drop in personnel that the TSPR acquisition plan may not be warranted. This is not the case. There is a mistaken underlying assumption in this recommendation that the F-117 program has been "declassified", when in fact, it has only been "acknowledged" with certain classification levels reduced or eliminated. The acquisition strategy is still warranted and a welcome opportunity to reduce all categories of SPO staffing, including security.

1b. ***Identify specific tasks and levels-of-effort appropriate for the contract.***

Concur: The SPO and LMSW established a Transition Integrated Product Team (IPT) to perform a zero-based analysis of all Government and contractor tasks, including levels of effort. The team wrote a detailed TSPR transition plan and a Statement of Work (SOW) for the TSPR contract.

1c. ***Identify risks associated with the acquisition plan, implement a management control plan to manage those risks, and ensure that options to recover costs if the contractor does not control cost.***

Concur: The approaching closure of McClellan AFB, reduced out-year budgets, and a DoD drive to reinvent the way the Department does business, motivated the Government to pursue the TSPR contract effort. Thorough advance planning between the Government and LMSW, coupled with unique performance and cost incentives, encourages and enables both organizations to manage the risks associated with the change in contract type. Potential risks have been identified and addressed in the acquisition plan. The Government has incorporated the following options to manage risk: (1) reward the contractor for good technical and cost performance through increased fee, (2) reduce contractor profit to as low as zero for poor technical or cost performance, or as a last resort, (3) terminate the contract for lack of performance.

1d. ***Validate the cost avoidance that can be realized through the approved acquisition plan during the contract term by establishing a baseline for the cost avoidance and metrics to determine progress in achieving the baseline.***

Concur: According to the acquisition plan, annual target prices will be negotiated and validated through the normal proposal process. The difference between the Government's projected budget and the LMSW target price is cost avoidance, and is estimated by LMSW at $80 million over an 8-year period. Additionally, over the same period, the Government intends to save a projected $90 million associated with the reduction of SPO personnel from 226 to a target of 20. This issue is further discussed in items 8 and 24 of the General Review section.

1e. ***Verify that the contractor cost tracking system is in place, and that the Defense Contract Management Command will be able to monitor costs associated with the F-117 Program.***

Concur: LMSW accounting and estimating systems are approved by DCMC and DCAA. These agencies continually monitor the contractor accounting systems.

1f. ***Reformulate the contract baseline to include the cost avoidance that the contractor will realize as a result of depletion of Government-furnished spares.***

Concur: The contract baseline will reflect the anticipated reduction in purchased spares. The annual target price will take into account a fair and reasonable price for the level of effort contracted.

1g. ***Use the existing warehouse equipment for cost reduction or identify it to the Defense base realignment and closure reuse authority.***

Concur: An AFMC evaluation concluded the racks could not be cost-effectively utilized in the Palmdale warehouse facility. The racks have been offered to the Local Reuse Authority under the procedures established by BRAC.

2. ***Retain within the remaining Air Logistics Centers the internal low observable technology competency.***

Concur: A Low Observable (LO) *Center of Excellence* is being established at Wright-Patterson AFB where current LO platform SPOs (B-2, F-22, and F-117) will be collocated. The F-117 SPO will continue to maintain an LO engineering capability at WPAFB and Holloman AFB. AFMC has designated OO-ALC as the center for advanced composites, including LO structures for the ACM, B-2, and F-22.

3

General Review

Part I of the DoD IG draft report details thoughts and observations regarding many areas of the F-117 program. The following are clarifications and corrections to the points in the report.

Background

1. ***Congressional Request. The Air Force approved the Acquisition Strategy Plan on September 24, 1997 to award a 5-year, cost-plus-incentive-fee contract for sustainment and depot-level modification of the F117A aircraft to LMSW for $2 billion.*** (page 2, para 1, last sentence)

The proposed period of performance for the F-117 Acquisition Plan is eight years. The Total System Performance Responsibility (TSPR) contract is a cost-plus-incentive-fee, with an award fee feature, that includes a 5-year basic, a 3-year option, and a contract ceiling of $2 billion. The contract also includes a 50/50 cost share ratio for both underruns and overruns against the target price.

2. ***History of the F-117 Aircraft. On December 20, 1995, LMSW approached Air Force management with an unsolicited proposal claiming to save the Air Force approximately $80 million over the next 8 years by taking responsibility for total system maintenance of the F-117 aircraft.*** (page 2, para 2, first sentence)

The unsolicited proposal referenced above, *F-117 Transition to Full Contractor Logistics Support*, addressed "annual savings in excess of $10 million {and} a manpower savings of 150 people {that} can be expected." This is a minor distinction, but LMSW made no reference to total savings because no contract term had yet been proposed.

