DEPARTMENT OF DEFENSE

AUDIT REPORT

ADVISORY REPORT ON THE ACQUISITION OF
COMPONENTS AND SPARE PARTS

No. 91-060

March 7, 1991

Office of the
Inspector General

March 7, 1991

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)
COMPTROLLER, DEPARTMENT OF DEFENSE
ASSISTANT SECRETARY OF THE ARMY (ACQUISITION)
ASSISTANT SECRETARY OF THE NAVY (RESEARCH, DEVELOPMENT AND ACQUISITION)
ASSISTANT SECRETARY OF THE AIR FORCE (ACQUISITION)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Advisory Report on the Acquisition of Components and Spare Parts (Report No. 91-060)

This is an advisory report on the acquisition of components and spare parts. The purpose of our review was to identify systemic issue areas related to the acquisition of components and spare parts. Overall, five common issue areas were identified: requirements planning, pricing, breakout, competition, and quality. The problems in those areas were identified from 151 audit, inspection, and special study reports issued between FY 1986 through FY 1990. In 1989, the estimated value of contracts awarded for spare parts was $17.4 billion. We were unable to determine how much DoD paid for components to produce weapon systems, but DoD had at least 72 major systems scheduled for production during FY 1990 with an estimated procurement cost of $278.6 billion for fiscal years 1990 through 1994.

The Contract Management Directorate performed research and analysis for this report from July through October 1990. We appreciate the cooperation and courtesies extended to the review staff. If you have any questions regarding the advisory report, please contact Mr. Garold E. Stephenson, Program Director, at (703) 614-6275 (AUTOVON 224-6275) or Ms. Kim Caprio, Project Manager, at (703) 614-3463 (AUTOVON 224-3463). If you have any questions pertaining to any of the individual reports discussed, please contact the designated point of contact identified in Appendix D. A list of the audit team members is provided in Appendix F. The planned distribution of this report is listed in Appendix G.

Robert J. Lieberman

Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosure

cc: Secretary of the Army
Secretary of the Navy
Secretary of the Air Force

ADVISORY REPORT ON THE ACQUISITION OF COMPONENTS AND SPARE PARTS

EXECUTIVE SUMMARY

PURPOSE

This project was performed to identify systemic issue areas related to the acquisition of component and spare parts. The review identified the systemic issue areas from audits, inspections, internal reviews, and special studies performed since 1985, by the Department of Defense (DOD) audit agencies, the Military Departments, the Defense Logistics Agency (DLA), and the General Accounting Office (GAO).

BACKGROUND

In the 1980's, there was enormous growth in DoD's inventory of spare parts. At the end of 1989, there were approximately 4.8 million spare parts in the DoD inventory system worth about $110 billion, plus billions of dollars of spare parts on order.

In 1983, subsequent to spare parts management problems and examples of overpricing cited in the media, the Secretary of Defense announced 35 procurement reform initiatives. The initiatives focused on minimizing weaknesses in the acquisition of spare parts.

Since 1985, subsequent to implementation of the initiatives, over 151 reviews were performed relating to the acquisition and management of components and spare parts. Our review of the reports identified five systemic areas within which progress had been made or weaknesses remained. These areas include requirements planning, pricing, breakout, competition, and quality.

RESULTS

Our analysis of prior audit and study reports indicated that improvements occurred after the issuance of the Secretary of Defense Spare Parts Initiatives in 1983. Improvements occurred in the pricing of spare parts, the use of competition to procure spare parts, and the use of breakout for spare parts. The amount of excessive pricing of spare parts was reported to have decreased from 36 percent in 1984 to 28 percent in 1987. The reported percentage of competitive procurement actions increased from 43 percent in 1984 to 65 percent in 1989. Finally, breakout was increasingly used for spare parts purchases, resulting in a reported savings increase from $421.7 million in 1986 to $633.8 million in 1988.

Audits and reviews issued since 1985 indicate that problems have continued to exist in five areas.

- Poor or inadequate procurement planning or identification of requirements for components and spare parts procurement continues to be an overriding factor that contributes to inadequate use of competition, insufficient consideration of breakout, and the inability of ensuring that the Government receives high quality products at fair and reasonable prices.

- The risk of overpricing of components and spare parts has not been reduced to a minimum level.

- The Military Departments have not performed adequate breakout reviews on about $114.2 billion of component parts for major weapon systems.

- Competition in contracting requirements, identified in the Federal Acquisition Regulation and Competition in Contracting Act, have not been adequately complied with, which continues to limit the use of competition to its fullest extent.

- Quality assurance programs have not minimized acceptance of nonconforming spare parts and supply items.

ADVISORY REPORT ON THE ACQUISITION OF COMPONENTS AND SPARE PARTS

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Prepared by:
Contract Management Directorate
Project No. OCH-6012

ADVISORY REPORT ON THE ACQUISITION OF COMPONENTS AND SPARE PARTS

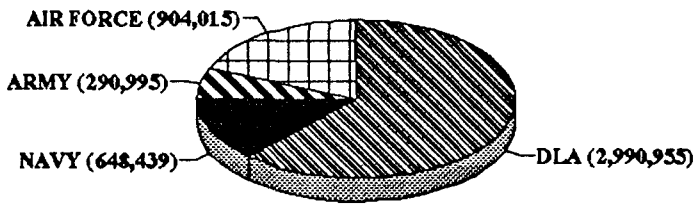
PART I - INTRODUCTION

BACKGROUND

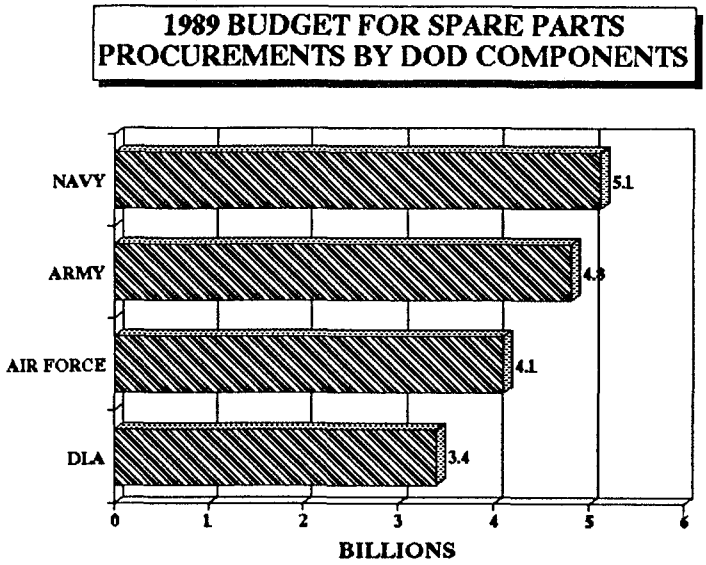
DoD purchases equipment, from the smallest individual weapon to the largest air, ground, or ocean-going system, to support national security objectives. Components and spare parts are an integral element of these systems. Therefore, they are critical factors in the readiness and sustainability of the equipment. More than 50 percent of the life-cycle cost of DoD weapon systems is spent on spare parts. Spare parts and components encompass a great deal more than the hammers, wrenches, and bolts that have long been publicized in the media. Major systems acquired by DoD are made up of thousands of parts and subassemblies that must be repaired or replaced. The subsystems, subassemblies, and other major elements of the end-items are referred to as "component parts." Spare parts are purchased to replace or repair those parts or assemblies that wear out, malfunction, or break.

At the end of FY 1983, there were about 4 million items in the inventory system, and inventories were valued at about $60.7 billion. At the end of FY 1989, there were approximately 4.8 million spare parts in the DoD inventory system, and about $110 billion in supply inventories. This inventory of spare parts is managed by the Military Departments and the Defense Logistics Agency (DLA).

NUMBER OF SPARE PARTS MANAGED IN 1990



DoD budget for the purchase of spare parts was $18.7 billion in FY 1987, $17.1 billion in FY 1988, and $17.4 billion in FY 1989.



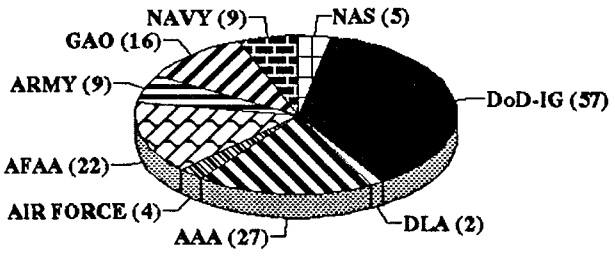
Spare parts acquisition and management have historically been plagued with problems. As part of the defense build-up, which began a decade ago, the Pentagon bought a vast array of spare parts to support new and existing weapons. In the mid-1980's, Congress and the public were stunned by reports that the Pentagon was paying outrageously high prices for spare parts; prices such as $100 for a diode that should have cost 4 cents, $37 for a small machine screw that should have cost a penny, and $917 for chair leg caps that should have cost 35 cents each. Prior audit reports indicated that problems existed in many other aspects of spare parts procurement as well, including the planning of components and spare parts procurements, the use of breakout and competition, and the quality of parts acquired. The need for additional management attention to correct the identified problems was evident.

OBJECTIVE AND SCOPE

The objective of this research and analysis project was to prepare an advisory report summarizing the results of audits and reviews on the acquisition of components and spare parts completed from fiscal year 1985 through 1990. We focused our attention on planning, pricing, breakout, competition, and quality issues. An audit was not performed. In addition, we did not evaluate the adequacy of any internal control procedures within DoD, the Military Departments, or within DLA. However, material weaknesses in internal controls identified in the reports reviewed are discussed in part II of this report. We conducted this self-initiated review from June 30, 1990, through October 15, 1990, in conformance with generally accepted government auditing standards. A list of activities visited or contacted during the review is shown in Appendix E.

We accumulated 151 reports issued from 1985 to 1990 that included audits and inspections performed by the DoD, Office of the Inspector General (DoD IG), General Accounting Office (GAO), Army Audit Agency (AAA), Air Force Audit Agency (AFAA), and Naval Audit Service (NAS). The reports also included procurement management reviews (PMRs) and internal reviews performed by the Military Departments, Office of the Secretary of Defense (OSD), and Defense Logistics Agency (DLA) since fiscal year 1985. A list of the 151 reports we reviewed is in Appendix C, and has been cross-referenced to the identified issues.

NUMBER OF REPORTS REVIEWED
1985 - 1990



We analyzed the reports to determine implications of trends, identify systemic issues, and validate the impact of spare parts initiatives issued by DoD in 1983. We also evaluated the focus of audit work since 1985 in the area of components and spare parts. In addition, we interviewed officials within DoD, the Military Departments, DLA, and GAO who were knowledgeable in the history of components and spare parts issues and in efforts to address problems identified since 1981.

REFORMS - A HISTORICAL PERSPECTIVE

DoD, the Military Departments, DLA and the Congress, implemented reform measures in the form of initiatives, task forces, and statutory laws to address the apparent weaknesses in the components and spare parts procurement processes, as cited in the media and in audit reports during the early 1980's.

DOD INITIATIVES

In 1983, the Secretary of Defense announced 35 procurement reform initiatives that focused on minimizing overspecification, overengineering, small quantity purchases, inappropriate amounts of corporate overhead, purchasing from other than the actual manufacturer, non-competitive purchases, and unreasonably high profits in procurements of spare parts. The initiatives did not address component parts (Appendix A). The initiatives directed DoD contracting activities to use competition wherever possible, to question apparent excessive prices, to reward employees for outstanding performances, and to discipline employees whose performances contributed to spare parts overpricing.

