Audit Report

OFFICE OF THE INSPECTOR GENERAL

MANAGEMENT OF THE DOD ACTION PLAN FOR IMPROVING THE QUALITY OF SPARE PARTS

Report No. 93-091 April 28, 1993

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Department of Defense

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The following acronyms are used in this report.

AQLs.....Acceptable Quality Levels
DLA.....Defense Logistics Agency
OASD(P&L).....Office of the Assistant Secretary of Defense (Production and Logistics)
OIG.....Office of the Inspector General
OSD.....Office of the Secretary of Defense
SPC.....Statistical Process Control

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

April 28, 1993

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION
ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)

SUBJECT: Report on the Management of the DoD Action Plan for Improving the Quality of Spare Parts (Report No. 93-091)

We are providing this report for your information and comments. This report is the first of two reports on the DoD Action Plan for Improving the Quality of Spare Parts.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. The Offices of the Under Secretary of Defense for Acquisition and the Assistant Secretary of Defense (Production and Logistics) did not comment on a draft of this report. Therefore, we request comments by June 27, 1993.

We appreciate the cooperation and courtesies extended to the audit staff. If you have any questions on this audit, please contact Mr. Salvatore D. Guli, Program Director, at (703) 692-3025 (DSN 222-3025) or Mr. C. J. Richardson, Project Manager, at (703) 692-3220 (DSN 222-3220). Copies of this report will be distributed to the activities listed in Appendix D.

Robert J. Lieberman
Assistant Inspector General
for Auditing

cc:
Director, Administration and Management
Program Manager, Total Quality Management, Office of the Director, Administration and Management

Office of the Inspector General, DoD

Report No. 93-091
Project No. 2CF-0053.01

April 28, 1993

MANAGEMENT OF THE DOD ACTION PLAN FOR IMPROVING THE QUALITY OF SPARE PARTS

EXECUTIVE SUMMARY

Introduction. The Under Secretary of Defense for Acquisition signed the DoD Action Plan for Continuously Improving the Quality of Spare and Repair Parts (the DoD Action Plan) on March 2, 1990. The DoD Action Plan was developed in response to large numbers of nonconforming products identified in the Defense Supply System by an Office of the Inspector General, DoD, report. The DoD Action Plan consists of 26 objectives that focus on improving key segments of the DoD quality assurance program. The DoD Action Plan was presented in March 1991 to the Senate Committee on Governmental Affairs as the overall DoD policy plan for continuously improving the quality of spare and repair parts. In addition, the Office of the Inspector General, DoD, accepted implementation of the DoD Action Plan as satisfactory management response to audit recommendations designed to improve the quality assurance of spare and repair parts procurements. Each of the Military Departments and the Defense Logistics Agency issued its own action plan to implement the DoD Action Plan.

Objectives. The audit objectives were to evaluate the Office of the Secretary of Defense management of the DoD Action Plan and the effectiveness of the internal controls for ensuring that the DoD Action Plan reflects current objectives, strategies, initiatives, and milestones.

Audit Results. The Office of the Assistant Secretary of Defense (Production and Logistics) did not manage or oversee implementation of the DoD Action Plan after issuing it. The DoD Action Plan was not monitored and the DoD Action Plan objectives and milestones were not revised to reflect changes needed for continuous improvement. The lack of management oversight jeopardizes successful implementation of the DoD Action Plan and the quality of an estimated $86 billion of future spare parts purchases through 1997.

Internal Controls. Internal controls were not adequate to ensure that the DoD Action Plan reflected current objectives, implementing strategies, initiatives, and milestones. We

consider these internal control weaknesses to be material. See Part I for the internal controls assessed and Part II for details of the weaknesses.

Potential Benefits of Audit. Implementation of the recommendations should improve management oversight of the DoD Action Plan and further implementation of action plan objectives for improving the quality of spare and repair parts procured for, and issued by, the Defense Supply System. However, we are unable to quantify the monetary benefits that could be realized by improving the quality of parts. Appendix B summarizes the potential benefits of the audit.