Selected Contract Approach

3. ***The Air Force did not use an adequate process or adequate documentation in deliberations involving the relocation of the F-117 System Program Office.*** (page 4, para 1, first sentence)

The process leading to the 24 Sep 97 ASP decision to relocate the SPO to ASC was thorough and well documented. As part of base closure, the SPO was concentrating on moving to another AFMC location. During the same time period, LMSW presented a white paper to AFMC/CC, proposing contractor assumption of SPO duties. After an independent Government review of the white paper, Gen Viccellio asked LMSW for a more detailed proposal. In May 96, Gen Viccellio directed the DAC and SPD to develop an innovative contracting approach to support the weapon system at a lower overall cost. By Nov 96, the overall SPO plan evolved into the TSPR approach, with a reduced SPO consolidating at ASC as part of the LO Center of Excellence. In continuance of the goal to reduce life cycle cost through reductions in SPO size by increasing the level of privatization, a SPO/LMSW IPT was formed to develop contract content and structure in

preparation for an ASP to be chaired by SAF/AQ. The IPT approach to locate a reduced SPO at ASC was approved on 24 Sep 97.

In 1996 Col Jack Hudson conducted an independent review of the LMSW 15 Dec "White Paper" for AFMC/CC (Gen Vicellio). The team presented their findings and recommendations to AFMC/CC on 23 Feb 96. Col Hudson attended the 24 Sep 97 ASP and stated that the TSPR acquisition strategy had now addressed the concerns identified in his independent review. The SPO has implemented all of the recommendations as follows:

a. ***AFMC should decline the "White Paper" concept as prepared.*** AFMC appreciated LMSW white paper and presentation on the subject of TSPR, but declined to make any firm decision until a more-defined concept was proposed.

b. ***Ask for a serious, well-substantiated proposal which meets USAF objectives.*** LMSW submitted a well-substantiated proposal that met the USAF objectives and was approved by the SAF/AQ Acquisition Strategy Panel on 24 Sep 97.

c. ***Move {the} warehouse and specific item management activity to Palmdale.*** Consolidation of the SM-ALC/QLA and LMSW warehouses is in progress at AF Plant 42, building 720 in Palmdale, CA.

d. ***Move {the} SPO to ASC and consolidate with {the F-117} Development SPO.*** The SPO is in the process of developing the CONOPS to establish a "Functional Transfer" of the SPD and SPO sustainment activities at Wright Patterson AFB, OH and will be completed by 1 Oct 98.

4. ***The Air Force did not thoroughly consider all issues before approving an acquisition plan to award a $2 billion sole-source, cost-plus-incentive-fee contract for sustainment and depot-level maintenance of the F-117 aircraft.*** (page 4, para 1, second sentence)

The nine-month review process leading to this decision was thorough, well-documented, and involved the entire F-117 community, including members of HQ AFMC, HQ ACC, SAF/AQ, USAF/IL, 49FW, DCMC, and SPO. After many reviews, the Acquisition Plan was approved on 24 Sep 97 in the Acquisition Strategy Panel (ASP) chaired by Mrs. Druyun. ASP members recognized and took advantage of the opportunity to provide input and recommend changes.

5. ***Identify and eliminate redundant tasks and positions currently in the System Program Office.*** (page 4, para 1, first bullet)

The SPO does not have any redundant tasks or positions. The IG report assumes that declassification of the F-117 program results in reduced requirements, and therefore, fewer people. In fact, the program has not been completely declassified but has been "acknowledged". Therefore, the SPO security workload associated with classified portions of the F-117 program has not been significantly reduced.

6. ***Identify the tasks and levels-of-effort that a sustainment contractor should perform.*** (page 4, para 1, second bullet)

The SPO and LMSW have written the Statement of Work (SOW) for the TSPR contract, including specific tasks and levels of effort. In order to accomplish this task, the F-117 team established a Transition IPT. The IPT accomplished a zero-based analysis of the tasks currently performed by the contractor and the Government. The Implementation IPT is transforming the results of the Transition IPT into the level of effort appropriate for the TSPR contract. When this work is complete, the specific tasks will be identified in the Basis of Estimates (BOEs).

In this concept, LMSW proposed absorbing and integrating the workload of other prime contractors and vendors, as well as accomplishing the customer interface function with the 49FW previously performed by the SPO. LMSW will be responsible for the complete logistical support of the F-117 at a system level, with performance level metrics being used by a reduced SPO staff to monitor/measure contractor performance for purposes of administering the contract and assessing incentive and award fees.

