



INSPECTOR GENERAL

U.S. Department of Defense

DECEMBER 10, 2014



Improvement Needed for Inventory Management Practices on the T700 Technical, Engineering, and Logistical Services and Supplies Contract

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Results in Brief

Improvement Needed for Inventory Management Practices on the T700 Technical, Engineering, and Logistical Services and Supplies Contract

December 10, 2014

Objective

We determined whether the Department of Defense effectively managed the T700 Technical, Engineering, and Logistical Services and Supplies contract. Specifically, we reviewed inventory management practices on the Department of the Army's T700 Technical, Engineering, and Logistical Services and Supplies contract. This is the second report in a series of two reports and addresses whether T700 inventory was effectively managed.

Finding

The Army improved its overall inventory management for the T700 by decreasing on-hand inventory by \$11.5 million and reducing inventory from the prior GE contracts. However, opportunities for improvement still exist. Specifically, U.S. Army Contracting Command and Corpus Christi Army Depot officials did not meet goals to reduce and use existing Government-owned inventory for the T700 Technical, Engineering, and Logistical Services and Supplies contract. This occurred because U.S. Army Contracting Command and Corpus Christi Army Depot officials did not:

- effectively monitor the reduction of inventory, and
- did not require General Electric to use existing Corpus Christi Army Depot T700 spare parts inventory located at the Defense Logistics Agency.

Finding (cont'd)

As a result, excess inventory levels still exist, and Army officials had at least 309,498 spare parts in excess of the contract requirements, valued at \$25.4 million, which may be used to reduce future contract requirements.

In addition, U.S. Army Contracting Command can use at least 48,018 Corpus Christi Army Depot T700 spare parts, valued at \$200,308, from Defense Logistics Agency inventory to meet Corpus Christi Army Depot future requirements rather than procuring these items from General Electric. U.S. Army Contracting Command officials could potentially use an additional 267,835 T700 spare parts, valued at \$4.5 million, located at Defense Logistics Agency to meet future Corpus Christi Army Depot requirements.

Recommendations

The Commanding General, U.S. Army Contracting Command, should require contracting officials to modify the contract to clarify the 60-day inventory cap; and identify what actions will be taken if the contractor fails to meet the 60-day inventory cap and 20-percent inventory reduction requirements.

The Commanding General, U. S. Army Aviation and Missile Life Cycle Management Command should direct Corpus Christi Army Depot officials to determine which spare parts are excess or unusable and develop a formal process that considers on-hand inventory when making buy versus repair decisions. The Commanding General should also direct Corpus Christi Army Depot officials to coordinate with Defense Logistics Agency officials to drawdown the Corpus Christi Army Depot T700 inventory to review T700 spare parts where the demand is unknown.

The Commanding General, U.S. Army Contracting Command, in conjunction with the Commanding General, U. S. Army Aviation and Missile Life Cycle Management Command, should



Results in Brief

Improvement Needed for Inventory Management Practices on the T700 Technical, Engineering, and Logistical Services and Supplies Contract

Recommendations (cont'd)

direct contracting and Corpus Christi Army Depot officials to document the approval of any purchases of additional inventory for spare parts with inventory levels in excess of the 60-day requirement.

Management Comments and Our Response

We received comments from the Army in response to a draft report. The Commanding General, U.S. Army Contracting Command will require contracting officials to modify the contract to clarify the 60-day inventory cap clause and will use the Contractor Performance Assessment Reports System to monitor the contractor's compliance with contract requirements. The Commanding General, U.S. Army Aviation and

Missile Life Cycle Management Command will direct Corpus Christi Army Depot officials to determine which spare parts are excess or unusable, develop a formal process that considers on-hand inventory when making buy versus repair decisions, and to coordinate with Defense Logistics Agency officials to draw down Corpus Christi Army Depot T700 inventory. In addition, the Commanding General, U.S. Army Aviation and Missile Life Cycle Management Command and the Commanding General, U.S. Army Contracting Command will direct Corpus Christi Army Depot and contracting officials to document approval of any purchases of spare parts with inventory levels in excess of the 60-day requirement. The comments addressed the specifics of the recommendations, and no further comments are required. Please see the recommendations table on the next page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Commanding General , U.S. Army Contracting Command		1, 3
Commanding General, U.S. Army Aviation and Missile Life Cycle Management Command		2, 3



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

December 10, 2014

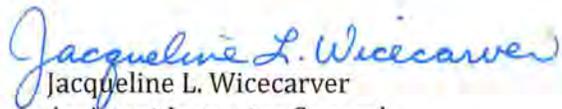
MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
DIRECTOR, DEFENSE LOGISTICS AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Improvement Needed for Inventory Management Practices on the
T700 Technical, Engineering, and Logistical Services and Supplies Contract
(DODIG-2015-050)

We are providing this report for your information and use. U.S. Army Contracting Command and Corpus Christi Army Depot did not meet goals to reduce and use existing Government-owned inventory on the T700 Technical, Engineering, and Logistical Services and Supplies contract.

We considered management comments on a draft of this report when preparing the final report. Comments from the Army addressed the specifics of the recommendations, and 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
Assistant Inspector General
Acquisition, Parts, and Inventory

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Acronyms and Abbreviations



Introduction

Objective

Our audit objective was to determine whether DoD effectively managed the T700 Technical, Engineering, and Logistical Services and Supplies (TELSS) contract. See Appendix A for a discussion of the scope and methodology and Appendix B for prior audit coverage.

This is the second report in a series of two reports on the T700 engine and addresses inventory management practices on the Department of the Army's T700 TELSS contract. The first report, DODIG-2014-113, "Inappropriate Obligations for the T700 Technical, Engineering, and Logistical Services and Supplies Contract," September 17, 2014, addressed whether funds were obligated in accordance with the United States Code and DoD regulations.

Background

General Electric (GE) designed, developed, and manufactured the T700 family of engines and has provided the engine to the Army since 1976. The T700 engine is a military turboshaft engine that powers 21 types of rotary- and fixed-wing aircraft, including the UH-60 Blackhawk and AH-64 Apache helicopters. According to GE Aviation, the T700 engine characteristics include reliability, safety, and the ability to operate under adverse environmental conditions while requiring minimal maintenance. See Figure 1 for a picture of the T700 engine.



