

~~**FOR OFFICIAL USE ONLY**~~

Report No. D-2013-090

June 7, 2013

Inspector General

United States

Department of Defense



Improved Guidance Needed to Obtain Fair and Reasonable Prices for Sole-Source Spare Parts Procured By the Defense Logistics Agency From The Boeing Company

This document contains information that may be exempt from mandatory disclosure under the Freedom of Information Act.

~~**FOR OFFICIAL USE ONLY**~~

Additional Copies

To obtain additional copies of this report contact the Secondary Reports Distribution Unit at auditnet@dodig.mil.

Suggestions for Audits

To suggest or request audits, contact the Office of the Deputy Inspector General for Auditing at auditnet@dodig.mil or by mail:

Department of Defense Office of Inspector General
Office of the Deputy Inspector General for Auditing
ATTN: Audit Suggestions/13F25-04
4800 Mark Center Drive
Alexandria, VA 22350-1500



Acronyms

DAAP	DLA Aviation Acquisition Procedures
DFARS	Defense Federal Acquisition Regulation Supplement
DLA	Defense Logistics Agency
EDA	Electronic Document Access
FAR	Federal Acquisition Regulation



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

June 7, 2013

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Improved Guidance Needed to Obtain Fair and Reasonable Prices for Sole-Source Spare Parts Procured By the Defense Logistics Agency From The Boeing Company (Report No. DODIG-2013-090)

We are providing this report for your information and use. We considered management comments on a draft of this report when preparing the final report. Comments from the Director, Defense Logistics Agency, Acquisition, conformed to the requirements of DoD Directive 7650.3; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9077.

Jacqueline L. Wicecarver

Jacqueline L. Wicecarver
Assistant Inspector General
Acquisition and Contract Management

~~FOR OFFICIAL USE ONLY~~

~~FOR OFFICIAL USE ONLY~~

~~FOR OFFICIAL USE ONLY~~



Results in Brief: Improved Guidance Needed to Obtain Fair and Reasonable Prices for Sole-Source Spare Parts Procured By the Defense Logistics Agency From The Boeing Company

What We Did

The objective of the audit was to determine whether Defense Logistics Agency (DLA) Aviation obtained best value and purchased sole-source spare parts at fair and reasonable prices from The Boeing Company (Boeing). We reviewed contract actions associated with SPM4A1-09-G-0004 and SPM400-02-D-9407 that were awarded to Boeing. Specifically, we reviewed costs for 60 spare parts on 2,659 delivery orders, valued at about \$81.1 million, to determine if DLA Aviation received a fair and reasonable price.

What We Found

DLA Aviation contracting officers did not negotiate fair and reasonable prices on 1,469 delivery orders, valued at \$27.2 million, thereby not getting best value for the Government. Pricing problems occurred because DLA Aviation contracting officers did not conduct a fair and reasonable price analysis. In addition, DLA Aviation guidance did not require contracting officers to:

- obtain and review contractor purchase order histories when determining fair and reasonable prices, or to
- complete a subsequent review of pricing for spare parts after the parts were initially placed on long-term contracts, as allowed by the contract.

Furthermore, Boeing did not maintain complete cost and pricing data for 20 delivery orders, valued at \$3.4 million, because contracting

officers did not conduct adequate contract oversight.

As a result, DLA Aviation paid approximately \$13.7 million in excess of fair and reasonable prices for 1,469 delivery orders. DLA Aviation also may have made payments in excess of the fair and reasonable price for an additional 20 delivery orders. If prices are not corrected, DLA Aviation will continue to overpay on future sole-source spare parts procured from Boeing on SPM4A1-09-G-0004 and SPM400-02-D-9407.

What We Recommend

We recommend the Director, DLA implement available options to recover from Boeing the overpayment of approximately \$13.7 million; renegotiate prices for overpaid parts; revise "DLA Aviation Acquisition Procedures" to require contracting officers to obtain and review contractor purchase orders histories when determining fair and reasonable prices for sole-source acquisitions and complete periodic reviews of the contractor's cost basis for spare parts purchased multiple times on a long-term contract; and conduct periodic evaluations of contract files for long-term contracts to verify that the contractor maintained contract data.

Management Comments and Our Response

Comments from the Director, Defense Logistics Agency, Acquisition, were responsive and no additional comments are required. Please see the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director, Defense Logistics Agency		1, 2, 3.a, 3.b, and 4

Table of Contents

Introduction	1
Objectives	1
Background	1
Review of Internal Controls for DLA Aviation Sole-Source Spare Parts Procurement	3
Finding. Defense Logistics Agency Aviation Did Not Negotiate Fair and Reasonable Prices	4
Criteria on Price Reasonableness and Records Retention	4
Ineffective Negotiation for Fair and Reasonable Prices on Procured Spare Parts	5
Management Actions to Improve Internal Guidance	7
Maintaining Contractor Cost and Pricing Data	13
Management Actions by Boeing to Improve Document Retention	13
Some Delivery Orders Were Fairly Priced	14
Conclusion	14
Recommendations, Management Comments, and Our Response	15
Appendix	
Scope and Methodology	18
Use of Computer-Processed Data	19
Use of Technical Assistance	20
Prior Coverage	20
Management Comments	
Defense Logistics Agency	21

FOR OFFICIAL USE ONLY

~~**FOR OFFICIAL USE ONLY**~~

Introduction

Objectives

The objective of the audit was to determine whether the Defense Logistics Agency (DLA) Aviation obtained best value¹ and purchased sole-source spare parts at fair and reasonable prices from The Boeing Company (Boeing). See the Appendix for a discussion of the scope and methodology and prior coverage related to the objective.

Background

DLA is DoD's largest logistics combat support agency. DLA provides the Military Services more than 84 percent of its spare parts. DLA is headquartered at Fort Belvoir, Virginia, and has six primary-level field activities² that include DLA Aviation. DLA Aviation is headquartered at Richmond, Virginia, and is the materiel manager for over 444,000 aviation spare parts. DLA Aviation manages spares for engines on fighters, bombers, cargo-aircraft, and helicopters; airframe and landing gear parts; flight safety equipment; and propeller systems. We reviewed contract actions associated with SPM4A1-09-G-0004 and SPM400-02-D-9407 that were awarded to Boeing.