The following is a list of current SPO functions that are not inherently Governmental that the contractor will perform as part of an expanded TSPR workload:

a. Subcontract management (including oversight of the Navy DMISA work to overhaul the aircraft engines)
b. Program/project acquisition and sustainment management of aircraft and related ground system modifications
c. Program/project engineering and management
d. Weapon system configuration management
e. Inventory management for depot-level and field-level spares
f. Stock, storage and issue of F-117 depot-level peculiar spares to 49FW
g Technical data management and distribution
h. SPO weapon system reports and briefings (SEMR, WSPAR, PMR, APBs, etc.)
i. Direct support to 49FW

The following is a list of inherent Government functions approved by the ASP and retained as core tasks:

a. Program direction
b. Requirements determination
c. Contact management of the prime contractor
d. Budgeting and overall financial execution responsibility
e. Product and service acceptance
f. Security policy

7. 7. ***Provide for the increased risks associated with the change from predominantly fixed-price contracts to a single cost-plus-incentive-fee contract.*** (page 4, para 1, third bullet)

Managing risks associated with a TSPR contract, particularly with the change in contract type, were major objectives for the SPO/LMSW team. The overall objective is to balance increased risk with cost savings to the Government. The incentive structure designed for the contract will incentivize cost and performance and will encourage the contractor to manage risk while reducing F-117 total life-cycle support. There is a historical baseline to use in monitoring contractor performance since logistics support has been performed on this mature system for many years.

The Air Force intends to control performance and costs through a three-pronged incentive: (1) a 3% Award Fee in the areas of management, technical performance, sub-contract management, and customer support, (2) a 7% Incentive Fee in seven objective areas of contractor performance, and (3) a 50/50 cost share of any overrun or underrun. This highly incentivized contract relationship constitutes the F-117 SPO management plan to control the risks associated with performance and costs.

The BRAC decision to close McClellan AFB is an exceptional opportunity to accomplish innovative acquisition reform initiatives by awarding LMSW a TSPR contract and substantially reducing the size of the SPO. Since LMSW will remain the logistics expert on the F-117, the concept of TSPR represents the lowest technical risk option.

Further information on cost tracking and management, including the roles of DCMC and DCAA, is included in item 10.

8. ***{The SPO can only} rely on $20 million in project cost avoidance to be realized over the 5-year contract period, but instead it projects cost avoidance of $65 million over an 8-year period.*** (page 4, para 1, fourth bullet)

An 8-year projected cost avoidance is both realistic and reasonable. The IG is concerned that a large part of the potential savings available in years six through eight would be lost if the contract was renegotiated at the conclusion of year five. While this is true, there are no plans to renegotiate unless new requirements or reductions in available funds require a change to the contract. Although renegotiation at any time is always a Government right, the intention is to negotiate a five-year contract with a three-year priced option (total of eight years). The anticipated savings will be an integral part of the contract from the beginning.

The F-117 SPO agrees that the bulk of the LMSW estimated $80 million savings over the SPO projected funding requirements would result from long-term process improvements realized in the option years. As stated above, the three-year priced option and the negotiated savings will be subject to the Government unilateral right to exercise. Not included in these savings are the projected Government personnel savings of $90 million over the same period.

Finally, the contract will have a cost-sharing feature. The contractor will be incentivized to perform all contract requirements below the negotiated target cost and qualify to receive half of the savings. (See discussion of item 10.)

9. ***Identify $631 thousand of warehouse racks and support equipment for reuse.*** (page 4, para 1, fifth bullet)

Warehouse Racks
An evaluation of the usability of the existing warehouse racks was conducted by AFMC with the following conclusions:

a. The existing racks are not designed or fabricated to meet Seismic Zone 4 requirements of the Palmdale, CA area.
b. The racks support only a limited number of configurations and do not efficiently support the layout of Building 720, AF Plant 42. Further, their height does not allow maximum cube utilization within the bay.
c. The cost associated with tear-down, packaging, shipping, and installation of the existing racks versus new properly-designed racks is cost prohibitive. Additionally, more rack uprights, beams, and decking would have to be procured to support the required layout.

The evaluation determined the racks could not be cost-effectively utilized in the Palmdale warehouse facility. The SPO has offered the racks to the Local Reuse Authority under the procedures established by BRAC.

Support Equipment
Following the BRAC process, the SPO requested authority from the Local Reuse Authority to relocate current warehouse support equipment to Palmdale. This request was denied due to their potential reuse at Sacramento. Additionally, a portion of the current support equipment is not compatible with the new racks and therefore required procurement. This support equipment will remain for potential reuse at Sacramento.

