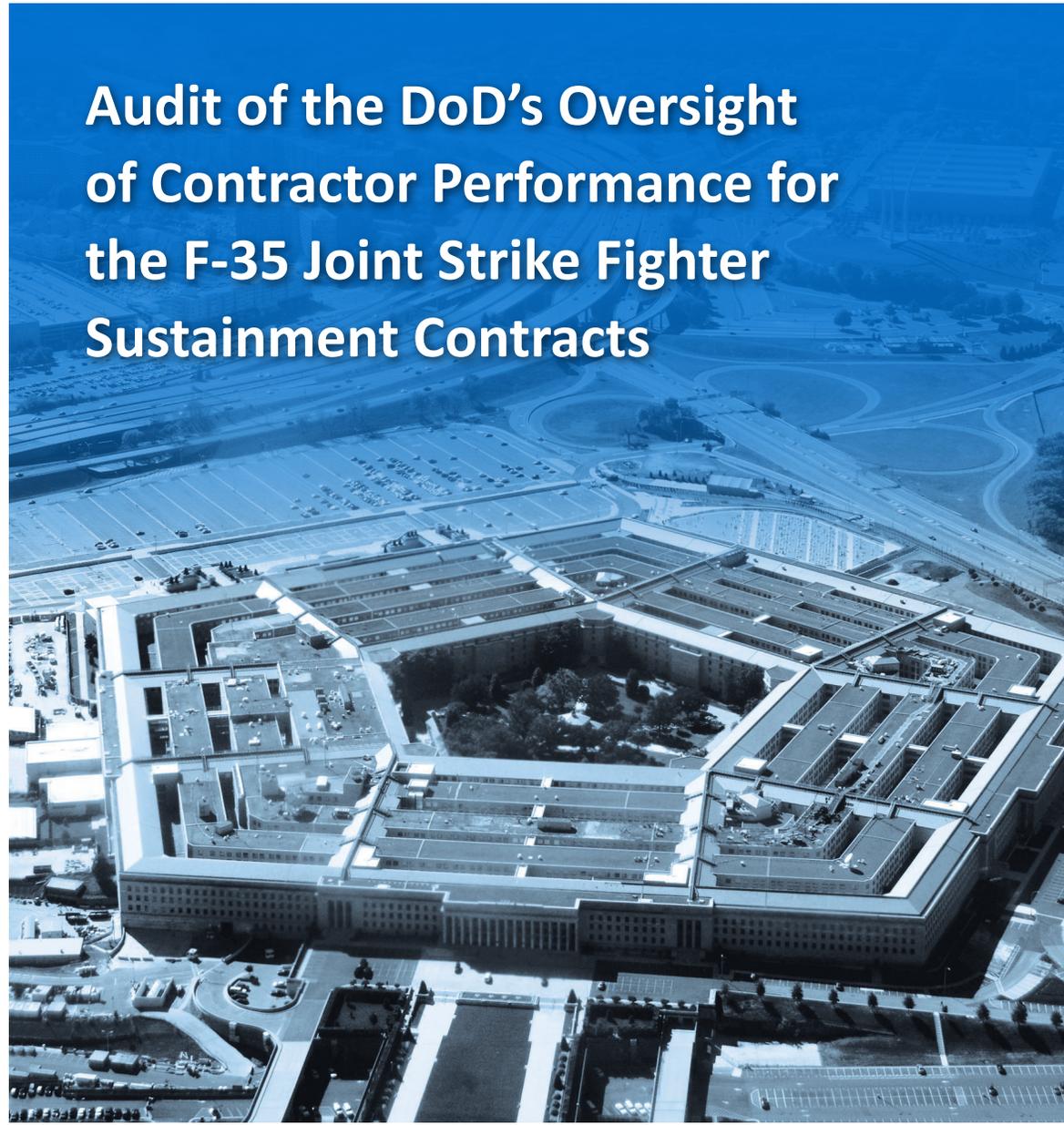




# INSPECTOR GENERAL

*U.S. Department of Defense*

DECEMBER 19, 2025



## Audit of the DoD's Oversight of Contractor Performance for the F-35 Joint Strike Fighter Sustainment Contracts

INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY





# Results in Brief

## *Audit of the DoD's Oversight of Contractor Performance for the F-35 Joint Strike Fighter Sustainment Contracts*

**December 19, 2025**

### **Objective**

The objective of this audit was to assess the DoD's oversight of contractor performance on air vehicle sustainment contracts for the F-35 Joint Strike Fighter (F-35) aircraft.

### **Background**

The F-35 program is the DoD's largest acquisition program with an estimated cost of over \$2 trillion to buy, operate, and sustain the F-35 over its lifetime. The F-35 Joint Program Office (JPO) is responsible for F-35 production and sustainment contracting, as well as maintaining a comprehensive sustainment plan.

### **Finding**

The DoD did not adequately oversee contractor performance on the June 2024 air vehicle sustainment contract. Although the F-35 JPO monitored Lockheed Martin's performance, it did not always hold Lockheed Martin accountable for poor performance related to F-35 sustainment. This occurred because the F-35 JPO did not include aircraft readiness performance or other measurable contract requirements and did not enforce material inspection and government property reporting requirements in the air vehicle sustainment contract. In addition, the F-35 JPO did not effectively use contracting officer's representatives to oversee performance requirements at sites with F-35 aircraft. As a result, by July 1, 2025, the DoD had

### **Finding (cont'd)**

paid Lockheed Martin \$1.7 billion on the June 2024 air vehicle sustainment contract, without economic adjustment, although the Full Mission Capable, Mission Capable, and Air Vehicle Availability rates did not meet the minimum requirements of the Military Services.

### **Recommendations**

We made recommendations to the Under Secretary of Defense for Acquisition and Sustainment and the Program Executive Officer for the F-35 JPO to address the finding in this report. These included recommendations for modifying the contract to include incentive metrics that support the Military Service performance requirements or obtaining a waiver for not including the performance requirements from each Military Service; aligning the contracting officer's representative responsibilities to monitor and report impactful evaluation data on Lockheed Martin's performance; and evaluating contracting officer's representative requirements and completing a workforce study to determine appropriate staffing levels at all bases where F-35 oversight is required.

### **Management Comments and Our Response**

The official Performing the Duties of the Assistant Secretary of Defense for Sustainment, responding for the Under Secretary of Defense for Acquisition and Sustainment and the Program Executive Officer for the F-35 JPO, generally agreed with our recommendations. Of the seven recommendations, six are resolved but remain open, and one is unresolved. We request that the Under Secretary of Defense for Acquisition and Sustainment provide comments on the one unresolved recommendation within 40 days in response to the final report. We will close the six resolved recommendations when management provides documentation to show they have implemented the corrective actions. Please see the Recommendations Table on the next page for the status of the recommendations.

## Recommendations Table

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

Please provide Management Comments by January 28, 2026.

**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** – The DoD OIG verified that the agreed-upon corrective actions were implemented.



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

December 19, 2025

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND SUSTAINMENT  
PROGRAM EXECUTIVE OFFICER FOR THE F-35 JOINT PROGRAM OFFICE**

**SUBJECT: Audit of the DoD's Oversight of Contractor Performance for the F-35 Joint Strike  
Fighter Sustainment Contracts (Report No. DODIG-2026-039)**

This final report provides the results of the DoD Office of Inspector General's audit. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

Of the seven recommendations, this report contains one recommendation that we consider unresolved because the official Performing the Duties of the Assistant Secretary of Defense for Sustainment did not fully address the recommendation presented in the report. Therefore, the recommendation remains unresolved and open. We will track this recommendation until management has agreed to take actions that we determine to be sufficient to meet the intent of the recommendation and management officials submit adequate documentation showing that all agreed-upon actions are completed.

Of the remaining six recommendations, the official Performing the Duties of the Assistant Secretary of Defense for Sustainment agreed to address the recommendations presented in the report. Therefore, we consider the recommendations resolved and open. We will close the recommendations when management officials provide documentation showing that all agreed-upon actions to implement the recommendations are completed.

DoD Instruction 7650.03 requires that recommendations be resolved promptly. Therefore, within 40 days please provide us your response concerning specific actions in process or alternative corrective actions proposed on the recommendations. Send your response to either [REDACTED] if unclassified or [REDACTED] if classified SECRET.

If you have any questions, please contact me at [REDACTED].

A handwritten signature in black ink, appearing to read "Carmen J. Malone", is positioned above the printed name.

Carmen J. Malone  
Assistant Inspector General for Audit  
Acquisition, Contracting, and Sustainment

# Contents

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## Introduction

Objective .....	1
Background .....	1
F-35 Sustainment Contracting and Performance Metrics .....	2
Roles and Responsibilities .....	6

## **Finding. The F-35 Joint Program Office Did Not Adequately Oversee the F-35 Air Vehicle Sustainment Contract**

The Contractor Was Not Always Held Accountable .....	9
The Use of Contractual Requirements and Contracting Officer's Representatives Was Not Effective to Evaluate Contractor Performance .....	11
The Contractor Did Not Meet Performance Requirements .....	18
Recommendations, Management Comments, and Our Response .....	20

## Appendix

Scope and Methodology .....	26
Internal Control Assessment and Compliance .....	28
Use of Computer-Processed Data .....	28
Prior Coverage .....	29

## Management Comments

Official Performing the Duties of the Assistant Secretary of Defense for Sustainment .....	31
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## Acronyms and Abbreviations .....