Boeing

Boeing is a large aerospace company that manufactures commercial jetliners and defense, space, and security systems. Boeing is organized into two business units: Boeing Commercial Airplanes and Boeing Defense, Space, and Security. Boeing Defense, Space, and Security designs, produces, modifies, and supports fighters, bomber, transports, rotocraft, aerial refuelers, missiles, munitions, and spacecraft for military, civil, and commercial use.

SPM4A1-09-G-0004

On March 16, 2009, DLA Aviation awarded SPM4A1-09-G-0004 to Boeing for aviation spare parts, components, assemblies, and subassemblies to support the B-1B, B-52, E-3, KC-135, and Minuteman Missile programs. SPM4A1-09-G-0004 is a Basic Ordering Agreement, with two options to extend the agreement to March 15, 2014. A Basic Ordering Agreement is a written instrument of understanding that contains terms and clauses applied to future orders. Each order is treated as a separate contract and includes a description of supplies or services and methods for pricing, issuing, and delivering. As a result, DLA Aviation issues a separate solicitation for each order. Boeing provides a quote and DLA Aviation performs a stand-alone price determination for each order made on the contract. As of June 27, 2012, DLA Aviation purchased nearly 3,400 spare parts on SPM4A1-09-G-0004, valued at approximately \$142.0 million.

¹ FAR 2.101, "Definitions," May 18, 2012 defines best value as the expected outcome of an acquisition that provides the greatest overall benefit in response to the requirement.

² DLA's six primary-level field activities include Aviation, Land and Maritime, Troop Support, Energy, Distribution, and Disposition Services.

SPM400-02-D-9407

On May 17, 2002, DLA Aviation awarded contract SP0400-02-D-9407 to Boeing for aviation spare parts to support the B-52, B-2, E-3, KC-135, Minuteman, and Cruise Missile programs. The contract number was later changed to SPM400-02-D-9407. SPM400-02-D-9407 is a requirements-type contract that provides spare parts purchase requirements for DLA Aviation with three options to extend the contract to May 16, 2014. A requirements type contract fills actual purchase requirements of Government activities for supplies or services during a specified contract period. SPM400-02-D-9407 initially included 57 parts, with subsequent parts added to the contract through contract modifications. Parts were either direct vendor delivery or stock parts. Direct vendor delivery parts are fast-moving items that have many users, frequent demand, and varying quantities, while stock parts are transactional in nature and require lead time. DLA Aviation and Boeing established prices for each spare part when it was initially added to the contract. These prices were then used throughout the duration of the contract. As of June 26, 2012, DLA Aviation purchased nearly 2,300 spare parts on SPM400-02-D-9407, valued at approximately \$205.4 million. For example, DLA Aviation purchased a Deceleration Parachute for the B-52, Stratofortress (see Figure 1).

Figure 1. B-52 with Deceleration Parachute



Source: <http://www.afrc.af.mil>

Nonstatistical Audit Sample of Spare Parts

We reviewed 60 parts, valued at approximately \$81.1 million. Our nonstatistical sample included 30 parts with 70 delivery orders, valued at \$19.7 million, for SPM4A1-09-G-0004 and 30 parts with 2,589 delivery orders, valued at \$61.4 million, for SPM400-02-D-9407. Of the 30 parts reviewed for SPM400-02-D-9407, 21 parts were direct vendor delivery parts, while the remaining 9 were stock parts. The delivery orders were issued since March 16, 2009. See Appendix A for more detailed information on the nonstatistical sample selection.

Review of Internal Controls for DLA Aviation Sole-Source Spare Parts Procurement

DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses for DLA Aviation purchases of sole-source spare parts from Boeing. Specifically, DLA Aviation contracting officers did not conduct a fair and reasonable price analysis. DLA Aviation guidance did not require contracting officers to obtain and review contractor purchase order histories when determining fair and reasonable prices. Additionally, DLA Aviation guidance did not require contracting officers to complete a subsequent review of pricing for spare parts after the parts were initially placed on long-term contracts. Finally, DLA Aviation contracting officers did not conduct adequate contract oversight by verifying Boeing maintained contractor cost and pricing documentation as required by the Federal Acquisition Regulation (FAR). We will provide a copy of the report to the senior official responsible for internal controls at DLA.

Finding. Defense Logistics Agency Aviation Did Not Negotiate Fair and Reasonable Prices

DLA Aviation contracting officers did not negotiate fair and reasonable prices for sole-source spare parts procured from Boeing on SPM4A1-09-G-0004 and SPM400-02-D-9407, thereby not getting best value for the Government. We reviewed costs for 60 spare parts on 2,659 delivery orders, valued at about \$81.1 million, and identified pricing problems with spare parts on 1,469 delivery orders, valued at \$27.2 million. For the 1,469 delivery orders, pricing problems occurred because DLA Aviation contracting officers did not conduct a fair and reasonable price analysis. In addition, DLA Aviation guidance did not require contracting officers to:

- obtain and review contractor purchase order histories when determining fair and reasonable prices, or to
- complete a subsequent review of pricing for spare parts after the parts were initially placed on long-term contracts, as allowed by the contract.

Furthermore, Boeing did not maintain complete cost and pricing data for 20 delivery orders, valued at \$3.4 million because DLA Aviation contracting officers did not conduct adequate contract oversight as required by the FAR.

As a result, DLA Aviation paid approximately \$13.7 million in excess of fair and reasonable prices for 1,469 delivery orders. Also, DLA Aviation may have made payments in excess of the fair and reasonable price for an additional 20 delivery orders. If prices are not corrected, DLA Aviation will continue to overpay on future sole-source spare parts procured from Boeing on SPM4A1-09-G-0004 and SPM400-02-D-9407.

Criteria on Price Reasonableness and Records Retention

FAR 15.402, "Pricing Policy," January 3, 2012,³ requires the contracting officer to purchase supplies and services from responsible sources at fair and reasonable prices.

FAR 4.703, "Contractor Records Retention–Policy," October 1, 2010, requires contractors to make data available relating to contracts for 3 years after final payment.

FAR 15.403-3, "Requiring data other than certified cost or pricing data," October 1, 2010, states that the contracting officer shall obtain whatever data are necessary to determine a fair and reasonable price, in acquisitions that do not require certified cost or pricing data.

³The fair and reasonable price process was a requirement of the FAR throughout the scope of the audit.

Defense Federal Acquisition Regulation Supplement on Refunds

Defense Federal Acquisition Regulation Supplement (DFARS) 242.71, “Voluntary Refunds,” November 9, 2005, states that a contracting officer can request a voluntary refund from a contractor or subcontractor when they conclude that the contractor overcharged and there is no contractual remedy available to recover the overpayment.