The initiatives required that each Military Department and DLA establish programs to implement the initiatives and address spare parts weaknesses unique to their procurements. The Military Departments and DLA developed reform programs and undertook several hundred management initiatives to implement the Secretary's actions, as discussed below.

DoD issued DoD Federal Acquisition Regulation Supplement No. 6, "DoD Spare Parts Breakout Program," in June 1983, to revitalize, expand, and update the deteriorated DoD spare parts breakout program. It did not, however, address component breakout. The supplement addresses management and conduct of breakout programs by setting forth uniform policies and procedures to screen and code parts for potential breakout, and by establishing responsibility for implementation of the supplement.

ARMY

The Army established a task force in 1983 to identify needed reforms to its spare parts procurement process. The task force identified over 130 "Spare Parts Review Initiatives," (SPRINT). These initiatives ensured that spare parts were given attention by buyers, that fair and reasonable prices were paid, and that disincentives to breakout were eliminated. To facilitate the initiatives, the Army dedicated 1,500 additional personnel to procure spare parts. In addition, the Army centralized the management of spare parts by consolidating weapon systems development, production, and maintenance under the Army Materiel Command. As of 1987, the Army attributed over $837 million in savings to increased spare parts breakout, an amount that exceeded the cost of its spare parts management improvement program.

NAVY

In 1983, the Navy initiated the "Buy Our Spares Smart" (BOSS) program to "attack problems which caused excessive prices for spare parts through a top-down management approach." The major thrust of the BOSS program was to identify and institutionalize changes necessary to permit the purchase of high quality spare parts at fair and reasonable prices. The program focused on the three interdependent goals of breakout, competition, and fair pricing. To implement the program, Navy added over 1,600 new staff. For FY 1988, the Navy reported a cost avoidance of over $1.7 billion, attributed to the BOSS program.

AIR FORCE

In 1983, the Air Force formed an "Air Force Management Analysis Group," (AFMAG) to assess the acquisition of spare parts. The study determined that inadequate attention was being paid to spares competition, breakout, and pricing. AFMAG made 178 recommendations for improving the spare parts acquisition process.

To implement the recommendations, the Air Force allocated 3,000 additional personnel to the procurement efforts and planned major improvements in data automation. The Air Force also established an Acquisition Logistics Center to facilitate coordination between the two commands (the Air Force Logistics Command and the Air Force Systems Command) responsible for procurement, and established Spares Acquisition Support Teams to perform value analysis and to assist in planning and breakout. In 1984, 1 year after the study, the Air Force reported over $528.9 million in savings from improvements related to the spare parts initiatives.

DEFENSE LOGISTICS AGENCY

DLA structured its spare parts procurement reform program to fit the other two major missions of the agency; management of the supply system and management of contract administration. The establishment of competition advocates at DLA was the primary reform effort to improve breakout, competition, and pricing of spare parts by locating additional sources of supply, acquiring additional data, and acting on overpricing reports. DLA added 1,146 personnel to the procurement function.

OTHER EFFORTS TO ADDRESS CONCERNS

The Congress enacted several public laws during 1984 to increase competition and ensure fair and reasonable pricing of procurements, including spare parts. Foremost among these laws was the Competition in Contracting Act of 1984 (CICA). The overall intent of CICA was to enhance competition and limit unnecessary sole-source contracting. The act shifted the emphasis in Government contracting from justifying the use of negotiation, to justifying those contracts that are to be awarded noncompetitively.

CICA also required that each Federal agency and department establish a competition advocate for each contracting activity to be responsible for promoting full and open competition. In DoD, a major role for competition advocates was to ensure the use of competition in the acquisition of spare parts.

PART II - RESULTS OF REVIEW

A. OVERALL PERSPECTIVE

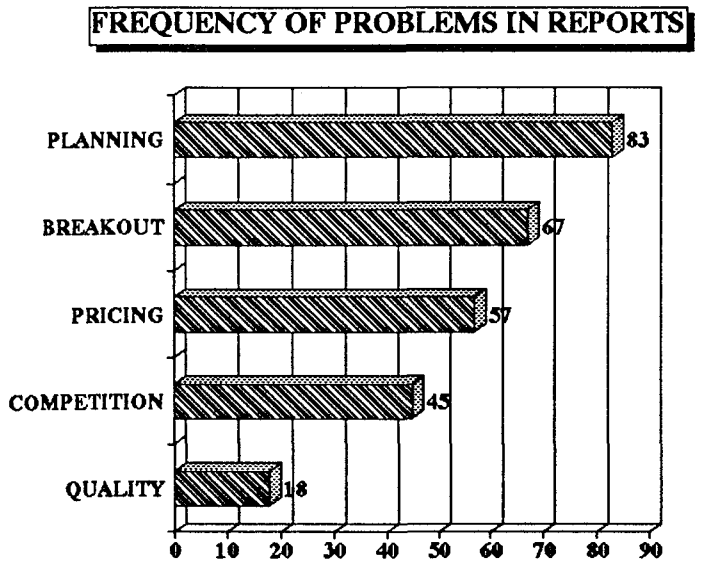
OVERVIEW

In 1984, the Office of Federal Procurement Policy (OFPP) performed a review of DoD's spare parts reform proposals and programs in response to a request from the Congress. Its review concluded that:

- The Military Departments and DLA responded appropriately to the Secretary of Defense spare parts reform initiatives.
- DoD reform programs were ambitious and must receive the continuous full support of DoD officials and procurement executives at all levels, including allocation of the necessary resources.
- The most difficult effort in the short term was implementation of an effective breakout program.
- Planning for spares must begin early in the acquisition process.

Since the OFPP report, over 151 audit, inspection, and review reports have been issued that address components and spare parts issues. Our review of those reports indicates that implementation of the initiatives resulted in improvements being made in the acquisition of components and spare parts. Instances of overpricing have decreased to 28 percent in 1987 from 36 percent in 1984 (page 12). Also, the spare parts breakout program's reported savings increased from $421.7 million in 1986 to $633.8 million in 1988 (page 15). The dollar value of contracts awarded competitively increased from 43 percent in 1983 to about 65 percent in 1989 (page 18).

The reports also indicated that further improvements could be made to increase the effectiveness of the components and spare parts procurement process. Two areas most frequently identified were the use of breakout for procurements of component parts (page 14) and proper planning of components and spare parts procurements to ensure that the Government receives quality products at fair and reasonable prices (page 8).



The following sections discuss, in detail, five recurring issues that were most prevalent in the 151 reports. Those issues are planning for components and spare parts procurements, fair and reasonable pricing, breakout, the effective use of competition and quality.

B. PLANNING

SUMMARY

The lack of procurement planning was, and continues to be, a major problem. In the early 1980's, poor planning contributed to overpricing because procurement personnel did not obtain sufficient cost and pricing data or complete technical data or provide for adequate lead time to procure competitively. The DoD initiatives and Military Departments' implementing efforts strived to improve planning by dedicating over 7,300 new staff positions and making spare parts procurement a part of major systems acquisition planning efforts. Since implementation of the initiatives, inadequate planning continues to be identified as a contributing factor to insufficient use of breakout, limited use of competition, and unnecessary overpricing. The reports reviewed attributed the weaknesses to faulty requirements determinations and the lack of resources. The reports recommended better allocation and utilization of existing resources, implementation of planning policies and procedures, and utilization of existing requirements determination techniques.

BACKGROUND

Planning is essential to the efficient and effective procurement of components and spare parts, and it impacts all aspects of a procurement including the price, quality, feasibility of breakout, and competitive procurement opportunities. Federal Acquisition Regulation (FAR) 7.101, "Acquisition Plans," defines acquisition planning as "the process by which the

efforts of all personnel responsible for an acquisition are coordinated and integrated through a comprehensive plan for fulfilling the agency's need in a timely manner and at a reasonable cost." In the early 1980's, several problems identified in the procurement planning process occurred because procurement personnel were not price conscious or did not perform adequate price and cost analyses.

REFORM EFFORTS

The DoD initiatives did not directly address planning for components and spare parts procurements; however, the initiatives did address issues that were integral to the planning process. For example, the initiatives provided for:

- Increasing resources in the procurement process so that success could be realized in the areas of price, competition, and breakout.
- Awarding and recognizing procurement personnel who met standards, and disciplining those employees who failed to make efficient and effective procurements.
- Revising performance evaluation factors for acquisition managers to include emphasis on spare parts pricing, breakout, competition, and value engineering accomplishments.
- Expanding training curricula for procurement personnel to ensure proper emphasis, understanding, and technical skill for the procurement of spare parts.
- Including spare parts as an agenda item in Acquisition Strategy Panels, Advance Acquisition Plans, and Acquisition Review Councils.

The Military Departments and DLA initiated separate improvement plans to implement the initiatives established by the Secretary of Defense in the area of planning. The Navy's BOSS program, for example, addressed the need for improved procurement planning by calling for better requirements determination, personnel training, and procurement methodology. The Air Force's AFMAG initiatives recommended improving the areas of requirements determinations, spare parts procurement resources, and policy implementation.

DISCUSSION

Despite these efforts, problems in the planning of components and spare parts procurement have continued since 1985. Of the 151 reports we reviewed, 83 identified weaknesses in the planning process. These weaknesses can be summarized into two areas: the use of faulty requirements determinations, and the lack of resources to plan a procurement.

Faulty Requirements Determination

Proper procurement planning requires adequate identification of the requirement, including both the quantity needed and a detailed description. If the quantity needed is improperly assessed, then unnecessary purchases are made and the excess spare parts are thrown away or left to age in inventory. When requirements are not sufficiently defined, the Government may pay for products it cannot use. If the requirements are too narrowly defined, competi-

tion may be restricted. Deficiencies in requirements determinations were cited in 77 reports reviewed.

Requirements determination models are used to compute estimates of total requirements by taking into consideration historical growth as well as other variables such as value, age, and use. In 43 reports, the requirements determination models were not used, or inaccurate data were input into the models resulting in requirements that were overstated or understated. For example, GAO Report No. GAO/NSIAD 87-48BR, "Potential for Reducing Requirements and Funding for Aircraft Spares," January 1987, pointed out that the Air Force did not use an estimating model in determining budgeted requirements for replenishment spares. This resulted in the Air Force routinely buying spare parts up to 14 months earlier than necessary. Requests for appropriations of $125.4 million to fund these purchases could have been deferred for 1 year if the spares had been purchased at the appropriate time.

DoD IG Report No. 89-INS-10, "Inspection of Defense Industrial Supply Center and Defense Construction Supply Center," August 16, 1989, stated that millions of dollars of excess spare parts had to be disposed of due to inaccurate forecasting of spare parts requirements. AFAA Report No. 4126121, "Spares Support for the F-16 C/D Aircraft," April 4, 1985, concluded that improper improvement rates for spare parts were used in the requirements model for the F-16 C/D aircraft, resulting in an $85.9 million overstatement of spare parts requirements for this program for fiscal year 1985. AFAA Report No. 8126115, "F108 Spares Engine Requirements," January 13, 1989, stated that for the F108 engine, critical questions to determine the expected life of the engine were not resolved, which could have resulted in substantial overbuying through 1991.