34

# Introduction

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## Objective

The objective of this audit was to assess the DoD's oversight of contractor performance on air vehicle sustainment (AVS) contracts for the F-35 Joint Strike Fighter (F-35) aircraft.

## Background

As of June 2025, the F-35 program is the DoD's largest acquisition program with an estimated cost of over \$2 trillion to buy, operate, and sustain the F-35 over its lifetime. Acquisition costs are largely made up of development and procurement costs, comprising \$442 billion. Sustainment costs, also referred to as operating and support costs, comprise the other \$1.58 trillion. The program is a joint, multinational program with the Military Services, including the U.S. Air Force, U.S. Navy, U.S. Marine Corps, and seven international partner nations: the United Kingdom, Italy, the Netherlands, Canada, Australia, Denmark, and Norway. The program also includes Foreign Military Sales with 12 countries: Israel, Japan, South Korea, Belgium, Poland, Singapore, Finland, Switzerland, Germany, and the Czech Republic, Greece, and Romania.<sup>1</sup> Figure 1 shows the F-35A, the U.S. Air Force version of the aircraft.



Figure 1. F-35A Aircraft  
Source: The U.S. Air Force.

<sup>1</sup> The Military Services and international partner nations funded the development of the F-35 program, while the Foreign Military Sales customers only purchased and operated F-35 aircraft.

## F-35 Sustainment Contracting and Performance Metrics

### ***Air Vehicle Sustainment Contracts***

The F-35 Joint Program Office (JPO) is responsible for F-35 contracting, including production and sustainment. Lockheed Martin Aeronautics (Lockheed Martin) is the prime contractor for all F-35 variants for both production and air vehicle sustainment support. Air vehicle sustainment support includes the supply chain, logistics system, depot maintenance, and pilot and aircraft maintenance training. As of January 14, 2025, the DoD operates and sustains 462 F-35A, 160 F-35B, and 102 F-35C aircraft.

The F-35 JPO began contracting for the production of the F-35 in 2006 and awarded Lockheed Martin the first stand-alone AVS contract in 2014. On June 28, 2024, the F-35 JPO awarded the most recent AVS contract for \$1.6 billion for contract N00019-24-C-0039 (June 2024 AVS contract), with an initial 6-month period of performance. The contract includes four 1-year option periods beginning in January 2025. However, according to F-35 JPO officials, the F-35 JPO and Lockheed Martin could not agree to terms before the end of the 6-month period of performance. According to F-35 JPO officials, the F-35 JPO and Lockheed Martin could not agree on the profit, fee, incentive fee elements, or performance incentive structure. Therefore, the F-35 JPO awarded Lockheed Martin a \$3.4 billion undefinitized contract action (UCA) modification in December 2024 and definitized the UCA in August 2025.<sup>2</sup> See Table 1 for a list of F-35 AVS contracts and their values.

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<sup>2</sup> A UCA is any contract action for which the terms, specifications, or price are not agreed upon before performance begins. As of August 2025, the total value of contract N00019-24-C-0039 was \$4.9 billion. The total value of the initial 6-month period and the UCA do not equal the actual sum because of rounding.

Table 1. F-35 Air Vehicle Sustainment Contracts

Contract	Award Date	Contract Value (In Billions)
N00019-15-C-0031	November 1, 2014	\$1.8
N00019-15-C-0114*	August 31, 2015	1.7
N00019-17-C-0045	March 1, 2017	1.5
N00019-18-C-1041	April 30, 2018	1.5
N00019-19-C-1022	April 30, 2019	1.2
N00019-20-C-0006	December 30, 2019	1.9
N00019-21-C-0020*	December 31, 2020	8.0
N00019-24-C-0039*	June 28, 2024	4.9
<b>Total</b>		<b>\$22.5</b>

\* Each contract has a different period of performance. For example, these three contracts have periods of performance that span multiple years.

Source: The DoD OIG.

### ***Contract Performance Requirements and Metrics Used on Previous and Current Air Vehicle Sustainment Contracts***

The F-35 program established Service Level Agreements and Performance-Based Arrangements (PBAs) with the Military Services that outline measurable performance requirements for each aircraft variant. The aircraft readiness performance requirements that the Military Services identified are Full Mission Capable (FMC), Mission Capable (MC), and Air Vehicle Availability (AVA).<sup>3</sup> These performance requirements track the ability of the F-35 fleet to complete its required mission. FMC determines how often an aircraft can perform any mission, MC determines how often an aircraft can perform at least one mission, and AVA determines the time the aircraft is active and in an FMC or MC status.

Although the Military Services identified their performance requirements in the PBA, the contract contains the legally binding obligations the contractor must meet. The F-35 JPO included contractual requirements for Lockheed Martin to respond to action requests, provide pilot training, and supply and support flight simulators.<sup>4</sup> In addition, the F-35 JPO generally included performance metrics in the F-35 AVS contracts to incentivize Lockheed Martin's performance.<sup>5</sup> However, Lockheed Martin can only earn the incentive fee if it meets specific,

<sup>3</sup> For this report, we refer to the PBA requirements as performance requirements.

<sup>4</sup> For this report, we refer to these types of contract requirements as other measurable contract requirements.

<sup>5</sup> For this report, we refer to the performance metrics that are associated with a performance incentive fee as incentive metrics.

measurable performance metrics. In addition to FMC, MC, and AVA, the F-35 JPO used the following incentive metrics to determine the amount of the incentive fee Lockheed Martin would receive.

- **No One Left Behind.** This incentive metric tracks whether all F-35 stakeholders receive equal support from the contractor.
- **Customer Wait Time.** This incentive metric tracks how quickly the supply chain can respond to operational demands when an item is not available at a base.
- **Air Vehicle Gross Issue Effectiveness.** This incentive metric measures how effective the base inventory is in supporting operational demands.
- **Supply Rate Mission Capability.** This incentive metric tracks the time an aircraft is degraded from FMC due to outstanding supply requests.
- **First Pass Effectiveness – Timed.** This incentive metric tracks the response time of the supply system.

See Table 2 for the incentive metrics included in each F-35 AVS contract.

Table 2. Incentive Metrics Included in Specific F-35 AVS Contracts

Contract Number	FMC	MC	AVA	No One Left Behind	Customer Wait Time	Gross Issue Effectiveness	Supply Rate Mission Capability	First Pass Effectiveness – Timed
N00019-15-C-0031	X	X	X	X	X	X	X	X
N00019-15-C-0114	✓	X	✓	✓	X	X	X	X
N00019-17-C-0045	✓	X	✓	✓	X	X	X	X
N00019-18-C-1041	✓	✓	✓	✓	✓	✓	X	X
N00019-19-C-1022	✓	✓	X	X	✓	✓	X	X
N00019-20-C-0006	✓	✓	X	✓	✓	✓	X	X
N00019-21-C-0020	✓	X	✓	✓	✓	✓	X	X
N00019-24-C-0039	X	X	X	X	X	✓	X	X
N00019-24-C-0039 (UCA modification)	X	X	X	X	X	X	X	X
N00019-24-C-0039 (Definitization modification)	X	X	X	✓	X	X	✓	✓

**LEGEND**

✓ Incentive Metric Included

X Incentive Metric Not Included

Note: The incentive metrics in each contract may not apply to all aircraft variants.

Source: The DoD OIG.

The June 2024 AVS contract did not provide Lockheed Martin a financial incentive or a disincentive related to meeting the aircraft readiness performance requirements, and the F-35 AVS 2024 UCA did not include any incentive metrics because the F-35 JPO and Lockheed Martin did not agree on the specific incentive metrics to be included. In addition, the August 2025 AVS definitization modification did not include incentive metrics to meet all aircraft readiness performance requirements.

## **Roles and Responsibilities**

### ***The Office of the Under Secretary of Defense for Acquisition and Sustainment***

The Office of the Under Secretary of Defense for Acquisition and Sustainment is the primary office for sustainment of secure, resilient, and preeminent capabilities of the warfighter and international partners. As the Defense Acquisition Executive, the Under Secretary of Defense for Acquisition and Sustainment is responsible for supervising all elements related to acquisition and oversight of specific major defense acquisition programs. For the F-35 program, the Under Secretary is the milestone decision authority, with the authority to approve entry of an acquisition program into the next phase of the acquisition process, and is accountable for cost, schedule, and performance reporting.

### ***Defense Pricing, Contracting, and Acquisition Policy***

The Principal Director for Defense Pricing, Contracting, and Acquisition Policy is responsible for pricing and contracting policy matters across the DoD. Defense Pricing, Contracting, and Acquisition Policy executes this responsibility through updates of the Federal Acquisition Regulation (FAR), Defense Federal Acquisition Regulation Supplement (DFARS), memorandums, and other guidance. For the F-35 program, Defense Pricing, Contracting, and Acquisition Policy performs contract peer reviews for all contract awards over \$1 billion, including the F-35 AVS contracts.