10. ***Provide adequate cost tracking to manage cost growth.*** (page 4, para 1, sixth bullet)

Adequate cost tracking exists. The contractor has consistently demonstrated concern for cost control and has provided adequate reports to the SPO. LMSW continuously works with the SPO to provide timely and accurate cost reports, controls, and status updates. Program budgets are established at the levels required to manage and control the authorized work. Regularly scheduled financial reports are provided and reviews are conducted with LMSW and SPO Program Management to provide visibility. These reviews focus on incurred costs compared to operating budgets, variance trends, schedules and current estimates at completion.

LMSW financial personnel continuously monitor cost performance and report to the performing organizations and the SPO. Financial personnel also participate in the functional organizational program reviews as a further check and balance on the company cost control process. Cost control systems are continually monitored by internal corporate audits to ensure structure is maintained.

DCMC and DCAA have the responsibility to constantly monitor the contractor cost and estimating systems. This responsibility will continue during the performance of the TSPR contract. Currently, the contractor accounting and estimating systems are approved and there are no outstanding Cost Accounting Standards violations.

11. ***Consider the existing spares to be provided to the contractor in planning for contract funding.*** (page 4, para 1, seventh bullet)

Use and management of these valuable program assets has been a key part of Transition IPT deliberations. Until consumed, the Air Force spares pipeline will remain Government property managed by LMSW. Today, this pipeline is sufficient to maintain the current F-117 mission capabilities. As an anticipated benefit of TSPR, the Air Force expects the level of spares to be reduced in the future through consolidation of program resources by the contractor, reduction in repair cycle time, and reduction in spares acquisition lead times.

The Air Force is following an acquisition process that will lead to an annual negotiated target price for each of the eight years. The anticipated reduction in spares purchased will be reflected in the negotiated price. This target price will take into account a fair and reasonable price for the level of effort contracted. This will be the contract baseline.

12. ***Make a provision for Government retention of competency in the area of low observable technology.*** (page 4, para 1, eighth bullet)

A Low Observable (LO) Center of Excellence is being established at Wright Patterson AFB to collocate LO platform SPOs (B-2, F-22, and F-117). Like the other programs, the F-117 SPO will continue to maintain an LO engineering capability at WPAFB. As part of the TSPR concept, LMSW becomes the decision authority for source of repair, but is limited by public law from sourcing to a Government activity. OO-ALC is establishing an advanced composite manufacturing and repair facility to support the B-2, F-22, and ACM. The current LO manufacturing efforts at McClellan will be completed prior to base closure and no future F-117 Government manufacturing requirements are planned.

Declassification of the F-117 Program

13. ***The F-117 SPO review of the organization showed that since the program was declassified, the Air Force has not considered the elimination of redundant functions and positions relating to declassification of the program.*** (page 5, para 1, fifth and sixth sentences)

The IG believes that the F-117 Program has been declassified and that this declassification has not translated into a dramatic drop in personnel. This is not the case. The F-117 program has not been "declassified", it has only been "acknowledged" with certain classification levels reduced or eliminated.

The F-117 SPO is now properly sized to support the current method of doing business (pre-TSPR). Staffing adjustments have taken place as a result of changes to the security

environment. The TSPR concept and the associated approved acquisition strategy represents an opportunity to reduce all categories of SPO staffing.

13A. ***Specifically, after the program was declassified, the System Program Office retained 63 warehousing and item management personnel that perform tasks readily transferable to the Air Force logistics community.***

The SPO has 27 warehousing personnel supporting all SM-ALC/QL "blackworld programs" including the F-117. Their tasks are not readily transferable to Air Force logistics community. This is because the items used by these programs are not stock-listed, nor resident in the Air Force Legacy computer systems and, therefore, cannot be handled by unclassified Air Force logistics facilities. The F-117 program is supported by a self-contained classified internal computer system. Its continued use was justified by an NSN-based analysis that showed it was the most cost-effective stock management method. The analysis validated maintaining a separate warehousing function.

The SPO has 28 F-117 item managers. Item management could have transferred to other Air Logistics Centers, but a SPO analysis with DLA-Battle Creek showed this function could only be done if each peculiar item was Government cataloged. The manpower and cost requirements to catalog all the F-117 peculiar items into the Legacy computer systems were estimated at $56 million. The Air Force did not pursue this option, based on lack of funding and no expectation of future pay back.