Adequate procurement planning also includes the need to incorporate all provisions necessary to protect the Government's interest in a contract. Thirteen reports identified deficiencies in this area. For example, the AAA Report No. SO 89-1, "Contractor-Operated Parts Store XVIII Airborne Corps and Fort Bragg, Fort Bragg, North Carolina," October 31, 1988, determined that the contract contained no provisions requiring the contractor to purchase repair parts from manufacturers with the lowest price. The contractor quoted prices from the subcontractor with the lowest prices in the original proposal, but purchased the repair parts from another subcontractor. As a result, the Government paid premium prices for parts and incurred unnecessary service charges.

Lack of Resources

Unqualified personnel and the lack of budgeted dollar resources were cited as the cause for inadequate planning in 17 reports. Limited staffing in the procurement offices contributed to the decisions to pursue the relatively simple and faster process of sole-source purchasing. For example, in the DoD IG Report No. 86-085, "Negotiated Single-Source Procurements Using Unpriced Contractual Actions," April 1, 1986, staffing problems in the procurement offices were cited as causes for issuing unpriced actions totaling $421 million. Because of the staffing difficulties, procurements were inadequately planned. The auditors estimated

that competition may have been feasible and practicable on 26 percent of the unpriced actions reviewed.

In addition, AFAA Report No. 4036385, "CONUS Over-The-Horizon Backscatter Radar System Component Breakout," January 30, 1985, stated that component breakout was not adequately addressed in acquisition strategy plans. Specifically, a breakout review committee had not been established because the program manager believed the personnel required to manage the breakout reviews would not be available. However, no documentation existed to validate this belief. As a result, 11 of 16 components had not been reviewed for breakout. Breakout of these components may have resulted in approximately $14 million of potential savings.

RECOMMENDATIONS

The reports made recommendations in three areas: better allocation and utilization of existing resources, implementation of planning policies and procedures, and utilization of existing requirements determination techniques. Recommendations for better resource allocation and utilization focused on the need to improve training and use of available human resources. Recommendations were also made to clarify existing policies or reinforce existing policies and procedures to ensure their appropriate implementation. The recommendations were made to expand use of already available requirements determination techniques, as well as, proper construction and maintenance of estimating models to account for the changing defense environment.

CONCLUSIONS

Adequate procurement planning is critical to ensure that the Government receives the right spare parts and components at fair and reasonable prices. Improper planning can result in limited use of competition, insufficient use of breakout, unnecessary overpricing, excess inventories, and delayed receipt of parts and components. The reports reviewed, particularly those since 1988, indicate that components and spare parts procurement planning continues to be an area in need of improvement.

C. PRICING

SUMMARY

Overpricing of components and spare parts has been a recurring problem. Reports dated in the early 1980's stated that personnel were not sufficiently price conscious, focusing instead on timeliness of orders and deliveries. Of the 151 reports reviewed, 57 discussed pricing deficiencies. These deficiencies were attributed to inadequate price analyses, inadequate contractor estimating procedures, or improper approval of exemptions from the requirement to submit certified cost and pricing data. The 57 reports usually recommended better compliance with existing policies and procedures and pursuing refunds when defective pricing was uncovered.

BACKGROUND

Price is the money the Government pays a contractor for the delivery of a product or for the performance of a service. DoD attempts to obtain prices that are fair and reasonable to both parties. For spare parts, fair and reasonable prices are prices that are close to what it is likely to cost the seller to make or otherwise acquire the part. It also is a price that approximates the value of the part to the user.

REFORM EFFORTS

The Secretary of Defense spare parts initiatives were issued in 1983 in response to reported pricing abuse. The initiatives recommended rewarding personnel who reduce overpricing and taking disciplinary actions against those who are negligent. Another initiative was to cease doing business with contractors who were guilty of excessive pricing. Each Military Department and DLA implemented and expanded on the initiatives and focused heavily on pricing reforms. For example, the Army's SPRINT program had an action agenda to ensure that prices paid were fair and reasonable and to curtail significantly the use of unpriced contracts. The Navy's BOSS program established a "price fighter" team to perform "should cost" analyses on items whose prices were challenged by buyers and users.

DISCUSSION

The reports reviewed showed evidence of improvements in the pricing of spare parts and components. However, 57 reports also cited findings relating to continued overpricing. Since 1984, two DoD-wide reviews were performed to evaluate the overall procurement and pricing of spare parts. The results of these reports indicate a trend towards decreased amounts of overpricing of spare parts. The first DoD IG summary report, "Defense-Wide Audit of Procurement of Spare Parts," May 25, 1984, determined that 36 percent of spare parts purchases were overpriced due to contracting officers not performing adequate price analyses of contractor proposals. At the time this audit was performed, the Military Departments and DLA had not fully implemented the Secretary of Defense spare parts initiatives. The second DoD IG summary report, Report No. 87-086, "Followup Defense-Wide Audit on Procurement of Spare Parts," February 17, 1987, found that implementation of the initiatives had resulted in improvements and decreased the percentage of overpriced spare parts to 28 percent.

Although the two summary reports indicate a trend toward reduced overpricing, 57 other reports cited findings related to continued overpricing, especially on noncompetitive procurements. These weaknesses include the use of inadequate cost or pricing data, inadequate contractor estimating procedures, and improper approval of exemptions from the requirement to submit certified cost and pricing data.

Cost and Pricing Analyses

Contracting officers must exercise good judgment in determining how much and what data to collect and analyze to decide whether a price is fair and reasonable. In 45 reports where overpricing was identified, the most frequent cause was nonperformance of adequate cost and pricing analyses of contractor proposals by contracting officers. The DoD IG summary report, Report No. 87-086, "Followup Defense-Wide Audit on Procurement of Spare Parts," February 17, 1987, stated that while improvements had taken place since the implementation of the spare parts initiatives of 1983, unreasonable pricing because of not requesting and analyzing cost and pricing data was still a problem, accounting for 33 percent of the unreasonable prices found. For the majority of unreasonably priced items, the procuring offices did not acquire the data needed to obtain lower prices in negotiations.

Contractor Estimating Procedures

Fifteen reports identified instances where current, accurate, or complete cost and pricing data were not submitted by the contractor or subcontractor. This usually occurred because the contractors' estimating procedures and practices were not adequate to ensure compliance with regulatory requirements. For example, the DoD IG Report No. 85-100, "Pricing of Contract DLA400-81-C-5274, Uniroyal Inc., Plastic Products Division," July 3, 1985, stated that Uniroyal did not furnish the Government negotiator with current, accurate, and complete cost and pricing data. Direct labor costs were overstated because of computation errors and because the contractor's engineering and manufacturing departments failed to notify the cost estimator of revised production techniques. As a result, the $5.5 million contract was overpriced by $987,749.

Improperly Granting Contractors Exemptions

Federal Acquisition Regulation (FAR) 15.804-2, "Requiring Certified Cost or Pricing Data," requires Government evaluators to obtain cost and pricing data to help ensure that prices established on the basis of limited or no competition are fair and reasonable. Exemptions to the requirement are permitted when adequate price competition exists, catalog or market prices of commercial items exist, or prices are set by law or regulation.

Five reports contained findings that buying activities granted exemptions from submission of certified cost and pricing data without adhering to the FAR criteria. The DoD IG Report No. 88-114, "Honeywell Catalog Pricing," March 30, 1988, determined that the U.S. Army Communications-Electronics Command (CECOM) improperly granted an exemption to Honeywell from submission of certified cost and pricing data based on commercial catalog pricing. It was an improper exemption because Honeywell could not demonstrate that the spare parts had been sold in substantial quantities to the general public. Thus, Honeywell's claim of commercial catalog pricing was not supportable, and the parts sold to CECOM were overpriced by $10.5 million.

In GAO Report No. GAO/NSIAD-86-52, "DoD Initiatives to Improve the Acquisition of Spare Parts," March 1986, an inappropriate exemption was granted because the procurement offices believed there was adequate price competition, when in fact there was not. Two proposals were received, one valued at $66.50 and the other at $300. Although the difference between the two proposed prices was over 350 percent, the lower price was accepted on the basis of adequate price competition, and cost and pricing data were not requested. When prices vary significantly, price competition does not exist, and cost and pricing data should be requested.

RECOMMENDATIONS

The 57 reports made recommendations to comply with existing policies and procedures, and pursue refunds when defective pricing was uncovered. The recommendations related to: contracting officers requesting that the required cost and pricing data be determined if the prices quoted were fair and reasonable; and contracting officers verifying that contractor's claim for exemption from submitting certified cost and pricing data was proper. Another recommendation was that contracting officers aggressively pursue and obtain price adjustments for the amount overpriced when contractors do not submit current, accurate, and complete cost and pricing data.

CONCLUSIONS

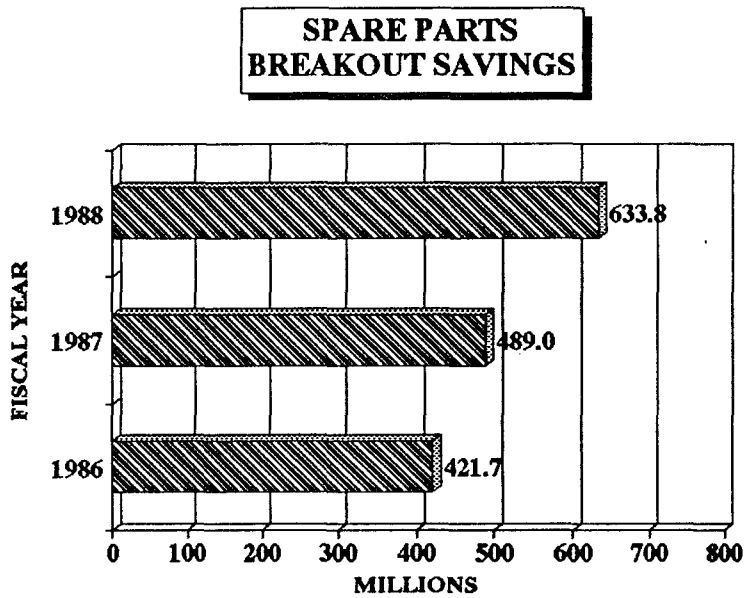
The number of competitive procurements has increased since the mid-1980's, which has favorably influenced spare parts pricing. If spare parts procurements are competed and effective competition is obtained, pricing problems can be expected to decrease. When price competition is not present, it is important to know the methods a company used to price a spare parts order.

D. BREAKOUT

SUMMARY

Component breakout and spare parts breakout are procurement techniques that have not been aggressively embraced by program managers and contracting officers, due largely to insufficient guidance, personnel shortages, and concerns that breakout analyses would delay the procurement process. There was also a concern that procurement of components and spare parts directly from actual manufacturers would jeopardize the quality of the overall systems and increase the risk for system failures. In 1983, the Secretary of Defense spare parts initiatives stressed the need for more breakout in spare parts procurements. Defense Federal Acquisition Regulation Supplement (DFARS) No. 6, "DoD Spare Parts Breakout Program," was revised and reissued to provide instructions for breakout. The Supplement required that resources be provided for an effective breakout program, contracting officers' performance appraisals recognize breakout accomplishments, and breakout be considered as a factor in source selections for all new major systems. Forty-three reports addressed spare parts breakout and thirty-eight reports addressed component breakout. The reports

indicated that increased spares breakout had resulted in dollar savings rising from $421.7 million in FY 1986 to $633.8 million in FY 1988.