### ***Office of the Deputy Assistant Secretary of Defense for Product Support***

The Deputy Assistant Secretary of Defense for Product Support (DASD[PS]) is responsible for all product support policy matters and provides oversight of program sustainment, affordability, and life-cycle logistics for major weapon system acquisition to ensure sustainability and supportability integration early in the acquisition process. According to Office of the DASD(PS) officials, the DASD(PS) oversees the sustainment strategy and acts as an integration point for F-35 sustainment. Additionally, the DASD(PS) implements guidance from the Defense Acquisition Executive and ensures that the F-35 JPO carries out that guidance.

## ***F-35 Joint Program Office***

The F-35 JPO leads the life-cycle program management of the F-35 program for the Military Services, international partners, and foreign military sales customers; coordinates program objectives, requirements, schedules, and budgets; ensures that F-35 parts are available when needed; and maintains a comprehensive sustainment plan for the F-35 fleet. The F-35 JPO uses contracting officer's representatives (CORs) and the Defense Contract Management Agency (DCMA) to perform a significant portion of the AVS contract oversight. Figure 2 shows the F-35 JPO roles and responsibilities for F-35 AVS contracting and oversight.

*Figure 2. F-35 Joint Program Office Roles and Responsibilities*

<b>Program Executive Officer</b>	<ul style="list-style-type: none"> <li>• Executes and manages programs.</li> </ul>
<b>Product Support Manager</b>	<ul style="list-style-type: none"> <li>• Supports the life cycle of products, develops and executes the F-35 sustainment strategy, develops contract requirements, and collects performance metric data.</li> </ul>
<b>Air Vehicle Program Management Office</b>	<ul style="list-style-type: none"> <li>• Executes air vehicle life-cycle management and gathers and consolidates information for the Procuring Contracting Officer to use in determining the amount the contractor receives based on performance.</li> </ul>
<b>Procuring Contracting Officer</b>	<ul style="list-style-type: none"> <li>• Designates CORs, awards and modifies government contracts, and develops clear and enforceable contract requirements and oversight plans.</li> </ul>

Source: The DoD OIG.

Section 142(b) of the National Defense Authorization Act for FY 2022 requires the transfer of the F-35 sustainment responsibilities from the F-35 JPO to the Departments of the Navy and Air Force to be completed by October 1, 2027. This transfer includes responsibility for all functions related to the management, planning, and execution of sustainment activities for the F-35 program. The Act also requires the F-35 JPO to transfer all program acquisition functions to the Secretary of the Navy and the Secretary of the Air Force by October 1, 2029.<sup>6</sup>

<sup>6</sup> Office of the Under Secretary of Defense for Acquisition and Sustainment, "Optimizing F-35 Program Responsibilities," January 2023, provided Congress information on the DoD's transition plan for F-35 program responsibilities. The January 2023 report included a plan to transition some, but not all, sustainment and acquisition functions by the required timelines.

According to Office of the DASD(PS) officials, the Navy and Air Force will assume responsibility for contracting and oversight of sustainment and become the item managers for F-35 spare parts. As item managers, the Navy and the Air Force will need contractor data related to the existing government-furnished spare parts that are currently available for the F-35 program.<sup>7</sup>

### ***Contracting Officer's Representatives***

The CORs perform oversight at military bases where F-35 supplies and services are received. They are expected to conduct contract surveillance to verify whether the contractor fulfills contract requirements and to document the contractor's performance. The Quality Assurance Surveillance Plan (QASP) requires CORs to use a site-specific surveillance plan that identifies specific areas of oversight, based on the Performance Work Statement (PWS), QASP, and site-specific risks. The Lead COR is responsible for approving the QASP, coordinating COR oversight efforts, and communicating systemic issues to the F-35 JPO Procuring Contracting Officer.

### ***Defense Contract Management Agency***

The F-35 JPO assigned the DCMA as the contract administrator for the June 2024 AVS contract. The F-35 JPO and DCMA established a memorandum of agreement which states that the DCMA will provide surveillance of Lockheed Martin's performance in accordance with contractual requirements, F-35 JPO-mandated activities, DCMA policy, and F-35 JPO program goals. The DCMA also accepts F-35 spare parts that Lockheed Martin is required to provide on the AVS contract. The DCMA's administration office is located at Lockheed Martin's facilities in Fort Worth, Texas.

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<sup>7</sup> Report No. DODIG-2023-096, "Management Advisory: DoD's Ability to Financially Report Joint Strike Fighter Inventory," July 21, 2023, contains additional work on issues related to the accounting and reporting of F-35 inventory.

## Finding

### The F-35 Joint Program Office Did Not Adequately Oversee the F-35 Air Vehicle Sustainment Contract

The DoD did not adequately oversee contractor performance on the June 2024 AVS contract. Although the F-35 JPO monitored Lockheed Martin's performance, it did not always hold Lockheed Martin accountable for poor performance related to F-35 sustainment. This occurred because the F-35 JPO did not include aircraft readiness performance or other measurable contract requirements and did not enforce material inspection and government property reporting requirements in the AVS contract. In addition, the F-35 JPO did not effectively use CORs to oversee performance at sites with F-35 aircraft. As a result, as of July 1, 2025, the DoD paid Lockheed Martin \$1.7 billion on the June 2024 AVS contract, without economic adjustment, although the FMC, MC, and AVA rates did not meet the minimum requirements of the Military Services.

### The Contractor Was Not Always Held Accountable

The F-35 JPO was responsible for holding Lockheed Martin accountable for its performance on the AVS contract. The F-35 JPO used performance data and designated oversight responsibility to the CORs and DCMA to monitor the performance of Lockheed Martin. The F-35 JPO required Lockheed Martin to provide performance data on a quarterly basis. The data included program performance status, execution status, and plans to resolve areas that did not meet contractual requirements. The F-35 JPO used the performance data to determine the incentive fee amount for the Air Vehicle Gross Issue Effectiveness incentive metric from June through December 2024. Lockheed Martin provided updates on performance requirements, including FMC, MC, and AVA; however, the F-35 JPO did not use that data to incentivize Lockheed Martin's performance.

The FAR states that contracting officers are responsible for ensuring performance of all necessary actions for effective contracting and compliance with the terms of the contract.<sup>8</sup> The contracting officers can delegate some responsibilities to monitor the contractor's performance to the CORs and DCMA. The CORs use various tools to monitor the F-35 program. For example, the DoD COR Guidebook states that the QASP is a tool the COR uses to monitor the quality of the services

<sup>8</sup> FAR Part 1, "Federal Acquisition Regulations Systems," Subpart 1.6, "Career Development, Contracting Authority, and Responsibilities," and FAR Part 42, "Contract Administration and Audit Services."

received.<sup>9</sup> The QASP establishes procedures on how the assessment process will be conducted and serves as a checklist for tracking contractor performance. The F-35 AVS QASP also requires the CORs to perform oversight at military bases where the F-35 supplies and services are received. The CORs should also verify that the contractor meets the technical requirements in accordance with the contract terms, conditions, and specifications. The QASP requires the CORs to document findings and contractor nonconformance in monthly COR reports. Of the 24 CORs, 22 (92 percent) completed their monthly COR reports. However, their monthly COR reports did not discuss performance requirements, incentive metrics, or trends. In addition, each COR was responsible for monitoring specific contract line-item numbers and PWS sections.<sup>10</sup> Based on their area of responsibility, each COR should have developed a site-specific surveillance plan to evaluate, document, and report contractor performance. However, 8 (33 percent) of the 24 CORs stated that they did not have a site-specific surveillance plan. This deficiency impacted 10 (63 percent) of the 16 F-35 sites.

In addition, the F-35 JPO delegated some oversight responsibilities to the DCMA. The DCMA provided surveillance of Lockheed Martin's performance in accordance with some contractual requirements. For example, the June 2024 AVS contract

*The DCMA did not have access to inventory data.* required the contractor to provide critical safety parts.<sup>11</sup> As part of the DCMA's oversight, it inspected all critical safety parts for the June 2024 AVS contract to ensure those parts met quality requirements. Additionally, the June 2024 AVS contract included a FAR requirement that Lockheed Martin provide the Government access to F-35 inventory data. However, the DCMA did not have access to inventory data.

Since June 2024, the F-35 JPO, CORs, and DCMA identified that Lockheed Martin did not: (1) meet aircraft readiness requirements, (2) provide complete inventory reports, or (3) include spare parts data in the Government-Furnished Property Module system. However, the CORs and DCMA did not issue corrective action requests because they could only hold Lockheed Martin accountable for the requirements included within the contract. The F-35 JPO either did not include those contract requirements or waived them.

<sup>9</sup> Department of Defense, "Contracting Officer's Representatives Guidebook," October 2022.

<sup>10</sup> A contract line-item number is a unique identifier assigned to specific items or services in a contract.