Summary of Recommendations. We recommended that the Under Secretary of Defense for Acquisition revise and reissue the DoD Action Plan every 2 years. We further recommended that the Assistant Secretary of Defense (Production and Logistics) reassign management of the DoD Action Plan to the Deputy Assistant Secretary of Defense (Production Resources) and that the Deputy Assistant Secretary establish a feedback system to monitor ongoing status of the DoD Action Plan program.

Management Comments. The Under Secretary of Defense for Acquisition and the Assistant Secretary of Defense (Production and Logistics) did not comment on a draft of this report. We request that the Under Secretary and the Assistant Secretary provide comments to this report by June 27, 1993.

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This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, (703) 614-6303, DSN 224-6303.

PART I - INTRODUCTION

Background

The Under Secretary of Defense for Acquisition issued the DoD Action Plan for Continuously Improving the Quality of Spare and Repair Parts (the DoD Action Plan) in March 1990. The DoD Action Plan was issued in response to large numbers of nonconforming products identified in an April 1989 Office of the Inspector General (OIG), DoD, report about nonconforming products at Warner Robins Air Logistics Center, (No. 89-065; see Prior Audits and Other Reviews). The DoD Action Plan was presented to the Senate Committee on Governmental Affairs on March 6, 1991, at a hearing on the purchase and use of counterfeit and substandard parts, as DoD's overall policy plan to continuously improve the quality of spare and repair parts. Subsequently, additional nonconforming products were identified in a September 1990, OIG, DoD, report about the Defense Industrial Supply Center, (No. 90-113). Implementing the DoD Action Plan initiatives was accepted as satisfactory management response to audit recommendations made in the report about the Defense Industrial Supply Center. Appendix A lists the 26 objectives in the DoD Action Plan.

Objectives

The audit objectives were to evaluate implementation of DoD Action Plan objectives and the systems used to ensure that DoD obtains quality parts. Additionally, we were to evaluate the effectiveness of internal controls related to applicable contracting, contract administration, and quality assurance programs. The report covers objectives associated with the Office of the Secretary of Defense (OSD) management of the DoD Action Plan and the effectiveness of internal controls for ensuring that the DoD Action Plan reflects current objectives, strategies, initiatives, and milestones. Future audit work will cover how the Military Departments and the Defense Logistics Agency (DLA) manage their action plans to continuously improve the quality of spare and repair parts. Audit objectives related to implementation of DoD Action Plan objectives and systems used to ensure that DoD obtains quality parts will also be addressed in future audits.

Scope

Audit information, methodology, and locations. We reviewed the management actions taken to ensure that the DoD Action Plan was appropriately revised and updated. Our evaluation covered management actions from March 1990 to December 1992. We did not rely on computer-generated information to achieve the audit objectives or use statistical sampling procedures in the audit. We obtained our audit information primarily from examination of

the DoD Action Plan and from interviews with representatives in the Offices of the Assistant Secretary of Defense (Production and Logistics) (OASD(P&L)), the Secretary of the Army, the Secretary of the Navy, the Secretary of the Air Force, and DLA. Appendix C lists the activities visited or contacted.

Audit period and standards. This program audit was conducted from August 1992 to January 1993 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly the audit included such tests of internal controls as were considered necessary.

Internal Controls

We reviewed internal controls within OSD to determine if the DoD Action Plan was monitored and reflected current objectives, strategies, initiatives, and milestones to continuously improve the quality of spare and repair parts. The audit identified material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. The Deputy Assistant Secretary of Defense (Logistics) did not establish a feedback system to monitor the status of the DoD Action Plan as implemented by the Military Departments and DLA. Also, the Deputy Assistant Secretary did not review or revise the DoD Action Plan when needed. We determined that the management deficiencies constituted material internal control weaknesses. Recommendations 1. and 2.a., if implemented, will correct the internal control weaknesses. We could not determine the monetary benefits that will result from implementing these recommendations because the benefits will result from future actions to improve the quality of spare parts procured. A copy of the report will be provided to the senior official responsible for internal controls within OSD.