U.S. Army Contracting Command

The U.S. Army Contracting Command (ACC) is a major subordinate command to the U.S. Army Materiel Command. The U.S. Army Materiel Command's mission includes the development of weapon systems, maintenance and distribution of spare parts, and contracting services. ACC provides contract support for acquisition programs while ensuring responsible use of taxpayers' funds. According to the ACC website,¹ it awarded nearly 190,000 contracts in FY 2013 valued at \$61 billion.² ACC officials awarded the T700 TELSS engine contract, W58RGZ-12-D-0015, in 2012.

U.S. Army Aviation and Missile Life Cycle Management Command

The U.S. Army Aviation and Missile Life Cycle Management Command (AMCOM) is another subordinate command that reports to U.S. Army Materiel Command. As a Life Cycle Management Command, AMCOM provides integrated engineering, logistics, and contracting to more than 90 major systems and manages two Army depots: Corpus Christi Army Depot (CCAD), Texas and Letterkenny Army Depot, Pennsylvania. AMCOM supports the development, acquisition, and fielding of aviation and missile systems, which includes the T700 family of engines. For the T700 engine, AMCOM develops workload forecasts for depot-level repairs and monitors engine performance.

Corpus Christi Army Depot

CCAD repairs and overhauls helicopters, engines, and components for Army Aviation. The T700 family of engines are repaired and overhauled at CCAD. In 2005, CCAD began working with GE under a partnership agreement to support the repair of T700 engines. A partnership agreement is a cooperative arrangement between an organic, product-support provider (depot) and one or more private-sector entities (GE) to perform defense-related work using DoD facilities and equipment.

T700 Technical, Engineering, and Logistical Services and Supplies Contract

In January 2012, ACC officials at Redstone Arsenal, Alabama awarded the T700 TELSS contract W58RGZ-12-D-0015, a follow-on, 5-year requirements (base and four ordering periods), partnership contract, to GE to support CCAD's repair of Army and Navy T700 engines. The contract required GE to provide minimal technical and engineering support to CCAD and provide 100 percent of the spare

¹ The ACC website is <http://acc.army.mil>.

² Dollar values throughout the report are rounded.

parts used in the overhaul and repair of the T700 family of engines. The total maximum value of this 5-year contract is \$937.9 million. As of July 2014, ACC has obligated \$503.7 million on this contract.

Review of Internal Controls

DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” May 30, 2013, 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 an internal control weakness associated with the inventory management for the T700 engine. Specifically, ACC and CCAD officials did not effectively monitor the reduction of inventory and did not require GE to use existing CCAD T700 spare parts inventory located at the Defense Logistics Agency (DLA). We will provide a copy of the report to the senior official responsible for internal controls in the Department of the Army.

Finding

Inventory Management of the T700 Engine Spare Parts Needs Improvement

The Army improved its overall inventory management for the T700 by decreasing on-hand T700 inventory by \$11.5 million and reducing inventory from the prior GE partnership contracts. However, opportunities for improvement still exist. Specifically, ACC and CCAD officials did not meet goals to reduce and use existing Government-owned inventory. This occurred because ACC and CCAD officials did not effectively monitor the reduction of inventory and did not require GE to use existing CCAD T700 spare parts inventory at DLA. As a result, excess inventory levels still exist and Army officials had at least 309,498 spare parts in excess of the contract requirements, valued at \$25.4 million, which could be used to reduce future contract requirements. In addition, ACC could use at least 48,018 CCAD T700 spare parts, valued at \$200,308, from DLA inventory to meet CCAD future requirements rather than purchasing these items from GE. ACC officials could potentially use an additional 267,835 T700 spare parts, valued at \$4.5 million, located at DLA to meet future CCAD requirements.

T700 Inventory Management Improvements and Goals

Since January 2012, CCAD officials decreased overall on-hand T700 inventory by \$11.5 million, or 22 percent. CCAD officials also reduced inventory from the prior GE partnership contracts by \$12.3 million in 2012 and \$25.6 million in 2013. To reduce inventory cost and use Government-owned inventory, ACC and CCAD officials included a contract requirement that T700 inventory shall be capped at 60 days of supply. The contract stated that AMCOM, CCAD, and GE officials would review inventory levels quarterly and prior to each option year. In addition, the contract required GE to provide recommendations to reduce overall Government-owned inventory that originated from the prior GE partnership contracts by a minimum of 20 percent per year.

To monitor spare parts inventory, CCAD officials:

- reviewed high-dollar-value spare parts for excess inventory;
- used a buy versus repair process to reduce repair costs; and
- implemented a process to use existing Government-owned inventory prior to purchasing additional inventory from GE.

While these efforts improved inventory management, ACC and CCAD officials did not meet goals to reduce and use existing Government-owned T700 inventory.

T700 Inventory Management Goals Not Met

ACC and CCAD officials did not meet the goals to reduce and use existing T700 inventory because they did not effectively monitor the reduction of inventory and did not require GE to use existing CCAD T700 spare parts inventory at DLA. Specifically,

- contract requirements were not clearly defined and not enforced;
- CCAD officials did not conduct effective inventory reviews;
- buy versus repair decisions did not always consider on-hand inventory;
- on-hand inventory was not always considered prior to the purchase of additional spare parts; and
- GE was not required to use existing CCAD T700 spare parts at DLA.

Contract Requirements Should be Clearly Defined and Enforced

The T700 TELSS contract requirements were not clearly defined and not enforced. Specifically, the 60-day inventory cap was not clearly defined in the contract. In addition, ACC and CCAD officials did not enforce the 60-day inventory cap or 20-percent inventory reduction requirements in the contract.

ACC and CCAD officials did not enforce the 60-day inventory cap

The T700 TELSS contract required GE to cap inventory at a level not to exceed 60 days. However, the 60-day inventory cap requirement did not differentiate between inventory acquired on the current contract versus inventory acquired on previous contracts. CCAD and GE officials mutually agreed on the interpretation of the contract clause that the inventory cap was meant to ensure that there were

60 days of inventory to meet the forecasted workload and did not apply to the \$53 million in inventory acquired on previous contracts. Regardless of CCAD and GE officials' mutual interpretation, as of April 2014, 309,498 spare parts, valued at \$25.4 million, were in excess of the 60-day requirement on the current contract. For example, based on the consumption data and estimated workload, CCAD had 23.5 years of on-hand inventory for blades (part number 6038T39P08), valued at \$1.8 million.