<sup>11</sup> A critical safety part is an item where a fault could cause a failure resulting in the loss of or serious damage to the aircraft, risk of injury, or loss of life.

## The Use of Contractual Requirements and Contracting Officer's Representatives Was Not Effective to Evaluate Contractor Performance

The DoD did not adequately oversee Lockheed Martin's performance and did not always hold Lockheed Martin accountable for poor AVS performance. This occurred because the F-35 JPO did not include aircraft readiness performance or other measurable contract requirements and did not enforce material inspection and government property reporting requirements in the June 2024 AVS contract. In addition, the F-35 JPO did not effectively use CORs to oversee performance at sites with F-35 aircraft.

### ***Aircraft Readiness Performance Requirements***

The F-35 JPO did not include aircraft readiness performance requirements in the June 2024 AVS contract that were necessary to incentivize and evaluate Lockheed Martin's performance. The Secretary of Defense signed the Joint Strike Fighter Production, Sustainment, and Follow-On Development Memorandum of Understanding with the partner nations to establish a cooperative agreement to meet the requirements of the Military Services and partner nation participants. The Joint Strike Fighter Production, Sustainment, and Follow-On Development Memorandum of Understanding states that each participant will establish sustainment performance outcomes in a PBA, which will be placed on contract unless there is a waiver. The Military Services provide threshold (minimum) and objective (goals) percentages for each performance requirement. The F-35 JPO included these performance requirements as incentive metrics on F-35 AVS contracts prior to June 2024. However, the F-35 JPO did not include any of these performance requirements as contract requirements or incentive metrics on the June 2024 AVS contract or the F-35 AVS 2024 UCA. For example, the F-35 JPO did not include the Navy's FY 2024 AVA threshold (minimum) performance requirement for its deployed F-35 aircraft, which was 70 percent, while its objective (goal) was 90 percent. Additionally, Military Service officials confirmed that they did not waive the aircraft readiness performance requirements identified in the bilateral agreement.

According to an F-35 JPO official, it was not realistic or possible to incorporate all Military Service performance requirements in a contract. F-35 JPO officials stated that including performance requirements as incentive metrics introduces factors that are outside of Lockheed Martin's control. For example, aircraft may be unavailable due to maintenance or shipping delays that are not Lockheed Martin's fault, and the F-35 JPO cannot penalize Lockheed Martin for events that are out of its control.

Instead of including aircraft readiness performance requirements from the PBA in the June 2024 AVS contract, the F-35 JPO included the Air Vehicle Gross Issue Effectiveness supply incentive metric. However, this metric does not evaluate whether the aircraft is available to fly or perform its mission. The F-35 JPO did include a Supply Rate Mission Capability incentive metric in the August 2025 AVS definitization modification. This metric tracks the time an aircraft is degraded from FMC due to a problem with supplies. Although the metric relates to readiness, it does not equate to FMC or MC aircraft.

Because the June 2024 AVS contract and August 2025 AVS definitization modification did not include performance requirements and only included minimal incentive metrics, the DoD does not have the ability to hold Lockheed Martin accountable for the sustainment performance outcomes that the Military Services included in their bilateral agreements. The Under Secretary of Defense for Acquisition and Sustainment, in coordination with the Program Executive Officer for the F-35 JPO, should develop and use incentive metrics and associated remedies that closely align with or support the Military Service performance requirements outlined in the bilateral PBA or obtain a waiver for not including the performance requirements from each Military Service.

### ***Lack of Measurable F-35 AVS Contract Requirements***

The F-35 JPO did not include other measurable contract requirements in the F-35 AVS contract that were necessary to incentivize and evaluate Lockheed Martin's performance. For example, the F-35 JPO uses the Action Request (AR) process to address any administrative or engineering questions from the F-35 fleet. The F-35 JPO budgeted at least \$131 million across two engineering support contract line-item numbers for ARs. The F-35 Program Instruction 1514-02, "Problem Reporting and Resolution," contains categorization and response timelines for ARs. For example, the Instruction states that the contractor should provide an initial response within 12 hours for Category I ARs. Category I ARs are related to flight and ground safety issues that may cause death, serious injury, or loss of aircraft or equipment. However, Lockheed Martin is not required to meet any of the response timelines included in the Instruction because the F-35 JPO did not include response timeline requirements in the June 2024 AVS contract. In addition, F-35 JPO officials stated that the timelines were goals rather than requirements.

The F-35 JPO also did not include guidelines in the PWS for transferring parts between F-35 contracts. The June 2024 AVS contract included a clause that allowed government property managed under other F-35 production and sustainment contracts to be used free of charge or cost to Lockheed Martin as long as it did not

interfere with the work performed under the other contracts. According to a DCMA official, the clause only applied to government-furnished property that had been formally accepted by the Government. The clause stated that Lockheed Martin was responsible for scheduling the use of the property but did not provide any details on how this process should be managed, or any time frames for the use of the Government property. In addition to the contract clause, there is an additional process that allows for the movement of property between production and sustainment contracts. According to a DCMA official, parts transferred under this process should be paid back as quickly as possible to allow for proper cost tracking between contracts, but in the past, Lockheed Martin had taken over 1 year to pay parts back. This process allows the distribution of government property often before authorization, which violates established property management controls. The Under Secretary of Defense for Acquisition and Sustainment, in coordination with the Program Executive Officer for the F-35 JPO, should develop and include specific metrics and associated remedies for contract requirements, such as ARs, property transfer responses, and resolution timelines, in the F-35 AVS contract.

### ***Material Inspection and Review Requirements***

The F-35 JPO did not enforce a contract requirement for Lockheed Martin to complete a material inspection and receiving report. DFARS Appendix F, “Material Inspection and Receiving Report,” requires the contractor to prepare and provide to the Government a DD Form 250, “Material Inspection and Receiving Report,” or its electronic equivalent. The DD Form 250 documents the Government’s acceptance of goods or services and records information, including contract information, delivery date, and billing amounts. Lockheed Martin was required to submit a DD Form 250 that contained sufficient information to support acceptance, such as inventory lists that included part numbers, serial numbers, or other information the Government deemed necessary.

*The F-35 JPO did not enforce a contract requirement for Lockheed Martin to complete a material inspection and receiving report.*

A DCMA official stated that the F-35 JPO did not enforce the DD Form 250 requirement because Lockheed Martin asserted it would be too difficult and time consuming. According to DCMA officials, the DD Form 250 process required Lockheed Martin to report on F-35 parts that were being repaired to provide visibility into the current status and location of parts for inventory accountability.

Instead of requiring a completed DD Form 250, the F-35 JPO and Lockheed Martin agreed to a “phased” approach beginning with the award of the 6-month June 2024 AVS contract. The phased approach would involve Lockheed Martin

building reports of which F-35 parts were included from the Autonomic Logistics Information System, which Lockheed Martin controlled.<sup>12</sup> According to an F-35 JPO official, the phased approach required Lockheed Martin to provide 14 data elements that were the same as data found within a DD Form 250. In May 2025, the F-35 JPO updated the contract to add specific language for Lockheed Martin to provide serial numbers (or unique item identifiers) for parts with an acquisition value of \$5,000 or more; however, the F-35 JPO is responsible for ensuring the updated contract is enforced.

Asset visibility is crucial for managing parts on the F-35 sustainment contract. Without a completed DD Form 250, the DCMA cannot hold Lockheed Martin accountable if it fails to deliver F-35 parts or services on time or cannot identify parts or supplies held in its possession. Therefore, the Under Secretary of Defense for Acquisition and Sustainment, in coordination with the F-35 Procuring Contracting Officer and the F-35 Product Support Manager, should enforce the requirement for Lockheed Martin to provide a completed DD Form 250, or its electronic equivalent, and include any other property clauses the DCMA considers necessary in future F-35 AVS contract option years.

### ***Government Property Reporting Requirements***

The F-35 JPO did not enforce a June 2024 AVS contract requirement for Lockheed Martin to identify and provide data on Government property within its possession. Federal and DoD regulations, such as DFARS 252.245-7003, require that contractors establish and maintain an acceptable property management system.<sup>13</sup> The contractor's property management system should include internal controls to manage Government property in its possession, and the contractor must create and maintain records of all Government property accountable to the contract. These property records enable a complete, current, and auditable record of all transactions. The F-35 JPO included these requirements in the AVS contracts; however, as of July 2023 when a DoD OIG report was issued, Lockheed Martin had not provided an accurate and complete universe.<sup>14</sup> Specifically, the DoD OIG recommended that the F-35 JPO coordinate with Lockheed Martin to provide a complete and accurate population of F-35 inventory to meet operational and financial requirements. Additionally, in Report No. DODIG-2019-062, the DoD OIG recommended that the F-35 component property lead and accountable property

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<sup>12</sup> The Autonomic Logistics Information System is an F-35 information system that supports operations, maintenance, supply chain, technical data, and other processes.