Existing Acquisition Procedures on Determining Price Reasonableness

The DLA Aviation Acquisition Procedures (DAAP) Exhibit 15A-1, “Determining Price Reasonableness,” July 15, 2009, states the following:

- The preferred techniques for performing price analysis is a comparison of proposed prices (competition), and/or a comparison of previously proposed prices and previous contract prices, with current proposed prices for the same or similar items.
- Average industry rates are to be used to establish an independent Government estimate. Use of these rates does not eliminate the need to determine reasonable material cost, labor hours, and profit rate.

DAAP 13.106-3(3), “Processing Proposed Awards at Other Than Fair and Reasonable Prices,” July 23, 2009, states that awards could be processed at other than fair and reasonable prices and instructs the acquisition specialist to document in the contract file all the facts if attempts to determine the price fair and reasonable were unsuccessful.

DAAP 13.106-3, “Award and Documentation,” February 7, 2013, states that in most instances, no award will be made unless the price is determined reasonable. Furthermore, the determination that the price is reasonable must be accurately analyzed and completely documented. If the acquisition specialist has expended all authorized actions and the final price is not considered reasonable, the acquisition specialist shall elevate the issue to one level above the contracting officer by documenting all actions taken on the proposed award.

Ineffective Negotiation for Fair and Reasonable Prices on Procured Spare Parts

DLA Aviation contracting officers did not negotiate fair and reasonable prices for sole-source spare parts procured from Boeing on 1,469 delivery orders from SPM4A1-09-G0004 and SPM400-02-D-9407, thereby not getting best value for the Government. Specifically, for SPM4A1-09-G-0004, DLA Aviation overpaid for spare parts on four delivery orders, valued at over \$79,000, because DLA Aviation contracting officers did not conduct a fair and reasonable price analysis. In addition, DLA Aviation overpaid for spare parts on 477 delivery orders, valued at \$14.2 million, because DLA Aviation guidance did not require contracting officers to obtain and review contractor purchase order histories when determining fair and reasonable prices. Finally, for SPM400-02-D-9407, DLA Aviation overpaid for spare parts on 988 delivery orders, valued at \$13.0 million, because DLA Aviation guidance did not require contracting officers to

complete a subsequent review of pricing for spare parts after the parts were initially placed on long-term contracts, as allowed by the contract. In total, DLA Aviation paid approximately \$13.7 million in excess of fair and reasonable prices for the 1,469 delivery orders. See Table 1 for a summary of issues identified within this report.

~~(FOUO)~~ **Table 1. Summary of Issues Identified Within This Report**

Issue	Delivery Orders	Total Delivery Order Value	Fair and Reasonable Price	Difference
Fair and Reasonable Price Analysis Not Conducted	4	\$79,470	\$26,849	\$52,621
Guidance Did Not Require Purchase Order Reviews	477	14,196,377*	8,463,176	5,733,201*
Guidance Did Not Require Subsequent Reviews	988	12,957,509*	5,001,505*	7,956,004*
Total	1,469	\$27,233,356	\$13,491,530	\$13,741,826

*Amounts differ from table totals below because of rounding.

Fair and Reasonable Price Analysis Not Conducted

~~(FOUO)~~ For SPM4A1-09-G-0004, DLA Aviation overpaid for spare parts on four delivery orders, valued at over \$79,000, because DLA internal guidance allowed contracting officers to accept proposals without determining if DLA Aviation received a fair and reasonable price. FAR 15.402, "Pricing Policy," January 3, 2012, requires the contracting officer to purchase supplies and services from responsible sources at fair and reasonable prices. However, DAAP Section 13.106-3(3), "Processing Proposed Awards at Other Than Fair and Reasonable Prices," July 23, 2009, states that awards could be processed at other than fair and reasonable prices and instructs the acquisition specialist to document in the file any unsuccessful attempts to determine price reasonableness. For example, DLA Aviation contracting officers procured an AC-130U, Spooky Aircraft Channel (NSN 1560014149771), from Boeing for (b)(4). The DLA Aviation contracting officer recommended the award be made at the quoted price even though the contracting officer did not determine if the price was fair and reasonable. In this instance, the contracting officer documented that the item was a first-time buy, there were no known similar parts, and he did not obtain Boeing pricing information. We obtained Boeing's purchase order history and determined the proposed price should have been (b)(4) per unit, creating an overpayment of (b)(4). See Table 2 for the four delivery orders for which DLA Aviation did not conduct a fair and reasonable price analysis.

~~(FOUO)~~ Table 2. Did Not Conduct Fair and Reasonable Price Analysis

NSN	Delivery Order	Total Delivery Order Value	Fair and Reasonable Price	Difference
1560014149771	0519	(b)(4)		
1560014149771	0520			
1560014149771	0523			
5310005131881	WU1B			
Total		\$79,470	\$26,849	\$52,621

*Difference may not add up because of rounding.

~~(FOUO)~~ As a result of not conducting fair and reasonable price determinations, DLA Aviation made overpayments of \$52,621. DFARS 242.71, “Voluntary Refunds,” November 9, 2005, states that a contracting officer can request a voluntary refund from a contractor or subcontractor when they conclude that the contractor overcharged. DLA should direct DLA Aviation contracting personnel to assess and implement available options to recover from Boeing overpayments made on the delivery orders, including voluntary refunds in accordance with DFARS 242.71.

Management Actions to Improve Internal Guidance

DLA Aviation updated its internal guidance to coincide with FAR 15.402, “Pricing Policy,” January 3, 2012, which no longer allows the processing of awards without determining a fair and reasonable price. On October 3, 2011, DLA Aviation issued a memorandum to prohibit contracting officers from awarding a contract unless the price is determined reasonable. The DLA Aviation contracting officer will elevate the issue if the acquisition specialist has expended all authorized actions and the final price is not considered reasonable. The memorandum was incorporated into the updated DAAP guidance re-issued on February 7, 2013, which requires contracting officers to process only those awards that are determined fair and reasonable.

