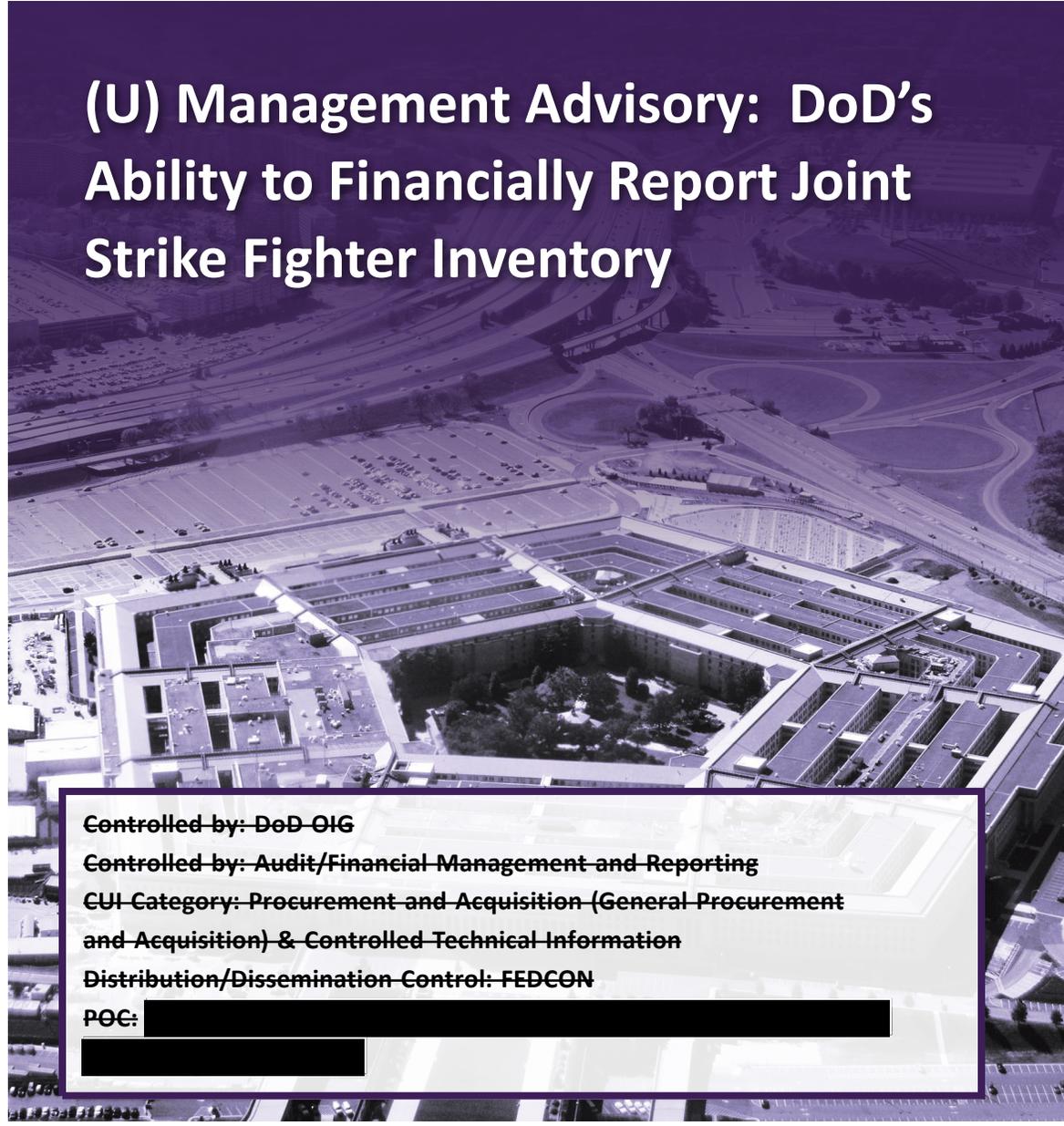


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INSPECTOR GENERAL

U.S. Department of Defense

JULY 21, 2023



(U) Management Advisory: DoD's Ability to Financially Report Joint Strike Fighter Inventory

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

July 21, 2023

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION
 AND SUSTAINMENT
 UNDER SECRETARY OF DEFENSE (COMPTROLLER)
 ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT
 AND COMPTROLLER)
 ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT
 AND COMPTROLLER)
 PROGRAM EXECUTIVE OFFICER OF THE F-35 JOINT PROGRAM OFFICE
 AUDITOR GENERAL, DEPARTMENT OF THE NAVY
 AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: (U) Management Advisory: DoD's Ability to Financially Report Joint Strike Fighter Inventory (Report No. DODIG-2023-096)

(U) The purpose of this management advisory is to report on issues related to the accounting and reporting of F-35 Joint Strike Fighter (JSF) Program inventory, collected during the DoD Agency-Wide Financial Statements audit. During the audit, the Department of Defense Office of Inspector General (DoD OIG) found that the F-35 JSF Program Office did not have a valid population of Joint Strike Fighter inventory. In addition, we reported on the DoD's plan for transferring the management, planning, and execution of sustainment activities to the Secretary of the Navy and the Secretary of the Air Force in accordance with the National Defense Authorization Act for FY 2022.

(U) During our audit, we found that the F-35 JSF Program Office did not have a valid population of JSF inventory. Our test determined that 41 (19 percent) of the 217 part numbers we reviewed had at least one existence or completeness error. In addition, officials from the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, (OUSD[C]/CFO) officials did not determine how the DoD should financially report JSF inventory, and the DoD did not report any values in the FY 2022 financial statements. Furthermore, an inaccurate and incomplete asset universe could have a negative operational impact on the program and may lead to uninformed logistical and budgetary decisions, as well as potential material misstatements on the financial statements. We conducted the work on this advisory with integrity, objectivity, and independence as required by the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Federal Offices of Inspector General.