CCAD had 23.5 years of on-hand inventory for blades (part number 6038T39P08), valued at \$1.8 million

See Figure 2 for a picture of the blade. In addition, CCAD had 18.4 years of on-hand inventory for CSump tubes (part number 5044T54G01) valued at \$156,441. ACC contracting officials should modify the contract and clarify the 60-day inventory cap requirement in the contract to identify if the requirement applies to previously acquired inventory and items currently being purchased and forecasted.



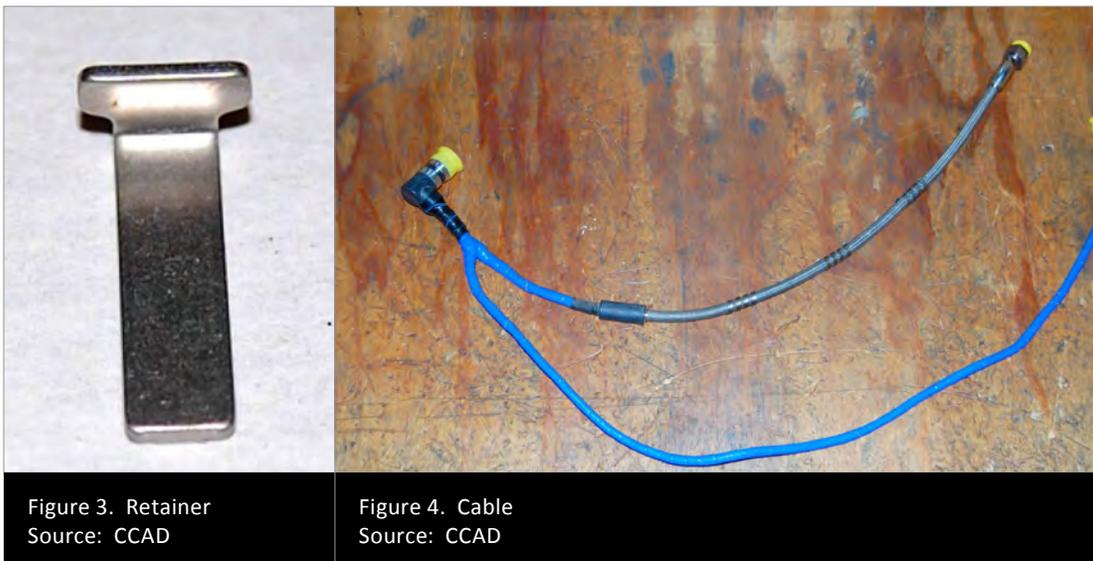
The contract required GE to cap inventory at a level not to exceed 60 days. Although CCAD and GE officials agreed on their interpretation of the 60-day requirement, CCAD officials stated that they have not reached an agreement as to how the requirement would be enforced. The T700 TELSS contract also required that GE submit recommendations to reduce Government-owned inventory from previous partnership contracts by a minimum of 20-percent per year. According to ACC and CCAD officials, GE did not provide any recommendations to reduce the on-hand inventory. Furthermore, ACC and CCAD officials did not take action to enforce that recommendations were provided. ACC contracting officials should identify what actions will be taken if the contractor fails to meet the 60-day inventory cap and 20-percent inventory reduction requirements.

Effective Inventory Reviews Needed

CCAD officials did not conduct effective inventory reviews to determine if there was still a continued need for T700 spare parts. According to CCAD officials, reviews for excess and unused spare parts focused on parts with a unit price above \$1,000 depot-wide and were not focused on a specific contract or program. As a result, not all excess spare parts were reviewed. For example, retainers

(part number 4041T13P01), with a unit price of \$1.98, were not reviewed by CCAD officials for excess inventory despite having approximately 5.5 years of available inventory, valued at \$67,542. See Figure 3 for a picture of the retainer.

In addition, although CCAD officials reviewed parts with no use, they did not effectively review 12 unique spare parts with a total cost of \$757,589 that were not used for the past 3 years and did not have any forecasted use for the next 3 years. For example, CCAD officials did not determine if a continued need still existed for 78 cables (part number 6044T83P05), totaling \$201,785, that were not used since 2011 and were not expected to be used through 2016. See Figure 4 for a picture of the cable.



As a result of the ineffective inventory reviews, spare parts with low unit prices or no usage for the T700 TELSS contract were not always reviewed to determine if a continued need still existed. CCAD officials should determine which T700 spare parts are excess or unusable and make disposal arrangements for those parts, as appropriate.

Spare Parts Repair Decision Should Consider On-Hand Inventory

CCAD officials did not have an effective process that consistently considered on-hand inventory when making buy versus repair decisions. Although not required, CCAD officials indicated that monthly meetings were held with the contractor to discuss buy versus repair decisions. According to CCAD officials, the buy versus repair decision process was informal and typically included low dollar spare parts with high use. However, there was not a formal process to determine

which spare parts were selected for review, and on-hand inventory levels were not always a factor in determining if a part was a candidate for the buy versus repair option. For example, CCAD supply chain officials decided to use the 47.5 years of on-hand inventory for clamps (part number MS35842-10) prior to repairing them. However, officials from other CCAD activities decided later to repair the clamp without any discussion with the supply chain officials. The decision to repair the clamp prohibited CCAD officials from effectively reducing the 47.5 years of on-hand inventory.

We reviewed 20 nonstatistically selected spare parts, valued at \$1 million, that exceeded the 60-day inventory cap requirement. We determined that for 9 of the 20 spare parts, valued at \$336,345, CCAD officials decided to repair the spare part before using on-hand inventory. See the Table below for a list of the nine spare parts and the number of years of on-hand inventory.