Prior Audits and Other Reviews

The DoD Action Plan has not been the subject of previous audits. However, the DoD Action Plan was formulated as a result of quality assurance problems reported in a previous OIG, DoD report. The DoD Action Plan was subsequently mentioned in two other OIG, DoD reports.

OIG, DoD, Report No. 89-065, "Nonconforming Products in the Defense Supply System at Warner Robins Air Logistics Center," April 10, 1989. The report stated that $14.4 million of $110 million of spare parts contained major nonconformances. Additionally, the Air Force Quality Deficiency Reporting System did not provide an adequate data feedback system or reflect the quality of spare parts provided to field activities. The report recommended that the Assistant Secretary of Defense (Production and Logistics) issue a joint service regulation to reduce

nonconforming products. In addition, the report recommended that the Air Force establish quality assurance testing programs and provide Product Quality Deficiency Reports to contract administration offices for investigation. The Assistant Secretary of Defense and Air Force management concurred with the recommendations. As a result of this report, the DoD Action Plan was formulated and issued in March 1990 and the Air Force established a Production Verification Testing Program.

OIG, DoD, Report No. 90-113, "Nonconforming Products Procured by the Defense Industrial Supply Center," September 27, 1990. The report showed that of 1.3 billion parts, 27 percent were major nonconforming products. The audit recommendations involved standardizing definitions for nonconformances, improving new receipt quality assurance testing, establishing criticality of spare parts, and improving the quality assurance feedback system. The DLA implementation of the DoD Action Plan satisfied the intent of the recommendations.

OIG, DoD, Inspection Report No. 90-INS-17, "DoD Quality Assurance Program," August 29, 1990. The report stated that administrative contracting officers were not seeking consideration for excessive amounts of minor nonconforming material. The report recommended that DLA establish and implement policy that ensured consideration would be sought for each contract containing nonconforming material. DLA nonconcurred with the recommendation, stating that DLA policy was consistent with the Federal Acquisition Regulation. DLA and OIG, DoD, agreed that the proposed actions in the DLA Action Plan for Continuously Improving the Quality of Spare and Repair Parts would provide the needed improvements to the quality of products.

OIG, DoD, Report No. 92-099, "Quality Assurance Actions Resulting from Electronic Component Screening," March 10, 1993. The report described problems with the collection, distribution, and use of quality deficiency information in DoD. The report also stated that testing of electronic components was inadequate to identify and follow up on contractors who provided defective electronic components. In addition, DoD did not have effective remedies to obtain reimbursement or replacement for major and critical nonconforming products. Before making recommended Defense Federal Acquisition Regulation Supplement changes to improve the ability of DoD to obtain recoupments for defective products, the Director of Defense Procurement requested the DLA to determine the feasibility of conducting a test concerning the recommended changes. The test would include major and critical nonconformances as exceptions to acceptance in the standard inspection clause. As of the date of this report, negotiations were still ongoing on the test and regulatory changes. The Army, Navy, Air Force, and DLA generally concurred with the report's findings and other recommendations.

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PART II - FINDING AND RECOMMENDATIONS

DOD ACTION PLAN MANAGEMENT

OSD officials did not manage the DoD Action Plan. The Assistant Secretary of Defense (Production and Logistics) did not assign management of the DoD Action Plan to the appropriate action office within OASD(P&L). The Deputy Assistant Secretary of Defense (Logistics) did not monitor implementation and did not change the DoD Action Plan as needed for continuous improvement, such as adding and revising objectives, summarizing activity accomplishments, changing milestones, and developing measurements of success. As a result, DoD has no assurance that the DoD Action Plan is correcting previously reported quality problems. The lack of management oversight of the DoD Action Plan can adversely affect its successful implementation and jeopardizes the quality of an estimated $86 billion of future spare and repair parts purchases through FY 1997.

