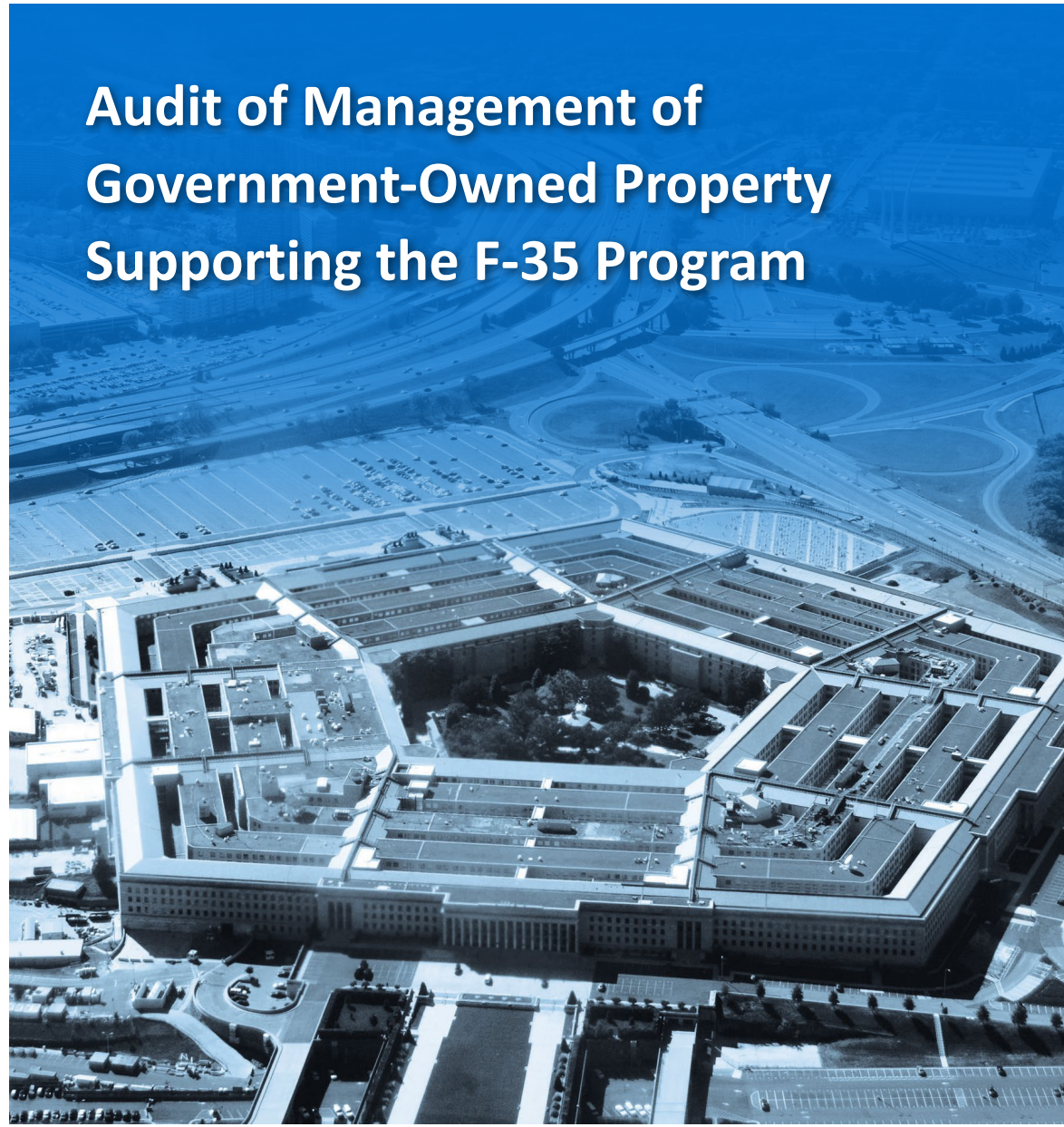




INSPECTOR GENERAL

U.S. Department of Defense

MARCH 13, 2019



Audit of Management of Government-Owned Property Supporting the F-35 Program

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





Results in Brief

Audit of Management of Government-Owned Property Supporting the F-35 Program

March 13, 2019

Objective

We determined whether DoD personnel managed Government property supporting the F-35 Program in accordance with the Federal Acquisition Regulation, Defense Federal Acquisition Regulation Supplement, and DoD Instruction 5000.64 requirements for property accountability.

Background

The F-35 Program is a multiservice and multinational acquisition to develop and field the next-generation strike fighter aircraft for the Navy, Air Force, Marine Corps, and international partners.

As a part of the F-35 aircraft production, the prime contractor acquires Government property. Lockheed Martin Aeronautics is the prime contractor that is developing and producing the F-35 at its Fort Worth, Texas, facility.

The Federal Acquisition Regulation defines Government property as all property owned or leased by the Government. Government property includes material, equipment, special tooling (for example, fixtures and molds), special test equipment, and real property. Government property includes both:

- Government-Furnished Property (GFP), property that is in the possession of, or directly acquired by, the Government and then furnished to the contractor for performance of a contract; or

Background (cont'd)

- Contractor-Acquired Property (CAP), property that is acquired, fabricated, or otherwise provided by the contractor for performing a contract.

DoD Instruction 5000.64 requires DoD Components to establish accountable property records.¹ The Federal Acquisition Regulation requires the contractor to create and maintain records of all Government property identified in the contract, including GFP and CAP, and to maintain a complete, current, auditable record of all property transactions.

Finding

DoD officials did not account for and manage F-35 Program Government property, including recording the property in an accountable property system of record (APSR), as required. The only record of Government property for the F-35 Program is with the contractor and its subcontractor, which valued the 3.45 million pieces of property at \$2.1 billion.² Specifically, F-35 Program officials did not:

- maintain a Government record of GFP;
- award contracts with complete GFP lists; and
- coordinate with Defense Contract Management Agency (DCMA) officials to execute contracting actions to transition CAP to GFP, as required.

This occurred because DoD officials failed to implement procedures, and failed to appoint and hold officials responsible, to account for and manage Government property for more than 16 years. Specifically, the F-35 Program Office did not:

- follow procedures to establish its APSR; instead, officials relied solely on the prime contractor to account for all of the F-35 Program Government property;

¹ DoD Instruction 5000.64, "Accountability and Management of DoD Equipment and Other Accountable Property," first issued April 27, 2017 (incorporating Change 2 August 31, 2018), and newest version issued August 31, 2018, required the DoD to establish accountable property records.

² The prime contractor subcontracted with CEVA Government Services for warehouse space. CEVA also maintains a subset of the F-35 Government property records, which are not in the prime contractor's records.



Results in Brief

Audit of Management of Government-Owned Property Supporting the F-35 Program

Finding (cont'd)

- appoint the required Government personnel to account for GFP in the Government APSR; and
- reach an agreement with DCMA-Fort Worth on how to implement the procedures for transitioning property from CAP to GFP.

As a result, the DoD does not know the actual value of the F-35 property and does not have an independent record to verify the contractor-valued Government property of \$2.1 billion for the F-35 Program. Without accurate records, the F-35 Program officials have no visibility over the property and have no metrics to hold the prime contractor accountable for how it manages Government property. The lack of asset visibility restricts the DoD's ability to conduct the necessary checks and balances that ensure the prime contractor is managing and spending F-35 Program funds in the Government's best interest and could impact the DoD's ability to meet its operational readiness goals for the F-35 aircraft. In addition, the lack of a DoD record of GFP for the F-35 Program results in an understatement of either the assets or expenses of DoD financial statements, depending on how the contractor used the property on the contract.

Recommendations

We recommend that the Under Secretary of Defense for Acquisition and Sustainment review the accounting and management actions of the F-35 Program Office for F-35 Program Government property. Based on that review, the Under Secretary of Defense for Acquisition and Sustainment should take appropriate action, if warranted, to hold the necessary officials accountable.