(U) We provided a draft copy of this management advisory to DoD management and requested written comments on the findings and recommendations. We considered management's comments on the draft and included comments in the final advisory.

(U) This management advisory contains seven recommendations that we consider resolved and open. The Office of the Under Secretary of Defense (Acquisition and Sustainment) (USD[A&S]) and (OUSD[C]/CFO), agreed to address all the recommendations

(U) presented in the report. As described in the Recommendations, Management Comments, and Our Response section of this report, we will close the recommendations when you provide us documentation showing that all agreed-upon actions to implement the recommendations are completed. Please provide us, within 90 days, your response concerning specific actions in process or completed on the recommendations. Send your response to either [REDACTED] if unclassified or [REDACTED] if classified SECRET. If you have any questions or would like to meet to discuss the audit, please contact me [REDACTED]. We appreciate the cooperation and assistance received during the conduct of our audit, which resulted in this advisory.

FOR THE INSPECTOR GENERAL:



Lorin T. Venable, CPA
Assistant Inspector General for Audit
Financial Management and Reporting

(U) Background

(U) The F-35 Joint Strike Fighter Program

(U) The F-35 Joint Strike Fighter (JSF) Program is a multi-Service and multinational program. It is the single largest defense program with an estimated total lifecycle cost of \$1.7 trillion.

(U) The DoD plans to procure 2,470 F-35 aircraft at an estimated total acquisition cost of approximately \$400 billion. From FY 2021 through FY 2023 the Navy, Marine Corps, and Air Force plan to procure a total of 242 aircraft at an estimated cost of \$35.6 billion. In addition, the DoD estimates the sustainment of the aircraft will cost approximately \$1.3 trillion. The DoD's sustainment effort for the F-35 aircraft is a large and complex undertaking involving many stakeholders. Two key stakeholders are squadrons and maintenance depots. A squadron has F-35 aircraft assigned for operational use. Maintenance depots have F-35 engines or components for repair. F-35 squadrons and the maintenance depots conduct maintenance using a two-level maintenance concept to sustain aircraft operations.

(U) The F-35 JSF Program Office, led by the Program Executive Officer, is responsible for the total life cycle management of the F-35 JSF Program, including coordination of program objectives, requirements, schedules, and budgets. F-35 JSF Program officials meet the United States and foreign partner operational requirements with a Performance Based Logistics contract to enable customers to purchase F-35 sustainment support, including sustainment supply support. Specifically, Lockheed Martin and Pratt & Whitney are the primary contractors and suppliers of the air system and propulsion system respectively, and are responsible for the management and distribution of JSF inventory.¹

(~~CUI~~) [REDACTED]

¹ (U) Inventory for the purposes of this review includes spare parts and equipment, not the aircraft and uninstalled aircraft engines.

² (U) Lightning Support Center was formally called the Hybrid Product Support Integrator.

(U)

(U) Financial Reporting and Management of JSF Inventory

(U) The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO), is responsible for the reporting of JSF inventory on the DoD Agency-Wide Financial Statements. The DoD is responsible for the sustainment activities, including the management of JSF spare parts for all aircraft owned by the services and foreign partners. The Department of the Navy and the Department of the Air Force report their aircraft and uninstalled engines on their financial statements.

(U) Multiple systems manage JSF inventory, including the F-35 JSF Program Office Lightning II Support Equipment Management System, and Lockheed Martin systems including the Autonomic Logistic Information System (ALIS), System Analysis Program (SAP), and Maximo. ALIS includes the F-35 supply tool that both the government and Lockheed Martin personnel use to manage JSF spare parts inventory. Lightning II Support Equipment Management System is the inventory management system for government owned support equipment. Lockheed Martin and Pratt & Whitney use SAP to manage JSF spare part inventory.

(U) The DoD OIG has identified the F-35 JSF Program as a material weakness on the Report on Internal Control over Financial Reporting in the DoD Agency-Wide Financial statements since 2019.³ Specifically, the DoD has not reported any inventory amount since the program's inception in 2006. The report stated that the DoD was unable to properly account for, manage, or record program assets, including JSF spare parts and equipment, in a financial management system. Additionally, the DoD did not report on its FY 2019 financial statements any of the JSF inventory. The DoD continued to not report F-35 JSF Program property on its FY 2022 financial statements. As a result, the DoD OIG re-issued the F-35 JSF Program material weakness in FY 2022.

(U) We initiated this subject review to perform testing of the DoD Agency-Wide Financial statement assets and to the extent possible, evaluate the remediation efforts recommended in DODIG-2019-062 (2019 DoD OIG report).⁴ The 2019

³ (U) A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

⁴ (U) Report No. DODIG-2019-062, "Audit of Management of Government-Owned Property Supporting the F-35 Program," March 13, 2019.

(U) DoD OIG report on the F-35 JSF Program Office's management of Government property showed that DoD officials did not account for or manage government property in an APSR as required by standards and criteria. The F-35 JSF Program Office established the Defense Property Accountability System (DPAS) as the APSR for JSF accountable property during the audit. In addition, the F-35 JSF Program Office requires Lockheed Martin to provide a quarterly Contract Data Requirements List (CDRL) compiled with data from ALIS and SAP.⁵ F-35 JSF Program officials used the CDRL to populate DPAS. Complicating the DoD's financial reporting efforts, the National Defense Authorization Act for FY 2022 requires the F-35 JSF Program Office to transfer all functions related to the management, planning, and execution of sustainment activities to the Secretary of the Navy and the Secretary of the Air Force no later than October 1, 2027. The Act also requires the F-35 JSF Program Office to transfer all program acquisition functions to the Secretary of the Navy and the Secretary of the Air Force by October 1, 2029.