Table. Buy Versus Repair Spare Parts that Exceeded Inventory Cap Requirement

Part Number	Name	Years of Inventory	Total Cost
MS35842-10	CLAMP,AXISG	47.5	\$1,391.69
5044T54G01	TUBE,CSUMP	19.3	\$163,503.82
4068T00G01	BRKT,T4.5	18.4	\$13,472.16
4082T80G01	BRKT,CSUMP	16.3	\$11,991.97
4082T79G01	BRKT,CSUMP	16.2	\$12,051.28
6033T79G03	TUBE,CSUMP	15.9	\$89,716.52
3904T45P01	STUD	15.3	\$5,863.32
4052T71G01	BRACKET	14.4	\$27,486.24
4082T78G01	BRKT,CSUMP	13.9	\$10,868.36

If CCAD personnel do not consider on-hand inventory when making buy versus repair decisions, then they could be unnecessarily spending funds to repair spare parts and retain excess inventory. CCAD officials should develop and document a formal process that considers the use of on-hand inventory when making a buy versus repair decision for a spare part.

Consideration for On-hand Inventory Needed Prior to Purchases

ACC and CCAD officials did not consider on-hand inventory levels prior to purchasing additional inventory. ACC and CCAD officials indicated that they considered on-hand inventory at the warehouse or other Army locations before determining the quantity of spare parts that would be purchased from the

contractor. However, ACC and CCAD officials purchased at least 25 spare parts, valued at \$54,600, that had on-hand quantities in excess of the 60-day inventory cap requirement.

For example, ACC and CCAD officials purchased:

- an additional 20 washers (part number 4069T98P05) in FY 2014 despite having 13.3 years of on-hand inventory. (See Figure 5 for a picture of the washer.)
- an additional 237 packing units (part number J228P226) in FY 2014 despite having 4.4 years of on-hand inventory. (See Figure 6 for a picture of the packing unit.)

As a result, at least \$54,600 was spent on spare parts purchased in excess of FY 2014 requirements that could have been used on spare parts that were needed to meet the forecasted workload. ACC and CCAD officials should document the approval of any purchase of additional inventory for spare parts with inventory levels in excess of the 60-day requirement.

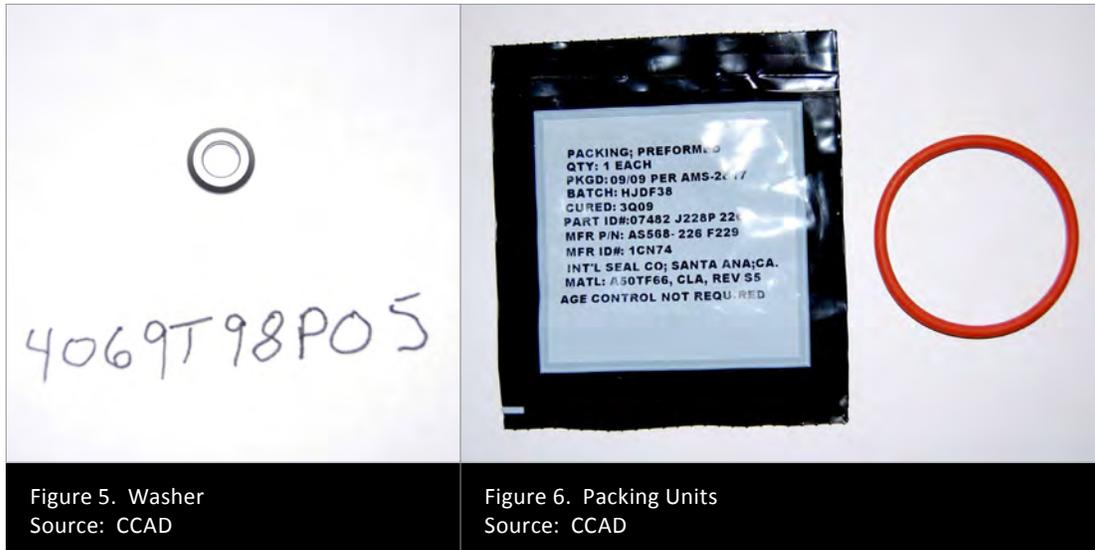


Figure 5. Washer
Source: CCAD

Figure 6. Packing Units
Source: CCAD

DLA Inventory Not Used

ACC officials did not require GE to use existing CCAD T700 spare parts at DLA. Specifically, the contract did not require GE to use DLA inventory despite the following DoD and Army guidance requiring its use.

- The Office of the Assistant Secretary of Defense (Logistics and Materiel Readiness) Memorandum, “Maximum Utilization of Government-owned Inventory in Performance-Based Logistics Arrangements,” December 20, 2010, emphasizes the use of DoD-owned inventory, which includes DLA inventory, as the first source of supply

before procuring contractor-owned inventory and that a plan should be in place to drawdown this inventory before buying spare and repair parts from private sources. The guidance also states that the use of on-hand and due-in Government inventory should be standard practice on all performance-based logistics (PBL) arrangements and partnering agreements.

- Department of the Army, Office of the Assistant Secretary of the Army, Acquisition, Logistics and Technology Memorandum, “Maximum Utilization of Government-Owned Inventory in Performance Based Logistics Arrangements,” January 31, 2011, states that use of Government inventory as the first source of supply is to be standard practice on all partnering agreements.
- The Department of the Army, Headquarters, U.S. Army Materiel Command Memorandum, “Order of Preference for Utilizing Repair Parts from Various Source of Supply (SOS) Inventories in Fulfilling Depot-Level Maintenance-Oriented Performance Based Logistics (PBL) Agreements and Public-Private Partnerships,” August 11, 2010, further requires partnerships to first use Government inventories, including DLA, before acquiring new repair parts from commercial sources of supply.

Based on our audit, the ACC contracting officer requested that DLA prepare a GE partnership market share analysis³ to identify what CCAD T700 spare parts were available in DLA inventory. The DLA market share analysis identified 14 unique spare parts or 48,018 total spare parts, valued at \$200,308, that were available for use by CCAD. In addition, DLA identified 267,835 spare parts, valued at \$4.5 million, that required additional analysis to determine the existing demand and if the parts could be used by CCAD before acquiring new spare parts from the contractor. CCAD officials should coordinate with DLA officials to drawdown the CCAD T700 spare parts identified in the market share analysis from DLA inventory. CCAD officials should also coordinate with DLA officials to further review the 267,835 spare parts in order to determine whether the parts could be used by CCAD.