In addition, we recommend that the F-35 Program Executive Officer take the following actions before a decision to begin full-rate production of the F-35 is made:

- ensure that contracting officers identify and resolve GFP list inaccuracies and incomplete or missing entries before attachment to and award of subsequent contracts;
- immediately appoint a component property lead and accountable property officer to work with the DCMA and the prime contractor to verify the existence and completeness of all F-35 property and account for it on the appropriate financial statements;
- direct the component property lead and accountable property officer to reconcile all F-35 Program GFP by performing a complete inventory of delivered property and use the result of the inventory to establish a baseline property record in its APSR; and
- establish and implement procedures for property officials to continuously input the data required by DoD Instruction 5000.64 in the APSR.

Finally, we recommend that the F-35 Program Executive Officer direct F-35 Program Office officials, in coordination with the DCMA and the prime contractor, to take the following actions before a decision to begin full-rate production of the F-35 is made:

- reach an agreement for how to implement the Defense Federal Acquisition Regulation Supplement procedures to transition F-35 Program CAP procured on past contracts to GFP, then ensure the procedures are implemented as required;



Results in Brief

Audit of Management of Government-Owned Property Supporting the F-35 Program

Recommendations (cont'd)

- identify and ensure the delivery of special tooling or special test equipment for accountability and management purposes as required by the Defense Federal Acquisition Regulation Supplement; and
- provide updates for the APSR to account for any GFP resulting from the actions taken for CAP in previous recommendations.

Management Comments and Our Response

The Assistant Secretary of Defense for Sustainment, responding for the Under Secretary of Defense for Acquisition and Sustainment and for the F-35 Program Executive Officer, agreed with our finding and recommendations.

The Assistant Secretary agreed to review the accounting and management actions of the F-35 Program Office for Government property and to hold the necessary officials accountable as appropriate.

The Assistant Secretary also agreed to:

- establish and enforce a process to ensure GFP lists are coordinated during the contract proposal phase;
- appoint a component property lead and accountable property officers in writing;
- manage and account for F-35 property, including accounting for the property on the appropriate financial statements;
- perform a complete inventory of F-35 Program GFP by the end of December 2019; and
- establish and implement procedures to continuously input data into the APSR.

Additionally, the Assistant Secretary agreed to direct F-35 Program officials, in coordination with the DCMA and the prime contractor, to:

- ensure CAP is delivered and transferred to follow on contracts as GFP, in accordance with requirements;
- establish a plan to transition CAP to GFP on past contracts;
- establish a plan to transition special tooling and special test equipment currently identified as CAP to GFP; and
- develop a framework for updating GFP records in the APSR.

Management comments addressed all specifics of the recommendations. Therefore, the recommendations are resolved but will remain open until we review the specific actions taken and the associated documentation.

Please see the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Under Secretary of Defense for Acquisition and Sustainment	None	1.a, 1.b	None
F-35 Program Executive Officer	None	2.a, 2.b, 2.c, 2.d, 3.a, 3.b, 3.c, 3.d	None

Note: The following categories are used to describe agency management’s comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.



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

March 13, 2019

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION
AND SUSTAINMENT
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER
DOD PROGRAM EXECUTIVE OFFICER JOINT STRIKE FIGHTER
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY

SUBJECT: Audit of Management of Government-Owned Property
Supporting the F-35 Program (Report No. DODIG-2019-062)

We are providing this report for your information and use. We conducted this audit in accordance with generally accepted government auditing standards.

We considered the management comments from the Under Secretary of Defense for Acquisition and Sustainment and the F-35 Program Executive Officer on the draft of this report when preparing the final report. Comments received addressed all specifics of the recommendations and conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments.

We appreciate the cooperation and assistance received during the audit. Please direct questions to me at (703) 604-8905, (DSN 664-8905).

A handwritten signature in black ink, reading "Troy M. Meyer".

Troy M. Meyer
Principal Assistant Inspector General
for Audit

Contents

Introduction

Objective.....	1
Background.....	1
Review of Internal Controls.....	4

Finding. DoD Officials Did Not Account for and Manage F-35 Program Government Property..... 5

The DoD Did Not Account for and Manage F-35 Property.....	6
Complete Reliance on Contractor Property Records, No Accountable Personnel, and No Transition of CAP to GFP.....	11
No Independent Government Record of Property for the F-35 Program.....	14
Recommendations, Management Comments, and Our Response.....	15

Appendixes

Appendix A. Scope and Methodology.....	21
Use of Computer-Processed Data.....	23
Prior Coverage.....	23
Appendix B. Potential Monetary Benefits.....	24

Management Comments

Under Secretary of Defense for Acquisition and Sustainment.....	25
---	----

Acronyms and Abbreviations..... 29

Introduction

Objective

We determined whether DoD personnel managed Government property supporting the F-35 Program in accordance with the Federal Acquisition Regulation (FAR), Defense Federal Acquisition Regulation Supplement (DFARS), and DoD Instruction 5000.64 requirements for property accountability.³

Based on a suggestion from the Deputy Chief Financial Officer, Office of the Under Secretary of Defense, Office of the Comptroller, we reviewed the F-35 Program's process to account for Government property.

Background

The F-35 Program is a multiservice and multinational acquisition program to develop and field the next-generation strike fighter aircraft for the Navy, Air Force, Marine Corps, and international partners. The F-35 aircraft will replace or complement a variety of fighter aircraft in the Navy, Air Force, and Marine Corps. The F-35 Program is scheduled to complete operational testing by February 2019 in preparation for a full-rate production decision for the aircraft.

Lockheed Martin Aeronautics was selected in October 2001 as the prime contractor to develop and produce the F-35. The company is responsible for manufacturing the F-35's forward fuselage and wings and assembling the aircraft at its Fort Worth, Texas, facility. In addition to the Fort Worth production warehouse, the prime contractor acquired additional dedicated warehouse space through CEVA Government Services, a subcontractor. Lockheed Martin Aeronautics reported in July 2018 that it delivered over 300 F-35 aircraft to 15 bases worldwide. See Photo for a photograph of the F-35 aircraft in flight.

³ DoD Instruction 5000.64, "Accountability and Management of DoD Equipment and Other Accountable Property," April 27, 2017 (incorporating Change 2 August 31, 2018).



Photo. F-35 Aircraft in Flight
Source: F-35 Program Office.

Accounting for and Managing Government Property

A contractor may use, manufacture, or acquire Government property during the life of a contract. The FAR defines Government property as all property owned or leased by the Government.⁴ Government property includes material, equipment, special tooling (for example, fixtures and molds), special test equipment, and real property. Government property includes both:

1. **Government-Furnished Property (GFP)** - property that is in the possession of, or directly acquired by, the Government and then furnished to the contractor for performance of a contract;⁵ and
2. **Contractor-Acquired Property (CAP)** - property that is acquired, fabricated, or otherwise provided by the contractor for performing a contract.

⁴ FAR Part 52, "Solicitation Provisions and Contract Clauses," Subpart 52.2, "Text of Provisions and Clauses," Clause 52.245-1, "Government Property." F-35 Program Government property managed by the prime contractor is subject to the provisions of FAR Clause 52.245-1.

⁵ GFP is comprised of equipment and material. For the purpose of this report, references to GFP include both government-furnished equipment and government-furnished material.

DoD Components must establish accountable property records.

DoD Instruction 5000.64 requires DoD Components to establish accountable property records as the authoritative

Government source for validating the existence and completeness of property. DoD Components must establish accountable property records in a Government accountable property system of record (APSR) for the following categories:

1. all Government property purchased or otherwise obtained having a unit acquisition cost of \$5,000 or more;
2. as required by law, policy, regulation, or agency direction;
3. capital leases;
4. property of any value with controlled-item indicator codes identifying them as controlled, classified, or sensitive, in accordance with applicable DoD requirements; and
5. property of any value provided to a contractor as GFP.⁶

According to the Office of the Under Secretary of Defense, property categorized as CAP becomes GFP when the contractor delivers the property to the Government. The Government must create its own records after the contractor delivers the property.⁷ DoD Instruction 5000.64 requires that the DoD maintain accountable records for GFP.