DISCUSSION OF DETAILS

Background

On March 6, 1991, during a congressional hearing that addressed counterfeit and substandard products, the Chairman of the Senate Committee on Governmental Affairs expressed frustration over the progress of improvements in the DoD quality assurance program. The Chairman noted that, during a 1989 hearing, DoD promised to improve the quality assurance program in response to the poor quality of products identified at Warner Robins Air Logistics Center in OIG, DoD, Report No. 89-065. The Chairman further stated that, since the 1989 hearing, the OIG, DoD, reported that a lack of controls at all levels routinely allowed the acceptance of nonconforming products into the logistics system. In September 1990, OIG, DoD, Report No. 90-113 showed that 27 percent of 1.3 billion parts contained major nonconformances to contract specifications. The Chairman concluded that:

> Clearly something is wrong with the way our procurement and quality control systems work. The Government receives too many substandard products. Manufacturers and distributors do not seem to be concerned with quality and do not have the necessary quality control systems...Quality does not have to cost more, but it does require a management commitment and discipline.

In response, the DoD representative, the Director, Supply Management Policy, agreed that a problem existed regarding nonconforming parts. The Director stated that DoD initiatives to

ensure that the Government gets what it pays for were well documented in an action plan (the DoD Action Plan). The DoD representative stated that:

> Our DoD-wide action plan was formalized in March [1990]...The hearings held prior to that point by your Committee, and similar hearings by the House Defense Readiness Subcommittee, helped focus the attention of the highest levels of DoD management on the problem...The actions we have already taken and those in process deal with all phases of the problem and are designed to remove nonconforming items from the current inventory, to stop new nonconforming items from getting in, and, of course, to ensure that bad items which are in the supply warehouse do not get issued to the operating and maintenance units for our weapons systems and support equipment.

DoD Action Plan Development

In July 1989, in response to a request from OASD(P&L), DLA developed an action plan consisting of 26 objectives. This plan, which DLA issued in August 1989, represented the first effort to propose solutions to quality problems in the quality assurance life-cycle of spare and repair parts acquisitions. In March 1990, DoD adopted and issued the DLA plan, maintaining the DLA 5-phase breakout of the 26 objectives (pre-contract, contract, contract administration, depot, and feedback intelligence). Although the DoD Action Plan provided brief activity descriptions and milestones for each objective, the DoD plan did not include the implementing strategies, initiatives, and performance measures provided in the DLA plan and in the plans subsequently issued by the Military Departments.

OSD review of Military Departments and DLA action plans. OASD(P&L) did not review the progress of the Military Departments and DLA toward developing current implementing strategies that addressed appropriate solutions for long-term problems. Additionally, OASD(P&L) did not identify initiatives that addressed long-range problems; did not develop objective, verifiable, and valid performance measures; and did not establish realistic milestones.

Implementing strategies, initiatives and performance measures. The implementing strategies, initiatives, and performance measures were the primary elements of the action plans prepared by the Military Departments and DLA. The DoD Action Plan was not updated to show completed, in-process, and future initiatives. In addition, the DoD Action Plan did not include performance measures for each objective to evaluate improvements to the quality assurance program.

Milestones. All of the milestones in the DoD Action Plan were for 1990. As of December 1, 1992, only one objective was completed. The first DoD Action Plan objective, standardizing the definitions for a nonconformance, was completed in April 1991 when definitions for nonconformances were included in the Defense Federal Acquisition Regulation Supplement. The milestones for the other 25 objectives were not met. The 1990 milestones in the DoD Action Plan presented to the Senate Governmental Affairs Committee in March 1991 were unrealistic since they did not represent an accurate, time-phased plan for accomplishing each DoD Action Plan objective. In addition, the use of near-term milestones misrepresented the extent of the long-range problems associated with most of the DoD Action Plan objectives.