³ The DLA market share analysis calculates the percentage of CCAD’s demand for each spare part over the last 24 months based upon DLA’s inventory and demand data.

Conclusion

While the Army decreased overall on-hand T700 inventory by 22 percent, additional opportunities exist to meet its goals of reducing and using available Government-owned inventory. Army officials had at least 309,498 spare parts in excess of the contract requirements, valued at \$25.4 million, which could be used to reduce future contract requirements. In addition, ACC officials could use at least 48,018 CCAD T700 spare parts, valued at \$200,308, from DLA inventory to meet future CCAD requirements rather than procuring these items from GE. Furthermore, ACC officials could potentially use an additional 267,835 T700 spare parts, valued at \$4.5 million, at DLA to meet future CCAD requirements. ACC and CCAD officials could improve their management of T700 inventory by clarifying contract requirements; increasing their oversight of excess and unusable inventory; improving their reviews of buy versus repair decisions; and drawing down existing CCAD T700 inventory located at Army and DLA activities prior to procuring the spare parts from GE.

Recommendations, Management Comments and Our Response

Recommendation 1

We recommend that the Commanding General, U.S. Army Contracting Command, require contracting officials:

- a. Modify the contract and clarify the 60-day inventory cap reduction requirement in the contract to identify if the requirement applies to previously acquired inventory and items currently being purchased and forecasted.**

Department of the Army Comments

The Deputy Assistant Secretary of the Army (Procurement), responding for the Commanding General, U.S. Army Contracting Command, agreed, stating a clear definition of the 60-day inventory cap reduction requirement is being developed and that the contracting officer will modify the contract to incorporate a 60-day inventory cap clause by January 12, 2015.

Our Response

The response from the Deputy Assistant Secretary addressed all specifics of the recommendation, and no further comments are required.

- b. Identify what actions will be taken if the contractor fails to meet the 60-day inventory cap and 20-percent inventory reduction requirements.**

Department of the Army Comments

The Deputy Assistant Secretary of the Army (Procurement), responding for the Commanding General, U.S. Army Contracting Command, agreed, stating the contracting officer will monitor the contractor's compliance with the contract requirements using monthly reports and ratings in the Contractor Performance Assessment Reports System. Reports of noncompliance with contract requirements will affect the award of follow-on contracts.

Our Response

The response from the Deputy Assistant Secretary addressed all specifics of the recommendation, and no further comments are required.

Recommendation 2

We recommend that the Commanding General, U. S. Army Aviation and Missile Life Cycle Management Command direct:

- a. Corpus Christi Army Depot officials to determine which T700 spare parts are excess or unusable and make disposal arrangements for those parts as appropriate.**

Department of the Army Comments

The Deputy Assistant Secretary of the Army (Procurement), responding for the Commanding General, U.S. Army Aviation and Missile Life Cycle Command, agreed, stating an updated process will be developed to address the drawdown of parts and identify spare parts that are excess or unusable. The expected date of completion is October 1, 2015.

Our Response

The response from the Deputy Assistant Secretary addressed all specifics of the recommendation, and no further comments are required.

- b. Corpus Christi Army Depot officials to develop and document a formal process that considers on-hand inventory when making a buy versus repair decision for a spare part.**

Department of the Army Comments

The Deputy Assistant Secretary of the Army (Procurement), responding for the Commanding General, U.S. Army Aviation and Missile Life Cycle Command, agreed, stating an updated process to consider on-hand inventory when making a buy versus repair decision is being developed. The expected date of completion is October 1, 2015.

Our Response

The response from the Deputy Assistant Secretary addressed all specifics of the recommendation, and no further comments are required.

- c. Corpus Christi Army Depot officials to coordinate with Defense Logistics Agency officials to drawdown the Corpus Christi Army Depot T700 spare parts identified in the market share analysis from Defense Logistics Agency inventory.**

Department of the Army Comments

The Deputy Assistant Secretary of the Army (Procurement), responding for the Commanding General, U.S. Army Aviation and Missile Life Cycle Command, agreed, stating consideration of drawdown of the 13 identified engine parts that are applicable to the T700 is ongoing. The expected date of completion is October 1, 2015.

Our Response

The response from the Deputy Assistant Secretary addressed all specifics of the recommendation, and no further comments are required.

- d. Corpus Christi Army Depot officials to coordinate with Defense Logistics Agency officials to further review T700 spare parts where the demand is unknown for possible drawdown.**

Department of the Army Comments

The Deputy Assistant Secretary of the Army (Procurement), responding for the Commanding General, U.S. Army Aviation and Missile Life Cycle Command, agreed, stating CCAD officials are currently coordinating with Defense Logistics Agency officials to further review possible drawdown of T700 spare parts where demand is unknown. The expected date of completion is October 1, 2015.

Our Response

The response from the Deputy Assistant Secretary addressed all specifics of the recommendation, and no further comments are required.

Recommendation 3

We recommend that the Commanding General, U.S. Army Contracting Command, in conjunction with the Commanding General, U. S. Army Aviation and Missile Life Cycle Management Command, require contracting and Corpus Christi Army Depot officials to document the approval of any purchase of additional inventory for spare parts with inventory levels in excess of the 60-day requirement.

Department of the Army Comments

The Deputy Assistant Secretary of the Army (Procurement), responding for the Commanding General, U.S. Army Contracting Command and the Commanding General U.S. Army Aviation and Missile Life Cycle Management Command, agreed, stating a standard operating procedure for an approval process for purchasing spare parts with inventory levels in excess of the 60-day requirement will be developed by the end of March 2015.

Our Response

The response from the Deputy Assistant Secretary addressed all specifics of the recommendation, and no further comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from February 2014 through October 2014 in accordance with generally accepted government auditing standards. Those 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

This is the second report in a series of two reports on the T700 engine. The scope of this report focused on inventory management on the Department of Army's T700 TELSS contract. Contract W58RGZ-12-D-0015 was awarded on January 1, 2012, for a maximum value of \$937.9 million.