Guidance Did Not Require Purchase Order Reviews

~~(FOUO)~~ DLA Aviation overpaid for spare parts on 477 delivery orders, valued at \$14.2 million, because DLA Aviation guidance did not require contracting officers to obtain and review contractor purchase order histories when determining fair and reasonable prices. Specifically, for SPM4A1-09-G-0004, DLA Aviation overpaid for spare parts on 15 delivery orders, valued at \$3.9 million. DLA Aviation contracting officers performed a stand-alone price determination for each delivery order awarded for SPM4A1-09-G-0004. DLA Aviation contracting officers determined fair and reasonable prices by reviewing DLA purchase histories, industry

DLA Aviation overpaid for spare parts on 477 delivery orders, valued at \$14.2 million.

~~(FOUO)~~ rates, certified cost and pricing data,⁴ and other than certified cost and pricing data but did not review Boeing's past purchase order histories, resulting in overpayments. For example, DLA Aviation overpaid [REDACTED] for two metal tube assemblies (NSN 4710012009179). DLA Aviation compared Boeing's proposed price of [REDACTED] per unit to historical prices for the same part paid by DLA Aviation on a 2010 delivery order and determined that Boeing's proposed price was fair and reasonable. However, based on our review of Boeing's purchase order, DLA Aviation should have paid a unit price of approximately [REDACTED] for the metal tube assemblies (See Figure 2).

Figure 2. Metal Tube Assembly



Source: DLA Customer Service

See Table 3 for 15 delivery orders associated with SPM4A1-09-G-0004, for which DLA Aviation did not review contractor purchase order histories to obtain a fair and reasonable price.

~~(FOUO)~~ **Table 3. Did Not Review Contractor Purchase Orders**

NSN	Delivery Order	Delivery Order Value	Fair and Reasonable Price	Difference
1560003073077	3005	[REDACTED]		
1560003073077	WUOE			
1560006979577	3040			
1560011526469	4580			

⁴ FAR 2.101, "Definitions," May 18, 2012, defines certified cost and pricing data as data that are certified as accurate, complete, and current as of a date before contract award.

(FOUO)	4669	(b) (4)		
1560011526469				
1560014149771	0526			
1560014149771	5552			
1680011147218	3461			
4710010588026	WU54			
4710010588026	3011			
4710012009179	WU42			
4710012009179	3150			
4710012009179	3159			
5306000085032	WUQZ			
6150014927108	1320			
Total	15	\$3,948,532	\$1,728,679	\$2,219,853

*Difference may not add up because of rounding.

~~(FOUO)~~ In addition, for SPM400-02-D-9407, DLA Aviation overpaid for spare parts on 462 delivery orders, valued at \$10.2 million. DLA Aviation contracting officers determined spare part prices were fair and reasonable when the spare parts were initially placed on the long-term contract. DLA Aviation's Cost and Price division calculates the expected price by using DLA purchase values, inflation, and quantity ordered. Once DLA Aviation contracting officers received a proposal, the information was provided to the DLA Aviation Cost and Pricing division to determine if a price was considered to be within an acceptable range. The DLA Aviation contracting officer accepted the price without reviewing additional contractor documentation when the contractor's proposed price was considered to be within an acceptable range of the expected price. For example, DLA Aviation contracting officers compared Boeing's proposed economic order quantity price range of (b)(4) to (b)(4) per unit to its expected price of (b)(4) per unit and determined that it was within an acceptable range. In 2010, DLA Aviation and Boeing agreed to remove all economic order quantities, and DLA Aviation would pay (b)(4) per unit. However, based on Boeing's most recent purchase order, DLA Aviation should have paid a unit price of approximately (b)(4) for each bearing sleeve. As a result, DLA Aviation overpaid approximately (b)(4) for (b)(4) bearing sleeves (NSN 3120015033394) (See Figure 3).

Figure 3. Bearing Sleeve



Source: DLA Customer Service

See Table 4 for 462 delivery orders associated with SPM400-02-D-9407, for which DLA Aviation did not review contractor purchase order histories to obtain a fair and reasonable price.

~~(FOUO)~~ Table 4. Did Not Review Contractor Purchase Orders

NSN	Delivery Orders	Delivery Order Values	Fair and Reasonable Prices	Difference
1560008641970	354			
1560010219966	3			
1560015196981	10			
3040002175211	42			
3040007115726	47			
3120015033394	6			
Total	462	\$10,247,843	\$6,734,497	\$3,513,345*

*Difference may not add up because of rounding.

DLA Aviation guidance did not require contracting officers to obtain and review contractor purchase order histories, which is a form of other than certified cost and pricing data, to determine fair and reasonable prices. FAR 15.403-3, "Requiring data other than certified cost or pricing data," October 1, 2010, states that the contracting officer shall obtain whatever data are necessary to determine a fair and reasonable price, in acquisitions that do not require certified cost or pricing data. DLA Aviation consistently used previous contract prices rather than contractor purchase order histories when determining if proposed prices were fair and reasonable.

DAAP Exhibit 15A-1, "Determining Price Reasonableness," July 15, 2009, stated that the preferred techniques for performing price analysis is a comparison of proposed prices to previously proposed or contract prices for the same or similar items. DLA Aviation updated DAAP Exhibit 15A-1, "Determining Price Reasonableness," multiple times but still did not require contracting officers to use contractor purchase order histories to obtain a fair and reasonable price on sole-source spare parts. Additionally, SPM400-02-D-9407 included a clause that allowed either DLA Aviation or Boeing to renegotiate the price of spare parts. Specifically, section I84BA, paragraphs A and B, stated that the unit prices and the total price can be periodically re-determined. DLA Aviation contracting officers could have conducted a price redetermination each year of the contract.

~~(FOUO)~~ As a result, DLA Aviation purchased sole-source spare parts at the same price, incurring overpayments of \$5.7 million for SPM4A1-09-G-0004 and SPM400-02-D-9407. DLA should direct DLA Aviation contracting personnel to assess and implement available options to recover from Boeing overpayments made on the delivery orders, including voluntary refunds in accordance with DFARS 242.71. DLA should also direct DLA Aviation contracting personnel to renegotiate prices for the six spare parts associated with the 462 delivery orders in which DLA Aviation overpaid as allowed by SPM400-02-D-9407. Additionally, DLA should direct DLA Aviation to revise the DAAP to require contracting officers to obtain and review contractor purchase orders histories when determining fair and reasonable prices for acquisitions.