In addition, the FAR requires the contractor to create and maintain records of all Government property identified in the contract, including GFP and CAP. The FAR further requires the contractor to maintain a complete, current, auditable record of all property transactions and to provide the Government reasonable access to the contractor's and any subcontractor's premises to evaluate Government property management functions.⁸ The FAR also requires that a complete list of GFP be included in each solicitation where GFP is anticipated and the DFARS requires that the list be included in the contract at solicitation and award.⁹

⁶ CAP is exempt from this requirement. DoDI 5000.64 states, "Accountable property records must not be established for CAP until delivery to the DoD has occurred." Capital leases are leases that transfer substantially all the benefits and risks of ownership to the lessee.

⁷ Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, "GFP (Government Furnished Property) and CAP (Contractor Acquired Property) Basics," April 30, 2010.

⁸ FAR Clause 52.245-1.

⁹ FAR Part 45, "Government Property," Subpart 45.2, "Solicitation and Evaluation Procedures," 45.201, "Solicitation." DFARS Procedures, Guidance, and Information Part 245, "Government Property," Subpart 245.1, "General," 245.103-72, "Government-furnished Property Attachments to Solicitations and Awards."

F-35 Program Roles and Responsibilities for Government Property

The F-35 Program Office, directed by the Program Executive Officer, is responsible for managing and overseeing the support functions required to field and maintain the readiness and operational capability of the F-35.¹⁰ In addition, the Program Executive Officer should appoint Government personnel to work together to oversee property accountability (including Government property) for the F-35 Program.

1. The **Component Property Lead** is required to ensure that all Government property acquired for the F-35 Program is managed throughout the property's lifecycle, and
2. The **Accountable Property Officer** is required to establish and maintain the F-35 Program's records for Government property. Accountable Property Officers are also required to establish and maintain the organization's APSR; this includes the requirement for maintaining a complete audit trail and adhering to internal controls.

The Defense Contract Management Agency (DCMA) is required to monitor the prime contractor's performance and management systems for the F-35 Program to ensure that cost, performance, and delivery schedules comply with the terms and conditions of the contract. The DCMA Property Administrator, Fort Worth, is required to oversee, surveil, and audit Government property used on the contract and the prime contractor's property management system.

Review of Internal Controls

DoD Instruction 5010.40 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.¹¹ We identified a lack of internal controls related to the F-35 Program Office's management of and accounting for Government property. F-35 Program Office officials did not establish controls to ensure that the Government maintained a record of Government property for the program, awarded contracts with complete GFP lists, or properly managed CAP, to include appointing property management personnel and transferring CAP to GFP as required, in accordance with the FAR, DFARS, and DoD Instruction 5000.64. We will provide a copy of the report to the senior official responsible for internal controls in the F-35 Program Office.

¹⁰ The Program Executive Officer alternates between the Departments of Navy and Air Force and reports to the Service Acquisition Executive of the opposite Military Service.

¹¹ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding

DoD Officials Did Not Account for and Manage F-35 Program Government Property

DoD officials did not account for and manage F-35 Program Government property, including recording the property in a Government accountable property system of record (APSR), as required. The only record of Government property for the F-35 Program is with the prime contractor and its subcontractor, which valued the 3.45 million pieces of property at \$2.1 billion. Specifically, F-35 Program officials did not:

- maintain a Government record of GFP;
- award contracts with complete GFP lists; and
- coordinate with DCMA officials to execute contracting actions to transition CAP to GFP as required.

This occurred because DoD officials failed to implement procedures and failed to appoint and hold officials responsible to account for and manage Government property for more than 16 years.¹² Specifically, the F-35 Program Office did not:

- follow procedures to establish its APSR; instead officials relied solely on the prime contractor to account for all of the F-35 Program Government property;
- appoint the required Government personnel to account for GFP in the APSR; and
- reach an agreement with DCMA-Fort Worth on how to implement the procedures for transitioning property from CAP to GFP.

As a result, the DoD does not know the actual value of the F-35 property and does not have an independent record to verify the contractor-valued Government property of \$2.1 billion for the F-35 Program. Without accurate records, the F-35 Program officials have no visibility over the property and cannot hold the prime contractor accountable for how it manages Government property. A lack of asset visibility restricts the DoD's ability to conduct the necessary checks and balances that ensure the prime contractor is managing and spending F-35 Program funds in the Government's best interest and could impact the DoD's ability to meet its operational readiness goals for the F-35 aircraft. In addition, the lack of a DoD record of GFP for the F-35 Program understates either the assets or expenses of DoD financial statements, depending on how the contractor used the property on the contract.¹³

¹² DoD Instruction 5000.64, "Accountability and Management of DoD Equipment and Other Accountable Property," first issued August 13, 2002, required the DoD to establish accountable property records.

¹³ GFP can be categorized as government-furnished material or government-furnished equipment. The DoD Financial Management Regulation states that government-furnished material should be recorded as an expense and government-furnished equipment should be recorded as an asset.

The DoD Did Not Account for and Manage F-35 Property

DoD officials did not account for and manage F-35 Program Government property, including recording the property in a Government APSR, as required.

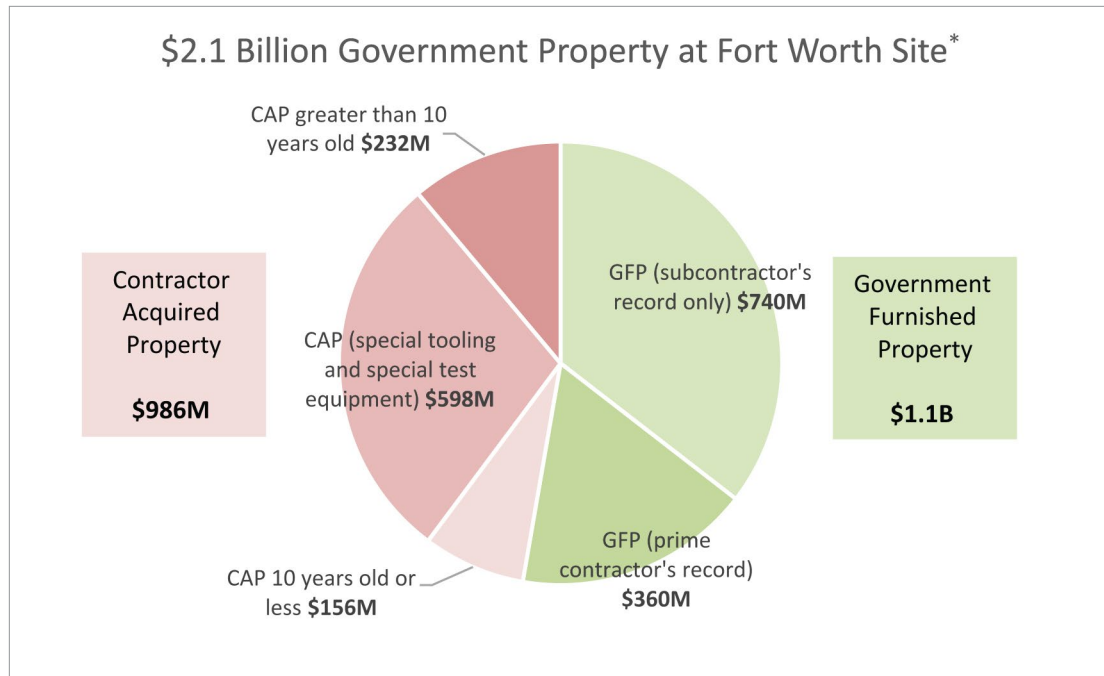
The only record of Government property for the F-35 Program is with the prime contractor and its subcontractor.

The only record of Government property for the F-35 Program is with the prime contractor and its subcontractor, which valued the 3.45 million pieces of property at \$2.1 billion—\$1.1 billion in GFP and \$986 million in CAP. Specifically, F-35 Program officials did not:

- maintain a Government record of GFP;
- award contracts with complete GFP lists; and
- coordinate with DCMA officials to execute contracting actions to transition CAP to GFP.