Feedback. The Office of the Deputy Assistant Secretary of Defense (Logistics) was tasked by OASD(P&L) in 1989 to oversee the DoD Action Plan. From March 1990 to December 1992, however, the Deputy Assistant Secretary of Defense (Logistics) was apparently distracted by other problems, did not request information from the Military Departments or from DLA regarding implementation of their action plans, and did not establish a mechanism to track implementation of the action plans.

Updating DoD Action Plan Objectives

Four objectives in the DoD Action Plan are either obsolete, difficult to implement within existing regulatory policy, or duplicate other objectives (Appendix A).

Objectives 9 and 11. On February 20, 1992, the Director of Defense Procurement determined that DLA statistical process control (SPC) contract clauses were inconsistent with DoD regulatory policy. In addition, the Director noted that the recent DLA proposal to add SPC clauses to the Defense Federal Acquisition Regulation Supplement was rejected. The DLA proposal was rejected because SPC requirements should be imposed through the appropriate product specifications, not through a contract clause. This determination affected the ability of DoD to implement objective 9 (establish incentives for contractors to continuously reduce production process variability) and objective 11 (require contractors to use analytical methods in controlling production processes).

Objective 15. In July 1992, the Under Secretary of Defense for Acquisition stated that he did not want to avoid periodic competitions or to substitute most favored supplier agreements for proper inspection procedures. This statement effectively voided the initiatives related to objective 15 (recognize quality contractors).

Objective 26. Objective 26, (maximize the use of feedback intelligence to improve acquisition processes, purge defective material, and improve the quality of DoD spare and repair parts) redescribes the activity in objectives 21, 23, and 25.

Since March 1990, the Office of the Deputy Assistant Secretary of Defense (Logistics) showed little interest in ensuring that the DoD Action Plan reflected the most recent acquisition policy and practice. Failure to revise or update objectives from the DoD Action Plan may mislead quality assurance managers and contractors who attempt to implement the initiatives included in the objectives. To maintain interest in the DoD Action Plan, the Under Secretary of Defense for Acquisition should reissue an updated DoD Action Plan every 2 years.

Needed Objectives and Initiatives

We identified four quality problem areas that we believe should be addressed in the DoD Action Plan.

Acceptable quality levels. Eliminating Acceptable Quality Levels (AQLs) should be an objective in the contract phase. AQLs allow for the acceptance of products that contain stated maximum percentages (usually 1 or 2 percent) of defects. AQLs were used to recognize the complexity of some manufacturing operations. However, the use of AQLs is not an accepted American industry standard practice.

Depot quality assurance inspections. Conducting quality assurance inspections before issuing repackaged products from Defense depots should be included as an objective in the depot phase. Also, an objective covering quality inspection of repackaged products is needed because many repackaged products issued from depot stocks do not contain the contract number, the contractor's identification, or the National Stock Number. If those data are not on the package, the product cannot be used in controlled manufacturing operations. During our visits to the Portsmouth Naval Shipyard and the Corpus Christi Army Depot, production managers complained that DLA depots often supplied repackaged products not properly identified, stopping manufacture or repair operations until the depots supplied correctly identified parts.

Standard deficiency reporting system. Objective 23 (improving the customer complaint system) should be expanded to include the development and implementation of a standard deficiency reporting system as part of the feedback intelligence phase.

A major quality initiative for collecting and sharing quality related information is the development of a standard deficiency reporting system. In addition, the standard deficiency reporting

system is a Defense Management Review issue developed by the Joint Logistics Systems Center, OASD(P&L). The Standard Deficiency Reporting System was designed to replace at least six deficiency reporting systems that existed in the Military Departments and DLA. Over time the Standard Deficiency Reporting System should represent a significant cost-effective improvement for DoD.

Major and critical nonconforming products. DoD does not have an effective contractual or administrative remedy for recovering the cost of major and critical nonconforming products containing patent defects. The lack of a remedy severely handicaps quality assurance efforts in DoD as described in OIG, DoD, Report No. 92-099 (See Prior Audits and Other Reviews). Objective 8 (reject or require corrections of nonconforming supplies) should be expanded to include the development of effective contractual or administrative remedies for recovering the cost of major and critical nonconforming products containing patent defects.