<sup>13</sup> FAR Part 52, "Solicitation Provisions and Contract Clauses," Subpart 52.245-1, "Government Property," September 2021 and DFARS Part 252, "Solicitation Provisions and Contract Clauses," Subpart 252.245-7003, "Contractor Property Management System Administration."

<sup>14</sup> Report No. DODIG-2023-096, "Management Advisory: DoD's Ability to Financially Report Joint Strike Fighter Inventory," July 21, 2023.

officer reconcile all F-35 government-furnished property by performing a complete inventory of delivered property and use the results of the inventory to establish a baseline property record in the accountable property system of record.<sup>15</sup> Although the Assistant Secretary of Defense for Sustainment agreed to perform a complete inventory of the F-35 program's government-furnished property by the end of December 2019, this recommendation remains open.

In certain cases, DoD policy permits agencies or departments to request a deviation from certain FAR or DFARS clause requirements.<sup>16</sup> On June 21, 2024, the Principal Director, Defense Pricing, Contracting, and Acquisition Policy, approved a deviation letter at the F-35 JPO's request. Specifically, the letter approved a deviation from DFARS 252.245-7003 and prevents the DCMA from issuing corrective action requests related to Lockheed Martin's property accountability system. The deviation also prevents the DCMA from withholding payment to Lockheed Martin for any issues or noncompliance with entering spare parts data into the DoD's Government-Furnished Property Module system. The deviation letter is in effect until December 31, 2026. According to a DCMA official, the deviation letter was created to allow Lockheed Martin time to comply with Financial Improvement and Audit Readiness requirements.<sup>17</sup> In addition, a DCMA official stated that Lockheed Martin would not sign the 6-month June 2024 AVS contract without this deviation letter in place. When asked what plans were in place to ensure Lockheed Martin is ready by 2026, an F-35 JPO official stated that the F-35 JPO had originally hoped to phase in compliance over time.

Extending the deviation would impact the DCMA's ability to hold Lockheed Martin accountable for nonperformance. However, we are not making a recommendation to continuously monitor Lockheed Martin's progress toward meeting the Financial Improvement and Audit Readiness requirements because the recommendation from Report No. DODIG-2023-096 remains open and addresses meeting financial reporting standards.

<sup>15</sup> Report No. DODIG-2019-062, "Audit of Management of Government-Owned Property Supporting the F-35 Program," March 13, 2019.

<sup>16</sup> DFARS Part 201, "Federal Acquisition Regulations System," Subpart 201.4, "Deviations from the FAR," Section 201.402, "Policy."

<sup>17</sup> The goal of Financial Improvement and Audit Readiness is to improve the Department's financial and business management operations, allowing it to successfully produce auditable financial statements.

## ***Program Requirements and Negative Trends Were Not Monitored by Contracting Officer’s Representatives***

The F-35 JPO did not require CORs to monitor performance requirements or negative trends. The QASP requires CORs to accomplish contract surveillance by evaluating and documenting Lockheed Martin’s performance and negative trends. However, 23 (96 percent) of the 24 CORs stated that they did not provide oversight on performance requirements or incentive metrics. Additionally, 22 (92 percent) of the 24 CORs stated that they did not track cannibalization rates.<sup>18</sup> F-35 squadrons cannibalized parts from one F-35 aircraft to another to keep aircraft flying instead of receiving parts from Lockheed Martin’s supply chain. Cannibalization is recognized as a negative practice that increases the risk for component breakage, excessive maintainer work hours, and overall inefficiency.

CORs at the F-35 bases can be an effective resource to track and report contractor incentive metric data that can be used to support incentive fee payments or identify negative trends in performance requirements. The F-35 JPO paid Lockheed Martin \$3.89 million in incentive fees for the June 2024 AVS contract

*The F-35 JPO paid Lockheed Martin \$3.89 million in incentive fees for the June 2024 AVS contract without input from most CORs.*

without input from most CORs.

In addition, part shortages or issues with Lockheed Martin’s supply chain are negative trends that the CORs should be documenting. The Program Executive Officer for the F-35 JPO should

align the COR responsibilities to monitor and report impactful evaluation data on Lockheed Martin’s performance, including the impact of cannibalization of spare parts on aircraft readiness and update these responsibilities in the QASP.

## ***Vague Oversight Language and Data Access Issues Prevented Comprehensive Oversight***

The F-35 JPO did not provide CORs specific metrics or other measurable requirements within the contract. Specifically, 19 (79 percent) of the 24 CORs stated that the contract and PWS language were too vague. For example, the June 2024 AVS contract and PWS required Lockheed Martin to provide pilot training; however, there were no requirements detailing what the training levels should be. Additionally, the contract and PWS required the simulators to be available but lacked metrics for availability rates.

<sup>18</sup> Cannibalize means to remove parts from Government property for use or installation on other Government property. Cannibalization is not always the result of parts or material shortages and can be used by squadrons to improve the number of available and operable aircraft or to better perform operational missions.

In addition, the CORs stated that the F-35 JPO did not provide them access to necessary systems or data. Specifically, 12 (50 percent) of the 24 CORs stated that they experienced access issues that prevented them from providing oversight of the F-35 AVS contractor. For example, one COR stated that they were not able to achieve 60 percent of their oversight responsibilities without full access to the Autonomic Logistics Information System. In another example, one COR stated that they did not have access to the Surveillance and Performance Monitoring Module, preventing them from submitting their monthly COR reports.<sup>19</sup>

Additionally, the COR Guidebook states that CORs must have ready access to all technical publications and regulations referenced in the contract to monitor the contract's technical or performance aspects.<sup>20</sup> However, according to an Air Force COR, only CORs assigned to the F-35 JPO have access to data repositories that are needed to provide adequate oversight, which CORs assigned to the Military Service cannot access. According to F-35 JPO officials, as of July 2024, only six CORs were assigned to the F-35 JPO. For example, one Air Force COR stated that they did not have access to technical manuals, preventing them from overseeing whether Lockheed Martin properly installed F-35 parts. The Program Executive Officer for the F-35 JPO should provide all CORs a detailed PWS and appropriate access to databases and information required to accomplish effective oversight.

### ***Contracting Officer's Representatives Were Not Assigned to All F-35 Sites and Oversight Areas***

The F-35 JPO did not appoint CORs to all F-35 Military Service bases. Specifically, 5 (31 percent) of the 16 F-35 Military Service bases did not have a COR assigned to provide oversight. In a 2019 DoD OIG audit report, we identified that the JPO did not conduct adequate oversight of Lockheed Martin's performance and did not assign CORs at all F-35 bases.<sup>21</sup> The F-35 JPO Product Support Manager required the Military Services to identify COR oversight at their individual bases and provide the F-35 JPO with a timeline for when the CORs will assume their duties.<sup>22</sup> As of March 2025, CORs were not assigned at all F-35 Military Service bases. COR oversight areas of responsibility at these bases include supply support, Repair of Repairables, fleet support, physical security, and technical updates. In addition,

<sup>19</sup> The Surveillance and Performance Monitoring Module is a DoD system that CORs use to provide the Lead COR with access to their monthly reports on contractor performance.

<sup>20</sup> Department of Defense, "Contracting Officer's Representatives Guidebook," October 2022.

<sup>21</sup> Report No. DODIG-2019-094, "Audit of F-35 Ready-For-Issue Spare Parts and Sustainment Performance Incentive Fees," June 13, 2019.

<sup>22</sup> Director of Logistics and Sustainment, Product Support Manager, F-35 Lightning II JPO, "Program Updates to Contracting Officer Representative (COR) Program," March 26, 2019.

DFARS Procedures, Guidance, and Information 201.602 requires contracting officers to consider appointing multiple or alternate CORs to assist with surveillance duties for geographically dispersed large contracts.<sup>23</sup> An F-35 JPO official confirmed that there was no COR oversight being performed at F-35 Military Service bases that did not have an assigned COR.

*There was no COR oversight being performed at F-35 Military Service bases that did not have an assigned COR.*

Additionally, the designated CORs were not required to provide oversight of all the necessary areas of responsibility at their base. For example, the COR at Marine Corps Air Station Miramar was only required to provide oversight on the F-35 simulators and did not monitor the contractor's support of the wing's F-35 daily operations. Furthermore, F-35 JPO officials stated that they did not know how many CORs were required to provide sufficient oversight of the F-35 AVS contract. The Lead COR stated that determining the exact number of CORs needed was complicated and confirmed that a manpower study had not been conducted. According to DFARS Procedures, Guidance, and Information 201.602, the surveillance activities performed by CORs should be tailored based on the dollar value and complexity of the contract. Therefore, some bases may need multiple CORs based on the oversight workload. The Program Executive Officer for the F-35 JPO, in coordination with the Military Services, should complete a workforce study to determine appropriate COR requirements and staffing levels for the F-35 AVS contract.

## The Contractor Did Not Meet Performance Requirements

Measurable and enforceable performance metrics are a crucial element of any contract. They provide clarity, accountability, and a framework for success. As a result of not including measurable and enforceable language within the F-35 AVS contracts, the F-35 JPO, CORs, and DCMA could not always hold Lockheed Martin accountable when the F-35 program did not meet the minimum aircraft readiness requirements of the Military Services. For example, the average AVA for all Military Service F-35 aircraft in FY 2024 was 50 percent, which means the aircraft was not available to fly 50 percent of the time. This is 17 percent lower than the average minimum performance requirement. See Table 3 for the FY 2024 performance requirements established within the PBA and the actual AVA, FMC, and MC values.