Figure 1 breaks out all the F-35 Program Government property reported by the prime contractor at both its (and its subcontractor’s) warehouses as of January 2018.

Figure 1. F-35 Program Government Property (January 2018)



Source: F-35 Program Government Property data provided by the prime contractor.

* Totals may not equal \$2.1 billion due to rounding.

F-35 Program Officials Did Not Maintain a Record of Government Property and Relied on Contractor Records

F-35 Program officials did not maintain a record of GFP, as required by DoD Instruction 5000.64. The Instruction requires DoD to establish property records in an APSR as the authoritative Government source for validating the existence and completeness of property.

From August 2002 until October 2017, the F-35 Program Office did not have a record of Government property and did not implement an APSR.

From August 2002 until October 2017, the F-35 Program Office did not comply with the DoD Instruction because it did not have a record of Government property and did not implement an APSR.¹⁴

In October 2017, the F-35 Program Office selected its APSR; however, as of December 2018, F-35 Program Officials had not entered any property records into the system.

The only record of Government property for the F-35 Program is from the prime contractor and its subcontractor. As of January 2018, the prime contractor reported 3.3 million GFP items valued at \$1.1 billion related to the F-35 Program—\$361 million was reported in its own system and \$740 million was reported in its subcontractor’s systems.¹⁵ However, the contractor’s records did not always categorize GFP into sub-categories, such as equipment or material.¹⁶ (Equipment is a tangible asset that is nonexpendable, such as a flight simulator or tools. Material is property that may be consumed or expended through incorporation into an end item, such as an engine or individual parts.) Therefore, for the purposes of this report, we refer to any property that the contractor did not specifically categorize as CAP, as GFP.

DoD Instruction 5000.64 requires DoD officials to establish and maintain an APSR. This instruction requires a minimum of 16 data elements for the Government property record. Because DoD officials did not establish and maintain an APSR, the DoD relied on contractor records. Contractors are not required to follow DoD Instruction 5000.64; instead, contractors must comply with contract clauses that reference the FAR. However, the FAR requires that contractors track only

¹⁴ DoD Instruction 5000.64, “Accountability and Management of DoD Equipment and Other Accountable Property,” first issued August 13, 2002, and newest version issued April 27, 2017 (incorporating Change 2 August 31, 2018), required the DoD to establish accountable property records.

¹⁵ DoDI 5000.64 states that GFP includes equipment, special tools, and special test equipment but does not include consumable or material items or items held as inventory. Because the Government did not maintain records of GFP, we used the contractor’s data as a basis for the quantity and dollar value of GFP for the F-35 Program.

¹⁶ Not all material must be tracked in an APSR. However, since the DoD did not maintain records of GFP and the data the contractor provided did not identify GFP as material or equipment, we refer to any property that was not categorized as CAP, as GFP.

10 data elements compared to the DoD Instruction that requires 16 data elements. The records provided by the prime contractor and its subcontractor did not comply with the FAR requirements for property records to contain specific data.¹⁷ Table 1 shows examples of FAR requirements for the contractor’s records of Government property and the corresponding information missing in the contractor’s records.

Table 1. Missing Information for GFP Records

Data Element Required by the FAR	Contained in Property Records Provided by the Prime Contractor	Contained in F-35 Program Office’s Property System
Name/Part Number/Description	Partially ¹	No
Quantity Received/Issued/On hand	Partially ²	No
Unit Acquisition Cost	Yes	No
Unit of Measure	Yes	No
Contract Number	No	No
Location	Yes	No
Disposition	No	No
Posting Reference/Date of Transaction	No	No

Source: DoD OIG analysis of FAR requirements for GFP records.

¹ Of the 79,658 records we reviewed, 54,798 records contained the “Name,” all 79,658 records contained the “Part Number,” and none of the records contained a “Description.”

² Of the 79,658 records we reviewed, none of the records contained the “Quantity Received,” none of the records contained the “Quantity Issued,” and all 79,658 records contained the “Quantity On hand.”

Contracting Officers Awarded Contracts with Incomplete Lists for GFP

Contracting officers for the F-35 Program did not include complete GFP lists in the six production and sustainment contracts that we reviewed, as required by the FAR and DFARS.¹⁸ The FAR requires that each solicitation include a complete list of GFP (where GFP is anticipated) and the DFARS requires that the contract award include the GFP list.¹⁹ In addition, the FAR and DFARS both require that the GFP list contain the following elements for each category of GFP.

- Item number
- Description

¹⁷ FAR Clause 52.245-1.

¹⁸ Production contracts reviewed: N00019-13-C-0008, N00019-14-C-0002, and N00019-15-C-0003. Sustainment contracts reviewed: N00019-15-C-0031, N00019-15-C-0114, and N00019-17-C-0045. Contracts N00019-C-16-0004 and N00019-14-G-0020 did not have GFP lists at the time of award.

¹⁹ FAR 45.2, “Solicitation and Evaluation Procedures,” Subpart 45.201, “Solicitation.” DFARS Procedures, Guidance, and Information 245.103-72.

- Part or Identification Number
- Quantity
- Unit of Measure
- Whether the property can be used in its current condition with no additional input
- Unit Acquisition Cost²⁰

Of the eight production and sustainment contracts to support the F-35 Program (awarded between 2012 to 2017) that we reviewed, six contracts included at least one GFP list, but the lists did not contain all of the FAR and DFARS-required elements. See Appendix A for a complete discussion of our methodology for choosing these eight contracts. The remaining two contracts did not contain a GFP list.²¹ Table 2 summarizes the GFP lists for the six contracts and whether the lists included the required FAR and DFARS elements.

Table 2. F-35 Contract GFP Lists Did Not Comply With FAR and DFARS Requirements

Contract	No. of GFP Lists for the Contract	No. of Lists that Complied with the FAR and DFARS
N00019-13-C-0008	1	0
N00019-14-C-0002	5	0
N00019-15-C-0003	2	0
N00019-15-C-0031	28	0
N00019-15-C-0114	2	0
N00019-17-C-0045	20	0

Source: DoD OIG analysis of F-35 Contract GFP Lists.

The prime contractor provided input into the GFP lists at the F-35 Program Office's request. However, F-35 Program Office contracting officials did not review the contractor-provided information to ensure it included all the FAR and DFARS data elements required for Government property accountability. For example, one GFP list included six mission simulators as GFP. However, the GFP list did not provide the cost of two of those simulators, which can range in cost between \$8 million and \$100 million per item. Both the FAR and DFARS require this data element since these simulators are serially managed. Because the F-35 Program Office did not have its own records of the GFP it issued to the prime contractor over the life of the contract, the F-35 Program officials could not determine whether the

²⁰ Unit Acquisition Cost was not required for one category of GFP referred to as, "Requisitioned GFP: Reimbursable."

²¹ Eight contracts in the scope of our GFP review were awarded from 2012 to the present; two, N00019-C-16-0004 and N00019-14-G-0020, were excluded from analysis because these contracts did not have a GFP list. Therefore, of the six contracts reviewed, all contained deficient GFP lists.

Decreased asset visibility could impact the DoD's ability to meet its operational readiness goals for the F-35 aircraft.

contractor's records included all GFP in the contractor's possession. Decreased asset visibility over GFP provided to the contractor affects the Government's ability to readily account for and manage

assets, which could impact the DoD's ability to meet its operational readiness goals for the F-35 aircraft.

