



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

April 6, 1992

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT)

SUBJECT: Quick-Reaction Report on Acquiring Competitive
Technical Data Packages for Engine Parts Used on the
UH-60 Black Hawk Helicopter (Report No. 92-072)

Introduction

During our "Audit of the Acquisition of the UH-60 Black Hawk Helicopter" (Project No. 0AL-0083.01), we noted that the U.S. Army Aviation Systems Command (the Command) had not taken advantage of a contractual provision that would enable the Command to increase its competitive procurements of spare parts for the engines used on the Black Hawk helicopter. A May 1988 contractual provision provided for the Command to obtain, at no additional contract cost, competitive technical data packages for 54 items that were classified as "high consumption dollar spare parts." However, as of January 1992, the Command had not obtained any of the technical data packages offered under the provision. As a result, the Command may have lost the opportunity to compete procurements on 27 of the 54 engine parts. By not doing so, the Command may have paid as much as \$1.9 million more for procurements made between November 1989 and October 1991. Further, we estimate that an additional \$4.7 million in potential future savings may not be realized between FY 1993 and FY 1997 if the 27 parts that we reviewed are not competitively procured.

Background

Congress and the press have frequently criticized DoD for procuring spare parts at unnecessarily high prices. Often, the high prices occurred as a result of continued procurements through the prime contractor at prices exceeding the prices to procure the spares through the actual manufacturer or the prices to competitively procure the spares in the open market. DoD Directive 5000.1, "Defense Acquisition," part 1, February 23, 1991, states that it is DoD policy to foster competition. A common reason cited for not competing procurements is the lack of a technical data package that describes the part being procured to prospective contractors. Although other factors influence competition, a technical data package is a prerequisite to the

competition process. The technical data package normally contains such information as detailed drawings and specifications, operating characteristics, special or critical processes, special tooling requirements, testing, inspections, and other data necessary to fabricate the part.

In May 1988, the Command awarded contract DAAJ09-88-C-A084 to General Electric Aircraft Engine Corporation, Lynn, Massachusetts, for UH-60 Black Hawk helicopter engines. "Special Contract Requirements," subsection H.15, contains a provision, "Competitive Parts Option," that provides for the Command to obtain competitive technical data packages for 54 items classified as "high consumption dollar spare parts" at no additional contract cost. The contract stipulates that the Command must obtain the technical data packages by July 1995.

Discussion

We reviewed the Supply Control Studies and Demand Histories for 27 of the 54 engine parts to determine the potential cost consequences of the Command not obtaining the technical data packages. We did not review the procurement histories on the other 27 parts because 11 were obsolete or had been replaced and 16 had technical data packages that had been procured from other contracts.

Between November 1989 and October 1991, the Command made sole source procurements of the 27 items costing about \$7.5 million (Enclosure 1). If the Command had obtained the technical data packages and competitively procured those 27 items, it could have potentially avoided about \$1.9 million of the procurement cost. Our savings estimates are based on the use of a 25-percent savings decrement factor, as recommended by Defense Federal Acquisition Regulation Supplement, appendix E. Further, by projecting the costs of the past procurements of the 27 items over the next 5 years, we determined that the Command could unnecessarily spend an additional \$4.7 million if it continues to buy the 27 parts sole source from General Electric (Enclosure 1).

Recommendations for Corrective Action

We recommend that the Commander, U.S. Army Aviation Systems Command:

1. Obtain required competitive technical data packages identified in contract DAAJ09-88-C-A084, subsection H.15.

2. Constrain future sole source procurements for the 27 parts that do not have technical data packages to the quantities required to fulfill immediate operational needs until the packages can be obtained and competition can be established.

Management Comments and Audit Response

The Acting Director, U.S. Army Contracting Support Agency, concurred with our recommendations and stated that the Army would obtain the 27 technical data packages and constrain procurements on the 27 items until the data can be used for competitive procurements. The Acting Director disagreed with our estimate of potential future savings stating that simply having a technical data package does not guarantee that an item can be competed. He added that the Command advertised the items and received only one response in 2 years. The complete text of the Army's comments is contained in Enclosure 2.