(U) During the Financial Improvement and Audit Remediation governance meeting on March 10, 2023 the USD(C)/CFO discussed their preferred course of action for the reporting of JSF inventory. The preferred reporting structure will have different DoD Services and agencies report JSF inventory depending on the function of the inventory. The reporting entities would include the Department of the Navy, Department of the Air Force, Defense Logistics Agency, and the Office of the USD(C)/CFO (OUSD[C]/CFO). The challenges of this reporting structure include the upfront time and cost for dividing the inventory by function and it may change how the partners pay into the pool. Additionally, the potential reporting entities will have to determine an APSR to report the JSF inventory.

⁵ (U) A CDRL is a list of authorized data requirements for a specific procurement that forms part of a contract.

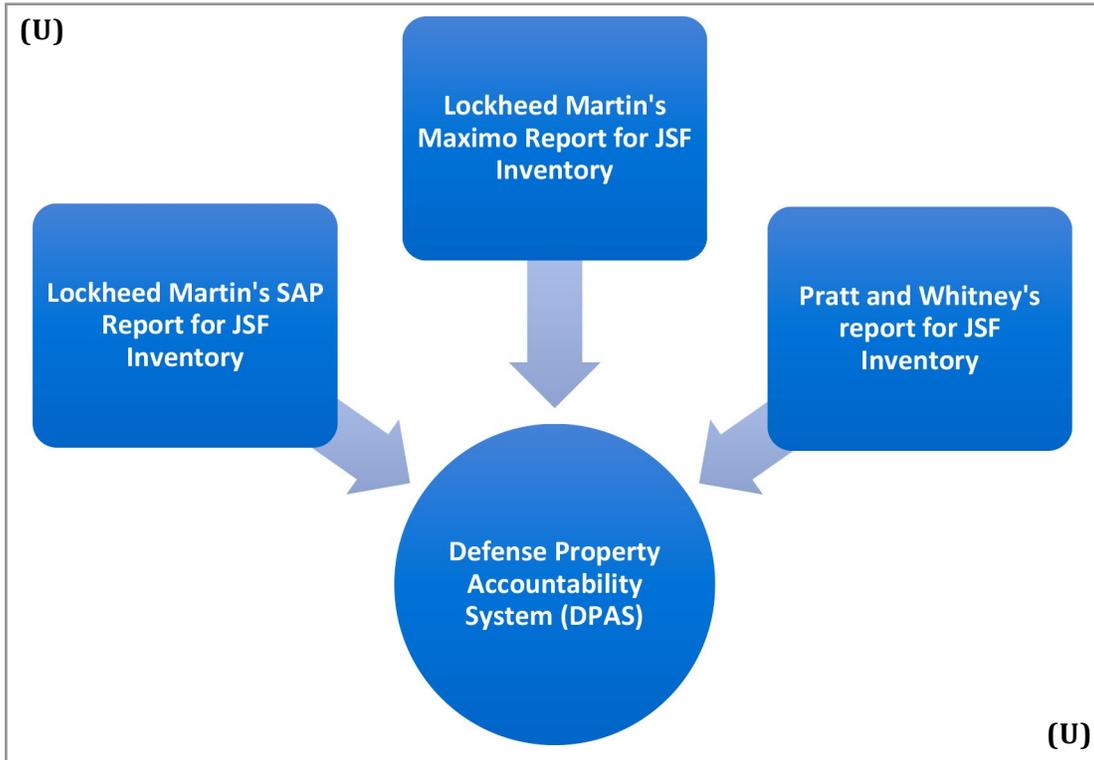
(U) The F-35 JSF Program Office Did Not Have a Valid Population of JSF Inventory

(U) As of July 2022, F-35 JSF Program Office officials could not identify or report a complete or valid population of JSF inventory in a timely manner. This occurred because officials did not have processes or procedures to collect all of the information necessary to accurately report the number and value of JSF inventory on the DoD Agency-Wide financial statements. F-35 JSF Program officials stated that the F-35 JSF Program was set up in the early 2000s as a Total System Performance Responsibility effort, which resulted in less than the traditional level of government oversight and did not include financial reporting requirements.⁶ In addition, F-35 JSF Program officials did not have the capability to report any JSF information in a Government APSR. Since the DoD did not financially report JSF inventory, the omission caused a material misstatement on the DoD Agency-Wide Financial Statements.

(U) F-35 JSF Program officials identified the DPAS as the APSR to maintain JSF program equipment, support equipment, contractor-acquired property, and Government-furnished equipment and material. F-35 JSF Program officials started to manually input inventory data into DPAS in FY 2021 using information Lockheed Martin provided. However, the DPAS program office identified incompatibilities between the data inputted manually and DPAS. As of July 2022, F-35 JSF Program officials were no longer using the manual input process. F-35 JSF Program officials did not identify when they would be able to update DPAS; however, they still planned to manually upload data from multiple sources until an automated solution was developed. Figure 1 below identifies the data sources that F-35 JSF Program officials plan to use to manually populate DPAS.

⁶ (U) According to the F-35 JSF Program Office, the Total System Performance Responsibility was designed to foster an environment for the Government and contractor team to gain efficiencies by identifying redundant or unnecessary practices, eliminating those practices, and using commercial practices to replace or enhance the acquisition process.