Transition of CAP to GFP Not Properly Managed

F-35 Program officials did not coordinate with DCMA officials to execute contracting actions to transition CAP to GFP as required by the DFARS. The DFARS requires the Government to transition CAP to GFP as the contractor uses CAP on subsequent contracts or when CAP is special tooling and special test equipment.²² This requirement means that property originally categorized as CAP by the prime contractor remains in that category for only one contract.²³ In addition, the DFARS also requires that property categorized as special tooling or special test equipment be delivered to the Government as soon as the property is identified.²⁴ In certain instances under firm fixed price contracts, the contractor can retain title to property acquired.²⁵

In January 2018 the prime contractor reported that it had \$986 million of CAP. The prime contractor categorized the \$986 million in CAP as follows—\$598 million was special tooling or special test equipment and \$388 million was not designated as special tooling or special test equipment. Of the \$388 million that was not designated as special tooling or special test equipment, \$232 million was from legacy contracts more than 10 years old and \$156 million was from contracts 10 years old or less. The DFARS requires the contracting officer to modify contracts to transition up to \$986 million in CAP, and account for it as GFP in an APSR, in accordance with DoD Instruction, when it is:

- identified as special tooling or special test equipment (for example, aircraft alignment and assembly system), or
- used on more than one contract.

²² Special tooling items are used to produce specific supplies or perform unique functions. Special test equipment is a test unit created to accomplish special-purpose testing during contract performance.

²³ DFARS Procedures, Guidance, and Information Subpart 245.4, "Title to Government Property," 245.402, "Title to Contractor-Acquired Property," 245.402-71, "Delivery of Contractor-Acquired Property."

²⁴ DFARS Procedures, Guidance, and Information 245.402-71.

²⁵ We did not make a determination whether or not the items in the contracts were firm-fixed-price. We evaluated the contractor's property data to determine whether the contractor categorized CAP items as special tooling, special test equipment, or as something other than special tooling or test equipment.

However, as of May 23, 2018, DCMA officials had not modified the contracts to transition any of the prime contractor’s special tooling, special test equipment, or CAP from legacy contracts to subsequent contracts as GFP. One example of special tooling was an electronic mate aircraft alignment and assembly system used to join the F-35 forward, center, and aft fuselage assemblies, as well as the wing assembly. F-35 Program Office contracting officers did not direct the contractor’s delivery of at least 17 assembly systems valued at \$3.7 million each (averaged), to transition the assembly systems to GFP as required. One example of legacy CAP is an aircraft test article first identified on contract in 2002. F-35 Program Office contracting officers did not direct the contractor’s delivery of at least three aircraft test articles valued at \$53.5 million each (averaged), to transition these assets to GFP as required.

Complete Reliance on Contractor Property Records, No Accountable Personnel, and No Transition of CAP to GFP

DoD officials failed to implement procedures and failed to appoint and hold officials responsible to account for and manage Government property for more than 16 years. Specifically, the F-35 Program Office did not:

- follow procedures to establish its APSR instead of relying solely on the prime contractor to account for all of the F-35 Program Government property;
- appoint the required Government personnel to account for GFP in the APSR; and
- reach an agreement with DCMA-Fort Worth on how to implement the procedures for transitioning property from CAP to GFP.

Reliance on Contractor Property Records

The F-35 Program Office did not maintain its own records for Government property. Specifically, the F-35 Program and DCMA officials instead relied on the prime contractor to account for the \$2.1 billion in contractor-valued Government property.

A property official at DCMA-Fort Worth stated that the DCMA had no way to verify the property records provided by the prime contractor. According to the DCMA property official, the DCMA relies on the prime contractor to extract Government property information from the prime contractor’s property system and provide the DCMA the information. The DCMA property official further stated that, in the past, the DCMA had access to the

A property official at DCMA-Fort Worth stated that the DCMA had no way to verify the property records provided by the prime contractor.

prime contractor's property system, but it no longer had access because the DCMA property official felt the prime contractor could more readily navigate its own property system and provide the Government property inventory information to the DCMA.

Another DCMA official at Fort Worth stated that the DCMA had not transitioned CAP to GFP, instead leaving it in the control of the prime contractor. The DCMA official explained that once the GFP transfer was complete, the item would no longer be on the contractor's property record, and since there is no government APSR, the F-35 Program Office would lose visibility over the property completely. Based on the contractor-value of Government property and the magnitude of the F-35 Program, the Under Secretary of Defense for Acquisition and Sustainment should review the accounting and management actions of the F-35 Program Office for F-35 Program Government property. Based on that review, the Under Secretary of Defense for Acquisition and Sustainment should take appropriate action, if warranted, to hold the F-35 Program officials accountable. In addition, the F-35 Program Executive Office should ensure that contracting officers identify and resolve GFP list inaccuracies and incomplete or missing entries before attachment to and award of subsequent contracts.

Appointment of Government Personnel to Critical Property Accountability Positions is Needed

F-35 Program officials did not appoint personnel to critical property accountability positions, as required by DoD Instruction 5000.64. Specifically, the instruction requires DoD Component heads to appoint a component property lead and an accountable property officer to oversee critical property administration functions.²⁶ Since 2002, DoD Instruction 5000.64 required the appointment of an accountable property officer; the April 2017 update added the requirement to appoint a component property lead. A component property lead ensures all accountable Government property acquired through purchase, capital lease, donation, or otherwise obtained to be managed throughout its lifecycle. The component property lead also ensures that primary accountable property officers are strategically placed and appointed as needed. Accountable property officers establish and maintain the organization's accountable property and financial records for Government property, regardless of whether the property is in the individual's or DoD Component's immediate control or possession. The F-35 Program Office's Director of Program Operations stated that he planned to have the component property lead and accountable property officer

²⁶ DoD Instruction 5000.64, "Accountability and Management of DoD Equipment and Other Accountable Property," April 27, 2017 (incorporating Change 2 August 31, 2018), requires the accountable property officer to be appointed, which has been a requirement for this instruction since its inception in 2002. The 2017 version of the instruction is the first that requires the component property lead.

appointment letters approved by the end of March 2018. However, as of December 2018, the Director had not appointed either a component property lead or an accountable property officer.

The F-35 Program Office did not appoint required personnel to perform property accountability throughout the life of the program. To maintain effective property accountability and for financial reporting purposes, the F-35 Program officials, through the component property lead and accountable property officers, must

The F-35 Program Office did not appoint required personnel to perform property accountability throughout the life of the program.

establish and maintain records and accountability for Government property of any value furnished to contractors as GFP. The F-35 Program officials should immediately appoint, in writing, a component property lead and an accountable property officer to work with the DCMA and the prime contractor to verify the existence and completeness of all F-35 property and account for it on the appropriate financial statements. Before the F-35 Program Office makes a decision to begin full-rate production of the F-35, the component property lead and accountable property officer should reconcile all F-35 Program GFP by performing a complete inventory of delivered property and use the result of the inventory to establish a baseline property record in its APSR. Officials should also establish and implement procedures for property officials to continuously input the data required by DoD Instruction 5000.64 in the APSR.

The DoD Needs to Ensure That CAP is Transitioned to GFP

The F-35 Program Office and DCMA-Fort Worth did not reach an agreement on how to implement the procedures to:

- transition CAP to GFP from original contracts to subsequent contracts, and
- inspect, deliver, and accept special tooling and special test equipment.

Consequently, the F-35 Program Office and the DCMA failed to transition up to \$986 million of program property from CAP to GFP.

F-35 Program contracting officials stated that DCMA contracting officers should oversee the prime contractor's full compliance with DFARS requirements related to the delivery of CAP from prime contractor control to Government control, and then issue the property on subsequent contracts as GFP. DCMA officials stated that they were aware of the requirement to deliver CAP from the prime contractor's control to the F-35 Program Office's control, and then issue the CAP on subsequent contracts as GFP.

However, the DCMA officials stated they did not deliver CAP as required because DCMA and F-35 Program officials did not establish property acceptance procedures for the F-35 Program and an APSR. For example, a contracting official at DCMA-Fort Worth, stated that DCMA personnel could not perform a reasonable inspection to accept F-35 equipment, including special tooling and special test equipment, because the F-35 Program officials had not developed the inspection criteria for older items or items that did not conform to normal delivery standards in terms of quality and function. The DCMA contracting official further stated that the DCMA researched how other programs have handled transferring older, unique equipment with no existing quality requirements but could not find any program comparable to the scale of operations of the F-35 Program. In addition, the DCMA contracting official stated that, because of the quantity of Government property, an effort of this magnitude would negatively affect the F-35 Program's mission and operational readiness because operations would need to pause while inspections were ongoing. Another DCMA official at Fort Worth stated that DCMA officials did not accept CAP as GFP because once the CAP transitioned to GFP the F-35 Program Office would have no visibility over the GFP because it did not have an APSR.