13B. ***Specifically, after the program was declassified, the System Program Office added two security personnel after the declassification of the program when security tasks should have been declining.***

In early 1990, additional workload from Aeronautical Systems Division (ASD) moved to the F-117 SPO. This additional workload included security inspections of all prime and subcontractors performing classified work in support of the F-117. The security staff in place could not have performed these inspections without hiring 2 additional personnel.

14. ***{Although security requirements changed}, the F-117 System Program Office has more than 200 authorized positions rather than reducing in size as is typical when a program transitions into unclassified sustainment.*** (page 5, para 2)

"Acknowledgment" (the program has not been declassified) did not reduce the SPO manpower requirements because of the previously stated costs associated with stocklisting the items and maintaining off-line computer systems. Manpower requirements increased as a result of further contract breakouts, normalized reporting requirements, and an increase in organic workloads.

<u>System Program Office Tasks</u>

15. ***Of the 186 positions, the most efficient organization study found that only 52 were required to perform inherently Governmental functions in areas such as contracting,***

financial management, program execution, budget oversight, and program security. Therefore, the anticipated avoided personnel costs of $65 million attributed to a reduction of 200 personnel may not be realized. (page 5, para 2, fifth and sixth sentences)

Under the TSPR concept, the projected SPO personnel savings are $90 million, not $65 million. This savings is over the 8-year contract period of performance. These savings are both realistic and reasonable. A Minimum Effective Organization (MEO) study was performed by SM-ALC/FM on the F-117 SPO doing "business as usual" with breakout contracts and significant reliance on Government oversight of the contractor. The study validated a 186 person F-117 SPO size as efficient. Of the 186 positions, the MEO determined 52 positions perform inherently Government functions. This MEO addressed only personnel/positions at SM-ALC, not Development System Manager (DSM) personnel performing F-117 workload at ASC, Wright Patterson, AFB, Dayton, OH. The total MEO SPO size would have been 226 had the study considered F-117 work at ASC.

Under the TSPR concept, the basic management and responsibility structures change significantly. The MEO determination that 52 positions were inherently Government functions is now being challenged under the TSPR structure. The Air Force recognizes that drawing down to a 20-person SPO is an aggressive goal. However, the reduction from 226 authorizations to 55 alone results in cost savings of $9.9 million per year. The further reduction to a SPO size of 20 would bring personnel savings to $11.9 million per year, for projected total savings of $90 million over the course of the 8-year period of performance.

Staffing Levels

16. ***Item Management. As systems mature or transition out of the classified environment, item management responsibility is normally assumed by Air Logistics Center personnel. During program declassification, the Air Force reviewed but did not act to transition item management from the System Program Office to an Air Logistics Center and commensurately reduce personnel. Item management could be more efficiently performed at an Air Logistics Center. The System Program Office currently has 36 personnel assigned to item management.*** (Page 6, para 2)

This issue was addressed earlier in items 13 and 13A. The Air Force decision was not to pursue the option of integrating item management into the Air Force logistics community, based on the lack of funding and no return on investment. Personnel assignments have since decreased to 28 due to downsizing (i.e., reassignments, promotions, separations, and retirements). Assignments will continue to decrease as the program approaches the TSPR transition period.

Under the TSPR concept the F-117 supply support function will be transferred to LMSW and all but one item management/supply support position will be eliminated in the SPO.

17. ***Warehousing and Transportation. The System Program Office has 27 personnel that provide warehousing and transportation functions. Warehousing and transportation is not a***

typical function for a System Program Office. The F-117 originally provided its own warehousing and transportation as a result of the classified nature of the program. (page 6, para 2)

This issue was addressed earlier in items 13 and 13B. The IG statement is fundamentally correct; a SPO organization would normally deal with DLA. However, the distribution operation was established to operate in a classified environment. In addition, the F-117 SPO handles all program unique assets which are assigned internal ND stock numbers. The F-117 program continues to provide dedicated transportation for support to the 49FW. Classified assets, which do not require special program access handling, are now shipped via normal Air Force channels.

Under the TSPR concept the entire F-117 warehousing and transportation function will be transferred to LMSW and all current positions eliminated.