Guidance Did Not Require Subsequent Reviews

~~(FOUO)~~ For SPM400-02-D-9407, DLA Aviation overpaid for spare parts on 988 delivery orders, valued at \$13.0 million, because DLA Aviation guidance did not require contracting officers to complete a subsequent review of pricing for spare parts after the parts were initially placed on long-term contracts. DLA Aviation continued to pay the initially negotiated price for spare parts placed on the contract, while Boeing was able to acquire the parts at lower rates from its suppliers. Boeing either negotiated for lower prices from its suppliers or obtained spare parts at lower prices from different suppliers. Boeing is not required to notify DLA Aviation when the subcontractor changes its prices, and Boeing did not pass on any cost savings to DLA Aviation. For example, Boeing certified the unit price of (b)(4) for a control surface part kit on February 26, 2008. DLA Aviation contracting officers accepted Boeing's certified price. On April 12, 2008, Boeing purchased (b)(4) kits at a unit price of (b)(4) from (b)(4). Six months later, Boeing purchased the same kits for (b)(4) per unit from (b)(4). Since March 16, 2009, DLA Aviation purchased (b)(4) units for a total of (b)(4). We obtained Boeing's most recent purchase order and determined the proposed price should have been (b)(4) per unit,⁵ resulting in an overpayment of approximately (b)(4) per kit. As a result, DLA Aviation overpaid approximately (b)(4) for (b)(4) control surface parts kits (NSN 1560015501857) (See Figure 4).

⁵ (FOUO) The fair and reasonable price was calculated by using Boeing's most recent purchase order of (b)(4) per unit and applying Boeing's (b)(4).

Figure 4. Control Surface Parts Kit



Source: DLA Customer Service

See Table 5 for 988 delivery orders associated with SPM400-02-D-9407, for which DLA Aviation did not conduct subsequent reviews to reduce overpayments.

~~(FOUO)~~ **Table 5. Did Not Conduct Subsequent Reviews**

NSN	Delivery Orders	Delivery Order Values	Fair and Reasonable Prices	Difference
1560005622486	21	(b)(4)		
1560015038326	71			
1560015501846	90			
1560015501857	130			
1560015514046	131			
1560015515325	91			
1560015650391	1			
1630011194832	393			
3040003045549	55			
5365010172099	1			
6220015323423	4			
Total	988	\$12,957,510	\$5,001,507	\$7,956,002*

*Difference may not add up because of rounding.

~~(FOUO)~~ DLA Aviation guidance did not require contracting officers to complete a subsequent review of pricing for spare parts after the parts were initially placed on SPM400-02-D-9407. SPM400-02-D-9407 included a clause that allowed either DLA Aviation or Boeing to renegotiate the price of spare parts. Specifically, section I84BA, paragraphs A and B, state that the unit prices and the total price can be periodically re-determined. DLA Aviation contracting officers could have conducted a price redetermination each year of the contract. However, DLA Aviation contracting officers did not complete subsequent reviews in order to determine whether the contractors obtained better prices from suppliers. As a result, DLA Aviation purchased sole-source spare parts resulting in overpayments of approximately \$8.0 million. DLA should direct DLA Aviation to assess and implement available options to recover from Boeing overpayments made on the delivery orders, including voluntary refunds in accordance with DFARS 242.71. DLA should also direct DLA Aviation contracting personnel to renegotiate prices for the 11 spare parts associated with the 988 delivery orders for which DLA Aviation overpaid as allowed by SPM400-02-D-9407. Additionally, DLA should direct DLA Aviation to revise the DAAP to require contracting officers to complete periodic reviews of contractor's cost basis for spare parts purchased multiple times on a long-term contract.

Maintaining Contractor Cost and Pricing Data

Boeing did not maintain complete cost and pricing data on spare parts for 20 delivery orders, valued at \$3.4 million, for SPM4A1-09-G-0004 and for 1,339 delivery orders, valued at approximately \$35.3 million, for SPM400-02-D-9407. DLA Aviation contracting officers did not conduct adequate contract oversight of Boeing as required by the FAR. The audit team requested cost and pricing data from Boeing for the 1,359 delivery orders. After 3 months, Boeing could not provide the requested documents. Although Boeing was unable to provide the requested documentation, DLA Aviation was able to provide Boeing cost and pricing data to the audit team for 1,339 delivery orders for SPM400-02-D-9407. The audit team used the data to determine whether DLA Aviation purchased sole-source spare parts at a fair and reasonable price. FAR 4.703, "Contractor Records Retention-Policy," October 1, 2010, requires contractors to make data available relating to contracts for 3 years after final payment. However, DLA Aviation contracting officers did not conduct adequate contract oversight by requiring Boeing to retain contract documentation. As a result, DLA Aviation may have made payments on the remaining 20 delivery orders in excess of a fair and reasonable price. DLA should direct DLA Aviation contracting personnel conduct periodic evaluations of contract files for long-term contracts to verify that the contractor maintained contract cost and pricing data in accordance with FAR 4.703.

Management Actions by Boeing to Improve Document Retention

As a result of the audit, Boeing issued "Contracts and Pricing Records Retention Requirements," December 4, 2012, which emphasized the need for Boeing officials to maintain adequate contract documentation on long-term contracts as required by

FAR 4.7. The memorandum also stated that Boeing would follow up with more detailed training.

Some Delivery Orders Were Fairly Priced

~~(FOUO)~~ DLA Aviation did not overpay for spare parts on 1,170 delivery orders, valued at \$50.4 million,⁶ on SPM4A1-09-G-0004 and SPM400-02-D-9407. We obtained documentation from Boeing to support the total estimated cost per unit and the purchase orders associated with each delivery order. We used Boeing's costs on purchase orders and applied its rates to calculate a fair and reasonable price. (b)(4)

(b)(4) We identified the difference between the fair and reasonable price and the actual prices on the delivery orders. For spare parts on 206 delivery orders, valued at \$20.8 million, DLA Aviation contracting officers negotiated prices that were within 10 percent of the fair and reasonable price. For spare parts on 599 delivery orders, valued at \$13.3 million, Boeing recovered costs and achieved a profit ranging from (b)(4) to (b)(4) percent. For these items, DLA Aviation paid less than the calculated fair and reasonable price; however, Boeing did not lose money on the delivery orders. Boeing applies a rate to its spare parts (b)(4). In these instances, (b)(4). For spare parts on 365 delivery orders, valued at \$16.4 million, Boeing neither recovered costs nor achieved a profit. In these instances, Boeing lost a total of \$5.2 million.