Before the F-35 Program Office makes a decision to begin full-rate production of the F-35, F-35 Program officials, in coordination with the DCMA, should first reach an agreement for how to implement processes and procedures to transition F-35 Program CAP to GFP from original contracts to subsequent contracts in accordance with the DFARS. After reaching agreement, F-35 Program officials, in coordination with the DCMA, should ensure the CAP procured on past contracts is transitioned to GFP on contracting actions as required by the DFARS. Additionally, F-35 officials should also coordinate with DCMA officials and the prime contractor to identify and ensure the required delivery of special tooling and special test equipment for accountability and management purposes as required by the DFARS. Finally, DCMA officials should coordinate with the F-35 Program Office to provide updates for the APSR for any GFP resulting from the actions taken for CAP in previous recommendations.

No Independent Government Record of Property for the F-35 Program

The DoD does not know the actual value of the F-35 property and does not have an independent record to verify contractor-valued Government property of \$2.1 billion for the F-35 Program. Without records, the F-35 Program officials have no

The DoD does not know the actual value of the F-35 property and does not have an independent record to verify contractor-valued Government property of \$2.1 billion for the F-35 Program.

visibility over their property and cannot hold the prime contractor accountable for how it manages Government property, including property losses. For example, the DoD had no independent record to verify reported property losses that the prime contractor self-reported as more than \$271 million in Government property losses.²⁷ A lack of asset visibility restricts the DoD's ability to conduct the necessary checks and balances that ensure the prime contractor is managing and spending F-35 Program funds in the Government's best interest and could impact the DoD's ability to meet its operational readiness goals for the F-35 aircraft.

In addition, the lack of a DoD record of GFP for the F-35 Program understates either the assets or expenses of DoD financial statements, depending on how the contractor used the property on the contract. GFP can be categorized as government-furnished material or government-furnished equipment. Material is property that may be consumed or expended through incorporation into an end item, such as an engine or individual parts. Equipment is a tangible asset that is nonexpendable, such as a flight simulator or tools. The DoD Financial Management Regulation states that Government-furnished material should be recorded as an expense and Government-furnished equipment should be recorded as an asset.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Under Secretary of Defense for Acquisition and Sustainment:

- a. Review the accounting and management actions of the F-35 Program Office for F-35 Program Government property.**

Office of the Under Secretary of Defense for Acquisition and Sustainment Comments

The Assistant Secretary of Defense for Sustainment, responding for the Under Secretary of Defense for Acquisition and Sustainment, agreed with the recommendation, stating that the Under Secretary will perform a review of the accounting and management actions of the F-35 Program Office for F-35 Program Government property to identify improvements for property accountability.

²⁷ When we refer to "losses," we mean the prime contractor's total record of self-reported property losses, disposals, excess, and obsolete items. All of these categories represent an economic loss to the DoD that it cannot effectively verify in the absence of its own property records. The prime contractor could not provide a complete universe of loss data because some records were archived over the life of the F-35 Program. The oldest loss data was from 2004.

Our Response

Comments from the Assistant Secretary addressed the recommendation; therefore, the recommendation is resolved. The recommendation will remain open until we review documentation showing the results of the Under Secretary's review.

- b. Take appropriate action, if warranted, to hold the necessary officials accountable.**

Office of the Under Secretary of Defense for Acquisition and Sustainment Comments

The Assistant Secretary agreed with the recommendation, stating that the Under Secretary will discuss our findings with the F-35 Program Office and take actions to hold the necessary F-35 Program officials accountable, as appropriate.

Our Response

Comments from the Assistant Secretary addressed the recommendation; therefore, the recommendation is resolved. The recommendation will remain open until we receive documentation on the specific actions taken by the Under Secretary to discuss our findings with the F-35 Program Office and the results of the accountability determination.

Recommendation 2

We recommend that the F-35 Program Executive Officer:

- a. Ensure that contracting officers identify and resolve government-furnished property list inaccuracies and incomplete or missing entries before attachment to and award of subsequent contracts.**

F-35 Program Office Comments

The Assistant Secretary of Defense for Sustainment, responding for the F-35 Program Executive Officer, agreed with the recommendation, stating that the F-35 Program Executive Officer will establish and enforce a process to ensure that GFP lists are coordinated and properly captured at the beginning of the proposal phase.

Our Response

Comments from the Assistant Secretary addressed the recommendation; therefore, the recommendation is resolved. The recommendation will remain open until we have reviewed a copy of the GFP list compliance process that the F-35 Program Office implements and contract documentation that shows the results of the implemented process.

- b. Immediately appoint, in writing, a Component Property Lead and Accountable Property Officers to work with the Defense Contract Management Agency and the prime contractor to verify the existence and completeness of all F-35 property and account for the property on the appropriate financial statements.**

F-35 Program Office Comments

The Assistant Secretary agreed with the recommendation stating that the F-35 Program Executive Officer will appoint a component property lead and accountable property officers in writing and work with the appropriate Government agencies and contractors to manage and account for F-35 property, including accounting for the property on the appropriate financial statements. In addition, the Assistant Secretary stated that the component property lead position over the F-35 Program may be appointed at the level of the Office of the Under Secretary of Defense for Acquisition and Sustainment.

Our Response

Comments from the Assistant Secretary addressed the recommendation; therefore, the recommendation is resolved. The recommendation will remain open until we have reviewed copies of the appointment letters for the component property lead and accountable property officers and determine that the letters identify the officials' responsibilities for managing and accounting for F-35 property. We will also review the financial data that shows that the F-35 Program Office accounts for the property as either an asset or an expense, as appropriate.

- c. Before the F-35 Program Office makes a decision to begin full-rate production of the F-35, the component property lead and accountable property officer should reconcile all F-35 Program Government-furnished property by performing a complete inventory of delivered property and use the result of the inventory to establish a baseline property record in its accountable property system of record.**

F-35 Program Office Comments

The Assistant Secretary agreed to perform a complete inventory of government property but did not agree to complete the inventory before the full-rate production decision for the F-35. The Assistant Secretary stated that corrective actions are underway and will be completed by December 31, 2019, and that these actions will occur at the same time as the implementation of the F-35 Program APSR.

Our Response

Comments from the Assistant Secretary addressed the recommendation with the understanding that the inventory may not be completed before a decision is made for full-rate production of the F-35. Based on the Assistant Secretary's planned corrective actions, the recommendation is resolved, but will remain open until we have reviewed the documentation that shows the completed baseline inventory and the documentation showing that the inventory is in the APSR.

- d. Establish and implement procedures for property officials to continuously input the data required by DoD Instruction 5000.64 in its accountable property system of record.**

F-35 Program Office Comments

The Assistant Secretary agreed with the recommendation, stating that the F-35 Program Office is coordinating with the contractor to obtain property data and is developing procedures to ensure that all property records are continuously updated in the APSR.

Our Response

Comments from the Assistant Secretary addressed the recommendation; therefore, the recommendation is resolved. The recommendation will remain open until we have reviewed a copy of the procedures implemented for continuously inputting data into the APSR.

Recommendation 3

We recommend that the F-35 Program Executive Officer direct F-35 Program Office officials, in coordination with the Defense Contract Management Agency and the prime contractor, to take the following actions before a decision to begin full-rate production of the F-35 is made:

- a. First, reach agreement for how to implement processes and procedures to transition F-35 Program contractor-acquired property to Government-furnished property from original contracts to subsequent contracts in accordance with the Defense Federal Acquisition Regulation Supplement.**

F-35 Program Office Comments

The Assistant Secretary of Defense for Sustainment, responding for the F-35 Program Executive Officer, agreed with the recommendation, stating that the F-35 Program Office will work with the DCMA to ensure that CAP is delivered and transferred as GFP as required. Additionally, the Assistant Secretary stated

that the F-35 Program Office will direct the contractor to produce an enterprise-wide property acceptance plan that will identify the most efficient methods for implementing this process.