18. ***Contract Management. The System Program Office had aggressively pursued competitive breakout procurement practices and currently has 6 of the 9 contract personnel managing approximately 180 breakout contracts. The Air Combat Command has realized a 23 percent saving in operational costs because of spares breakout and competitive procurements. The proposed reorganization of the System Program Office recommends a reduction of six contract management personnel. Three contract management personnel would be retained to manage the proposed LMSW contract. The items that were previously broken out would be placed under the LMSW contract. LMSW would assume responsibility for procurement and management of spares. Elimination of the six contract management positions would decrease Air Force costs by six salaries (6 x $50,000 = $300,000), but the decrease would be more than offset by the increased LMSW material handling charges (as much as $7 million) for the 180 breakout contracts that would be turned over to LMSW for administration.*** (page 6, para 4)

Today F-117A Program support of the 180 break-out contracts require significantly more than the 6 contracts personnel. The break-out support infrastructure is made up of a number of SPO disciplines including production management specialists, item management specialists, equipment specialists, program managers, engineers and contracts personnel. By placing the responsibility of integration on the prime contractor, these positions can be eliminated along with many other SPO positions with the resultant cost savings far exceeding the $7 million in material handling.

Under the TSPR concept, F-117 contract management and other SPO disciplines previously dedicated to breakout contracts will be eliminated. (see also discussion of item 24).

19. ***Production Management. The System Program Office has 20 production management personnel to track depot maintenance work. Nine additional personnel are assigned to the LMSW facility in Palmdale to monitor contractor performance. The F-117 has been out of production for 8 years. The number of production management positions appears to be excessive and not in keeping with the acquisition reform initiative of reducing quality***

assurance overhead. System Program Office quality assurance staff appears to duplicate Defense Contract Management Command quality assurance oversight. (page 6, para 5)

There are a total of 25 personnel currently assigned to the SPO Production Management, 18 at Sacramento and seven at Palmdale. However, only a total of seven production management specialists, between the two locations (six at Sacramento and one at Palmdale), track depot maintenance work. These positions are primarily responsible for managing the specialized repair activity, organic repairs and unscheduled maintenance requirements. There is no duplication of quality assurance oversight between the SPO and DCMC. The SPO quality assurance staff (three) at Palmdale perform Government acceptance inspections because their unique expertise is not available at DCMC. The remaining Production Management Branch staff at Sacramento (12) and SPO personnel assigned at Palmdale (three) have many other responsibilities including Technical Order Management Activity, Service Bulletin and Kit management, Technical Library management, Navy engine DMISA management, CLSS depot field team coordination, liaison with the 49FW, contractor security oversight and administration and supervision, all of which are not associated with tracking depot maintenance work at the Palmdale depot.

Under the TSPR concept, most positions in this branch will be eliminated and in-plant inspection and contractor security oversight functions transferred to DCMC.

20. ***Development and Engineering. Duplication of engineering functions appears to exist between the System Program Office and the Development System Office.*** (page 7, para 5)

There is no duplication of engineering functions between F-117 activities at SM-ALC and ASC. Today, the System Program Director (SPD), the warehouse and most of the F-117 SPO performing sustainment activities are located at SM-ALC, McClellan AFB, Sacramento, CA. The Development System Manager (DSM) is located at ASC Wright-Patterson AFB, Dayton, OH and is responsible to the SPD for development/acquisition activities. The SPD is the single face to the customer, with overall responsibility for all program activities, including both sustainment and development. The diversity of roles and responsibilities of the two organizational arms are not duplicative in nature.

Under the TSPR concept the issue of duplication becomes moot as all sustaining engineering responsibilities will become LMSW tasks.

Contract Risk

21. ***Moving from fixed-price to cost-plus-incentive-fee contracting increases the risk to the Government. The risk to the Government is further magnified by the fact that the management and oversight provided by the System Program Office will be significantly reduced. By removing competitive procurement practices and traditional System Program Office oversight, the Air Force has increased the risk to the Government. The Air Force strategy has not recognized the added risk and has not implemented management controls necessary to manage the risk.*** (page 7, para 2, sentences 3-6)

The incentive structure designed for the contract will incentivize cost and performance and will encourage the contractor to manage risk while reducing F-117 life cycle cost. In addition, logistics support has been performed on this mature system for many years. There is a historical baseline to use in monitoring contractor performance. Details of the SPO approach to managing risk were discussed earlier in items 7 and 10.

Budgetary Cost Avoidance

22. ***LMSW initially indicated to the Air Force that the proposed contract would result in annual costs avoided in excess of $10 million over the proposed 8-year contract period. In essence, the original proposal of LMSW projected cost avoidance of approximately $80 million over an 8-year period. Air Force management could not fully explain or provide supporting data for the total $80 million cost avoidance.*** (page 7, para 1, sentences 1-3)

Based on LMSW estimates, the projected cost savings will be $80 million over 8 years as compared to current F-117 funding data. These cost savings will be negotiated into the target price for each of the years. Additionally, over the same period, the Government intends to save a projected $90 million associated with the reduction of SPO personnel from 226 to a target of 20.