Conclusion

DLA Aviation contracting officers did not negotiate fair and reasonable prices for sole-source spare parts procured from Boeing, thereby not getting best value for the Government. As a result, DLA Aviation paid approximately \$13.7 million in excess of fair and reasonable prices for 1,469 delivery orders. Additionally, DLA Aviation may have made payments in excess of the fair and reasonable price for spare parts on an additional 20 delivery orders. For SPM4A1-09-G-0004, Boeing could not provide purchase orders showing the actual price paid for spare parts on 20 delivery orders, valued at \$3.4 million. Furthermore, DLA Aviation will continue to overpay on future sole-source spare parts procured from Boeing on SPM4A1-09-G-0004 and SPM400-02-D-9407 if prices are not renegotiated. DLA Aviation contracting officers effectively negotiating fair and reasonable prices on future spare parts procurements will eliminate wasteful spending and allow resources to be used more efficiently to support the warfighter, thereby getting best value for the Government.

⁶ Difference may not add up because of rounding.

Recommendations, Management Comments, and Our Response

We recommend the Director, Defense Logistics Agency:

1. Direct Defense Logistics Agency Aviation contracting personnel to assess and implement available options to recover from Boeing the overpayment of approximately \$13.7 million on 1,469 delivery orders, including voluntary refunds, in accordance with DFARS 242.71.

Defense Logistics Agency Comments

The Director, DLA, Acquisition, partially agreed with the recommendation. DLA agreed with requesting voluntary refunds on delivery orders written under basic ordering agreement SPM4A1-09-G-0004 and contract SPM400-02-D-9407. Because all prices were agreed to with the contractor and the basic ordering agreement was firm-fixed price, in accordance with FAR 16.202, "Firm-Fixed-Price Contracts," the contract price was not subject to any adjustment on the basis of the contractor's cost experience in performing the contract. Under the contract, prices were fixed price with economic price adjustment, and the basis for adjustment was the economic price adjustment clause. However, DLA agrees to request a voluntary refund for the items where a fair and reasonable determination was never made and for the items where the Boeing purchase order prices were lower than the contract price. The estimated completion date is July 31, 2013.

Our Response

Although the Director, Defense Logistics Agency, Acquisition, only partially agreed, her comments were responsive. The Director, DLA, Acquisition, agreed to request a voluntary refund. No additional comments are required.

2. Direct Defense Logistics Agency Aviation contracting personnel to renegotiate prices for 17 spare parts (located in Tables 4 and 5) as allowed by SPM400-02-D-9407.

Defense Logistics Agency Comments

The Director, DLA, Acquisition, partially agreed with the recommendation. During the course of ordering under contract SPM400-02-D-9407, contract price adjustments were made solely using the contract's economic price adjustment clause and not the prospective price readjustment clause. Although it was normal DLA Aviation practice to include a price readjustment clause in similar corporate long-term contracts, it was determined that it was not needed to properly adjust contract prices. The contracting officer determined that the economic price adjustment clause provided the necessary and appropriate basis for adjusting prices; however, this determination was not documented in the contract file. DLA recognized that this is not a best practice and acknowledges that a contract modification should have been used to remove 52.216-9G11, "Corporate Contracting Price Redetermination," from the contract. DLA will issue a modification to remove 52.216-9G11, "Corporate Contracting Price Redetermination," from the contract

by June 28, 2013. Additionally, DLA agreed to request a voluntary refund for the items where a fair and reasonable determination was never made and for the items where the Boeing purchase order prices were lower than the contract price. The estimated completion date is July 31, 2013.

Our Response

Although the Director, DLA, Acquisition, only partially agreed, her comments were responsive. We recognize that SPM400-02-D-9407 included clauses I84BA 52.216-9G11, "Corporate Contracting Price Redetermination," and 52.216-9G44, "Economic Price Adjustment," for price adjustments. Section I84BA, paragraphs A and B, allowed DLA Aviation contracting officers to conduct a price redetermination of the unit prices and the total price each year of the contract. The Director DLA, Acquisition, stated that DLA will issue a modification to remove 52.216-9G11, "Corporate Contracting Price Redetermination," from the contract because the contracting officer and the contractor both understood that they would not use section I84BA for price adjustments. Although DLA Aviation will remove the clause from the contract, the Director, DLA, Acquisition, agreed to require contracting officers complete periodic reviews of the contractor's cost basis for spare parts purchased multiple times on a long-term contract. By completing the reviews, DLA Aviation could renegotiate spare-part prices to receive fair and reasonable prices. Therefore, no additional comments are required.

3.a. Direct Defense Logistics Agency Aviation to revise "DLA Aviation Acquisition Procedures" to require contracting officers to obtain and review contractor purchase orders histories when determining fair and reasonable prices for sole-source acquisitions.

Defense Logistics Agency Comments

The Director, DLA, Acquisition, partially agreed with the recommendation. DLA agreed with updating the "DLA Aviation Acquisition Procedures," to include requesting a contractor's purchase order history as a method of determining price reasonableness for sole source contracts. This update will be in accordance with FAR 15.403-3, "Requiring data other than certified cost and pricing data," which outlines data the contracting officer shall obtain when certified cost and pricing data are not required. The estimated completion date is July 31, 2013.

Our Response

Although the Director, Defense Logistics Agency, Acquisition, only partially agreed, her comments were responsive. The Director, DLA, Acquisition, agreed to update "DLA Aviation Procedures" to include requesting a contractor's purchase order history as a method of determining price reasonableness for sole source contracts. No additional comments are required.

3.b. Direct Defense Logistics Agency Aviation to revise "DLA Aviation Acquisition Procedures" to require contracting officers to complete periodic reviews of the contractor's cost basis for spare parts purchased multiple times on a long-term contract.

Defense Logistics Agency Comments

The Director, DLA, Acquisition, agreed with the recommendation, and stated that DLA will revise, "DLA Aviation Acquisition Procedures," to require contracting officers complete periodic reviews of the contractor's cost basis for spare parts purchased multiple times on a long-term contract. The estimated completion date is July 31, 2013.

Our Response

Comments from the Director, DLA, Acquisition, were responsive, and no further comments are required.

4. Direct Defense Logistics Agency Aviation contracting personnel to conduct periodic evaluations of contract files for long-term contracts to verify that the contractor maintained contract cost and pricing data in accordance with FAR 4.703, "Contractor Records Retention-Policy," October 1, 2010.

Defense Logistics Agency Comments

The Director, DLA, Acquisition, agreed with the recommendation, and stated that DLA will revise the DLA Aviation Acquisition Directive to include requirements of FAR 4.703. The contract management plan will require the contractor submit their contractor retention plan to the contracting officer. The estimated completion date is July 31, 2013.