<sup>23</sup> DFARS Part 201, "Federal Acquisition Regulations System," Subpart 201.6, "Career Development, Contracting Authority, and Responsibilities," Section 201.602, "Contracting officers."

Table 3. FY 2024 F-35 Performance Requirements and Their Actual Values

	Air Vehicle Availability		Full Mission Capable		Mission Capable	
	Required Percent	Actual Percent	Required Percent	Actual Percent	Required Percent	Actual Percent
<b>Air Force</b>						
Training	70.0	<b>38.5</b>	60.0	<b>13.8</b>	65.0	<b>42.2</b>
Non-Deployed <sup>1</sup>	70.0	<b>58.3</b>	65.0	<b>52.6</b>	70.0	<b>59.0</b>
Deployed <sup>2</sup>	n/a	68.5	80.0	<b>67.1</b>	85.0	<b>68.5</b>
Operational Test and Evaluation <sup>3</sup>	65.0	<b>23.0</b>	65.0	<b>11.9</b>	70.0	<b>25.9</b>
<b>Navy</b>						
Training	65.0	<b>45.6</b>	60.0	<b>8.9</b>	75.0	<b>54.3</b>
Non-Deployed	65.0	70.0	60.0	<b>38.1</b>	75.0	<b>70.1</b>
Deployed	70.0	n/a	65.0	n/a	80.0	n/a
Operational Test and Evaluation	65.0	<b>54.6</b>	60.0	<b>0.0</b>	75.0	<b>62.5</b>
<b>Marine Corps</b>						
Training	65.0	<b>32.0</b>	60.0	<b>0.5</b>	75.0	<b>43.7</b>
Non-Deployed	65.0	<b>63.9</b>	60.0	<b>28.8</b>	75.0	<b>65.5</b>
Deployed	70.0	<b>52.5</b>	65.0	<b>15.3</b>	80.0	<b>56.9</b>
Operational Test and Evaluation	65.0	<b>42.1</b>	60.0	<b>0.1</b>	75.0	<b>50.7</b>

**LEGEND**

**Red text (bold)** Did not meet performance requirements

**Green text** Met performance requirements

Note: The “n/a” represents “not applicable” because data were not available.

<sup>1</sup> Non-deployed aircraft are operational aircraft located at their home base or installation.

<sup>2</sup> Deployed aircraft are operational aircraft located aboard a carrier or base other than the home base or installation.

<sup>3</sup> Operational Test and Evaluation aircraft are used for test and evaluation purposes to evaluate operational effectiveness and suitability.

Source: The F-35 JPO.

F-35 squadrons are also cannibalizing parts to keep aircraft flying instead of being able to rely on receiving parts from Lockheed Martin’s supply chain. F-35 squadron officials indicated that they cannibalized parts from other aircraft because of part shortages or supply chain issues with Lockheed Martin. For example, the 388th Maintenance Group at Hill Air Force Base cannibalized parts from five F-35A aircraft, and the 34th Fighter Generation Squadron at Hill Air Force Base cannibalized parts from nine F-35A aircraft to keep the remaining aircraft

mission capable. In another example, Naval Air Station Lemoore Strike Fighter Squadron (VFA) 125 cannibalized a total of 89 parts from different F-35C aircraft from November 2024 through February 2025. Removing the PBA aircraft readiness performance requirements from the F-35 AVS contracts limited the F-35 JPO's ability to take any action against Lockheed Martin when aircraft did not meet mission requirements or when the squadrons were forced to cannibalize parts to enable aircraft to deploy.

*The DoD paid Lockheed Martin \$1.7 billion for F-35 sustainment that did not meet the Military Services aircraft readiness performance requirements.*

Poorly defined or unclear requirements in the contract also prohibited the F-35 JPO's ability to identify and document instances of poor performance by Lockheed Martin. The lack of specific and accurate performance

documentation could weaken the F-35 JPO's ability to effectively leverage performance results during contract negotiations or disputes. Consequently, as of July 1, 2025, the DoD paid Lockheed Martin \$1.7 billion (including \$3.89 million in incentive fees) for F-35 sustainment that did not meet the Military Services aircraft readiness performance requirements. Additionally, the lack of contract requirements for accurate and complete property data further reduced the DoD's ability to provide oversight and accountability of Government property in Lockheed Martin's possession.

## Recommendations, Management Comments, and Our Response

### **Recommendation 1**

**We recommend that the Under Secretary of Defense for Acquisition and Sustainment, in coordination with the Program Executive Officer for the F-35 Joint Program Office:**

- a. **Modify the F-35 air vehicle sustainment contract to include:**
  1. **Incentive metrics and associated remedies that closely align with or support the performance requirements outlined in the bilateral Performance-Based Arrangement or obtain a waiver for not including the performance requirements from each Military Service.**

### **Assistant Secretary of Defense for Sustainment Comments**

The official Performing the Duties of the Assistant Secretary of Defense for Sustainment, responding on behalf of the Under Secretary of Defense for Acquisition and Sustainment, did not agree with the recommendation, stating

that the metrics in the current AVS contract are the most appropriate to hold Lockheed Martin accountable for contract performance and that the Department cannot significantly alter the performance metrics under this contract without extended and lengthy negotiations. The Assistant Secretary also stated that any change to the metrics would not align with the Department's efforts to implement Section 142 of the National Defense Authorization Act for FY 2022, which shifts F-35 sustainment responsibilities to the Military Services. It also would not align with the Department's sustainment strategy that will shift from primarily contractual agreements with the prime contractors to government managed sustainment.

### *Our Response*

Comments from the official Performing the Duties of the Assistant Secretary of Defense for Sustainment did not address the specifics of the recommendation; therefore, it is unresolved. The 2024 Weapons Systems Planning Document states that the PBA defines the sustainment performance required by each participant. It further states that the threshold is the minimum level of sustainment performance required by the customer to meet essential operational requirements. The Joint Strike Fighter Production, Sustainment, and Follow-On Development Memorandum of Understanding requires the sustainment contract to include the PBA performance requirements, and this Memorandum of Understanding has not been rescinded by the Military Services. The Military Services continue to provide annual performance requirement objectives and thresholds to the F-35 JPO. When asked during the audit, the Military Service officials stated that their agencies did not waive their performance requirements. Until the transition of responsibility from the contractor to the Military Services is complete, the AVS contract is still the primary vehicle to deliver performance outcomes. Not holding the contractor accountable to the metrics required by the Military Services for 3 years does not meet the terms of the PBA. If the F-35 JPO does not plan on modifying the F-35 AVS contract to align with the PBA requirements, then the F-35 JPO should obtain a waiver from each Military Service and update program documentation to identify how Government-managed readiness will fulfill the Military Services' performance requirements. Therefore, we request that the Under Secretary reconsider and provide comments on the final report.

- 2. Contract requirements that contain specific metrics and associated remedies, including the development of metrics for action requests, property transfer responses, and resolution timelines.**

### ***Assistant Secretary of Defense for Sustainment Comments***

The official Performing the Duties of the Assistant Secretary of Defense for Sustainment, responding on behalf of the Under Secretary of Defense for Acquisition and Sustainment, agreed with the recommendation to implement specific metrics for areas under Lockheed Martin's direct control and responsibility. This includes ARs, property transfer responses, and resolution timelines. The Department will not include additional incentives until the Calendar Year 2029 contract but will continue to seek opportunities for earlier inclusion if practical.

### ***Our Response***

Comments from the official Performing the Duties of the Assistant Secretary of Defense for Sustainment met the intent of the recommendation; therefore, it is resolved but will remain open. We will consider this recommendation closed once we verify that the F-35 JPO has updated the contract to include specific contractual requirements for ARs, property transfers, and resolution timelines.

- 3. Property clauses the Defense Contract Management Agency considers necessary in future option years.**

### ***Assistant Secretary of Defense for Sustainment Comments***

The official Performing the Duties of the Assistant Secretary of Defense for Sustainment, responding on behalf of the Under Secretary of Defense for Acquisition and Sustainment, agreed with the recommendation, stating that the F-35 JPO will ensure compliance with applicable laws and regulations by incorporating the DCMA-identified property clauses in future contract option years.

### ***Our Response***

Comments from the official Performing the Duties of the Assistant Secretary of Defense for Sustainment met the intent of the recommendation; therefore, it is resolved but will remain open. We will consider this recommendation closed after we have verified that the necessary property clauses identified by the DCMA are included within future AVS contract option years or contracts.

- b. Enforce the requirement for Lockheed Martin to provide a completed DD Form 250, "Material Inspection and Receiving Report," or its electronic equivalent.**

### ***Assistant Secretary of Defense for Sustainment Comments***

The official Performing the Duties of the Assistant Secretary of Defense for Sustainment, responding on behalf of the Under Secretary of Defense for Acquisition and Sustainment, agreed with the recommendation, stating that the F-35 JPO is working to develop courses of action to ensure that Lockheed Martin provides compliant DD-250 information as contractually required.