23. ***The Air Force provided documentation to us indicating that reducing the total requested budget for the program by $65 million over an 8-year period is possible if the LMSW proposal was accepted. Specifically, the program would reduce the requested budget by $20 million during the 5-year contract period and $45 million during the following three option years. However, the Air Force plan is to renegotiate the contract at the end of five years before exercising the three option years and, because the Air Force has historically received less than the total requested budget, we question the use of the budget as the basis for calculating avoided cost.*** (page 8, para 2, sentences1-3)

The discussion of item 8 addresses this issue.

24. ***The Air Force plan to consolidate several contract functions under a single source expands the scope of the present contract of LMSW. The analyses supporting the acquisition strategy should be explicit as to the underlying assumptions. The acquisition strategy should clearly delineate anticipated future benefits and costs.*** (page 8, para 2, sentences 4-6)

The Government is shifting the responsibility of integration to a single contractor (prime). The Air Force acquisition strategy clearly delineates anticipated future benefits and costs, and is explicit in its assumptions. The increased scope to the LMSW contract does not reflect additional program costs. These costs are transferred from various current subcontracts managed by the Government. This concept of transferring subcontractor and vendor integration under a highly incentized contract structure is a key element in the ability of the Air Force to achieve significant reductions in SPO size and life cycle cost. Air Force savings through FY06 are projected to be $90 million in personnel reductions and $80 million in anticipated contractor efficiencies for an estimated total savings of $170 million. The benefit to the Government is the ability to substantially reduce F-117 life

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cycle cost, transfer integration responsibilities to LMSW and achieve substantial reductions in SPO personnel costs.

25. ***Appendix C, Table 2, shows that the LMSW-proposed contracting approach will increase overall program cost. As shown in the figure in Appendix C, the contracting approach returns the program to cost increases reflective of normal inflation. No cost avoidance can be truly realized if the overall cost of the program is increasing.*** (page 8, para 4, sentences 3-5)

The current TSPR strategy anticipates a cost line substantially below the projected budget line. By consolidating total logistic support responsibility into one contract, the size of the SPO/LMSW F-117 team is reduced and commensurate productivity efficiency increases are anticipated. Also, the TSPR strategy establishes an incentivized contract that encourages the contractor to reduce costs.

Current F-117 budget data reflect the projected funding requirements. Under the historical annual sustainment contract approach, ACC would expect to experience these costs by relying on a 226-person SPO to manage breakout contractors and integrate subcontractor efforts.

Warehouse Support Equipment

26. ***The Air Force plan to relocate the warehouse does not consider using the racks and support equipment in the Sacramento Air Logistics Center warehouse. By relocating the racks and support equipment to Palmdale, the Air Force could realize a cost-avoidance of $631 thousand. If the warehouse racks and support equipment ate not transferred to Palmdale, then they should be identified as available to the Defense base realignment and closure reuse authority.*** (page 8, last paragraph, fourth sentence)

The discussion of item 9 addresses this issue.

Cost Tracking

27. ***Contract Historical Data. The System Program Office stated in the draft sole-source justification and approval letter for the contract with LMSW that fair and reasonable prices can be negotiated based on supporting information and documents from the Defense Contract Audit Agency and Defense Contract Management Command offices, when applicable. According to historical data, System Program Office contract personnel and cost analysts documented that:*** (page 9, first paragraph)

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- ***The contractor demonstrated minimal concern for cost control; had a marginal cost tracking system; made minimal effort to initiate cost reduction programs, and had a record of cost overruns.***

The F-117 SPO cannot ascribe the above claim. On the whole, the contracts with LMSW have been fair and satisfactory. The SPO has successfully contracted for the logistic needs of the F-117 for over 15 years. Between the SPO, DCMC and DCAA, the Government

has the experience and cost database to negotiate a fair and reasonable price. By following the requirements of FAR Part 15, a fair and reasonable price will be negotiated.

28. ***Budget Data Provided to LMSW. In an effort to develop a partnership with the contractor, the Program Executive Officer provided the Government's total budget data to LMSW. System Program Office personnel recognized that providing total budget data to the contractor will complicate the Government's negotiation position. LMSW representatives attended the Acquisition Strategy Panel meeting on September 24, 1997. At the meeting, F-117 System Program Office personnel informed LMSW that the budget had been increased. As a result of the potential budget increase, LMSW verbalized that it would correspondingly increase its tentative proposal. As a result, the LMSW proposal appears to be based on the F-117 budget data rather than on actual anticipated workload. We are further concerned that the Air Force has established the contract baseline based on funds budgeted instead of a detailed analysis of expected workload.*** (page 9, para 3)

The available F-117 budget will not be the basis for either the contract cost or the calculated cost avoidance. Annual target prices will be developed and negotiated based on Basis of Estimates (BOEs) derived from a bottom-up development of requirements. The F-117 SPO/LMSW team has defined the requirements of TSPR through the SOW. The contractor will provide BOEs that will be discretely priced. The budgeting data was used for planning purposes only.