Our Response

Comments from the Director, DLA, Acquisition, were responsive, and no further comments are required.

Appendix. Scope and Methodology

We conducted this performance audit from August 2012 through April 2013 in accordance with generally accepted Government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To determine whether DLA Aviation contracting officers obtained best value and purchased sole-source spare parts at fair and reasonable prices from Boeing, we reviewed contract documentation from May 17, 2002, to August 23, 2012, for SPM4A1-09-G-0004 and SPM400-02-D-9407. We used IHS Haystack Gold to identify unique spare parts associated with the contracts. IHS Haystack Gold is a procurement history database; it included 5,576 total unique spare parts for SPM4A1-09-G-0004 and SPM400-02-D-9407. We submitted the list of spare parts to the DLA Office of Operations Research and Resource Analysis, which provided a report that identified 224 spare parts that had a future demand of \$200,000 or more. For these 224 spare parts, we compared the procurement history from IHS Haystack Gold, the demand data from the DLA Office of Operations Research and Resource Analysis, and the delivery orders from the Electronic Document Access (EDA). We selected a nonstatistical sample of 52 of the 224 spare parts for review. We also selected an additional eight spare parts that had a future demand of less than \$200,000. Our total nonstatistical sample included 60 spare parts, associated with 2,659 delivery orders, valued at about \$81.1 million. Specifically, we reviewed 30 spare parts associated with 70 delivery orders, valued at \$19.7 million, from SPM4A1-09-G-0004 and 30 spare parts associated with 2,589 delivery orders, valued at \$61.4 million, from SPM400-02-D-9407. We reviewed delivery orders issued after March 16, 2009.

We obtained documentation from Boeing to support the total estimated cost per unit and the purchase orders associated with each spare part. We used Boeing's costs on purchase orders and applied Boeing's rates to calculate a fair and reasonable price. (b)(4)

We identified the difference between the fair and reasonable price and the actual prices charged on delivery orders. Actual prices within 10 percent were determined to be reasonable.

To accomplish the audit objectives, we:

- interviewed personnel from the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics to discuss DoD policies and procedures for the spare parts acquisition process.
- interviewed DLA Aviation officials at Fort Belvoir, Virginia, and Richmond, Virginia, to identify their roles and responsibilities related to spare parts acquisitions, to identify the processes used to order spare parts on SPM4A1-09-G-0004 and SPM400-02-D-9407, and to obtain documentation for fair and reasonable price determinations. Specifically,

we reviewed price negotiation memorandums, small-purchase pricing memorandums, P-45 simplified acquisition pricing memorandums, briefing memorandums, contractor proposals, purchase histories, and additional documentation supporting cost and price analyses for the reviewed delivery orders. DLA Aviation provided Boeing's cost and pricing data for 1,339 delivery orders for SPM400-02-D-9407.

- interviewed Boeing officials in St. Louis, Missouri, to identify their roles and responsibilities related to spare parts acquisitions, to identify their processes used to order spare parts on SPM4A1-09-G-0004 and SPM400-02-D-9407, and to obtain their cost estimate documentation. Specifically, we reviewed memorandums of agreements, memorandums of understanding, quotes, purchase orders, and other documentation to support spare part prices. Boeing did not maintain complete cost and pricing data on spare parts for 20 delivery orders, valued at \$3.4 million, for SPM4A1-09-G-0004.
- reviewed DLA Aviation guidance to determine whether DoD followed applicable guidance when determining fair and reasonable prices for spare parts: DAAP 13.106-3(3), "Processing Proposed Awards at Other Than Fair and Reasonable Prices," July 23, 2009; DAAP 13.106-3, "Award and Documentation," February 7, 2013; and DAAP Exhibit 15A-1, "Determining Price Reasonableness," July 15, 2009, October 29, 2010, and November 14, 2012. We also reviewed FAR 4.703, "Contractor Records Retention-Policy," October 1, 2010; FAR 15.403-3, "Requiring data other than certified cost or pricing data," October 1, 2010; FAR 15.402, "Pricing Policy," January 3, 2012; and FAR 2.101, "Definitions," May 18, 2012.

Use of Computer-Processed Data

We assessed the reliability of EDA, Boeing's Sustainment Pricing System and Electronic Procurement Information Center and IHS Haystack Gold data by comparing systems data, recalculating rates, and tracing system data to source documents. Specifically, we used IHS Haystack Gold to identify unique spare parts and procurement history associated with spare parts for SPM4A1-09-G-0004 and SPM400-02-D-9407. We compared IHS Haystack Gold data to future demand data from the DLA Office of Operations Research and Resource Analysis and delivery orders from EDA to select a nonstatistical sample.

We used Boeing's Sustainment Pricing System data to develop the fair and reasonable price. The Sustainment Pricing System is used by Boeing to develop estimated costs for proposals and includes unit costs and rates for each spare part. We compared its estimated proposal costs for the sample spare parts to the proposals provided by DLA Aviation. We also obtained Boeing's purchase orders from the Electronic Procurement Information Center identifying the actual price Boeing paid for the sampled spare parts. We calculated the fair and reasonable price by applying Boeing rates to the actual unit cost on Boeing's purchase orders. We compared the fair and reasonable price to spare

parts prices on delivery orders obtained from EDA. As a result of our analysis, we determined that the data were sufficiently reliable for the purposes of this report.

Use of Technical Assistance

We consulted with the DoD OIG Quantitative Methods Division while determining our nonstatistical audit sample.

Prior Coverage

During the last 5 years, the Government Accountability Office and DoD OIG issued seven reports discussing the purchase of sole-source spare parts. Unrestricted Government Accountability Office reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at: <http://www.dodig.mil/audit/reports>.