Our Response

Comments from the Assistant Secretary addressed the recommendation; therefore, the recommendation is resolved. The recommendation will remain open until we have reviewed a copy of the agreement between the F-35 Program Office and the DCMA for how CAP will be transitioned to GFP.

- b. Upon completion of Recommendation 3.a, ensure contractor-acquired property procured on past contracts is transitioned to Government-furnished property on contracting actions as required by the Defense Federal Acquisition Regulation Supplement.**

F-35 Program Office Comments

The Assistant Secretary agreed with the recommendation, stating that the F-35 Program Office will develop a plan for transitioning CAP to GFP on past contracts.

Our Response

Comments from the Assistant Secretary addressed the recommendation; therefore, the recommendation is resolved. The recommendation will remain open until we have reviewed documentation showing that CAP was transitioned to GFP from past F-35 contracts.

- c. Upon completion of Recommendation 3.a, ensure the required delivery of contractor-acquired property identified as special tooling or special test equipment for accountability and management purposes as required by the Defense Federal Acquisition Regulation Supplement.**

F-35 Program Office Comments

The Assistant Secretary agreed with the recommendation, stating that the F-35 Program Office will develop a plan for transitioning special tooling and special test equipment currently identified as CAP to GFP.

Our Response

Comments from the Assistant Secretary addressed the recommendation; therefore, the recommendation is resolved. The recommendation will remain open until we have reviewed documentation showing that special tooling and special test equipment currently identified as CAP was transitioned to GFP.

- d. Provide updates for the accountable property system of record for any Government-furnished property resulting from the actions taken for contractor-acquired property in the previous Recommendations.**

F-35 Program Office Comments

The Assistant Secretary agreed with the recommendation, stating that the F-35 Program Office is developing a framework for updating GFP records within the APSR. Additionally, the Assistant Secretary stated that the F-35 Program Office already requires the prime contractor to provide data to ensure all assets are included in the APSR.

Our Response

Comments from the Assistant Secretary addressed the recommendation; therefore, the recommendation is resolved. The recommendation will remain open until we have reviewed documentation detailing the framework for updating the APSR for GFP.

Appendix A

Scope and Methodology

We conducted this performance audit from October 2017 through January 2019 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

To determine whether DoD personnel managed Government property supporting the F-35 Program in accordance with the FAR, DFARS, and DoD Instruction 5000.64 requirements for property accountability, we conducted site visits to the F-35 Program Office in Arlington, Virginia, and the F-35 prime contractor's production facility in Fort Worth, Texas. In addition, we conducted interviews with personnel from the following organizations.

- Defense Procurement and Acquisition Policy, Alexandria, Virginia
- F-35 Program Office, Arlington, Virginia
 - Program Executive Office
 - Government Property Office
 - Contracting Office
 - Finance and Financial Improvement and Audit Readiness Office
- Defense Contract Management Agency, Fort Worth, Texas
 - Property Administration Office
 - Contracting Office
- Lockheed Martin Aeronautics, Fort Worth, Texas
- CEVA Government Services, Fort Worth, Texas

We identified policies, procedures, and practices used by the F-35 Program Office and the DCMA through reviewing the following guidance.

- FAR Part 45, "Government Property"
- FAR 52.245-1, "Government Property," January 2017
- DFARS 252.211-7000, "Acquisition Streamlining," revised June 7, 2016
- DFARS 252.245-7001, "Tagging, Labeling, and Marking of Government-Furnished Property," revised September 23, 2016
- DFARS Procedures, Guidance, and Information 245.103-72, "GFP Attachments to Solicitations and Awards," revised March 23, 2018

- DFARS Procedures, Guidance, and Information 245.4, “Title to Government Property,” revised August 2, 2016
- DoD Instruction 5000.64, “Accountability and Management of DoD Equipment and Other Accountable Property,” April 27, 2017
- DoD Instruction 8320.04, “IUID Standards for Tangible Personal Property,” September 3, 2015
- DoD Manual 4140.01, Volume 1, “DoD Supply Chain Materiel Management Procedures: Operational Requirements,” February 10, 2014
- DoD Manual 4140.01, Volume 9, “DoD Supply Chain Materiel Management Procedures: Materiel Programs,” October 17, 2016
- “Guidebook for Contract Property Administration,” December 2014
- F-35 Lightning II Program Charter, Revision 2, March 2015

We reviewed available inventory documentation to determine whether F-35 Program Office and DCMA personnel managed F-35 Government property at the prime contractor’s Fort Worth, Texas, production facility. In January 2018 we obtained and reviewed an inventory list of 3.45 million pieces of F-35 Government property valued at \$2.1 billion held by the prime contractor at its production facility and its subcontractor’s site in Fort Worth, Texas. The inventory records were from the contractors’ property management systems. The F-35 Program Office did not have inventory records for us to compare with the prime contractor’s inventory. However, we did evaluate the prime contractor’s inventory records to determine which categories of Government property were accounted for by the prime contractor. Furthermore, we identified and reviewed the processes and procedures used by the DCMA to oversee the prime contractor’s management and accounting of the F-35 Government property. Finally, we obtained and evaluated the prime contractor’s loss and disposal data for Government property, as of March 2018, valued at \$271 million. This loss and disposal data represents Government property that has been lost, stolen, destroyed, or damaged, is obsolete or scrap, or has been disposed of since 2004.

Evaluation of GFP Lists

During the audit, a DCMA Fort Worth official provided us a list of 25 F-35 Program production and sustainment contracts. We discussed these contracts with F-35 Program officials to identify which contracts covered a significant portion of the F-35 Program. Based on those discussions, the total number of contracts, and because GFP list requirements changed in 2012, the audit team chose to evaluate the last 5 years of GFP lists, resulting in eight remaining contracts to evaluate. We selected these eight F-35 contracts (awarded between 2012 to 2017)

and reviewed the GFP lists associated with the contracts for completeness, as required by FAR and DFARS. Six of eight contracts included at least one GFP list. The remaining two contracts did not contain a GFP list.²⁸

The DFARS identified different reporting requirements for different categories of GFP until 2016. For example, one category of GFP, requisitioned reimbursable GFP, did not require the “Type Designator” data field filled on a contract list, but another category, non-serialized scheduled GFP, did require that data field. If the list attached to the contract identified which category of GFP was included, the team evaluated the list against the appropriate category’s requirements. If the list did not identify which specific category of GFP was included, we could not evaluate the list against the DFARS requirements. However, the DFARS required the lists for all GFP, regardless of the category, to include the item number, description, marking instrument, national stock number, nomenclature, part or identification number, quantity, unit of measure, and use as-is. Therefore, we determined whether the uncategorized lists met these “universal requirements.”

In 2016, GFP categories were consolidated into serially managed and non-serially managed items; each category has its own requirements. Contract N00019-17-C-0045 was the only contract awarded after 2016 that had GFP lists that the team evaluated. The team evaluated those GFP lists against the specific requirements for the category cited on the lists.

Use of Computer-Processed Data

We used data from the F-35 prime contractor’s property management systems to perform this audit. The data contained lists of CAP and GFP and required no additional processing. We did not test the accuracy and completeness of the F-35 Program Office’s record of GFP because the DoD did not maintain GFP property records in an APSR. For this report, we used the contractor’s Government property data to categorize and quantify the contractor’s reported universe of F-35 Program Government property, identify whether the contractor’s data contained all of the required FAR fields, provide background information, and estimate potential monetary benefits. However, we did not assess the accuracy of the contractor records. If our recommendations are implemented, the DoD will identify the quantity and dollar value of GFP. The DoD’s lack of GFP records did not impact the reliability of our conclusions, as discussed in the report.

Prior Coverage

During the last 5 years, we did not identify any audit reports issued that related to our audit objective.