The timeliness and responsiveness of the Acting Director's planned actions on our recommendations are commendable. However, we remain convinced that the potential savings will be substantial and that prospective contractors will express an interest in becoming qualified sources after technical data packages become available. It is not logical to expect a contractor to expend resources and incur costs to become qualified sources for items without the benefit of a technical data package. The industrial base is replete with established contractors willing to compete, if given the opportunity. Our estimate was based on historical costs and projected demand usage for the 27 items. Although actual savings may vary, we believe our estimate of prospective savings is reasonable. We request that the Army reconsider our potential savings estimate in its response to the final report.

Monetary benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment. Therefore, we request that you respond to the final report by June 5, 1992.

The courtesies extended to the audit staff are appreciated. If you have any questions regarding this report, please contact Mr. Rayburn H. Stricklin at (703) 614-3965 (DSN 224-3965) or Mr. Thomas E. Corkhill at (703) 614-1416 (DSN 224-1416). Copies of this report are being distributed to the activities listed in Enclosure 5. A list of the audit team members is in Enclosure 4.


Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

cc:
Secretary of the Army
Under Secretary of Defense for Acquisition

PROCUREMENT HISTORY
FOR SELECTED HIGH CONSUMPTION DOLLAR
SPARE PARTS FOR THE GE-T700 ENGINE
FOR NOV. 1989 - OCT. 1991

<u>REPLENISHMENT</u> <u>PARTS LIST</u> <u>ITEM NUMBER</u>	<u>PART</u> <u>NUMBER</u>	<u>NSN</u>	<u>TOTAL</u>
E467	6039T65G03	2840-01-143-9995	\$ 19,153.56
E420	5066T16G06	2840-01-304-4303	46,067.90
E499	6058T13G10	2840-01-304-0917	372,430.01
E510	6064T06P01	2840-01-305-2446	176,894.83
E513	6064T09P01	2840-01-314-6657	173,656.92
E516	6064T54G08	2840-01-304-4302	858,007.26
E495	6055T46G08	2840-01-305-6946	1,277,912.07
E514	6064T10P01	2840-01-299-2225	197,757.72
E517	6064T89G02	2840-01-281-3585	368,638.38
E528	6071T04G02	2840-01-305-6951	1,569,191.22
E492	6055T36G04	2840-01-304-0910	548,787.78
E497	6055T59P03	2840-01-299-1525	268,829.97
E512	6064T08P01	2840-01-299-2236	176,383.51
E515	6064T12P01	2840-01-306-1800	707,360.72
E405	5056T91P01	5330-01-280-9849	0
E432	6035T21P03	2840-01-144-0107	176,769.43
E506	6058T99G01	2840-01-281-3610	5,669.50
E526	6068T85G02	2840-01-317-1933	71,992.61
E511	6064T07P0X	2840-01-313-4100	200,407.63
E430	6034T86G02	2840-01-112-3096	236,843.00
E431	6034T86G05	2840-01-112-3096	0
E440	6038T32P01	2840-01-082-8365	0
E428	6034T82G02	2840-01-114-0956	0
E429	6034T82G05	2840-01-198-2435	0
E442	6038T34P05	2840-01-287-9668	0
S001	21C7117G01	4920-01-306-4995	0
E529	6071T19G02	5830-01-312-4806	0

Procurements: \$7,452,754.02

Annualized Cost: (\$7,452,754.02 ÷ 2) \$3,726,377.01

Potential Savings: (\$3,726,377.01
X 5 years X 25 percent) \$4,657,971.26

Department of the Army Comments



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
U.S. ARMY CONTRACTING SUPPORT AGENCY
5100 LEEBURG PIKE
FALLS CHURCH, VIRGINIA 22041-3201