To accomplish the audit objective, we:

- interviewed officials from the following offices to understand their roles and responsibilities with inventory management on the T700 TELSS contract:
 - Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, Defense Procurement and Acquisition Policy;
 - AMCOM;
 - ACC;
 - CCAD;
 - Defense Contract Management Agency;
 - Defense Logistics Agency; and
 - GE
- reviewed the following guidance to determine if existing Government-owned T700 inventory was being used first:
 - Office of the Assistant Secretary of Defense (Logistics and Materiel Readiness) Memorandum, "Maximum Utilization of Government-owned Inventory in Performance-Based Logistics Arrangements," December 20, 2010;
 - Department of the Army, Office of the Assistant Secretary of the Army, Acquisition, Logistics and Technology Memorandum, "Maximum Utilization of Government-owned Inventory in Performance Based Logistics Arrangements," January 31, 2011; and

- Department of the Army, Headquarters, U.S. Army Materiel Command Memorandum, “Order of Preference for Utilizing Repair Parts from Various Source of Supply (SOS) Inventories in Fulfilling Depot-Level Maintenance-Oriented Performance Based Logistics (PBL) Agreements and Public-Private Partnerships,” August 11, 2010.
- identified the on-hand inventory of T700 spare parts located at CCAD as of May 19, 2014. For this inventory, we used consumption data obtained from the Army’s Logistics Modernization Program (LMP) to determine whether there was any excess inventory located at CCAD. Based on average usage rates over a 4-year period (FY 2011 through 2014) and a 60-day inventory cap contract requirement, we defined excess as any spare part over the 60-day requirement.

Use of Computer-Processed Data

We relied on computer-processed data from the Electronic Data Access (EDA) system and the Army LMP system. EDA stores contracts, contract delivery orders, and contract modifications. The Army uses LMP to integrate business processes including order entry, distribution, materiel management, inventory, and financial information management.

We obtained T700 TELSS contract, order, and modification documentation from EDA. We compared the contracts, orders, and modifications obtained from EDA to the contracts, orders, and modifications in the ACC contract files and verified that the documentation we obtained from EDA was accurate.

We obtained T700 inventory balances as of May 2014, consumption data for T700 spare parts inventory, and workload forecasts from LMP. T700 inventory balances were used to determine the amount of Government-owned inventory located at CCAD. The consumption data and workload forecasts were used to determine if there was excess T700 inventory. To validate the inventory data in LMP, we:

- selected a nonstatistical sample of 25 T700 parts;
- conducted a physical inventory count while on site at CCAD;
- compared the results of the physical inventory count with the reported T700 spare part quantities within LMP for the month of May 2014; and
- verified that the data from LMP were sufficiently reliable for the purposes of the audit.

Appendix B

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO), the Department of Defense Inspector General (DoD IG), and the Army Audit Agency issued 12 reports discussing inventory management practices. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>. Unrestricted Army Audit Agency reports can be accessed from .mil and gao.gov domains at <https://www.aaa.army.mil/>.

GAO

Report No. GAO-11-139, “Additional Oversight and Reporting for the Army Logistics Modernization Program Are Needed,” November 18, 2010

Report No. GAO 10-461, “Actions Needed to Improve Implementation of the Army Logistics Modernization Program,” April 30, 2010

Report No. GAO-09-103, “Management Actions Needed to Improve the Cost Efficiency of the Navy’s Spare Parts Inventory,” December 12, 2008

DoD IG

Report No DODIG-2014-113, “Inappropriate Obligations for the T700 Technical, Engineering, and Logistical Services and Supplies Contract,” September 17, 2014

Report No. DODIG-2014-064, “Improved Management Needed for the F/A-18 Engine Performance-Based Logistics Contracts,” April 25, 2014

Report No. DODIG-2013-073, “Use of Defense Logistics Agency Excess Parts for High Mobility Multipurpose Wheeled Vehicle Depot Repairs Will Reduce Costs,” April 25, 2013

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-2011-061, "Excess Inventory and Contracting Pricing Problems Jeopardize the Army Contract with Boeing to Support the Corpus Christi Army Depot," May 3, 2011

Report No. D-2010-063, "Analysis of Air Force Secondary Power Logistics Solution Contract," May 21, 2010

Army Audit Agency

Report No. 2010-0146-ALR, "Follow up Audit of Inventory Accountability and Stockage Levels, Tobyhanna Army Depot," August 27, 2010

Management Comments

Department of the Army



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

NOV 26 2014

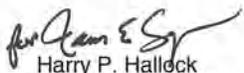
SAAL-PR

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR
GENERAL, OFFICE THE DEPUTY INSPECTOR GENERAL FOR AUDITING, 4800
MARK CENTER DRIVE, ALEXANDRIA, VA 22350

SUBJECT: Department of Defense Inspector General Proposed Report: Improvement
Needed for Inventory Management Practices on the T700 Technical, Engineering, and
Logistical Services and Supplies Contract, Project Number (D2014-D000AT-0187.000)

1. On behalf of the Assistant Secretary of the Army (Acquisition, Logistics and
Technology), the Office of the Deputy Assistant Secretary of the Army (Procurement)
reviewed the subject proposed report and concurs with Headquarters Army Materiel
Command's endorsement of the responses from the U.S. Army Contracting Command
(ACC) and the U.S. Army Aviation and Missile Command (AMCOM). The enclosure
provides the endorsement memorandum and the responses from ACC and AMCOM.
2. The point of contact is [REDACTED]

Encl


Harry P. Halleck
Deputy Assistant Secretary
of the Army (Procurement)

Department of the Army (cont'd)



REPLY TO
ATTENTION OF:

DEPARTMENT OF THE ARMY
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND
4400 MARTIN ROAD
REDSTONE ARSENAL, AL 35898-5000

AMCIR

NOV 21 2014

MEMORANDUM FOR Department of Defense Inspector General (DoDIG),
[REDACTED] Program Director, Acquisition, Parts, and Inventory,
4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Command Comments on DoDIG Draft Report, Improvement Needed for
Inventory Management Practices on the T700 Technical, Engineering, and Logistical
Services and Supplies Contract, Project D2014AT-0187

1. The U.S. Army Materiel Command (AMC) has reviewed the subject draft report and the responses from the U.S. Army Contracting Command (ACC) and the U.S. Army Aviation and Missile Command (AMCOM). AMC endorses the enclosed ACC and AMCOM responses.