Spare parts breakout opportunities have been missed, which resulted in large lost potential savings. Specifically, all parts have not been adequately screened to identify alternative sources of supply, and the lack of acquisition technical data often precludes the breakout of parts for competitive procurement. The reports recommended improved guidance for screening personnel, breakout of selected spare parts, and adherence to DFARS No. 6 in screening and coding spare parts. Component breakout on major systems has not been aggressively pursued by many program managers. DoD could potentially realize billions of dollars in cost avoidances by breaking out components on major systems for direct procurement when it makes good business sense.

BACKGROUND

The objective of component and spare parts breakout is to purchase items at lower prices by avoiding the payment of indirect costs and profit to prime contractors. This objective is accomplished by identifying components or spare parts that can be broken out from the end-item and purchased separately through competition or from the actual manufacturer. DoD policy is to breakout components and spare parts whenever substantial net cost avoidances can be achieved, and the breakout decision will not jeopardize quality, reliability, performance, or timely delivery. When a spare part cannot be competitively purchased, the goal is to buy directly from the actual manufacturer. However, this is not always possible because of limited technical data rights, limited quantities, and emergency buys.

Breakout requires screening of purchased items to identify those components or spare parts that can be broken out. For spare parts, there are two types of breakout screening, full and limited. Full screening, DoD's preferred method, is a comprehensive examination of tech-

nical data and a cost benefit analysis of the reasons that a part is not procured competitively. Limited screening covers only selected points of data and technical evaluations and is appropriate when full screening cannot be completed, such as, insufficient time to support an immediate buy requirement.

Opportunities for component and spare parts breakout were not pursued because of the limited guidance, personnel shortages, lack of management attention, and concern that breakout analyses would delay the procurement process. Reports issued during the early 1980's indicated that contracting officials were reluctant to perform breakout reviews and to seek competition because it was deemed "faster, easier, and safer" to buy on a sole-source basis from the prime contractor for the system.

REFORM EFFORTS

The Secretary of Defense spare parts initiatives issued in 1983, addressed the need to expand spare parts breakout by requiring that resources be provided for breakout efforts, contracting officer performance appraisals consider breakout efforts, and breakout be considered as a factor in source selections for all new major systems procurements. Also, as a result of the initiatives, DoD issued DFARS No . 6, "DoD Spare Parts Breakout Program," which established the DoD spare parts breakout program and provided uniform policies and procedures for management of the program. The Supplement encourages early identification, selection, and screening of parts for breakout consideration. The Supplement has established a $10,000 annual buy value as a minimum threshold for screening spare parts for breakout from the prime contractor.

DFARS 217.7202, "Component Breakout," provides general guidance to assist program officials in making component breakout decisions. The guidance requires that circumstances that could preclude breakout be eliminated. It further states that component breakout should be considered when its purchase price is expected to exceed $1 million a year, and that any breakout decision should include the potential risks and reliability of delaying delivery. Agencies should document lists of components reviewed, those that have no potential for breakout, components susceptible to breakout, and those selected for breakout.

DISCUSSION

Of the 151 reports reviewed, 43 addressed spare parts breakout, and 38 addressed component breakout. The reports stated that the use of breakout of spare parts has resulted in increased dollar savings from $421.7 million in FY 1986 to $633.8 million in FY 1988. However, the reports also stated that significant additional savings could be realized through increased management attention and the use of breakout programs for components and spare parts. Nonperformance of breakout screenings and the lack of complete technical data were cited as major reasons for lost breakout opportunities.

Breakout Screenings

Breakout screening is a process of collecting and evaluating technical and supply input data to determine if a particular component or spare part can be either purchased directly from the actual manufacturer or purchased competitively. In 54 reports, full breakout screening was not given priority. For example, the DoD IG Report No. 91-018, "Component Breakout Program for Major Systems," December 5, 1990, determined that the Military Departments were not providing sufficient management attention and oversight to component breakout programs. As a result, the Military Departments were not systematically identifying about $114.2 billion of components with breakout potential. The audit estimated that 10 percent of the universe of the potential components were broken out, monetary benefits of $2.36 billion could be realized during fiscal years 1991 through 1994. The report also cited this issue as a material internal control weakness.

For spare parts, the AAA Report No. NE 87-700, "Spare Parts Review Initiatives," December 29, 1986, stated the spare parts breakout program was not fully implemented, and the resources available were being improperly allocated. The majority of acquisitions for spare parts were being treated as urgent, immediate-buy requirements, and a limited screening procedure was used to assign noncompetitive acquisition codes. In addition, spare parts reviewed by the limited screening process were not high-dollar value spare parts, therefore, negating the greatest potential for cost avoidance through breakout. DoD IG Report No. 90-056, "The Spare Parts Breakout Program," April 5, 1990, found that each Military Department and DLA could realize further savings from continuing the screenings of parts coded for sole-source procurement to determine whether the parts can be broken out to the actual manufacturer or to competition.

Technical Data Packages

Government agencies need to collect and evaluate technical data as part of the breakout review. The procurement offices must have an adequate technical data package, which consists of engineering drawings and associated information such as item-peculiar test data and packaging data, to acquire the part competitively and to ensure that quality parts are supplied. The screening process should identify constraints, such as deficiencies or restrictions on the use of the technical data package, which need to be overcome or removed to enable a competitive procurement. In 26 reports, missing, incomplete, inadequate, or restrictive data in the technical data package restricted breakout opportunities.

As an example, the lack of a complete technical data package cost the Government over $1.6 million based on the results identified in a DoD IG Report No. 89-105, "Contractor Qualification Process for Blade Bushings for the C-130 Aircraft," September 7, 1989. The report determined that a blade bushing, which is an integral component of the 54H60 propeller system, could have been procured directly by the Government through competitive means. However, because Air Force officials did not obtain sufficient technical data, contracting officials accepted the blade bushing data as proprietary and purchased the part from the prime contractor. The audit report determined however, that the prime

contractor obtained the blade bushing 94 percent complete from a subcontractor although the remaining machining could have been performed by any qualified machine shop. The audit reported that the price of the blade bushing could have been reduced by as much as $3.4 million over its projected acquisition life by procuring the part competitively. However, the Air Force wanted the prime contractor to retain responsibility and liability for the critical part, because of the safety of flight implications. The prime contractor exercised quality control over the subcontractor's manufacturing process.

Other examples of incomplete technical data packages affecting competition and pricing are discussed in the following reports.

- AFAA Report No. 5046411, "Pricing Replenishment Spare Parts," March 19, 1986, stated that claims of restrictive data resulted in 33 percent of the spare parts audited were overpriced, because they were purchased from a prime contractor rather than the actual manufacturer. The prime contractor claimed proprietary rights for the item, even though the contractor procured the item from a vendor.

- DoD IG Report No. 87-016, "Acquisition Procedures and Practices Involving the High Mobility Multi-Purpose Wheeled Vehicle," October 21,1986, stated that the Army may spend an excess of from $127.4 million to $159.5 million over the life cycle of the vehicle. The reason for these extra costs is due to inadequate provisioning efforts, which have left the Army without the technical data necessary for identification of alternative supply sources.

RECOMMENDATIONS

The reports generally recommended adherence to DFARS Supplement No. 6 and DFARS 217.7202 and increased oversight by the Office of the Secretary of Defense for component and spare parts breakout programs.

CONCLUSIONS

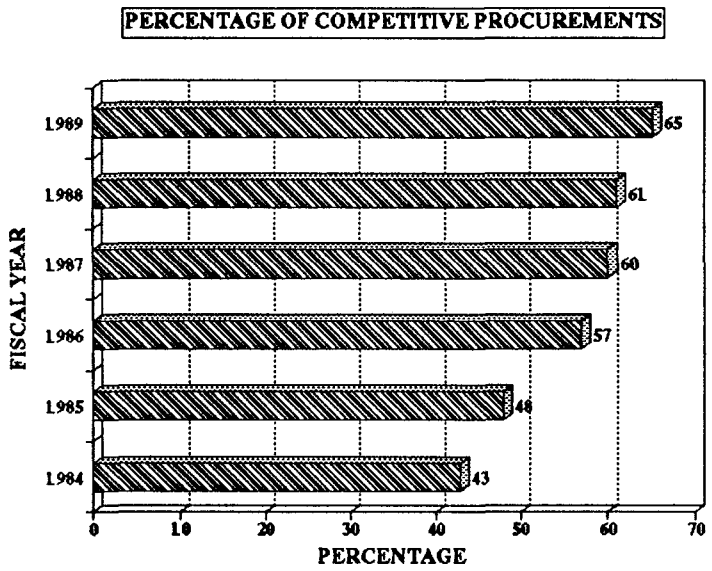
Component breakout and spare parts breakout are viable means that allow the Government to realize large dollar savings. Reports issued since 1985 indicate significant improvements in the use of breakout for spare parts. However, additional savings have not been realized because component breakout has not been aggressively pursued.

E. COMPETITION

SUMMARY

Competition for DoD contracts provides additional assurance that DoD obtains the best value for its procurement dollars. Contracting statistics for 1983 and prior to that time showed that most contracts were awarded noncompetitively. The DoD initiatives in 1983 and the Competition in Contracting Act of 1984 (CICA) were intended to enhance competition and limit unnecessary sole-source contracting. The initiatives and CICA were effective in increasing the use of competitive procedures. The dollar value of contracts awarded competitively increased from 43 percent in 1983 to about 65 percent in 1989. Forty-five reports addressed noncompetitive procurements. Reasons for the use of noncompetitive

procedures included the lack of technical data, failure to pursue competitive breakout opportunities, and unchallenged sole-source procurement request. The recommendations from the 45 reports focused on increasing efforts to comply with existing competition procedures as required by CICA and the FAR.



BACKGROUND

DoD advocates the use of full and open " competition to the greatest extent possible. FAR 6.003, "Competition Requirements-Definitions," interprets "full and open" to mean that all responsible sources capable of satisfying the Government's needs are permitted to compete. Competition causes the normal market forces inherent in the free market, to increase efficiency and ensure the fairness and reasonableness of prices. If properly conducted, a competitive procurement can result in the timely delivery of quality products and services at reasonable prices.

Two fundamental conditions are essential for price competition:

- The product or service can be described with enough precision so that potential suppliers will understand exactly what the buyer wants.
- More than one independent supplier with available know-how and facilities is willing to compete.

REFORM EFFORTS

In 1983, the initiatives issued by the Secretary of Defense specifically called for increased competition in spare parts procurements. For example, resources were increased to perform pricing and contracting; incentives were offered to increase competition; and competition advocates were tasked in all DoD Components to challenge spare parts orders not made

competitively. The initiatives encouraged DoD contracting personnel to behave like a prudent private buyer and examine each procurement situation to determine the existence or absence of conditions for price competition.

In addition to the initiatives, Congress enacted the Competition in Contracting Act of 1984 (CICA), which prescribed procedures to ensure that decisions to award contracts based on other than full and open competition are appropriate, documented, and approved.