REPLY TO
ATTENTION OF

16 MAR 1992

SFRD-KAC

MEMORANDUM FOR DIRECTOR, ACQUISITION MANAGEMENT DIRECTORATE,
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE,
400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-2884

SUBJECT: Quick-Reaction Report on Acquiring Competitive
Technical Data Packages for Engine Parts used on the
UH-60 Black Hawk Helicopter (Project No. OAL-0083.02)

1. As requested by your memorandum dated February 27, 1992, the following information is provided with respect to the two recommendations contained in the subject draft audit report:

a. Recommendation No. 1 - The Army concurs with this recommendation. The U. S. Army Aviation Systems Command (AVSCOM) will request the competitive Technical Data Packages (TDPs) identified in contract DAAJ09-88-A084, subsection H.15, by March 16, 1992. This request will be for those TDPs that are not already on hand.

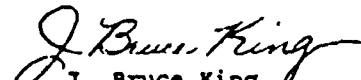
b. Recommendation No. 2 - The Army concurs with this recommendation. Future sole source procurements of the parts that do not have TDPs will be constrained to the quantities required to fulfill operational needs until the expected date that the data can be used for procurement. It must be noted that the parts in question are source controlled items, and prospective contractors must go through the source approval process.

c. Monetary Benefits: The Army disagrees with the DODIG's estimate of lost and potential future savings. Just having a TDP doesn't guarantee that an item can be competed. There has to be interest from contractors to qualify and bid on the item. The items in question are complex items and there are few contractors that can manufacture them. The items (that had active requirements) have been and are on the Competition Advocates Shopping List (CASL), but very little interest has been shown in them. In fact, only one request for a source approval was received during the 1989-1991 timeframe. Thus, we believe at best any monetary benefits that may have been lost or potentially would be lost without the technical data packages is far less than what the DODIG estimated and should be reported as undeterminable.

Subject: Quick-Reaction Report on Acquiring Competitive
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2. TDPs were not obtained for all engine parts. The TDPs in question are for Flight Safety Parts with few manufacturing sources. In addition, there are inherent risks involved with doing business with low bidders that might not meet specifications or delivery schedules. Most important, however, the peak period under question was during Operations Desert Shield/Storm. AVSCOM was busy with proven producers who were compressing schedules and delivering early to support the war. Time could not be taken to risk breakout, source approval and First Article testing. Competition and attempts at marginal savings can in fact wind up with tremendous cost to regain inventory quantities and schedule when all the good "promises" fall through the cracks.

3. Please address any questions or correspondence regarding this memorandum to my point of contact, Mr. Peter Staples. He may be reached at (703) 756-7576 (fax extension 2304).


J. Bruce King
Acting Director

CF:
AMCIR-A
SAIG-PA
SARD-2ER

SUMMARY OF POTENTIAL BENEFITS
RESULTING FROM AUDIT

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and/or Type of Benefit</u>
1.	Compliance with The Competition in Contracting Act of 1984.	Nonmonetary.
2.	Economy and Efficiency. Reduced costs for spare parts acquisition.	\$4.7 million in funds to better use (FY 1993 through FY 1997 Army Operation and Maintenance Appropriation).

AUDIT TEAM MEMBERS

Donald E. Reed, Director, Acquisition Management Directorate
Rayburn H. Stricklin, Program Director
Thomas Corkhill, Project Manager
Joseph Alejandro, Team Leader
Robert L. Shaffer, Team Leader
Delesta McGlone, Team Leader
Wilbur Broadus, Auditor
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REPORT DISTRIBUTION

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Commander, U.S. Army Aviation Command
Program Executive Officer for Aviation, U.S. Army Aviation
Command
Project Manager, UH-60 Black Hawk Helicopter, U.S. Army Aviation
Command

Non-DoD Activities

Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information
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Congressional Committees:

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