(U) Figure 1. Data Sources Identified to Develop the Population of F-35 JSF Program Inventory



Source: F-35 JSF Program officials.

(U) Although F-35 JSF Program officials identified sources necessary to populate JSF inventory into DPAS, they did not validate the accuracy or completeness of the data from these sources. The F-35 JSF Program officials stated that the result of the Total System Performance Responsibility effort involved less ownership of traditional programmatic aspects, such as the data rights. Specifically, F-35 JSF Program officials acknowledged that data from the Lightning II Support Equipment Management System and Lockheed Martin’s Maximo Report for JSF Assets were inaccurate and incomplete and not available in a timely manner. In addition, F-35 JSF Program officials did not use inventory data from Pratt & Whitney’s SAP system. As a result, F-35 JSF Program officials were unable to provide an accurate or complete population of JSF inventory in a timely manner in response to our request in July 2022.

(U) DoD OIG Review of JSF Inventory Data Required by the F-35 JSF Program Office

(U) The 2019 DoD OIG Report focused on the DoD’s management of Government property that supported the F-35 JSF Program. The report stated that DoD officials did not account for or manage Government property in an APSR as required by

(U) standards and criteria. In response to recommendations made in the report, F-35 JSF Program officials incorporated a CDRL into the F-35 sustainment contract that required Lockheed Martin to provide a list of GSP inventory on a quarterly basis and include information necessary for financial reporting. The F-35 JSF Program Office updated DPAS using the quarterly CDRL data that Lockheed Martin compiled from ALIS and Lockheed Martin’s SAP.

(U) We reviewed the GSP inventory list that was included in the December 2021 and March 2022 CDRLs as a part of the FY 2022 Agency-Wide Financial Statements audit to determine whether F-35 JSF Program officials could support the existence and completeness of the inventory. Our review determined that the asset list was incomplete. For example, we performed existence testing on a nonstatistical sample of 217 part numbers at four locations:

- (U) Eglin Air Force Base, Florida;
- (U) Lockheed Martin Remote Depot Supply Facility, Jacksonville, Florida;
- (U) Marine Corps Air Station Beaufort South Carolina; and
- (U) Defense Logistics Agency distribution facilities, Jacksonville Naval Air Station, Florida.

(U) Our test determined that 41 of the 217 part numbers (19 percent) we reviewed had at least one existence or completeness error.⁷ The Table identifies the number of part numbers tested and the number of errors for the four locations.

(U) Table. GSP Inventory Data Discrepancy by Location

(U)	Location	Part Numbers Tested	Number of Errors
	Eglin Air Force Base	85	22
	Lockheed Martin Remote Depot Facility	32	1
	Marine Corps Air Station Beaufort	50	11
	Defense Logistics Agency Distribution	50	7
	Total	217	41

Source: The DoD OIG.

(U) These errors occurred because F-35 JSF Program officials did not design or implement effective internal controls to:

- (U) ensure all receipt and issue transactions represent supported changes to ALIS. F-35 JSF Program officials process “Null Receipt” and “Null Issue” transactions to make changes to the quantity, condition codes,

⁷ (U) The percent applies only to the 217 sampled part numbers.

(U) or serial numbers to inventory in ALIS.⁸ F-35 JSF Program officials may use “Null Receipt” and “Null Issue” transactions to make unsupported adjustments and correct errors that may occur during the receiving, issuing, or counting inventory. We observed 22 part numbers with potentially unsupported transactions.

- (U) include all organizations that hold JSF inventory in ALIS. The CDRL asset list uses DoD Activity Address Codes (DoDAACs) to identify organizations. Each organization has a unique DoDAAC. A parent DoDAAC can have multiple sub DoDAACs in ALIS. According to Lockheed Martin officials, the CDRL asset list can identify only the parent DoDAACs at a location, despite multiple DoDAACs holding JSF inventory at the same location. We observed eight part numbers that were assigned to the wrong DoDAAC in the CDRL asset list.
- (U) use proper units of measure in ALIS. F-35 JSF Program officials stated that ALIS only reported inventory at one unit of measure. For example, a spool of wire recorded at a count of one in ALIS would not be decreased until the wire was completely consumed. As a result, inventory may not have been properly reported at their actual measurement or quantity. We observed one part number that was being held at an improper quantity due to a unit of measure issue.
- (U) include inventory that have been shipped to maintenance commands and vendors. For example, the CDRL asset list did not report inventory shipped out of the warehouse and logistics center, inventory awaiting shipment, or in-transit inventory. As a result, the CDRL asset list would not represent a complete list of GSP inventory. For example, we observed two part numbers that were in a shipping status and not in ALIS and would not be captured in the CDRL if it were pulled that day.
- (U) receive data quarterly and in a timely manner to meet financial reporting requirements. Lockheed Martin officials stated that the CDRL asset list was manually compiled over a period of time from multiple JSF inventory location data. As a result, the CDRL asset list that the F-35 JSF Program officials used did not represent an accurate population of inventory as of a specific date. We observed 11 part numbers that had errors due to the CDRL asset list being compiled over multiple days.

(U) In addition, to the internal control errors discussed above, we also determined inventory held by foreign partners that were lost or damaged and could not be removed from the CDRL asset list. According to F-35 JSF Program officials, foreign

⁸ (CUI) [REDACTED]

(U) partners were not authorized to request decreases to their inventory held onsite because they could not sign DD Form 200 “Financial Liability Investigation of Property Loss.”