DISCUSSION

The assessment in the 45 reports was that implementation of the initiatives resulted in the increased use of competition. GAO Report No. GAO/NSIAD-90-104, "Efforts Still Needed to Comply With the Competition in Contracting Act," May 1990, determined that between 1983 and 1989, the percentage of dollars spent for spare parts, which were competitively procured, increased from 43 percent to 63 percent.

DoD IG Report No. 89-062, "Validity of Competition Statistics Being Reported by DoD," March 28, 1989, evaluated the extent of competition in all procurement actions within DoD. The report questioned the validity of the competitive percentages reported by DoD. The reports identified five factors that continue to limit the use of competition: the preference to procure from prime contractors, the inadequate justifications of noncompetitive procurements, the restrictive solicitations, the use of urgency, and the lack of soliciting previous suppliers.

Procurements from Prime Contractors

Thirteen reports stated that buying activities relied on prime contractors as preferred sources, resulting in the procurement of components and spare parts at substantially higher prices. As a result, these buying activities did not promote the development of additional qualified sources to enable competitive procurements. DoD IG Report No. 85-076, "Procurement of F100 Engine Spare Parts," February 20, 1985, stated that a potential new source was not approved as a qualified supplier for manufacturing spare parts because of Air Force engineering personnel preference to procure the parts from the prime contractors. Despite the competition advocate recommending that the proposal from the new source be considered responsive, the engineers revised their evaluation criteria so that the new source was no longer qualified. Thus, the prime contractor continued to be awarded contracts for the spare parts.

Written Justifications

CICA requires agencies to base contract awards on full and open competition in contracting for supplies and services, unless at least one of seven specified exceptions is met. Several instances were identified where contracting officers did not prepare the required justification for other than full and open competition. In addition, 11 reports we reviewed identified deficiencies in the preparation and approval of written justifications for noncompetitive

procurements. Common deficiencies in the written justifications comprised of excluding sources interested in the acquisition, or including technical data packages, statements of work, and purchase descriptions that were not suitable for full and open competition. The reports reviewed also indicated that contracting officers frequently did not challenge justifications from program officials for sole-source procurements or adequately document the basis of making sole-source awards, and that agency officials incorrectly approved contract awards based on the exemption from CICA, which allows for other than full and open competition when property or services are available from only one source and no other type of property or services will satisfy the needs of the agency.

Use of Publicized Solicitations

CICA requires that all solicitations be published in the Commerce Business Daily to provide the opportunity for all prospective bidders to submit bids. The publication of solicitations in the Commerce Business Daily allows perspective bidders to understand the requirements of the proposed procurement. The audit reports we reviewed indicated that until 1987, agencies were not publishing the required preaward notices in the Commerce Business Daily. Subsequent to 1987, however, reports indicated considerable improvements in the frequency of notices.

Twelve reports stated that solicitations were not adequate to provide for full and open competition. For example, in GAO Report No. GAO/NSIAD-90-104, "Efforts Still Needed to Comply With the Competition in Contracting Act," May 1990, instances were reported of solicitations being restricted to a specific make and model, or the solicitations did not describe the essential features of the requirement sufficiently to allow alternative products to be offered. The GAO report stated that the Commerce Business Daily notices appeared to be specifically written to restrict competition. For example, a preaward notice footnote restricted competition by stating "... notice is not intended to solicit additional proposals but is issued for the benefit of prospective subcontractors."

Use of Urgency

The FAR 6.302-2, "Unusual and Compelling Urgency," states that when an agency's need for supplies or services is of such an unusual and compelling nature that the Government would be seriously injured, the Government may limit the number of sources or procure via sole-source. However, 10 reports cited the misuse of urgency. For example, AAA Report No. NE 88-206, "Initial Provisioning Acquisition and Requirements Determination," February 22, 1988, stated that the use of unpriced contracts was being misused within the Army procurement community. Although an undesirable practice, these contracts are allowed when urgency exists but specific quantities or prices are not readily known. The report determined that the statements of urgency often did not adequately justify the need to issue the unpriced contracts. As a result, the contractors would be paid profits of at least $9.2 million for unassumed risks on the unpriced contracts.

Previous Supplier Not Solicited

The Government is best served when all potential contractors have the opportunity to compete equally with others for business. However, in four reports, the previous supplier was not solicited. Thus, some qualified suppliers were denied the opportunity to compete. This problem was discussed in the GAO Report No. GAO/NSIAD-87-148, "Army Implementation of Spare Parts Initiatives," June 1987, which stated that the buying activity had not identified the supplier who sold the same item to the Government the last time it was purchased. Procuring officials did not follow up on the status of the previous procurement before requesting quotes. As a result, the contract was awarded to a new bidder at a unit price that exceeded the previous contract price by 32 percent.

Incorrectly Reported as Competitive

While reported statistics indicate an increase in the use of competition from 1983 to 1989, nine reports indicated that procurement actions were sometimes incorrectly coded as "full and open" competition when, in fact, they were not. For example, GAO Report No. GAO/NSIAD-86-52, "DoD Initiatives to Improve the Acquisition of Spare Parts," March 1986, cited an example of incorrect reporting. The procuring office received two proposals for a spare parts procurement action; however, the proposals were from contractors that had a prime/subcontractor relationship. The subcontractor manufactured the item and provided it to the prime contractor, who in turn provided it to the Government. Thus, in reality, there was only one manufacturer, and competition did not exist because the contractors were not independently competing for the award.

DoD IG Report No. 89-062, "Validity of Competition Statistics Being Reported by DoD," March 28, 1989, determined that the percentage of contract dollars awarded on a competitive basis by DoD was overstated in annual reports to Congress. The report attributed the overstatement of up to 18 percent largely to "follow-on" actions that were inappropriately reported as competitive.

RECOMMENDATIONS

The recommendations were for better compliance with CICA and the FAR competition requirements and better documentation when decisions provide for other than full and open competition.

CONCLUSIONS

Effective competition should be the goal in DoD procurement, where no one seller dominates the market. The CICA has increased the use of "competitive procedures," which simply means that several responsible sources are solicited. Conscientious effort is needed to improve compliance with the CICA and the FAR to provide for effective price competition and to ensure that those noncompetitive procurements are adequately justified and approved.

F. QUALITY

SUMMARY

Nonconformance to contractual specifications has been a long-standing cause for poor quality components and spare parts. The DoD initiatives established in 1983 did not explicitly address the issue of quality, but the Military Departments and DLA implemented programs that addressed these issues to some extent. The implementing programs focused on value as well as price. However, additional efforts to address quality were needed. Of the 151 reports reviewed, 18 identified nonconformance as a major problem. Specifically, problem areas included the lack of Government surveillance of contractors, insufficient technical data packages being provided by contractors for Government's evaluation, and deficiencies in the Government's system for reporting poor quality products. To reduce nonconformances, the reports recommended multiple corrective actions in all facets of quality assurance. Since 1989, DoD has been particularly concerned about the continued problems of nonconformance, and in 1990 issued an "Action Plan for Continuously Improving the Quality of Spare and Repair Parts."

BACKGROUND

Prior to 1984, the primary emphasis of components and spare parts audits was on excessive pricing issues, with little emphasis on the quality of components or spare parts. Where quality was discussed, however, the primary concern was about parts that did not conform to contractual specifications. In OFPP's 1984 review of DoD Spare Parts Procurement Practices, one of the major conclusions was that quality assurance was an important issue that had been long overlooked and should be addressed.

DoD regulations broadly define "quality" as a product that meets standards if the composite of all its various characteristics, including performance, satisfies the user's needs. The DoD definition does not define a quality product as one that meets each and every contract specification. The FAR Part 46, "Quality Assurance" sets forth policies and procedures to ensure that supplies and services acquired conform to specified requirements of quality, and that the contracting officer should ordinarily reject nonconforming supplies or services.

REFORM EFFORTS

The 1983 Secretary of Defense Spare Parts Initiatives did not specifically address quality. However, the 1990 DoD Action Plan included 26 initiatives to improve the quality of spare and repair parts. The Military Departments and DLA have all developed their own implementation plans in response to the DoD Action Plan. For example, DLA's implementation plan has the common objectives of ensuring that corrective actions were taken on identified quality problems, and effecting continuous improvement in the quality of material entering and being stored in the DoD logistics system.

The nonconformances occurred primarily because contractors did not implement required quality control procedures, and Government quality assurance representatives did not identify and reject the contractors' inadequate quality control practices. Also, there was a need for standardizing definitions of nonconformances in DoD publications and disseminating information on contractors' prior quality performance to procurement activities.

DoD IG Report No. 90-113, "Nonconforming Products Procured by the Defense Industrial Supply Center," September 27, 1990, estimated that 62 percent of 1.28 billion parts procured in 1986 and 1987 by the Defense Industrial Supply Center, valued at $624.7 million, should have been rejected for major or minor nonconformances. Of the $624.7 million of nonconforming parts, $171.6 million was for major nonconformances and $453.1 million was for minor nonconformances. The overall audit conclusion was that quality was poor and the contractors were not being held responsible for nonconformances. The audit showed that these parts were accepted because DoD did not have an effective policy for testing spare parts before acceptance to ensure conformance to specifications. The report also stated that internal controls within the Defense Industrial Supply Center were materially inadequate to identify contractors with a history of producing poor quality products and to identify nonconforming products prior to being accepted into inventory.

RECOMMENDATIONS

The audit reports usually recommended that the Government improve surveillance over contractors to ensure that the Government received parts that conformed to contract specifications. The reports also recommended additional laboratory testing of purchased parts, identifying and tracking poor performing contractors and using quality as a weighted evaluation factor during the source selection process.

CONCLUSIONS

The two primary reasons for poor quality are contractors not conforming to contract specifications and the Government not providing adequate surveillance over the contractor to ensure that contractors conform to contract specifications. Quality continues to be an issue of concern.

The DoD acquisition system has recently increased the emphasis on quality of components and spare parts. The DoD Action Plan for improving the quality of spare and repair parts addresses the prevention of poor quality parts entering the supply system, and the identification and elimination of nonconforming parts from existing inventories. This will occur through changes and improvements during the pre-contract award, contract, contract administration, storage, and feedback intelligence phases of the acquisition process. One of the key ingredients of the DoD Action Plan is the emphasis on best value determination during the source selection process. The DoD IG intends to audit the implementation of the Plan.

DISCUSSION

Despite the acknowledgment of quality as an issue, components and spare parts quality continues to be a problem. We identified 18 reports that addressed quality, and the majority of these reports were issued since 1987. The reports consistently cited the need for better quality of products received by the Government, specifically better conformance to specifications. The causes of reported nonconformances were a lack of Government surveillance of contractors and related deficiencies in the Government's systems for reporting poor quality products.

Government Surveillance

FAR 46.407, "Nonconforming Supplies or Services," states that "contracting officers shall ordinarily reject supplies or services when the nonconformance adversely affects safety, health, reliability, durability, performance, and any other basic objective of the specification." However, 13 reports concluded that the Government's surveillance had not been adequate to ensure quality and conformance to specifications. For example, AAA Report No. NE 90-201, "Quality of Materiel," December 15, 1989, stated that 66 percent of the deficiencies in materiel received at the U.S. Army Communication-Electronics Command, could have been prevented. The deficiencies resulted from the command's Directorate for Product Assurance and Testing not following up on the deficiencies previously reported in quality deficiency reports. The total value of these parts was about $79 million.