### ***Our Response***

Comments from the official Performing the Duties of the Assistant Secretary of Defense for Sustainment met the intent of the recommendation; therefore, it is resolved but will remain open. We understand the F-35 JPO is implementing a phased approach to completing the DD Form 250 requirements in DFARS Appendix F, "Material Inspection and Receiving Report." We will close this recommendation when the Under Secretary provides documentation that the contractor is complying with the DFARS requirement for material inspection and receiving.

## ***Recommendation 2***

**We recommend that the Program Executive Officer for the F-35 Joint Program Office:**

- a. Align the contracting officer's representative responsibilities to monitor and report impactful evaluation data on Lockheed Martin's performance, including the impact of cannibalization of spare parts on aircraft readiness, and update these responsibilities in the Quality Assurance Surveillance Plan.**

### ***Assistant Secretary of Defense for Sustainment Comments***

The official Performing the Duties of the Assistant Secretary of Defense for Sustainment, responding for the Program Executive Officer for the F-35 JPO, partially agreed with the recommendation, stating that the F-35 JPO, not the individual COR, captures the impact of part shortages on the fleet, including cannibalization rates, as part of their enterprise-wide performance review process. The Assistant Secretary further stated that the F-35 JPO will evaluate the COR responsibilities in the QASP to ensure they are appropriate and achievable.

### ***Our Response***

Comments from the official Performing the Duties of the Assistant Secretary of Defense for Sustainment met the intent of the recommendation; therefore, it is resolved but will remain open. The QASP requires CORs to accomplish contract surveillance by evaluating and documenting Lockheed Martin's performance and negative trends. The QASP emphasizes the importance of the CORs to ensure Lockheed Martin delivers products and services that meet contractual requirements by effectively measuring contractor performance. Although the F-35 JPO captures the impact of part shortages at an enterprise-level for the fleet; it is a COR responsibility to provide reports on contractor performance issues or performance delays at their assigned locations. Because the contractor is responsible for managing the supply chain, any performance issues or delays the F-35 users experience due to a supply chain shortage should be reported to the F-35 JPO. COR oversight of negative trends, including cannibalization, can supplement the F-35 JPO's data and may assist in identifying both enterprise-level and base-level problems. We believe that the F-35 JPO should still use CORs as an additional resource for oversight of negative trends at each F-35 base. We will close this recommendation when the Under Secretary provides an updated QASP.

- b. Provide all contracting officer's representatives a detailed Performance Work Statement and appropriate access to databases and information required to accomplish effective oversight.**

### ***Assistant Secretary of Defense for Sustainment Comments***

The official Performing the Duties of the Assistant Secretary of Defense for Sustainment, responding for the Program Executive Officer for the F-35 JPO, agreed with the recommendation, stating that the F-35 JPO agrees that it is critical for all CORs to have the access necessary to perform their oversight duties effectively. The F-35 JPO will review access procedures and address any system access barriers to ensure non-F-35 JPO CORs have access to all necessary systems and to the detailed Performance Work Statement.

### ***Our Response***

Comments from the official Performing the Duties of the Assistant Secretary of Defense for Sustainment met the intent of the recommendation; therefore, it is resolved but will remain open. We will close the recommendation once we verify that all CORs, both current and future, have access to detailed Performance Work Statements and databases or information required to accomplish effective oversight.

- c. **Coordinate with the Military Services to complete a workforce study to determine appropriate contracting officer's representative requirements and staffing levels for the F-35 air vehicle sustainment contract.**

### ***Assistant Secretary of Defense for Sustainment Comments***

The official Performing the Duties of the Assistant Secretary of Defense for Sustainment, responding for the Program Executive Officer for the F-35 JPO, agreed with the recommendation, stating that the F-35 JPO and the Military Services will coordinate and complete a COR workforce study.

### ***Our Response***

Comments from the official Performing the Duties of the Assistant Secretary of Defense for Sustainment met the intent of the recommendation; therefore, it is resolved but will remain open. We will close the recommendation once we verify that the F-35 JPO, in coordination with the Military Services, has completed a COR workforce study.

## Appendix

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### Scope and Methodology

We conducted this performance audit from September 2024 through September 2025 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To assess the DoD's oversight of contractor performance on the F-35 AVS contract, we first identified an F-35 AVS contract with a period of performance that began on July 1, 2024. We selected this contract for review because it was the most current AVS contract at the start of our review in September 2024. Due to ongoing contract negotiations between the F-35 JPO and Lockheed Martin, the F-35 JPO awarded the F-35 AVS 2024 UCA on December 23, 2024. For the contract and modifications awarded in 2024, we identified and reviewed F-35 sustainment performance requirements and contractor incentive fees and metrics.

We interviewed stakeholders from the following offices to obtain documentation and to identify roles and responsibilities.

- F-35 JPO
- DCMA
- Office of the Under Secretary of Defense for Acquisition and Sustainment
- Office of the DASD(PS)
- Defense Pricing, Contracting, and Acquisition Policy
- F-35 JPO, Air Force, Navy, and Marine Corps CORs and customers
- Lockheed Martin

We selected these offices and activities because they are involved with oversight of contractor performance on the June 2024 AVS contract.

We interviewed F-35 customers and users from the following Military Services to identify any contractor performance issues.

- Marine Aircraft Group 31
- Navy Joint Strike Fighter Wing
- Air Force 388th Fighter Wing

We collected and analyzed the following documents to assess the DoD's ability to oversee contractor performance on the June 2024 AVS contract.

- F-35 Military Service Bilateral or PBAs (Air Force, Navy, and Marine Corps)
- F-35 Joint Strike Fighter Production, Sustainment, and Follow-On Development Memorandum of Understanding
- Memorandum of Agreement between the F-35 Lightning II JPO and DCMA
- F-35 Lightning II Sustainment Acceptance Plan
- F-35 QASP
- Contract N00019-24-C-0039 PWS
- COR monthly reports
- COR designation letters

In addition, we reviewed the following guidance that governs the DoD's oversight of F-35 AVS contracts.

- FAR Part 1, "Federal Acquisition Regulations System," Subpart 1.6, "Career Development, Contracting Authority, and Responsibilities"
- FAR Part 42, "Contract Administration and Audit Services"
- FAR Part 46, "Quality Assurance"
- FAR Part 52, "Solicitation Provisions and Contract Clauses," Subpart 52.245-1, "Government Property"
- DFARS Part 201, "Federal Acquisition Regulations System," Subpart 201.4, "Deviations From the FAR"
- DFARS Part 237, "Service Contracting," Subpart 237.172, "Service Contracts Surveillance"
- DFARS Part 252, "Solicitation Provisions and Contract Clauses," Subpart 252.245-7003, "Contractor Property Management System Administration"
- DFARS Appendix F, "Material Inspection and Receiving Report"
- DFARS Part 246, "Quality Assurance"
- DFARS Procedures, Guidance, and Information 201.602, "Contracting Officers"
- DoD Instruction 5000.72, "DoD Standard for Contracting Officer's Representative (COR) Certification," March 26, 2015 (Incorporating Change 2, November 6, 2020)
- DCMA Instruction 1201, "Corrective Action Process," September 8, 2015
- DoD COR Guidebook, October 17, 2022

We identified significant F-35 AVS contract performance requirements, including those that impact F-35 inventory, material readiness, and fleet readiness levels, as well as contract oversight requirements and responsibilities. We then identified oversight and accountability processes by office, including the Office of the Under Secretary of Defense for Acquisition and Sustainment, the DCMA, and the F-35 JPO, as well as the CORs and Lead COR. We conducted interviews and reviewed program documentation to determine whether Lockheed Martin met performance requirements and whether any actions were taken by the DoD to hold Lockheed Martin accountable or seek corrective actions. We analyzed performance incentive data to determine the specific incentive metrics and paid incentive fees that the F-35 JPO used over the lifetime of the F-35 AVS contracts. Although the audit team initially planned to conduct an analysis to determine whether the F-35 JPO properly awarded incentive fees for the June 2024 AVS contract, the F-35 JPO did not include any incentive fees for the latest contract modification, which was awarded in December 2024. Due to this, we obtained information on the incentive fee amount, but we did not evaluate any incentive fees paid as part of this audit.

## **Internal Control Assessment and Compliance**

We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed the internal control components and underlying principles related to the control environment, information and communication, and control activities. We reviewed policies and procedures that the F-35 JPO used to manage oversight on the F-35 AVS contract. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

## **Use of Computer-Processed Data**

We obtained and analyzed computer-processed data from the Joint Appointment Module for this audit. Specifically, we obtained a list of all CORs assigned to contract N00019-24-C-0039 and the appointment letter for those CORs. During the audit, the audit team verified the list of CORs by conducting interviews with all active CORs. Additionally, during the interviews with the active CORs, the audit team verified that the information included in the COR appointment letters was accurate. Based on our verification of the data from the Joint Appointment Module, we consider the information to be sufficiently reliable for the purpose of our audit.