(U) Without proper policies and instructions for the recording of GSP inventory, the asset population will continue to be incomplete and inaccurate. As a result, F-35 JSF Program officials were unable to report an accurate GSP asset balance in the APSR. Lockheed Martin is required to maintain accurate and auditable records and provide key supporting documentation for Government-Furnished Property according to the sustainment contract. However, Lockheed Martin did not categorize GSP inventory as Government-Furnished Property. In addition, F-35 JSF Program officials may not have oversight of inventory that are not reported in ALIS. The Under Secretary of Defense for Acquisition and Sustainment (USD[A&S]) in coordination with the USD(C)/CFO should ensure that the F-35 JSF Program Office:

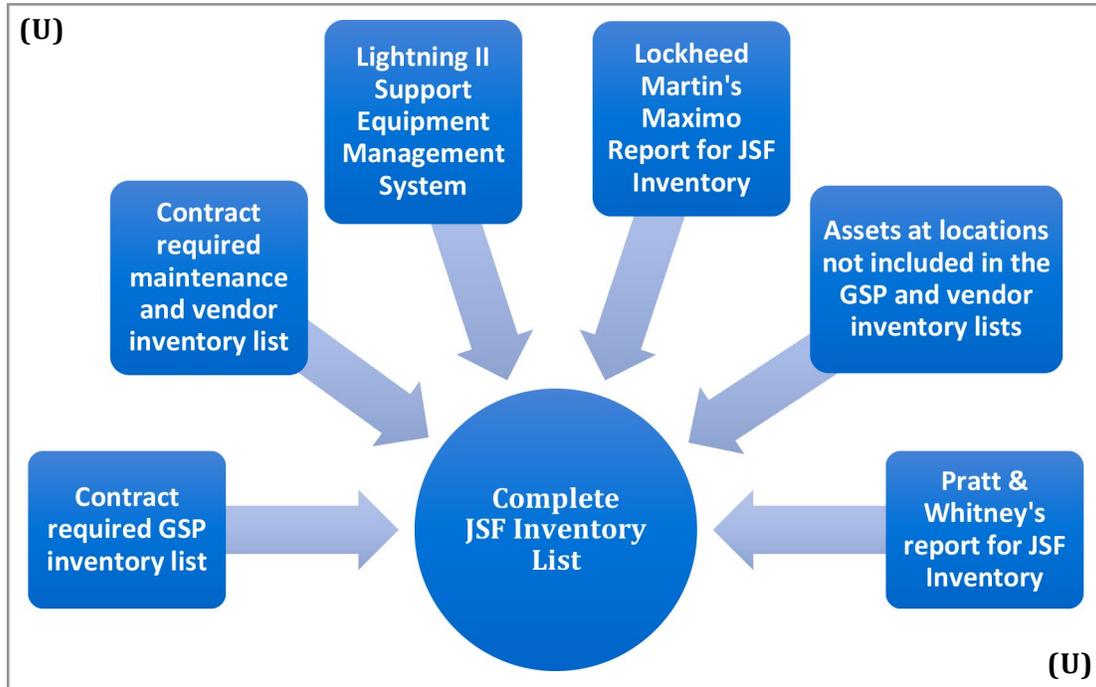
- (U) develops and implements policies and procedures to ensure the data used to populate the APSR is complete, accurate, and includes all information required for financial reporting;
- (U) develops and implements policies and procedures to ensure that Lockheed Martin is meeting all contract requirements for the delivery of inventory information to meet all financial reporting standards and reach an agreement on GSP inventory being Government-Furnished Property or not;
- (U) develops and implements a process to ensure the F-35 JSF Program Office enforces current contracting mechanisms to ensure all financial reporting standards are met, due to the significant reliance on Lockheed Martin to provide and maintain inventory data; and
- (U) develops, for future contracts, clear expectations regarding the contractor’s responsibilities for meeting financial reporting standards and clearly linked contracting mechanisms to hold the contractor accountable if financial reporting requirements are not met.

(U) Process to Determine a Complete Population of JSF Inventory

(U) In July 2022, we requested that F-35 JSF Program officials provide the total number and value of JSF inventory. The officials responded that they could not provide a total population of JSF inventory. They also stated that the F-35 JSF Program was established as a Total System Performance Responsibility effort, meaning the contractors managed the JSF inventory, including inventory accountability and testing.

(U) Based on the response from F-35 JSF Program officials, we asked Lockheed Martin officials what process they would use to provide a complete population of JSF inventory. They stated that they would use multiple sources of data to reconcile the asset information contained in their SAP, which was their primary source for inventory management. Figure 2 identifies the sources that Lockheed Martin officials stated that they would need to reconcile to their SAP.

(U) Figure 2. Sources Needed to Determine the Population of JSF Inventory



Source: The DoD OIG.

(U) Although the SAP is Lockheed Martin’s primary data source for managing JSF inventory, it did not include all of the information necessary for financial reporting. Specifically, Lockheed Martin officials confirmed that the SAP did not include the following information.

- (U) Values for nonserviceable inventory. Maintenance staff identified inventory as nonserviceable and the SAP reported those inventory at their serviceable value until the contractor responsible for repairing the inventory had received and inspected it.
- (U) Fully burdened costs. Lockheed Martin officials identified pricing information for parts included in the CDRL asset list, but they did not always provide the total cost to the DoD for JSF inventory. These costs should include all direct and indirect costs for delivered inventory.

- (U) Inventory in transit. When a location ships inventory, the location personnel remove it from the SAP. The inventory was not reentered into the SAP until another location received it.
- (U) F-35 JSF Program Office inventory in maintenance or subcontractor location. The SAP did not include all inventory issued from the warehouse. For example, the SAP would not include inventory issued to military maintenance organizations or operational units. In addition, the SAP did not include inventory shipped to subcontractors for repair.
- (U) Placed in service date. The SAP did not track the “placed in service date” for depreciable inventory.⁹ Although, the SAP included the date that the DoD received the inventory, it did not include the placed in service date. The placed in service date was necessary to accurately reflect the value of an inventory as it depreciated over time.