A lack of Government surveillance was cited in the NAS Report No S40116, "T-34C/T-44A Maintenance Contract," February 27, 1987. Due to a lack of Government quality assurance inspections, the Navy paid over $4.9 million for aviation parts that did not meet the quality standards of the contract. Quality standards were not met because the contractor issued overhauled or used parts instead of new parts. In addition to paying new part prices, the Government was also expected to pay additional costs to upgrade or repair the parts to a usable condition.

DoD IG Report No. 89-065, "Nonconforming Products in the Defense Supply System at Warner Robins Air Logistics Center," April 10, 1989, determined that between 1984 and 1986 the Air Force did not receive the quality parts paid for because the parts contained major and minor nonconformances that did not meet contract specifications. A major nonconformance adversely affects the safety, health, reliability, durability, performance, or interchangeability of a product, whereas a minor nonconformance is a lesser deviation. The report projected that 94.1 percent of the $110.4 million of parts in Federal Supply Class 1005 (guns through 30 millimeters), 64.4 percent of the $395,678 of parts in Federal Supply Class 3130 (bearings, mounted), and 96.3 percent of the $43,569 of parts in the Federal Supply Group 5300 (hardware) had major and minor nonconformances to contract specifications. Furthermore about $12.9 million of the spare parts in Federal Supply Class 1005 were not usable.

THE SECRETARY OF DEFENSE

WASHINGTON, THE DISTRICT OF COLUMBIA

25 July 1983

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
ASSISTANT SECRETARIES OF DEFENSE
GENERAL COUNSEL
INSPECTOR GENERAL
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Spare Parts Procurement

Our recent audits and investigations of aircraft spare parts accounts demonstrate conclusively that we must make major changes in the way we order and purchase spare parts. The directives we instituted in March 1981 to increase competitive bidding and hold down prices have not been enforced vigorously enough throughout the Defense Department.

To ensure that we are not plagued with pricing abuses in the future we have developed and put in place a ten point program. It is our joint responsibility to see that all civilian and military personnel in the procurement branches of the Department comply with these procedures.

First, we should offer incentives to increase competitive bidding and reward employees who rigorously pursue cost savings. Actions such as the Air Force's recent award of a $1100 bonus to the Air Force sergeant who uncovered excessive overpricing on a spare part should be continued and given your personal attention.

Second, I expect you to take stern disciplinary action -- including reprimand, demotion and dismissal -- of those employees who are negligent in implementing our procedures.

Third, I have directed Deputy Secretary Thayer to work with the Service Secretaries to alert defense contractors to the seriousness of the problem and of our firm intention to keep prices under control. We expect them to ensure that their employees also pursue fair pricing practices by undertaking disciplinary action when necessary or rewarding employees where appropriate. I will carry this message to defense contractors in Hartford, Connecticut in a speech I will give there later this week.

Fourth, now that all of the Services have competition advocates in place in their buying commands, I expect those competition advocates to challenge orders that are not made competitively or appear to be excessively priced and I expect our procurement officers to heed their advice.

Fifth, we simply must refuse to pay unjustified price increases. I know the Air Force now carefully checks price increases on aircraft spare parts. If the price increase is excessive, the Air Force is refusing to pay it. Such efforts are already underway in the other Services and they should continue to receive the highest priority. To assist you in these efforts, the Defense Contract Audit Agency will work with your contract administration offices to strengthen spare parts pricing procedures and to assist in the negotiations of major spare parts purchases.

Sixth, we must accelerate reform of our basic contract procedures. The Inspector General's recent investigations underscore the importance of reforming our basic contract procedures to encourage competition, preclude overpricing and, as an added insurance, give us the legal right to recover excessive payments.

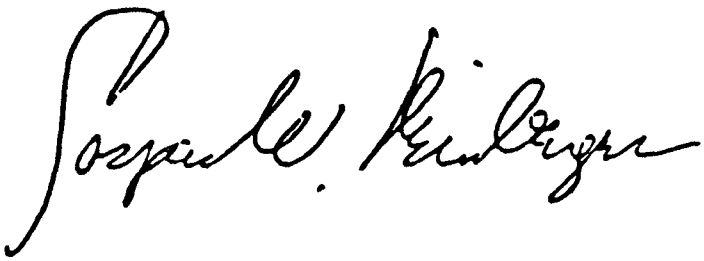
For example, many of our existing basic ordering agreements routinely carried a price redeterminable clause which allowed the manufacturer to set the price for repeat orders of spare parts. You should continue to phase out existing portions of ordering requirements which allow the manufacturer to redetermine prices and make every effort to obtain firm fixed-price contracts. We must redouble ongoing attempts to increase the number of contracts open for competitive bidding.

Seventh, we must take steps to obtain refunds in instances where we have been overcharged. In those contracts where we have the right to reduce an excessive price and set a more equitable price, we should not hesitate to exercise that right. If we have to, we should sue a contractor to recover unjustified payments. In some cases the contracts we signed may not give us the legal right to a refund. In these instances, the Services and the Department should aggressively pursue refunds through discussions with senior managers of the company similar to those Secretary Lehman is currently conducting with the Sperry Corporation and Gould Simulation Systems Inc. We should convey to them our strong belief that it is in the best interests of both the Department of Defense and the defense industry to have contractors voluntarily refund any payments that are clearly exorbitant and unjustified.

Eighth, where alternative sources of supply are available, we should cease doing business with those contractors who are guilty of unjustified and excessive pricing and who refuse to refund any improper overcharges. If alternate sources, domestic or foreign, are not available, we will do our best to develop such sources rapidly. In December 1982 we significantly strengthened our procedures for suspending and disbarring irresponsible contractors. We should exercise those administrative powers in a timely manner -- within 30 days of indictment or conviction of a contractor.

Ninth, our audits and investigations of spare parts will continue. In addition to the eight audits the Inspector General has already issued, Service auditors have issued some 25 others. The Inspector General has six additional audits in progress, and will begin three others in the next few months. These will focus on the broader ramifications of how we buy spare parts, what we pay for them, and how they are used and controlled once they enter the inventory. In addition to investigating aircraft engine spare parts, we will now look at cost growth in electronic spares and contract adminstration activities.

The tenth and final point is that the Defense Department purchases millions of spare parts worth billions of dollars each year. I think you will agree that in the majority of cases we have been satisfied with the quality and prices of those spare parts. The many fine corporations and dedicated employees supporting our nation's defenses should not be maligned as a group for the failures of a few. However, it is our responsibility to ensure that we do not waste one dollar of the taxpayers' money. We must make every effort to eliminate excessive pricing in the future, to recover unjustified payments we have already made, and where necessary, to expose and take appropriate corrective action against those contractors and employees who are either negligent in performing their duties or are engaging in excessive pricing practices.



THE SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

29 AUG 1983

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
ASSISTANT SECRETARIES OF DEFENSE
GENERAL COUNSEL
INSPECTOR GENERAL
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Spare Parts Acquisition

My memorandum of July 25, 1983, announced a ten point program on spare parts procurement. Procurement, however, is but one facet of the problem. While the focus of immediate attention, other aspects of the spare parts total acquisition process must get equal scrutiny. Improvement in all areas is essential. While this memorandum deals primarily with acquisition, attention next will be focused on the requirements process, the authorization and appropriation process, and the way we manage readiness and support.

I am resolved that the Department of Defense act decisively. Nothing short of our full management capability and technical expertise must be applied to this challenge. Our credibility before the Congress and the public is at stake. Accordingly, I am now directing the additional actions set forth below.

In some cases I have designated precise milestone dates. This is addressed in the enclosure, as is further discussion of selected actions. I am asking the Deputy Secretary of Defense, as Chairman of the Defense Council on Integrity and Management Improvement, to take the lead in providing overall guidance and coordinating your efforts. I expect him to monitor our progress.

Near-Term Actions (within 90 days)

- Provide resources to induce desirable breakout, effective competitive procurement, and improved pricing in the acquisition of spare parts.
- Apply the DoD Parts Control Program to enhance competition. The optimum use of standard military parts or commercially available parts in development of new systems will be mandatory.
- Accelerate plans for acquisition of computer hardware and software to assist parts control personnel.
- Institute action to identify disparities in spare parts prices within and among various procuring activities.

- Employ value engineering to investigate spare parts where cost or price exceeds intrinsic value.

- Assign more engineering resources to review new reprocurement data packages for adequacy.

- Develop and test a procedure to make breakout of spare parts a factor in source selection for new major systems. Develop new incentive arrangements to reward contractors for cost savings generated by their efforts.

- Negotiate contract data provisions which, as appropriate, reduce contractors' proprietary rights in data. A DAR deviation is approved for this purpose.

- Designate acquisition of spare parts and reprocurement data as an agenda item in Acquisition Strategy Panels, Advance Acquisition Plans, and Acquisition Review Councils.

- Revise performance evaluation factors for acquisition and logistics managers. Include emphasis on spare parts pricing, breakout, competition, and value engineering accomplishments.

- Implement DAR Supplement No. 6, "Replenishment Spare Parts Breakout Program" upon receipt.

- Consider in all contracts, as appropriate, the Government's right and ability to breakout and procure competitively spare parts.

- Discourage use of government specifications and contractor proposed engineering designs that inhibit subsequent competitive procurement of spare parts.

- Continue action on my "Ten-Point" Program to insure that prices paid for all spare parts are fair and reasonable.

- Pursue appropriate refunds or other recoupments vigorously following any audit or other disclosure of incorrect pricing or overcharge.

- Review existing contracts to fully address any and all opportunities for improved pricing of spare parts, including breakout and competition.

- Instruct acquisition personnel to challenge any procurement action for spare parts where estimated or negotiated price appears unrelated to intrinsic value.

<u>Mid-Term Actions (within 180 days)</u>

- Reexamine existing policy on patent and data rights arising under government funded IR&D.

- Expand training curricula to insure proper emphasis, understanding, and technical skill level for all personnel engaged in the acquisition of spare parts.

- Assign special task forces to review existing reprocurement data packages for spare parts with high annual buy/quantity values.

- Evaluate and make recommendations for changes to existing authorization, appropriation, apportionment, budgeting, and financial management practices, and regulations pertaining to acquisition of spares.

- Pursue with appropriate Congressional Committees and their staffs the merit of a two-year authorization for acquisition of replenishment spare parts and consumables.

- Insist upon contract terms and conditions in all future acquisitions that afford more equitable treatment and provide for greater assurance of fair and reasonable prices.

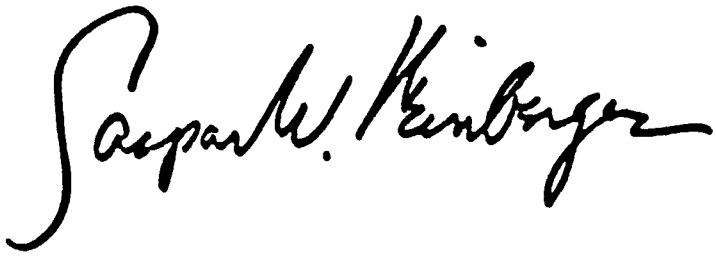
Long-Term Actions

- Automate data repositories to improve the acquisition, storage, update, and retrieval of reprocurement and technical data.

- Evaluate and assess accomplishments under the near- and mid-term actions for additional policy direction, as appropriate.