Spares Consumption

29. ***As part of the Air Force acquisition strategy, existing spares will be turned over to LMSW for use in the contract. The Air Force has not considered a reduction in the contract baseline commensurate with the level of projected use of existing spares. The F-117 program has three warehouses that contain approximately $100.8 million worth of expendable spares that support the aircraft. The spares are in addition to readiness pack-out boxes, so depletion of existing spares would not affect the readiness capability of the aircraft. Warehousing of F-117 spares at Sacramento Air Logistics Center is redundant to those functions currently performed at Holloman Air Force Base and LMSW. The System Program Office plans to move the Sacramento Air Logistics Center warehouse to an LMSW warehouse in Palmdale, California. In addition, the Air Force justification and approval for the LMSW contract delineates that the Air Force will provide incentives for LMSW to deplete existing spares. However, because the spares are Government-furnished materiel, the contract cost baseline should be reduced equivalent to the amount that will be realized through depletion of spares.*** (page 9, para 4, sentences 1-7)

Warehousing at Holloman AFB and LMSW is not redundant. Holloman AFB stocks only materiel for which they have established a demand or special level. LMSW stocks materiel and kits for depot and flight test use, and special materials with limited shelf life. The Air Force intends to provide the spares pipeline to the contractor to manage. Today, this pipeline is sufficient to maintain the current F-117 mission capabilities. As an anticipated benefit of TSPR, the Air Force expects future spares levels to be reduced.

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This reduction will be the result of consolidation of program resources at the contractor site, a reduction in repair cycle time, and a reduction in spares acquisition lead-times.

The Air Force is following an acquisition process that will lead to an annual negotiated target price for each of the eight years. The anticipated reduction in spares purchased will be reflected in the negotiated price. This target price will take into account a fair and reasonable price for the level of effort contracted. This will be the contract baseline.

30. ***The F-117 SPO statistical analysis of the existing spares and historical use showed that through contractor depletion, the program could save at least $8 million the first year and an additional $4 million the second year of the contract. The depletion of the remaining existing spares would result in additional cost avoidance.*** (page 10, para 1, sentences 9-10)

There is no planned "give-away" of spares. The value of spares transferred to LMSW control will be accounted for in the TSPR contract. The expendable computation system was changed at the start of FY98 to procure only a one-year economic order quantity (EOQ), versus the standard two-year EOQ. The SPO decision to make this change was based on a planned transition of spares management to LMSW in FY99. At that time, LMSW will immediately assume responsibility for initiation of reprocurement actions and existing orders and spares must sustain the program until those orders are delivered. The IG statistical analysis assumes that all transferred materiel will be used within the contract period, and specifically, within the first two years. In reality, materiel in stock includes vanishing vendor materiel that must support requirements for the entire life cycle of the weapon system, materiel that needs to be upgraded or modified before use, and insurance and contingency items.

Support of the 49FW has been and will continue to be the F-117 SPO prime objective. The F-117 SPO believes the current level of spares is correct for the wing to meet its fully mission capable (FMC) rate with the fewest number of MICAP parts orders. These same bottom-line goals are part of the LMSW TSPR philosophy and will be supported by whatever levels they conclude are proper. Additional information on this issue is contained in the item 11 discussion.

<u>Low Observable Technology</u>

31. ***The acquisition plan of the Air Force has not made provisions to retain in-house low observable technology capabilities.*** (page 10, para 2, first sentence)

The discussion of item 12 addresses this issue.

32. ***The Air Force approved the Acquisition Strategy Plan on September 24, 1997 to award a 5-year, cost-plus-incentive-fee contract for sustainment and depot-level modification of the F-117 aircraft to LMSW for $2 billion.*** (page 11, para 1, sentence 2)

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The discussion of item 1 addresses this issue.

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33. ***As a result, the Air Force may be implementing a contracting initiative, without adequate management controls, that emphasizes reducing the Government's program management infrastructure over reducing costs.*** (page 11, para 1, sentence 3)

The discussion of item 7 addresses this issue.

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