(U) The lack of an accurate and complete asset universe could have a negative operational impact on the program and may lead to uninformed logistical and budgetary decisions as well as potential material misstatements on the financial statements. The USD(A&S) should ensure that the F-35 JSF Program Office develops and implements a process to ensure that Lockheed Martin and Pratt & Whitney are meeting contract requirements regarding access and delivery to a complete and accurate population of JSF inventory necessary to meet operational and financial reporting requirements and officials should hold contactors accountable for not meeting contract requirements.

(U) The DoD Did Not Determine or Direct Who Would Report JSF Inventory

(U) OUSD[C]/CFO officials did not determine how the DoD should financially report JSF inventory, and the DoD did not report any values in the FY 2022 financial statements. The DoD OIG identified the F-35 JSF Program as an Agency-Wide material weakness because JSF property was not properly reflected in the FY 2019 DoD financial statements.

(U) OUSD(C)/CFO officials stated that the DoD’s goal in FY 2020 was to record all JSF property within an APSR. However, in FY 2022, the F-35 JSF Program property was still not accounted for or recorded on the DoD’s financial statements. Because of this lack of accountability, the DoD OIG issued an F-35 JSF Program material weakness in FY 2022 for the fourth consecutive year. Specifically, the DoD did not properly account for, manage, or record program inventory in a financial

⁹ (U) Depreciable assets are physical assets used for generating income or profit that have a useful life of more than a year and gradually reduce in value over time.

(U) management system or report all of the F-35 JSF Program inventory on its financial statements. DoD officials stated that they anticipated JSF inventory would remain unaccounted on the FY 2023 DoD financial statements.

(U) According to OUSD(C)/CFO officials, as of November 2021, the OUSD(C)/CFO had developed and drafted several options for reporting the JSF inventory on the DoD financial statements and was obtaining comments from various stakeholders, including the Department of the Navy and Department of the Air Force. Communication of the final determination is pending submission of the transition plan developed by the Under Secretary of Defense for Acquisition and Sustainment (USD[A&S]) and USD(C) in response to a December 2022 Deputy Secretary of Defense Deputy's Management Action Group action item.

(U) The OUSD(C)/CFO planned to evaluate the transition plan and determine its effect on the reporting of JSF inventory, once finalized and issued. The OUSD(C)/CFO also planned to continue conferring with the stakeholders to develop a plan that was most efficient for current operations and the time period following the transition. However, on September 23, 2022, OUSD(A&S) officials provided interim responses to Congress, stating that additional time was required to complete staffing, coordinate with the Secretary of the Navy and the Secretary of the Air Force, and complete a review of the final transition plan.

~~(U)~~ [REDACTED]

(U) The absence of reporting JSF inventory increases the risk of a material misstatement on the DoD Agency-Wide Financial Statements, which could result in an adverse opinion. In addition, delegating financial reporting of JSF inventory to the Department of the Navy and Department of the Air Force before the remediation of the material weakness and inventory issues may result in the DoD developing an additional weakness on the Services' financial statements.

(U) USD(C)/CFO should determine and direct who will be responsible for financial reporting of JSF inventory in the future. Any decision the DoD makes regarding the financial reporting of JSF inventory will impact the existing material weakness, as well as Department of the Navy and Department of the Air Force financial statements. The USD(C)/CFO should determine a means of reporting or disclosing the value of JSF material on the DoD financial statements until a final decision is made and implemented.

(U) Conclusion

(U) Without proper policies and instructions for the recording of JSF inventory or enforcement of current contract requirements, the asset universe will continue to be incomplete and inaccurate. As a result, the USD(C)/CFO is unable to report an accurate JSF asset balance in the APSR and the financial statements. In addition, an inaccurate and incomplete asset universe could have a negative operational impact on the program and may lead to uninformed logistical and budgetary decisions, as well as potential material misstatements on the financial statements. Based on the control deficiencies and the reliance on the Lockheed Martin for inventory management, we may pursue additional reviews of Lockheed Martin oversight of the management of JSF inventory.

(U) Management Comments on the Findings and Our Response

(U) USD(A&S) Comments to the Management Advisory

(U) The USD(A&S) provided the following general comments to the management advisory.

- (U) The Hybrid Product Support Integration office was renamed to the Lightning Support Center.
- (U) Recommendation 1 should be addressed to the Under Secretary of Defense for Acquisition and Sustainment) as the functional and policy lead for the DoD.
- (U) Recommendations for ensuring access to inventory data should be changed to access and delivery.
- (U) Removal of the statement that not addressing the Joint Strike Fighter inventory material weakness may result in an additional material weakness to the Department of the Navy and the Department of the Air Force.

(U) Our Response

(U) We agreed to the recommended changes from the USD(A&S) and have updated the management advisory accordingly with the exception of the removal of the new material weakness language. Upon the Services assuming ownership and control of Joint Strike Fighter inventory, there is potential that additional material weaknesses could be identified.