I am aware of the burdens these actions impose upon you and your staffs. However, we cannot defer action until such time as additional resources might be authorized and become available. Your full cooperation is appreciated.

Enclosure



SUMMARY SCHEDULE OF PROBLEMS IDENTIFIED IN REPORTS

Number of Audit Reports, Inspections, Studies, or Reviews with the Problem

REPORT SECTION	FINDINGS	AAA	ARMY	NAS	NAVY	AFAA	AIR FORCE	GAO	DLA	DOD IG	TOTAL
B.	Planning	17	4	4	5	13	4	7	0	29	83
C.	Pricing	11	5	2	9	3	1	7	0	19	57
D.	Breakout	9	9	1	5	4	2	3	0	34	67
E.	Competition	10	4	4	4	3	0	12	0	8	45
F.	Quality	6	1	2	0	0	0	1	0	8	18

AAA - Army Audit Agency
NAS - Naval Audit Service
AFAA - Air Force Audit Agency
GAO - General Accounting Office
DLA - Defense Logistics Agency
DoD IG - DoD Inspector General

INDEX OF AUDIT REPORTS, INSPECTIONS, STUDIES AND REVIEWS

Title, Date, and Number	Report Contains Common Problems
DEPARTMENT OF THE ARMY	
"Acquisition Management Review, U.S. Army Armament, Munitions and Chemical Command," Army Materiel Command, March, 1985.	B,D,E
"Spare Parts Data for Reports to Congress," Fiscal Year 1985, Army Materiel Command.	B,D,E
"Spare Parts Report," Fiscal Year 1986, Army Materiel Command.	C,D
"Spare Parts Report," Fiscal Year 1987, Army Materiel Command.	C,D
"Replenishment Parts Breakout Program," Internal Review and Audit Compliance Office, August 19, 1987.	D
"Spare Parts Report," Fiscal Year 1988, Army Materiel Command.	C,D
"Spare Parts Data," Last Quarter FY 1989, Management Office, Office of the Deputy Chief of Staff for Procurement	B,C,D,E
"AMC Procurement Management Review," Aviation Systems Command, November, 1989.	B,C,D,E
"Army Implementation Plan of the DoD Action Plan for Continuously Improving the Quality of Spare and Repair Parts," Army Materiel Command, June, 1990.	D,F
ARMY AUDIT AGENCY	
"Depot Maintenance, Tobyhanna Army Depot, Tobyhanna, PA," February 22, 1985, Report No. NE 85-3.	C
"Army Flying Hour Program, 101st Airborne Division (Air Assault) and Fort Campbell, Fort Campbell, KY," March 8, 1985, Report No. MW 85-701.	B
"Controls Over the Acquisitions of Repair Parts and Materials," May 22, 1985, Report No. MW 85-6.	B,C,E
"Telecommunications, Automation and Control Systems," May 23, 1985, Report No. WE 85-207.	D

Title, Date, and Number	Report Contains Common Problems
"Methodology Used to Estimate FY 1984 Cost Avoidance Attributable to Spare Parts Breakout," June 24, 1985, Report No. HQ 85-716.	B
"Negotiation Exceptions, U.S. Army Aviation Systems Command," November 22, 1985, Report No. MW 86-701.	D,E
"Spare Parts Review Initiatives," December 29, 1986, Report No. NE 87-700.	B,C,D,E
"Pricing of Fiscal Year 1984 Spare Parts Acquisitions," January 28, 1987, Report No. HQ 87-701.	B,D,E
"Price Challenge Program," March 6, 1987, Report No. NE 87-200.	C
"Ammunition Components and Acquisition Factors, U.S. Army Armament, Munitions and Chemical Command, Rock Island, IL," March 11, 1987, Report No. MW 87-6.	B
"Methodology Used to Estimate FY 1985 Cost Avoidance Attributable to Spare Parts Breakout," March 17, 1987, Report No. HQ 87-703.	B,D
"Initial Provisioning Black Hawk Helicopter (UH-60A), U.S. Army Aviation System Command, St. Louis, MO," April 13, 1987, Report No. MW 87-200.	NONE
"Initial Provisioning Army Helicopter Improvement Program (OH-58D)," May 6, 1987, Report No. MW 87-201.	B,E
"Initial Provisioning, U.S. Army Tank Automotive Command, Warren, MI," May 7, 1987, Report No. EC 87-200.	B
"Initial Provisioning, U.S. Army Aviation Systems Command, St. Louis, MO," June 19, 1987, Report No. MW 87-202.	B,C,D
"Initial Provisioning-Acquisition and Requirements Determination, U.S. Army Communications-Electronics Command, Fort Monmouth, NJ," June 26, 1987, Report No. NE 87-203.	B,E
"UH-1 Main Rotor Blades, U.S. Army Aviation Systems Command, St. Louis, MO," June 29, 1987, Report No. MW 87-10.	B,F

Title, Date, and Number	Report Contains Common Problems
"Contractor-Operated Parts Store, 24th Infantry Division and Fort Stewart, Fort Stewart, GA," January 5, 1988, Report No. SO 88-7.	C,F
"Advisory Report Collusive Bidding and Unbalanced Bidding," January 28, 1988, Report No. HQ 88-A2.	B,C,E
"Initial Provisioning-Acquisition and Requirements Determinations," February 22, 1988, Report No. NE 88-206.	B,C,E
"Dredge Wheeler, U.S. Army Corps of Engineers, New Orleans District, New Orleans, LA," April 27, 1988, Report No. SW 88-9.	C,D,F
"Initial Provisioning-Planning and Management of the Provisioning Process, U.S. Army Communications-Electronics Command, Fort Monmouth, NJ," May 24, 1988, Report No. NE 88-211.	B,D,E
"Vehicle In-Tank Fuel Pumps, U.S. Army Tank Automotive Command, Warren, MI," June 7, 1988, Report No. EC 88-7.	F
"Contractor-Operated Parts Store XVIII Airborne Corps and Fort Bragg, Fort Bragg, NC," October 31, 1988, Report No. SO 89-1.	B,C,F
"Parts Store Contracts," June 20, 1989, Report No. SO 89-301.	B,C
"Competitive Contracting for Repair Parts, U.S. Army Missile Command, Redstone Arsenal, AL," July 17, 1989, Report No. SO 89-18.	D,E
"Quality of Materiel, U.S. Army Communications-Electronics Command, Fort Monmouth, NJ," December 15, 1989, Report No. NE 90-201.	F
DEPARTMENT OF THE NAVY	
"Buy Our Spares Smart Annual Report," Fiscal Year 1985, Naval Supply Systems Command.	C,D
"Procurement Management Review, Naval Sea Systems Command," October 3, 1986.	B,C
"Buy Our Spares Smart Annual Report," Fiscal Year 1986, Naval Supply Systems Command.	C,D

Title, Date, and Number	Report Contains Common Problems
"Buy Our Spares Smart Annual Report," Fiscal Year 1987, Naval Supply Systems Command.	C,D
"Procurement Management Review, Aviation Supply Office," March, 1988.	B,C,E
"Procurement Management Review, Naval Supply Systems Command," June, 1988.	B,C,E
"Buy Our Spares Smart Annual Report," Fiscal Year 1988, Naval Supply Systems Command.	C,D
"Procurement Management Review, Naval Supply Systems Command," April 3, 1989.	B,C,D,E
"Procurement Management Review, Naval Supply Systems Command," October - November 1989.	B,C,E
NAVAL AUDIT SERVICE	
"Procurement of Spare Parts Followup Audit," June 5, 1986, Report No. T28165, Northeast Region.	D,E
"TH-57 Maintenance Contract," September 29, 1986, Report No. S40046, Southeast Region.	B,C,E,F
"T-34C/T44A Maintenance Contract," February 27, 1987, Report No. S40116, Southeast Region.	B,C,E,F
"Selected Aspects of Travel, Finance, Supply, Property and Other Functions, Commander Fleet Air, Western Pacific, Atsugi, Japan," December 30, 1987, Report No. 046-W-88.	B,E
"Management of The CT-39 Operational Support Aircraft," September 7, 1988, Report No. 137-S-88.	B
DEPARTMENT OF THE AIR FORCE	
"Special Inspection of the Air Force Management Analysis Group Study and Secretary of Defense Guidance on Spare Parts Acquisition, PN 85-601," October 15, 1984 to May 10, 1985, Air Force Inspector General.	B
"Followup Functional Management Inspection of the Air Force Management Analysis Group Spare Parts Acquisition Recommendations and Cost Analysis, PN 87-624," July 27, 1987 to April 26, 1988, Air Force Inspector General.	B,C,D

Title, Date, and Number	Report Contains Common Problems
"Functional Management Inspection on Wartime Spare Parts for Vehicles, PN 88-633," September 19, 1988 to May 4, 1989, Air Force Inspector General.	B,D
"System Acquisition Management Inspection of Spares Acquisition Integrated with Production, PN 89-504," February 15, 1989 to April 6, 1990, Air Force Inspector General.	B
AIR FORCE AUDIT AGENCY	
"Followup Audit Acquisition Practices and Installation Management in the KC-135/CFM56 Re-engine Program," January 29, 1985, Report No. 4046383.	NONE
"CONUS Over-The-Horizon Backscatter Radar System Component Breakout," January 30, 1985, Report No. 4036385.	B,D
"Spare Module Requirements for the TF39 Engine," March 1, 1985, Report No. 4106228.	NONE
"Spares Support for the F-16C/D Aircraft," April 4, 1985, Report No. 4126121.	B
"Pricing Replenishment Spare Parts," March 19, 1986, Report No. 5046411.	C,D,E
"Pricing Initial Spare Parts," March 31, 1986, Report No. 5046410.	B,C,E
"Support for the Fiscal Year 1985 Spares Budget Requirements in AFLC," November 14, 1986, Report No. 5126123.	B
"Followup Audit Air-Launched Cruise Missile Transportation Security, Spares, and Maintenance Support," April 28, 1987, Report No. 6036320.	NONE
"Accounting for On-Order Purchase Requests in the Fiscal Year 1988 Budget Estimate for Aircraft Replenishment Spare Parts," July 9, 1987, Report No. 6126127.	NONE
"Acquisition Management of C-5B Initial Spares and Depot Support Equipment Software," September 24, 1987, Report No. 5036321.	B,C,D,E

Title, Date, and Number	Report Contains Common Problems
"Management of Non Airborne Communications-Electronics War Readiness Spare Kits," March 28, 1988, Report No. 6126115.	NONE
"Internal Controls Over Year-End Spending for Replenishment Spares," April 12, 1988, Report No. 7126123.	NONE
"Followup Audit Spares Support for the F-16C/D Aircraft," May 3, 1988, Report No. 7126122.	NONE
"Acquisition of the F117-PW-100 Engine and its Related Logistics Support," June 20, 1988, Report No. 7036316.	D
"Followup Audit Budgeting and Buying Initial Spares Support List Items," November 1, 1988, Report No. 8126117.	B
"Management of the Preferred Spares Program," November 16, 1988, Report No. 7126118.	B
"Followup Audit Support for the Fiscal Year 1985 Spares Budget Requirements in AFLC," December 13, 1988, Report No. 8126122.	B
"F108 Spare Engine Requirements," January 13, 1989, Report No. 8126115.	B
"Review of Excess On-Order Recoverable Spares," July 17, 1989, Report No. 9126110.	B
"Harvest Falcon War Readiness Spares Kit Requirements," July 21, 1989, Report No. 8126114.	B
"Replenishment Spares Procurement Lead Times and Delivery Schedules," April 30, 1990, Report No. 9126115.	B
"Accuracy of Selected Data Used in Aircraft Wartime Spares Requirement," May 3, 1990, Report No. 9126116.	B
DEFENSE LOGISTICS AGENCY	
"Review of Internal Controls," Report No. P-86-02, Internal Review Office, DLA, June 25, 1986.	NONE
"Review of Competition Advocate Program," Report No. P-86-01, Internal Review Office, Defense Electronics Supply Center, March 13, 1987.	NONE