²⁸ Production contracts reviewed: N00019-13-C-0008, N00019-14-C-0002, and N00019-15-C-0003. Sustainment contracts reviewed: N00019-15-C-0031, N00019-15-C-0114, and N00019-17-C-0045. Contracts N00019-C-16-0004 and N00019-14-G-0020 did not have GFP lists at the time of award.

Appendix B

Potential Monetary Benefits

Recommendation	Type of Benefit	Amount of Benefit	Account
2.c, 3.b, 3.c, 3.d	Questioned Costs	\$2,087,515,481	Multiple contracts will be impacted

Management Comments

Under Secretary of Defense for Acquisition and Sustainment



ACQUISITION
AND SUSTAINMENT

THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

MAR 07 2019

MEMORANDUM FOR PROGRAM DIRECTOR, READINESS AND GLOBAL
OPERATIONS, OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Response to DoDIG Draft Report, "Management of Government-Owned Property
Supporting the F-35 Program," Project No. D2018-D000AJ-0032.000

Thank you for the opportunity to review the DoDIG Draft Report, "Management of
Government-Owned Property Supporting the F-35 Program," Project No. D2018-D000AJ-
0032.000. I concur with the response and recommendations as written.


Ellen M. Lord

Under Secretary of Defense for Acquisition and Sustainment (cont'd)



SUSTAINMENT

ASSISTANT SECRETARY OF DEFENSE
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

MAR - 1 2019

MEMORANDUM FOR PROGRAM DIRECTOR, READINESS AND GLOBAL OPERATIONS, OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Response to DoDIG Draft Report, "Management of Government-Owned Property Supporting the F-35 Program," Project No. D2018-D000AJ-0032.000

As requested, I am providing responses to the general content and recommendations contained in the subject report.

RECOMMENDATION 1: We recommend that the Under Secretary of Defense for Acquisition and Sustainment:

- a. Review the accounting and management actions of the F-35 Program Office for F-35 Program Government property.

DoD RESPONSE: Concur. The Under Secretary of Defense for Acquisition and Sustainment will perform a review of the F-35 Joint Program Office's (JPO's) accounting and management actions for F-35 Program Government property to drive property accountability practice improvements.

- b. Take appropriate action, if warranted, to hold the necessary officials accountable.

DoD RESPONSE: Concur. The Under Secretary of Defense for Acquisition and Sustainment will discuss the DoD Inspector General's findings with the JPO and take actions to hold the necessary officials accountable as deemed appropriate.

RECOMMENDATION 2: We recommend that the F-35 Program Executive Officer:

- a. Ensure that contracting officers identify and resolve government furnished property list inaccuracies and incomplete or missing entries before attachment to and award of subsequent contracts.

JPO RESPONSE: Concur. The F-35 Program Executive Officer will establish and enforce a process to ensure government furnish property (GFP) lists are coordinated and properly captured at the front end of the proposal phase.

- b. Appoint, in writing, Component Property Lead and Accountable Property Officers immediately to work with the Defense Contract Management Agency and the prime contractor to verify the existence and completeness of all F-35 property and account for it on the appropriate financial statements.

Under Secretary of Defense for Acquisition and Sustainment (cont'd)

JPO RESPONSE: Concur. The JPO will appoint a Component Property Lead and Accountable Property Officers in writing and will work with the appropriate government agencies and contractors to manage F-35 property and account for it, including on the appropriate financial statements. The Component Property Lead may be established through a decision memorandum by the Under Secretary of Defense for Acquisition and Sustainment; should that decision be delegated to the JPO, the program will then appoint a Component Property Lead.

- c. Before the F-35 Program Office makes a decision to begin full-rate production of the F-35, the component property lead and accountable property officer should reconcile all F-35 Program Government-furnished property by performing a complete inventory of delivered property and use the result of the inventory to establish a baseline property record in its accountable property system of record.

JPO RESPONSE: Concur with following caveats. Physical inventories at all sites are ongoing and will continue and expect completion end of calendar year 2019. This effort is underway but will not be complete before full rate production. Corrective actions for Lot 12 forward are in process and should be completed prior to a full rate production decision. These actions will be in concert with the stand-up of the F-35 Program Accountable Property System of Record (APSR). Baselineing the F-35 Program government-furnished property inventory for property acquired prior to Lot 12 will require a lengthy plan of action that includes obtaining information from the contractor property management systems and subcontractors and reconciling against physical inventories and review of contracts.

- d. Establish and implement procedures for property officials to continuously input the data required by DoD Instruction 5000.64 in its accountable property system of record.

JPO RESPONSE: Concur. The JPO is in the process of securing data from the contractor and identifying interfaces needed in order to make sure that all the records in the APSR are properly updated with life cycle events.

RECOMMENDATION 3: We recommend that the F-35 Program Executive Officer direct F-35 Program Office officials, in coordination with the Defense Contract Management Agency and the prime contractor, to take the following actions before a decision to begin full-rate production of the F-35 is made:

- a. First, reach agreement for how to implement processes and procedures to transition F-35 Program contractor-acquired property to Government furnished property from original contracts to subsequent contracts in accordance with the Defense Federal Acquisition Regulation Supplement.

JPO RESPONSE: Concur. The JPO will work with Defense Contract Management Agency to ensure that Contractor-Acquired Property (CAP) is delivered and transferred to follow on contracts as GFP following current policy direction at the appropriate time. The JPO will direct the contractor to produce an enterprise wide DD250 (acceptance)

Under Secretary of Defense for Acquisition and Sustainment (cont'd)

plan per their contract and in accordance to contractual requirements in order for the JPO to determine the best way to execute this action.

- b. Upon completion of Recommendation 3.a, ensure contractor-acquired property procured on past contracts is transitioned to Government furnished property on contracting actions as required by the Defense Federal Acquisition Regulation Supplement.

JPO RESPONSE: Concur. A plan will be established to transition CAP to follow on contracts as GFP at the appropriate time.

- c. Upon completion of Recommendation 3.a, ensure the required delivery of contractor-acquired property identified as special tooling or special test equipment for accountability and management purposes as required by the Defense Federal Acquisition Regulation Supplement.

JPO RESPONSE: Concur. A plan will be established to transition special tooling and special test equipment CAP to follow on contracts as GFP at the appropriate time.

- d. Provide updates for the accountable property system of record for any Government-furnished property resulting from the actions taken for contractor-acquired property in the previous Recommendations.

JPO RESPONSE: Concur. Once the JPO has the APSR (DPAS) populated, and with all the interfaces required, that the proper framework will be established across the F-35 enterprise to include updates. There are currently Contract Data Requirements Lists on contract that require the contractor to provide data that will be uploaded to DPAS to ensure all assets are being captured.



Robert H. McMahon

Acronyms and Abbreviations

- APSR** Accountable Property System of Record
- CAP** Contactor-acquired Property
- DCMA** Defense Contract Management Agency
- DFARS** Defense Federal Acquisition Regulation Supplement
- FAR** Federal Acquisition Regulation
- GFP** Government-Furnished Property



Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

Whistleblower Protection safeguards DoD employees against retaliation for protected disclosures that expose possible waste, fraud, and abuse in government programs. For more information, please visit the Whistleblower webpage at <http://www.dodig.mil/Components/Administrative-Investigations/Whistleblower-Reprisal-Investigations/Whistleblower-Reprisal/> or contact the Whistleblower Protection Coordinator at Whistleblowerprotectioncoordinator@dodig.mil

For more information about DoD OIG reports or activities, please contact us:

Congressional Liaison

703.604.8324

Media Contact

public.affairs@dodig.mil; 703.604.8324

DoD OIG Mailing Lists

www.dodig.mil/Mailing-Lists/

Twitter

www.twitter.com/DoD_IG

DoD Hotline

www.dodig.mil/hotline



DEPARTMENT OF DEFENSE | OFFICE OF INSPECTOR GENERAL

4800 Mark Center Drive
Alexandria, Virginia 22350-1500
www.dodig.mil
Defense Hotline 1.800.424.9098