(U) Recommendations, Management Comments, and Our Response

(U) Recommendation 1

(U) We recommend that the Under Secretary of Defense for Acquisition and Sustainment in coordination with the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, direct the F-35 Joint Strike Fighter Joint Program Office, Program Executive Officer to:

- a. **(U) Coordinate with the Lockheed Martin and Pratt & Whitney to ensure that the U.S. Government has access to a complete and accurate population of Joint Strike Fighter inventory necessary to meet operational and financial reporting requirements.**
- b. **(U) Develop and implement a process to ensure that Lockheed Martin and Pratt & Whitney are meeting contract requirements including access and delivery to a complete and accurate population of Joint Strike Fighter inventory necessary to meet operational and financial reporting requirements and delivery of inventory information to meet all financial reporting standards, similar to the financial information that is reported for Government Furnished Property.**
- c. **(U) Develop and implement a process to ensure the F-35 Joint Strike Fighter Joint Program Office is using contracting mechanisms that are currently in place to ensure all reporting standards are met.**
- d. **(U) Develop and implement a process to ensure the F-35 Joint Strike Fighter Joint Program Office holds the contractor accountable for not meeting contract requirements.**
- e. **(U) Develop, for future contracts, clear expectations regarding the contractor's responsibilities for meeting financial reporting standards and clearly linked contracting mechanisms to hold the contractor accountable if financial reporting requirements are not met.**

(U) USD(A&S) Comments

(U) The Principal Deputy Assistant Secretary of Defense for Sustainment, responding for the USD(A&S), agreed with the five recommendations, stating that they are working together with the OUSD(C)/CFO, F-35 Joint Program Office, and prime contractors to enact these recommendations. They will modify current contracts, including use of the GFP module for asset tracking and visibility, as well as the inclusion of all requisite Federal Acquisition Regulation and Defense Federal Acquisition Regulation Supplement clauses related to asset management.

(U) Our Response

(U) Comments from the Principal Deputy addressed all specifics of the recommendations; therefore, the recommendations are resolved but will remain open. We will close these recommendations once the OUSD(A&S) provides:

- (U) supporting documentation demonstrating that the U.S. Government has access to a complete and accurate population of Joint Strike Fighter Inventory needed to meet operational and financial reporting requirements;
- (U) evidence of an established and implemented process, including a detailed surveillance plan, to ensure that Lockheed Martin and Pratt & Whitney are meeting all current contract requirements.
- (U) evidence of an established and implemented process to ensure the F-35 Joint Program Office is using all contract mechanisms to confirm it receives all required financial information that is necessary for meeting financial reporting standards.
- (U) evidence of an established and implemented process to ensure the F-35 Joint Program Office holds the contractors accountable for not providing a complete and accurate population of inventory necessary for meeting financial reporting requirements.
- (U) supporting documentation that the current and future contracts show clear expectations regarding the contractor's responsibilities for meeting financial reporting standards, which may include delivery of the GFP module.
- (U) a contract and surveillance plan with clearly linked contracting mechanisms to hold the contractors accountable if financial reporting requirements are not met.

(U) Recommendation 2

(U) We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- a. **(U) Coordinate with all stakeholders to develop a plan of action for the accountability and reporting of Joint Strike Fighter inventory that addresses the existing material weakness, as well as the impact it will have on the component level financial statements.**
- b. **(U) Determine a means of reporting or disclosing the value of Joint Strike Fighter material on the DoD financial statements for the FY 2023 financial statements.**

(U) USD(C)/CFO Comments

(U) The Deputy Chief Financial Officer, responding for the USD(C)/CFO, agreed with both recommendations, stating that there is a coordination effort with all stakeholders to develop a plan of action for the accountability and reporting of Joint Strike Fighter inventory that addresses the existing material weakness and impact to component level financial statements and that they will determine a means of reporting or disclosing the value of Joint Strike Fighter material on the DoD financial statements.

(U) Our Response

(U) Comments from the Deputy Chief addressed all specifics of these recommendations; therefore, the recommendations are resolved but will remain open. We will close these recommendations once the OUSD(C)/CFO provides a detailed plan of action to report or disclose the value of Joint Strike Fighter inventory on the DoD financial statements that includes how the component level financial statements will be impacted and OUSD(C)/CFO provide a finalized transition plan and a detailed plan of action on how to report or disclose the value of Joint Strike Fighter inventory on the DoD financial statements.

(U) Management Comments

(U) Under Secretary of Defense for Acquisition and Sustainment



SUSTAINMENT

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

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Response to Department of Defense Office of Inspector General Management Advisory regarding DoD's Ability to Financially Report Joint Strike Fighter Inventory (Project No. D2022-0000FV-0071.002)

We have reviewed your concerns regarding the U. S. Government having access to a complete and accurate population of JSF spares inventory necessary to meet operational and financial reporting requirements. The Office of the Under Secretary of Defense (OUSD) (Acquisition and Sustainment), in coordination with the OUSD (Comptroller), is working with various stakeholders, including the F-35 JSF Program Executive Officer and Joint Program Office, and prime contractors, to improve and implement contracting mechanisms to support financial reporting. We concur that these recommendations are necessary to achieve accurate financial reporting, as well as improving accountability and operational readiness.

I have attached our response to Recommendation 1 and a second attachment with formal comments and administrative/factual corrections. Please direct any questions or comments regarding this response to [REDACTED].