Quality Leadership Forums

During FY 1992, the Deputy Assistant Secretary of Defense (Production Resources) hosted five quality leadership forums for the DoD senior managers responsible for quality in procurement. The DoD quality leadership forums effectively replaced the DoD Quality Council that met regularly to review DoD quality initiatives. The quality leadership forums focused on four areas: quality in design, quality management, education and training, and industry partnership. The life-cycle approach to quality, sponsored by the Deputy Assistant Secretary of Defense (Production Resources), is similar to the overall life-cycle philosophy of the DoD Action Plan. In our opinion, the mission and management emphasis within the Office of the Deputy Assistant Secretary of Defense (Production Resources) is well suited for oversight of the DoD Action Plan.

OSD Oversight

Officials within the Office of the Deputy Assistant Secretary of Defense (Logistics) did not believe that revising their own DoD Action Plan was necessary. In their opinion, the Military Departments and DLA were solely responsible for implementing their individual action plan objectives and they believed that DLA was keeping the DLA Action Plan current. DLA updated the data base of the DLA Action Plan on an irregular basis to reflect the latest changes. However, DLA has not published a revised action plan since May 1990. When we contacted DoD maintenance activities outside of the Washington, D.C., area, we found that Army and Navy activities were generally unaware of the existence of the DoD Action Plan. The Military Department activities that depend on the quality of spare parts were not specifically tasked

to provide feedback on the success of the DoD Action Plan. In our opinion, the DoD Action Plan performance measures should depend on the participation and feedback of those affected by the plan. We intend to address Military Department and DLA Action Plans in future audit work.

Conclusion

The DoD Action Plan represents an important policy document created to substantially improve quality assurance. The need for a life-cycle quality assurance action plan was demonstrated in two different audits that reported high rates of nonconforming products accepted into the Defense Supply System. The large investment in spare parts makes the DoD Action Plan an important planning document. During FY 1992, DoD procured about $16 billion of spare and repair parts and expects to spend about $86 billion on spare and repair parts through FY 1997.

Although DLA reports improvement in the level of nonconforming products, corrections for the causes of the quality problems still need to be implemented. In our opinion, the Deputy Assistant Secretary of Defense (Logistics) management oversight deficiencies associated with the DoD Action Plan represent material internal control weaknesses.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Under Secretary of Defense for Acquisition revise and reissue the DoD Action Plan for Continuously Improving the Quality of Spare and Repair Parts every 2 years. The revisions should state current objectives, past accomplishments, current and future initiatives, performance measures, and milestones for the completion of each initiative.

2. We recommend that the Assistant Secretary of Defense (Production and Logistics):

a. Establish a feedback system to monitor the Military Departments and Defense Logistics Agency implementation of the DoD Action Plan.

b. Assign responsibility to the Deputy Assistant Secretary of Defense (Production Resources) for management oversight of the DoD Action Plan.

c. Update the March 1990 version of the DoD Action Plan by:

(1) Revising objectives 9, 11, 15, and 26 to ensure that they accurately and uniquely reflect current objectives.

(2) Adding to the contract phase an objective to eliminate contract clauses that permit Acceptable Quality Levels.

(3) Adding to the depot phase an objective to inspect repackaged items.

(4) Adding to objective 23 an initiative to develop and implement a standard deficiency reporting system.

(5) Adding to objective 8 an initiative to develop effective contractual or administrative remedies for recovering the cost of major and critical nonconforming products containing patent defects.

MANAGEMENT COMMENTS

The Under Secretary of Defense for Acquisition and the Assistant Secretary of Defense (Production and Logistics) did not respond to the draft report; therefore, we request that they provide comments to the final report by June 27, 1993.