2. The AMC point of contact is [REDACTED]
or email: [REDACTED]

Encls
1. ACC Response
2. AMCOM Response


JOHN B. NERGER
Executive Deputy to the
Commanding General

Department of the Army (cont'd)

REPLY TO
ATTENTION OF:

DEPARTMENT OF THE ARMY
U.S. ARMY CONTRACTING COMMAND
3334A WELLS ROAD
REDSTONE ARSENAL, AL 35898-5000

17 NOV 2014

AMSCC-IR

MEMORANDUM FOR [REDACTED], Director, Internal Review and Audit
Compliance Office, Headquarters, U.S. Army Materiel Command, 4400 Martin Road,
Redstone Arsenal, AL 35898-5340

SUBJECT: Inspector General, Department of Defense Draft Report: Improvement
Needed for Inventory Management Practices on the T700 Technical, Engineering, and
Logistical Services and Supplies Contract, October 24, 2014 (Project No. D2014-
D000AT-0187.000) (D1421) (2189)

1. Memorandum, Inspector General, Department of Defense, October 24, 2014,
subject: Improvement Needed for Inventory Management Practices on the T700
Technical, Engineering, and Logistical Services and Supplies Contract (Project No.
D2014-D000AT-0187.000).
2. The Army Contracting Command (ACC) provides the enclosed comments in
response to the referenced document.
3. The ACC POC is [REDACTED]

Encl

Handwritten signature of Michael R. Hutchison in black ink.
MICHAEL R. HUTCHISON
Deputy to the Commanding General

Department of the Army (cont'd)

COMMAND COMMENTS

Response to October 24, 2014

Request for Comments on DODIG Draft Audit Report:
Improvement Needed for Inventory Management Practices on the T700 Technical,
Engineering, and Logistical Services and Supplies Contract
(Project No. D2014-D000AT-0187.000)

Following, quoted from the audit report, are the OIG recommendations; and the ACC-Redstone (ACC-RSA) responses to the recommendations.

Recommendation 1.a: "We recommend that the Commanding General, U.S. Army Contracting Command, require contracting officials . . . [m]odify the contract and clarify the 60-day inventory cap reduction requirement in the contract to identify if the requirement applies to previously acquired inventory and items currently being purchased and forecasted."

Command Comments: Concur: The ACC-RSA, the Corpus Christi Army Depot (CCAD) and the contractor, General Electric (GE) are currently developing a clear definition of the 60-day inventory cap reduction requirement in the contract to identify if the requirement applies to previously acquired inventory and items currently being purchased and forecasted. The ACC-RSA anticipates an agreement between the parties by 5 January 2015. Based on agreement of the parties by 5 January 2015, the Contracting Officer (KO) will execute a bilateral modification of the contract to incorporate a 60-day inventory cap clause by 12 January 2015.

Recommendation 1.b: "We recommend that the Commanding General, U.S. Army Contracting Command, require contracting officials . . . [i]dentify what actions will be taken if the contractor fails to meet the 60-day inventory cap and 20-percent inventory reduction requirements."

Command Comments: Concur: The KO will monitor the contractor's compliance with the requirement in accordance with the 60-Day Inventory Cap clause. The CCAD will provide to the KO a monthly report verifying GE's compliance with the requirement. The KO will document compliance with the requirement through interim and annual ratings in the Contractor Performance Assessment Reports System (CPARS). The CPARS assessment is utilized by all Federal Government Agencies in source selection evaluation, thus GE considers their CPARS assessments valuable and is aware that reports of non-compliance can impact the potential 2016 follow-on contract.

Recommendation 3: "We recommend that the Commanding General, U.S. Army Contracting Command, in conjunction with the Commanding General, U. S. Army Aviation and Missile Life Cycle Management Command, require contracting and Corpus Christi Army Depot officials to document the approval of any purchase of additional inventory for spare parts with inventory levels in excess of the 60-day requirement."

Department of the Army (cont'd)

COMMAND COMMENTS

Response to October 24, 2014

Request for Comments on DODIG Draft Audit Report:
Improvement Needed for Inventory Management Practices on the T700 Technical,
Engineering, and Logistical Services and Supplies Contract
(Project No. D2014-D000AT-0187.000)

Command Comments: Concur: The ACC-RSA, the U. S. Army Aviation and Missile Life Cycle Management Command Army Logistics Center, and the CCAD will develop and implement by 4 March 2015 an approval process, to include documentation, for any purchase of additional inventory for spare parts with inventory levels in excess of the 60-day requirement. The KO will ensure any purchase of additional inventory for spare parts with inventory levels in excess of the 60-day requirement is documented in the contract file.

Note: This document does not contain For Official Use Only (FOUO) or Operations Security (OPSEC) information.

Department of the Army (cont'd)



DEPARTMENT OF THE ARMY
UNITED STATES ARMY AVIATION AND MISSILE COMMAND
5300 MARTIN ROAD
REDSTONE ARSENAL AL 35898-5000

AMSAM-IR

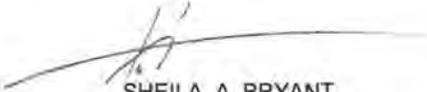
18 NOV 2014

MEMORANDUM FOR [REDACTED], Director, Internal Review and Audit Compliance Office, Headquarters, US Army Materiel Command, 4400 Martin Road, Redstone Arsenal, AL 35898-5000

SUBJECT: DODIG Draft Report: Improvement Needed for Inventory Management Practices on the T700 Technical, Engineering, and Logistical Services and Supplies Contract (Project No. D2014-D000AT-0187.000) (AMC D1420) (AMCOM 2014D012)

1. Reference HQ AMC Tasker No. A1-OC.7-4301-26006, 28 Oct 14, SAB.
2. Enclosed are comments from US Army Aviation and Missile Command (AMCOM). The report was reviewed and comments provided by the AMCOM Logistics Center (ALC). The comments were reviewed by AMCOM Legal Office.
3. The point of contact is [REDACTED]