MORANI.STEVE [REDACTED]
N.J. [REDACTED]
Steven J. Morani
Principal Deputy Assistant Secretary of Defense
(Sustainment)

cc:
USD(A&S)

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

Attachment 1. Response to the Recommendation

Recommendation 1

We recommend that the Under Secretary of Defense for Acquisition and Sustainment, DoD in coordination with the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, direct the F-35 Joint Strike Fighter Joint Program Office, Program Executive Officer to:

- a. Coordinate with the Lockheed Martin and Pratt & Whitney to ensure that the U.S. Government has access to a complete and accurate population of Joint Strike Fighter inventory necessary to meet operational and financial reporting requirements.
- b. Develop and implement a process to ensure that Lockheed Martin and Pratt & Whitney are meeting contract requirements including access to a complete and accurate population of Joint Strike Fighter inventory necessary to meet operational and financial reporting requirements and delivery of inventory information to meet all financial reporting standards, similar to the financial information that is reported for Government Furnished Property.
- c. Develop and implement a process to ensure the F-35 Joint Strike Fighter Joint Program Office is using contracting mechanism that are currently in place to ensure all reporting standards are met.
- d. Develop and implement a process to ensure the F-35 Joint Strike Fighter Joint Program Office holds the contractor accountable for not meeting contract requirements.
- e. Develop, for future contracts, clear expectations regarding the contractor's responsibilities for meeting financial reporting standards and clearly linked contracting mechanisms to hold the contractor accountable if financial reporting requirements are not met.

OSD (Acquisition & Sustainment) Response: Concur with the five recommendations regarding access to complete and accurate data; meeting contractual requirements; enforcement of reporting standards and holding the contractor responsible for not meeting contractual requirements in current and future contracts. OSD is working with multiple offices (OSD (C), JPO, prime contractors) to enact these recommendations. Specifically, we are working closely with the F-35 JPO and prime contractors to modify current contracts to include use of the GFP module for asset tracking and visibility as well as the inclusion of all requisite FAR and DFAR clauses related to asset management.

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

Attachment 2. Administrative and Factual Corrections, Formal Comments

OUSD (Acquisition & Sustainment) Formal Comments:

1. Page 5. The Hybrid Product Support Integration (HPSI) office was renamed to the Lightning Support Center. Recommend updating the report to reflect the current office name.
2. Page 11. Italicized text directs Comptroller to take actions. These actions should be assigned to USD A&S as the functional/policy lead for the Department for these matters. The text should be modified to reflect the actual recommendations at the end of the report.
3. Page 14. Italicized text directs Comptroller to take actions. These actions should be assigned to USD A&S as the functional/policy lead for the Department for these matters. The text should be modified to reflect the actual recommendations at the end of the report.
4. Page 16. In the recommendations, the OIG states the vendors should ensure the government has "access" to inventory data. We recommend both "access and delivery" of complete sets of information. One of the contract deliverable reports is a quarterly report on the inventory, which has historically been insufficient. We recommend getting both access to the data and complete and accurate delivered information on property being managed by the vendors. Recommend updating the language to include both "access and delivery."
5. Page 16. DON and DAF both have material weaknesses on Inventory & Related Property which is where the JSF parts would be financially reported. Additionally, there are already JSF findings against the Services. It does not make sense that there would be a new material weakness since there are already material weaknesses for all parties involved. Recommend deleting the statements referring to a "new" material weakness. The material weaknesses should not effectively change until after all assets are financially reported, regardless of where, since this is a Defense wide weakness. At that point, it should be an assessment on implementing processes/controls for reporting.

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE

1 100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

June 7, 2023

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT AND REPORTING, DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Response to Department of Defense Office of Inspector General DRAFT Management Advisory: "DoD's Ability to Financially Report Joint Strike Fighter Inventory," Project No. D2022-0000FV-0071.002

I have reviewed the subject management advisory and my response to the recommendation is attached.

The Office of the Under Secretary of Defense (Comptroller)(OUSD(C)) continues to improve the processes and procedures for financially reporting the Joint Strike fighter (JSF) assets with the objectives of increasing accountability and traceability of inventory, to inform accuracy and transparency of financial reporting.

We have reviewed your concerns regarding the U. S. Government having access to complete and accurate population of JSF inventory necessary to meet operational and financial reporting requirements. The OUSD(C), in coordination with the Office of the Under Secretary of Defense (Acquisition and Sustainment), is working with various stakeholders, including, Program Executive Officer, the F-35 JSF Joint Program Office and Prime Contractors to improve and implement contracting mechanism to support financial reporting. We concur that these recommendations are vital to achieving accurate financial reporting.

Please direct any questions or comments regarding this response to [REDACTED].
[REDACTED].

STEFFENS.THOMA
S.CHARLES: [REDACTED]

Thomas C. Steffens
Deputy Chief Financial Officer

Attachment:
As stated

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer (cont'd)

**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)
RESPONSE TO
DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL
DRAFT MANAGEMENT ADVISORY
“DOD’S ABILITY TO FINANCIALLY REPORT JOINT STRIKE FIGHTER
INVENTORY,” APRIL 27, 2023, PROJECT NO. D2022-0000FV-0071.002**

Recommendation 2: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- a. Coordinate with all stakeholders to develop a plan of action for the accountability and reporting of Joint Strike Fighter inventory that addresses the existing material weakness, as well as the impact it will have on the component level financial statements.
- b. Determine a means of reporting or disclosing the value of Joint Strike Fighter material on the DoD financial statements for the FY 2023 financial statements.

OUSD(C) Response: Concur. The Under Secretary of Defense (Comptroller)(OUSDC) is coordinating with all stakeholders to develop a plan of action for the accountability and reporting of Joint Strike Fighter inventory that addresses the existing material weakness and impact to component level financial statements. Additionally, OUSD(C) will determine a means of reporting or disclosing the value of Joint Strike fighter material on the DoD financial statements.

Attachment

(U) Acronyms and Abbreviations

APSR	Accountable Property System of Record
ALIS	Autonomic Logistics Information Systems
CDRL	Contract Data Requirements List
DPAS	Defense Property Accountability System
GSP	Global Spares Pool
JSF	Joint Strike Fighter
OUSD(A&S)	Office of the Under Secretary of Defense (Acquisition and Sustainment)
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
SAP	System Analysis Program



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