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PART III - ADDITIONAL INFORMATION

APPENDIX A - DoD Action Plan for Continuously Improving the Quality of Spare and Repair Parts

APPENDIX B - Summary of Potential Benefits Resulting from Audit

APPENDIX C - Activities Visited or Contacted

APPENDIX D - Report Distribution

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APPENDIX A - DOD ACTION PLAN FOR CONTINUOUSLY IMPROVING THE QUALITY OF SPARE AND REPAIR PARTS

On March 2, 1990, the Under Secretary of Defense for Acquisition transmitted the DoD Action Plan to the Secretaries of the Military Departments and the Director, Defense Logistics Agency. The transmittal memorandum stated the following:

> In a recent audit at an Air Logistics Center, the Inspector General of the Department of Defense (DoDIG) found that a high percentage of spare and repair parts are being accepted by the Department which do not conform to contract specifications. Follow-on efforts by the DoDIG and discussions with senior leaders within the acquisition community find that this condition is not an isolated problem. The magnitude is such that weapons system safety and reliability may be impaired, and the Department may not be obtaining the quality we expect from and build into our contracts.

The DoD Action Plan contained the following 26 objectives presented in 5 phases: pre-contract, contract, contract administration, depot, and feedback intelligence.

Pre-Contract Phase

1. Standardize the DoD definitions and terminology for a nonconformance.

2. Ensure technical data is available, adequate, and accurate for use in acquiring quality parts.

3. Assign parts requiring intensive technical management oversight to the proper item manager and ensure the assigned integrated managers have all the technical information required to perform their mission.

4. Encourage the use of quality factors in the source selection process for spare and repair parts.

5. Share the desire and incentive for sustained high quality with the contractor through long-term competitive buyer/seller contract relationships for families of items.

6. Apply the remedies available to the Government to identify and protect itself from chronically poor suppliers of spare and repair parts.

Contract Phase

7. Ensure all suppliers of spare and repair parts meet specified quality and technical requirements.

8. Reject or require corrections of nonconforming supplies.

9. Establish incentives for contractors to continuously reduce production process variability.

Contract Administration Phase

10. Reduce contractor Materiel Review Board actions and requests for waivers or deviations.

11. Require/encourage contractors to use analytical methods in controlling production processes.

12. Update in-plant Government quality assurance procedures to provide Government Quality Assurance Representatives flexibility to tailor oversight.

13. Enforce prime contractor responsibility over subcontractors.

14. Measure effectiveness of in-plant Government contract administration and contractor performance.

15. Recognize quality contractors.

16. Review applicability of the Federal Acquisition Regulation certificate of conformance.

Depot Phase

17. Improve the effectiveness of destination receipt inspections.

18. Identify and purge nonconforming material from the DoD wholesale inventory supply system.

19. Identify and purge nonconforming material from the DoD retail inventory supply system.

20. Identify and purge nonconforming spare and repair parts and prevent reentry into the DoD supply system through customer returns.

Feedback Intelligence Phase

21. Centralize, automate, collect, and share contractor performance information.

22. Enhance the use of DoD and independent laboratory test capabilities.

23. Improve the customer complaint system.

24. Expand participation with industry associations and small contractors.

25. Develop measures of contractor quality performance.

26. Maximize the use of existing feedback intelligence to improve the acquisition process, purge defective material, and improve the quality of DoD spare and repair parts.

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APPENDIX B - SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefits	Amount and Type of Benefits
1.	Internal controls. Develops recurring update requirements and mandatory measures of accomplishment of assigned goals.	Nonmonetary.
2.a.	Internal controls. Establishes continuous monitoring of performance milestones and documentation of objective(s) accomplishment.	Nonmonetary.
2.b.	Program results. Assigns program responsibility to the office in OASD(P&L) primarily responsible for quality.	Nonmonetary.
2.c.(1)	Program results. Makes the DoD Action Plan more accurate.	Nonmonetary.
2.c.(2), (3), (4), and (5)	Program results. Makes the DoD Action Plan more complete.	Monetary benefits cannot reasonably be estimated.