Encl


SHEILA A. BRYANT
COL, LG
Chief of Staff

Department of the Army (cont'd)

**US Army Aviation and Missile Life Cycle Command
Comments to DODIG Draft Report – Improvement Needed for Inventory
Management Practices on the T700 Technical, Engineering, and Logistical
Services and Supplies Contract (D2014-D000AT- 0187.000)
(AMC No. D1420) (AMCOM Project 2014D012)**

FINDING: Inventory Management of the T700 Engine Spare Parts Needs Improvement

"The Army improved its overall inventory management for the T700 by decreasing on-hand T700 inventory by \$11.5 million and reducing inventory from the prior GE partnership contracts. However, opportunities for improvement still exist. Specifically, ACC and CCAD officials did not meet goals to reduce and use existing Government-owned inventory. This occurred because ACC and CCAD officials did not effectively monitor the reduction of inventory and did not require GE to use existing CCAD T700 spare parts inventory at DLA. As a result, excess inventory levels still exist and Army officials had at least 309,498 spare parts in excess of the contract requirements, valued at \$25.4 million, which could be used to reduce future contract requirements. In addition, ACC could use at least 48,018 CCAD T700 spare parts, valued at \$200,308, from DLA inventory to meet CCAD future requirements rather than purchasing these items from GE. ACC officials could potentially use an additional 267,835 T700 spare parts, valued at \$4.5 million, located at DLA to meet future CCAD requirements."

RECOMMENDATIONS AND COMMAND COMMENTS:

Recommendation 2a: "We recommend that the Commanding General, U. S. Army Aviation and Missile Life Cycle Management Command direct Corpus Christi Army Depot officials to determine which T700 spare parts are excess or unusable and make disposal arrangements for those parts as appropriate".

Command Comments: Concur. There are numerous changes evolving as duties/responsibilities migrate from AMCOM to CCAD in the coming months which will be addressed. The U. S. Army Aviation and Missile Life Cycle Management Command is developing an updated process to identify those parts that are excess or unusable and address draw down of spare parts as appropriate. The initial target for a staffed, completed document is 1 October 2015.

Recommendation 2b: "We recommend that the Commanding General, U. S. Army Aviation and Missile Life Cycle Management Command direct Corpus Christi Army Depot officials to develop and document a formal process that considers on-hand inventory when making a buy versus repair decision for a spare part."

Command Comments: Concur. There are numerous changes evolving as duties/responsibilities migrate from AMCOM to CCAD in the coming months which will be addressed. The U. S. Army Aviation and Missile Life Cycle Management Command

Department of the Army (cont'd)

initiated an effort to formally document the OEM contract process and is currently developing an updated process that considers on-hand inventory when making a buy versus repair decision for spare parts. The initial target for a staffed, completed document is 1 October 2015.

Recommendation 2c: "We recommend that the Commanding General, U. S. Army Aviation and Missile Life Cycle Management Command direct Corpus Christi Army Depot officials to coordinate with Defense Logistics Agency officials to drawdown the Corpus Christi Army Depot T700 spare parts identified in the market share analysis from Defense Logistics Agency inventory."

Command Comments: Concur. The U. S. Army Aviation and Missile Life Cycle Management Command policy is that Corpus Christi Army Depot coordinate with DLA officials to drawdown the T700 spare parts identified in the market share analysis from DLA inventory. The processes mentioned in the command comments to recommendation 2a and 2b will continue the policy of coordinating with DLA on spare part inventory. Consideration of drawdown of the thirteen T700 engine applicable parts identified, in coordination with DLA, including the CCAD market share quantity valued at \$120,000, after Foreign Military Sales market share quantity extraction, is ongoing. The first review must be completed by 30 Nov 14, to meet CCAD/GE Partnership Option Year 3 contract award and drawdown completed NLT 3 Mar 15. The expected completion date is 1 October 2015.

Recommendation 2d: "We recommend that the Commanding General, U. S. Army Aviation and Missile Life Cycle Management Command direct Corpus Christi Army Depot officials to coordinate with Defense Logistics Agency officials to further review T700 spare parts where the demand is unknown for possible drawdown."

Command Comments: Concur. The U. S. Army Aviation and Missile Life Cycle Management Command policy is that Corpus Christi Army Depot coordinate with DLA officials on inventory levels. The processes mentioned in the command comments to recommendation 2a and 2b will continue the policy of coordinating with DLA on spare part inventory. The CCAD officials are currently coordinating with Defense Logistics Agency officials to further review T700 spare parts where the demand is unknown for possible drawdown of DLA material quantities beyond projected field level demands and Foreign Military Sales requirements. The first review must be completed by 30 Nov 2014 to meet CCAD/GE Partnership Option Year 3 contract award and drawdown completed NLT 31 Mar 2015. The expected completion date is 1 October 2015.

Recommendation 3

"We recommend that the Commanding General, U.S. Army Contracting Command, in conjunction with the Commanding General, U. S. Army Aviation and Missile Life Cycle Management Command, require contracting and Corpus Christi Army Depot officials to document the approval of any purchase of additional inventory for spare parts with inventory levels in excess of the 60-day requirement.

Department of the Army (cont'd)

Command Comments: Concur. U. S. Army Aviation and Missile Life Cycle Management Command is developing and revising standard operating procedures to incorporate the requirement to account for parts purchased in initial, follow-on, or option year contracts, consideration of on hand inventory during the repair vs. buy cycles, and documentation of the approval of any purchase of additional inventory for spare parts with inventory levels in excess of the 60-day requirement. The expected completion date for the standard operating procedure is 31 March 2015 (allows time to fully incorporate the CCAD and ACC input).

Note: This document does not contain For Official Use Only (FOUO) or Operations Security (OPSEC) information

Acronyms and Abbreviations

ACC U.S. Army Contracting Command

AMCOM U.S. Army Aviation and Missile Life Cycle Management Command

CCAD Corpus Christi Army Depot

DLA Defense Logistics Agency

EDA Electronic Data Access

GE General Electric

LMP Logistics Modernization Program

TESS Technical, Engineering, and Logistical Services and Supplies

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

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Media Contact

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