Government Accountability Office

GAO-10-469, “Defense Logistics Agency Needs to Expand on Efforts to more Effectively Manage Spare Parts,” May 2010

DoD OIG

Report No. DODIG-2013-025, “Accountability Was Missing for Government Property Procured on the Army’s Services Contract for Logistics Support of Stryker Vehicles,” November 30, 2012

Report No. DODIG-2012-102, “Better Cost-Control Measures Are Needed on the Army’s Cost-Reimbursable Services Contract for Logistics Support of Stryker Vehicles,” June 18, 2012

Report No. DODIG-2012-004, “Changes Are Needed to the Army Contract With Sikorsky to Use Existing DoD Inventory and Control Costs at the Corpus Christi Army Depot,” November 3, 2011

Report No. D-2011-104, “Pricing and Escalation Issues Weaken the Effectiveness of the Army Contract with Sikorsky to Support the Corpus Christi Army Depot,” September 8, 2011

Report No. D-2011-061, “Excess Inventory and Contract Pricing Problems Jeopardize the Army Contract with Boeing to Support the Corpus Christi Army Depot,” May 3, 2011

Report No. D-2008-048, “Procuring Noncompetitive Spare Parts Through an Exclusive Distributor,” February 6, 2008

Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

MAY 20 2013

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR
GENERAL (ACQUISITION AND CONTRACT MANAGEMENT)

SUBJECT: Response to DODIG Draft Report, "Improved Guidance Needed to Obtain Fair and Reasonable Prices for Sole-Source Spare Parts Procured by the Defense Logistics Agency from the Boeing Company" (Project No. D2012-D000AT-0199.000)

Attached is the Defense Logistics Agency's (DLA) response to the subject draft report. We appreciate the opportunity to review and comment on the findings and recommendations.

The point of contact for this engagement is [REDACTED] DLA Office of the Inspector General, [REDACTED] or email: [REDACTED]

NANCY M. HEIMBAUGH
Director, DLA Acquisition

Attachment:
As stated

**RESPONSE TO DRAFT REPORT" IMPROVED GUIDANCE NEEDED TO OBTAIN
FAIR AND REASONABLE PRICES FOR SOLE-SOURCE SPARE PARTS PROCURED
BY THE DEFENSE LOGISTICS AGENCY FROM THE BOEING COMPANY"
(PROJECT NO. D2012-D000AT-0199.000)**

Recommendation 1: Direct DLA Aviation contracting personnel to assess and implement available options to recover from Boeing the overpayment of approximately \$13.7 million on 1,469 delivery orders, including voluntary refunds, in accordance with DFARS 242.71.

DLA Response: Partially Concur. DLA concurs with requesting voluntary refunds on delivery orders written under Basic Ordering Agreement (BOA) SPM4A1-09-G-004 and Contract SPM400-02-D-9407.

Since all prices were agreed to with the contractor and the BOA was firm fixed price, in accordance with the Federal Acquisition Regulation (FAR) 16.202, Firm Fixed-Price Contracts, the contract price was "not subject to any adjustment on the basis of the contractor's cost experience in performing the contract." Similarly, under the contract as actually administered the prices were fixed price with economic price adjustment, and the sole basis for adjustment was the Economic Price Adjustment (EPA) clause. For both vehicles, there is therefore no basis for unilaterally changing the contract prices as the basis for a refund from the contractor.

DLA agrees, however, to request a voluntary refund for the items where a fair and reasonable determination was never made and for the items where the Boeing purchase order prices were lower than the contract price. The estimated completion date of the request is July 31, 2013.

Recommendation 2: Direct DLA Aviation contracting personnel to renegotiate prices for 17 spare parts (located in Tables 4 and 5) as allowed by SPM400-02-D-9407.

DLA Response: Partially Concur. During the course of ordering under contract SPM400-02-D-9407, contract price adjustments were made solely using the contract's EPA clause and not the prospective price readjustment clause. Although it was normal DLA Aviation practice to include a price readjustment clause in similar corporate long term contracts with original equipment manufacturers, following award it was determined that it was not needed to properly adjust contract prices. The EPA adjustments used a labor index and a material index. The contracting officer determined that the EPA clause provided the necessary and appropriate basis for adjusting prices because it covered the major cost conditions driving price changes. The determination to use the EPA exclusively, however, was not documented in the contract file. DLA recognizes this is not a best practice, and acknowledges that a contract modification should have been used to remove 52.216-9G1, Corporate Contracting Price Redetermination, from the contract. However, the contracting officer and the contractor both understood that it would not be used and that the EPA clause would be used to adjust prices. DLA will issue a modification to remove "52.216-9G1, Corporate Contracting Price Redetermination,"

from the contract.” Therefore, there is no legal basis to renegotiate prices on the contract. The estimated completion date for the Modification is June 28, 2013.

DLA agrees, however, to request a voluntary refund for the items where a fair and reasonable determination was never made and for the items where the Boeing purchase order prices were lower than the contract price. The estimated completion date of the request is July 31, 2013.

Recommendation 3a: Direct DLA Aviation revise “DLA Aviation Acquisition Procedures” to require contracting officers to obtain and review contractor purchase orders histories when determining fair and reasonable prices for sole-source acquisitions.

DLA Response: Partially Concur. DLA concurs with updating the “DLA Aviation Acquisition Procedures” to include requesting a contractor’s purchase order history as a method of determining price reasonableness for sole source contracts. This update will be in accordance with FAR 15.403-3, “Requiring Data Other Than Certified Cost and Pricing Data,” which outlines data the contracting officer shall obtain when certified cost and pricing data is not required. FAR 15.403-3 does not require the contracting officer obtain purchase order histories when requiring other than cost and pricing data. There are no statutes, regulations or guidance mandating contractors provide purchase order history below the Truth in Negotiations threshold of \$700,000.00. The estimated completion date to update the “DLA Aviation Acquisition Procedures” is July 31, 2013.

Recommendation 3b: Direct DLA Aviation revise “DLA Aviation Acquisition Procedures” to require contracting officers to complete periodic reviews of the contractor’s cost basis for spare parts purchased multiple times on a long-term contract.

DLA Response: Concur. DLA will revise “DLA Aviation Acquisition Procedures” to require contracting officers complete periodic reviews of the contractor’s cost basis for spare parts purchased multiple times on a long-term contract. The estimated completion date to update the “DLA Aviation Acquisition Procedures” is July 31, 2013.

Recommendation 4: Direct DLA Aviation contracting personnel to conduct periodic evaluations of contract files for long-term contract to verify that the contractor maintained contract cost and pricing data in accordance with FAR 4.703, “Contractor Records Retention – Policy,” October 1, 2010.

DLA Response: Concur. DLA will revise the DLA Acquisition Directive to include the requirement verify compliance with FAR 4.703. The Contract Management Plan will require the contractor submit their Contractor Records Retention Plan to the Contracting Officer. The estimated completion date for implementation is July 31, 2013.

~~FOR OFFICIAL USE ONLY~~



Inspector General
Department *of* Defense

~~FOR OFFICIAL USE ONLY~~