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APPENDIX C - ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Washington, DC
Director of Defense Procurement, Washington, DC
Assistant Secretary of Defense (Production and Logistics), Washington, DC
Deputy Assistant Secretary of Defense (Logistics), Washington, DC
Deputy Assistant Secretary of Defense (Production Resources), Washington, DC
Joint Logistics Systems Center, Assistant Secretary of Defense (Production and Logistics), Dayton, OH
Program Manager, Total Quality Management, Office of the Director, Administration and Management, Washington, DC

Department of the Army

Office of the Chief of Staff, U.S. Army, Washington, DC
Headquarters, Army Materiel Command, Alexandria, VA
Corpus Christi Army Depot, Corpus Christi, TX
Army Missile Command, Huntsville, AL

Department of the Navy

Office of the Assistant Secretary of the Navy (Research, Development, and Acquisition), Washington, DC
Office of the Assistant Secretary of the Navy (Financial Management), Washington, DC
Commander, Naval Air Pacific (Antisubmarine Warfare) Wing, Naval Air Station, San Diego, CA
Commander, Naval Surface Pacific Fleet, Shore Intermediate Maintenance Activity, Naval Station, San Diego, CA
Naval Air Systems Command, Washington, DC
  Naval Aviation Depot, North Island, CA
  Naval Aviation Depot, Alameda, CA
Naval Sea Systems Command, Washington, DC
  Naval Material Quality Assessment Office, Portsmouth, NH
  Portsmouth Naval Shipyard, Portsmouth, NH
Naval Supply Systems Command, Washington, DC
  Fleet Material Support Office, Mechanicsburg, PA
  Navy Aviation Supply Office, Philadelphia, PA
  Navy Ships Parts Control Center, Mechanicsburg, PA
  Supervisor of Shipbuilding, Conversion, and Repair, San Diego, CA

Department of the Air Force

Office of the Assistant Secretary of the Air Force (Management Policy and Program Integration), Washington, DC
Office of the Deputy Chief of Staff (Logistics), Washington, DC

APPENDIX C - ACTIVITIES VISITED OR CONTACTED (cont'd)

Department of the Air Force (cont'd)

Headquarters Air Force Materiel Command, Wright-Patterson Air Force Base, Dayton, OH
Ogden Air Logistics Center, Hill Air Force Base, Ogden, UT
Sacramento Air Logistics Center, McClellan Air Force Base, Sacramento, CA
San Antonio Air Logistics Center, Kelly Air Force Base, San Antonio, TX

Defense Activities

Headquarters, Defense Logistics Agency, Alexandria, VA
Central Testing Facility, Columbus, OH
Western Testing Facility, Stockton, CA
Defense Contract Management Command, Alexandria, VA

APPENDIX D - REPORT DISTRIBUTION

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition
Director of Defense Procurement
Assistant Secretary of Defense (Production and Logistics)
  Deputy Assistant Secretary of Defense (Logistics)
    Director of Supply Management
    Director, Joint Logistics Systems Center
  Deputy Assistant Secretary of Defense (Production Resources)
Assistant Secretary of Defense (Public Affairs)
Comptroller of the Department of Defense
Director, Administration and Management
  Program Manager, Total Quality Management

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Assistant Secretary of the Army (Research, Development, and Acquisition)
Chief, Army Management Division, Office of the Chief of Staff
Inspector General, Department of the Army
Auditor General, Army Audit Agency
Commander, Army Materiel Command

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Assistant Secretary of the Navy (Research, Development, and Acquisition)
Inspector General, Department of the Navy
Auditor General, Naval Audit Service
Commander, Naval Supply Systems Command

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Acquisition)
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Deputy Chief of Staff for Logistics
Commander, Air Force Materiel Command
Inspector General, Department of the Air Force
Auditor General, Air Force Audit Agency

Defense Activity

Director, Defense Logistics Agency

APPENDIX D - REPORT DISTRIBUTION (cont'd)

Non-Defense Federal Activities

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General Accounting Office, National Security and International Affairs Division, Technical Information Center

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

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

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