Title, Date, and Number	Report Contains Common Problems
DEPARTMENT OF DEFENSE INSPECTOR GENERAL	
"Quick-Reaction Report - Defective Parts on the Navy's Light Airborne Multipurpose System MK III Program," December 17, 1984, Report No. 85-054.	F
"Quick-Reaction Report on the Procurement of F-100 Engine Spare Parts," February 20, 1985, Report No. 85-076.	E
"Quick-Reaction Report on the Breakout of Component Parts Procurement, U.S. Army Missile Command," March 25, 1985, Report No. 85-079.	D,E
"Aircraft Engine Spare Parts Pricing, Costing, Negotiation and DoD Review Functions," March 21, 1985, Report No. 85-081.	B,C
"Pricing of Contract DLA400-83-C-0814, Mine Safety Appliances Co.," June 6, 1985, Report No. 85-096.	C
"Pricing of Contract DLA400-81-C-5274, Uniroyal Inc., Plastic Products Division," July 3, 1985, Report No. 85-100.	C
"Acquisition of the A-6F Aircraft," December 26, 1985, Report No. 86-052.	D
"Pricing of Contract F34601-80-G-0394, Delivery Order 104, at Moog, Inc.," January 31, 1986, Report No. 86-060.	C
"Acquisition and Modification of the P-3C Aircraft," February 19, 1986, Report No. 86-069.	B,C,D,F
"Pricing of Contract F34601-81-G-3190, Delivery Order 94, at Moog, Inc.," February 28, 1986, Report No. 86-075.	C
"Negotiated Single-Source Procurements Using Unpriced Contractual Actions," April 1, 1986, Report No. 86-085.	B,C,D,E
"Acquisition of the Carrier Variant Antisubmarine Warfare Helicopter," July 2, 1986, Report No. 86-104.	NONE
"Joint Cruise Missile Project," July 25, 1986, Report No. 86-112.	B,C,E
"Component Breakout Program for the F-15 Aircraft," August 20, 1986, Report No. 86-117.	B,D

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"Acquisition Procedures and Practices Involving the High Mobility Multi-Purpose Wheeled Vehicle," October 21, 1986, Report No. 87-016.	B,D
"HARPOON Weapon System," February 10, 1987, Report No. 87-082.	B,D
"Summary Report on the Followup Defense-Wide Audit on Procurement of Spare Parts," February 17, 1987, Report No. 87-086.	B,C,D,E
"Quick-Reaction Report on Procurement of Spare and Repair Parts for the C-5B Aircraft," February 26, 1987, Report No. 87-093.	B,D
"Acquisition of Landing Craft Air Cushion," April 3, 1987, Report No. 87-110.	B,D,F
"Pricing Contract F41608-82-C-1020 at Varian Associates, Inc., Microwave Division," April 20, 1987, Report No. 87-129.	C
"Procurement of Ammunition Storage Racks for the M1A1 Tank," May 7, 1987, Report No. 87-142.	D
"Survey of the DoD Competition Advocacy Program," May 19, 1987, Report No. 87-149.	B
"Procurement of the North Seeking Gyrocompass for the M981 Fire Support Team Vehicle," May 21, 1987, Report No. 87-155.	D
"Acquisition of the AV-8B Aircraft," May 22, 1987, Report No. 87-156.	D
"Acquisition Procedures and Practices Involving the AH-64 Attack Helicopter," June 19, 1987, Report No. 87-176.	B,C,D,F
"Navy's Supply Requirements for New Weapon Systems," June 19, 1987, Report No. 87-177.	B
"Catalog and Market Priced Contracts," July 31, 1987, Report No. 87-210.	B,C
"Component Breakout Program for Aircraft System," August 7, 1987, Report No. 87-215.	B,D

Title, Date, and Number	Report Contains Common Problems
"Survey of the Component Breakout Program for Aircraft Systems," August 10, 1987, Report No. 87-216.	B,D
"Component Breakout Program for Aircraft Systems," August 10, 1987, Report No. 87-217.	B,D
"Survey of the Acquisition of E-6A Take Charge and Move Out Aircraft," August 17, 1987, Report No. 87-221.	D
"Minimum Economic Order Quantities," October 8, 1987, Report No. 88-020.	B
"Procurement of Defense Meteorological Satellite Program Satellites," October 16, 1987, Report No. 88-035.	B,D
"Acquisition of the Standard Missile," October 20, 1988, Report No. 88-038.	B,C,D,E,F
"Vendor Technical Qualification Process for Aircraft Engine Spare Parts Procured by the Naval Aviation Supply Office," November 3, 1987, Report No. 88-044.	B,D
"Procurement of Crashworthy Crewseats for Helicopters," November 30, 1987, Report No. 88-052.	D
"MK-46 Torpedo Program," January 11, 1988, Report No. 88-068.	D
"Acquisition of the T-45 Aircraft," February 14, 1988, Report No. 88-088.	NONE
"Honeywell Catalog Pricing," March 30, 1988, Report No. 88-114.	B,C,D
"Summary Report on Contract Pricing," June 13, 1988, Report No. 88-165.	B,C
"Management of the Phoenix Missile Program," August 22, 1988, Report No. 88-193.	D
"Acquisition of the Army's 5-Ton Truck," December 23, 1988, Report No. 89-042.	D
"Validity of Competition Statistics Being Reported by DoD," March 28, 1989, Report No. 89-062.	E

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"Nonconforming Products in the Defense Supply System at Warner Robins Air Logistics Center," April 10, 1989, Report No. 89-065.	F
"White Engines, Inc., Catalog Priced Contracts," April 6, 1989, Report No. 89-066.	C
"Commercial Pricing Certifications," May 31, 1989, Report No. 89-076.	B,C,E
"Inspection of Defense Industrial Supply Center and Defense Construction Supply Center," August 16, 1989, Report No. 89-INS-10.	B,F
"Acquisition of the MK-50 Torpedo Program," August 29, 1989, Report No. 89-104.	B,D
"Contractor Qualification Process for Blade Bushing for the C-130 Aircraft," September 7, 1989, Report No. 89-105.	D
"Component Breakout of the HARPOON Weapon System," September 14, 1989, Report No. 89-108.	B,D
"Acquisition of the M9 Armored Combat Earthmover Program," October 6, 1989, Report No. 90-002.	C,D
"Followup Audit of Vendor Technical Qualification Process for Aircraft Engine Spare Parts Procured by the Naval Aviation Supply Office," February 14, 1990, Report No. 90-035.	NONE
"The Spare Parts Breakout Program," April 5, 1990, Report No. 90-056.	B,D
"Spare Parts Pricing Agreements," May 3, 1990, Report No. 90-062.	B,C,D
"DoD Hotline Allegation of Overpricing of F-15 Spare Parts," August 15, 1990, Report No. 90-101.	D
"Nonconforming Products Procured by the Defense Industrial Supply Center," September 27, 1990, Report No. 90-113.	F
"Component Breakout Program for Major Systems," December 5, 1990, Report No. 91-018.	D

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"Contracting Officers' Explanations for Price Increases on 125 Spare Parts," July 29, 1985, Report No. GAO/NSIAD-85-119.	B,C,E
"Federal Regulations Need to be Revised to Fully Realize the Purposes of the Competition in Contracting Act of 1984," August 21, 1985, Report No. GAO/OGC-85-14.	D,E
"Spare Parts Pricing, Inappropriate Use of Rate Agreements," January 1986, Report No. GAO/NSIAD-86-18.	C
"DoD Initiatives to Improve the Acquisition of Spare Parts," March 1986, Report No. GAO/NSIAD-86-52.	B,C,E
"Limited Data on DoD's Parts Breakout Program," October 1986, Report No. GAO/NSIAD-87-16BR.	D
"Potential for Reducing Requirements and Funding for Aircraft Spares," January 1987, Report No. GAO/NSIAD-87-48BR.	B,E
"Spare Parts Initiatives Air Force Implementation," February 1987, Report No. GAO/NSIAD-87-28.	C,E
"Defense Logistics Agency, Implementation of the Spare Parts Initiatives," June 1987, Report No. GAO/NSIAD-87-143.	B,C,E
"Army Implementation of Spare Parts Initiatives," June 1987, Report No. GAO/NSIAD-87-148.	C,D,E
"Navy Implementation of the Spare Parts Initiatives," June 1987, Report No. GAO/NSIAD-87-149.	B,C,E
"Better Compliance with the Competition in Contracting Act is Needed," August 1987, Report No. GAO/NSIAD-87-145.	E
"Concerns About Four Navy Missile Systems," March 24, 1988, Report No. GAO/NSIAD-88-104.	F
"Spare Parts and Support Equipment for Air Force C-5 Transport Aircraft," May 1988, Report No. GAO/NSIAD-88-57BR.	B,E

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"Navy Competition Advocate General and ADP Vendor Complaint Handling," November 1989, Report No. GAO/NSIAD-90-39BR.	B,E
"Efforts Still Needed to Comply with the Competition in Contracting Act," May 1990, Report No. GAO/NSIAD-90-104.	E

POINTS OF CONTACT FOR REPORTS

AGENCY	POINT OF CONTACT	PHONE NUMBER
ARMY	Terry Balcolm Army Materiel Command AMC PP-C 5001 Eisenhower Avenue Alexandria, VA 22333	(703) 274-5676
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AAA - Army Audit Agency
NAS - Naval Audit Service
AFAA - Air Force Audit Agency

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DLA - Defense Logistics Agency
DOD IG - DoD Inspector General
GAO - General Accounting Office

ACTIVITIES VISITED OR CONTACTED

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Headquarters, Army Materiel Command, Alexandria, VA
Headquarters, Army Audit Agency, Alexandria, VA

Department of the Navy

Office of the Assistant Secretary of the Navy (Research, Development and Acquisition), Arlington, VA
Naval Supply Systems Command, Washington, DC
Headquarters, Naval Audit Service, Falls Church, VA

Department of the Air Force

Headquarters, Air Force Audit Agency, Norton Air Force Base, CA
Office of the Air Force Inspector General, Washington, DC

Defense Agencies

Defense Logistics Agency, Alexandria, VA
Office of the Inspector General, DoD, Arlington, VA

Non-DoD

General Accounting Office, Washington, DC

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- Senate Committee on Armed Services
- Senate Committee on Governmental Affairs
- Senate Ranking Minority Member, Committee on Armed Services
- House Committee on Appropriations
- House Subcommittee on Defense, Committee on Appropriations
- House Ranking Minority Member, Committee on Appropriations
- House Committee on Armed Services
- House Committee on Government Operations
- House Subcommittee on Legislation and National Security, Committee on Government Operations