## Prior Coverage

During the last 5 years, the DoD Office of Inspector General (DoD OIG) and Government Accountability Office (GAO) issued six reports discussing F-35 sustainment and F-35 inventory availability.

### **DoD OIG**

Report No. DODIG-2023-096, “Management Advisory: DoD’s Ability to Financially Report Joint Strike Fighter Inventory,” July 21, 2023

The DoD OIG determined that the F-35 Joint Strike Fighter Program Office officials could not identify or report a complete or valid population of Joint Strike Fighter inventory in a timely manner. The DoD OIG concluded that officials did not have processes or procedures to collect all information necessary to accurately report the number and value of F-35 Joint Strike Fighter inventory on the DoD Agency-Wide financial statements.

Report No. DODIG-2020-123, “Audit of the F-35 Program Office’s Beyond Economical Repair Process for Parts,” September 4, 2020

The DoD OIG determined that the F-35 Program Office did not implement a beyond economical repair process that ensured that the decision to either replace or repair damaged parts was the most economical decision. The DoD OIG concluded that F-35 Program Office officials allowed the prime contractor to make the decisions on damaged parts and whether those damaged parts should be replaced or repaired without DoD approval.

### **GAO**

Report No. GAO-24-106703, “F-35 Sustainment: Costs Continue to Rise While Planned Use and Availability Have Decreased,” April 15, 2024

The GAO determined that the DoD has a number of challenges impacting F-35 readiness, including heavy reliance on contractors, inadequate training for maintenance personnel, and the lack of technical data, spare parts, and support equipment. Additionally, sustainment cost estimates have increased 44 percent from \$1.1 trillion in 2018 to \$1.58 trillion in 2023.

Report No. GAO-23-105341, “DoD and the Military Services Need to Reassess the Future Sustainment Strategy,” September 21, 2023

The GAO determined that the DoD relies heavily on its contractor to lead and manage F-35 sustainment. However, as the DoD seeks expanded government control, it has neither determined the desired mix of government and contractor roles nor identified and obtained the technical data needed to support its desired mix.

Report No. GAO-23-106098, “DoD Needs Better Accountability for Global Spare Parts and Reporting of Losses Worth Millions,” May 23, 2023

The GAO determined that the DoD’s F-35 JPO does not oversee or account for spare parts in its global spare parts pool that have been accepted and received by the Government and are located at non-prime contractor facilities.

Report No. GAO-21-439, “DoD Needs to Cut Billions in Estimated Costs to Achieve Affordability,” July 7, 2021

The GAO determined that for the F-35, the Air Force needs to reduce estimated costs per tail per year by \$3.7 million (47 percent) by 2036, or it will incur \$4.4 billion in costs beyond what it currently projects it could afford in that year alone. Without assessing cost-reduction efforts and program requirements, the DoD may continue to invest resources in a program it ultimately cannot afford.

# Management Comments

## Official Performing the Duties of the Assistant Secretary of Defense for Sustainment



SUSTAINMENT

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

December 5, 2025

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR ACQUISITION,  
CONTRACTING, AND SUSTAINMENT

SUBJECT: Response to DoDIG "Audit of the DoD's Oversight of the Contractor Performance for the F-35 Joint Strike Fighter Sustainment Contracts" (Project No. D2024-D000AT-0173.000)

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

**Recommendation 1(a)(1):**

We recommend that the Under Secretary of War for Acquisition and Sustainment, in coordination with the Program Executive Officer for the F-35 Joint Program Office, modify the F-35 air vehicle sustainment contract to include incentive metrics and associated remedies that closely align with or support the performance requirements outlined in the bilateral Performance-Based Agreement or obtain a waiver for not including the performance requirements from each Military Service.

**Response:** The Department non-concurs with this recommendation. The metrics in the current Air Vehicle Sustainment Contract (AVSC) are the most appropriate to hold Lockheed Martin accountable for contract performance. The Department cannot significantly alter the performance metrics under the current awarded AVSC without extended and lengthy negotiations. Moreover, any such effort would not align with the Department's efforts to implement section 142 of the National Defense Authorization Act (NDAA) for Fiscal Year 2022, Public Law 117-81, pursuant to which F-35 sustainment responsibilities will shift to the Military Services and the Department's sustainment strategy will shift from primarily contractual agreements with the prime contractors to government management.

**Recommendation 1(a)(2):**

We recommend that the Under Secretary of War for Acquisition and Sustainment, in coordination with the Program Executive Officer for the F-35 Joint Program Office, modify the F-35 air vehicle sustainment contract to include contract requirements that contain specific metrics and associated remedies, including the development of metrics for action requests, property transfer response, and resolution timelines.

**Response:** The Department concurs with this recommendation. The Department agrees with implementing specific metrics for areas under Lockheed Martin's direct control and responsibility. This includes action requests, property transfer responses, and resolution timelines. The next opportunity to add additional incentives will be the CY 2029 contract, but the Department will continue to seek opportunities for earlier inclusion if practical.

## Official Performing the Duties of the Assistant Secretary of Defense for Sustainment (cont'd)

**Recommendation 1(a)(3):**

We recommend that the Under Secretary of War for Acquisition and Sustainment, in coordination with the Program Executive Officer for the F-35 Joint Program Office, modify the F-35 air vehicle sustainment contract to include property clauses the Defense Contract Management Agency considers necessary in future option years.

**Response:** The Department concurs with this recommendation. As the F-35 JPO executes future contract option years, the Department will ensure that property clauses identified by the Defense Contract Management Agency as necessary to ensure compliance with applicable laws and regulations are incorporated into the contract.

**Recommendation 1(b):**

We recommend that the Under Secretary of War for Acquisition and Sustainment, in coordination with the Program Executive Officer for the F-35 Joint Program Office, enforce the requirement for Lockheed Martin to provide a completed DD Form 250, "Material Inspection and Receiving Report," or its electronic equivalent.

**Response:** The Department concurs with this recommendation. The F-35 JPO is currently working to develop appropriate courses of action to ensure that Lockheed Martin provides compliant DD-250 information as contractually required.

**Recommendation 2(a):** We recommend that the PEO for the F-35 JPO align the contracting officer's representative (COR) responsibilities to monitor and report impactful evaluation data on Lockheed Martin's performance to include the impact of cannibalization of spare parts on aircraft readiness and update these responsibilities in the Quality Assurance Surveillance Plan (QASP).

**Response:** The Department partially concurs with this recommendation. The F-35 JPO, not the individual CORs, captures the impact of parts shortages on the fleet, to include cannibalization rates, as part of its enterprise-wide performance review process. The F-35 JPO will evaluate the COR's responsibilities in the QASP to ensure they are appropriate and achievable.

**Recommendation 2(b):** We recommend that the PEO for the F-35 JPO provide all CORs a detailed Performance Work Statement and appropriate access to databases and information required to accomplish effective oversight.

**Response:** The Department concurs with this recommendation. The Department agrees that it is critical for all CORs to have the access necessary to perform their oversight duties effectively. The JPO will review access procedures and address any system access barriers to ensure non-JPO CORs have access to all necessary systems, as well as to the detailed Performance Work Statement.

## Official Performing the Duties of the Assistant Secretary of Defense for Sustainment (cont'd)

**Recommendation 2(c)**: We recommend that the PEO for the F-35 JPO coordinate with the Military Services to complete a workforce study to determine appropriate COR requirements and staffing levels for the F-35 AVSC.

**Response**: The Department concurs with this recommendation. The PEO for the F-35 JPO and the Military Services will coordinate to complete a COR workforce study.”

Please contact [REDACTED] if additional information is required.

METHOD.LEI | Digitally signed by  
METHOD.LEIGH.E. [REDACTED]  
G.H.E. [REDACTED]

Leigh E. Method  
Performing the Duties of Assistant Secretary of  
War for Sustainment

## Acronyms and Abbreviations

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<b>AR</b>	Action Request
<b>AVA</b>	Air Vehicle Availability
<b>AVS</b>	Air Vehicle Sustainment
<b>COR</b>	Contracting Officer's Representative
<b>DASD(PS)</b>	Deputy Assistant Secretary of Defense for Product Support
<b>DCMA</b>	Defense Contract Management Agency
<b>DFARS</b>	Defense Federal Acquisition Regulation Supplement
<b>FAR</b>	Federal Acquisition Regulation
<b>FMC</b>	Full Mission Capable
<b>JPO</b>	Joint Program Office
<b>MC</b>	Mission Capable
<b>PBA</b>	Performance-Based Arrangement
<b>PWS</b>	Performance Work Statement
<b>QASP</b>	Quality Assurance Surveillance Plan
<b>UCA</b>	Undefinitized Contract Action

# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

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DEPARTMENT OF DEFENSE | OFFICE OF INSPECTOR GENERAL

4800 Mark Center Drive  
Alexandria, Virginia 22350-1500  
[www.dodig.mil](http://www.dodig.mil)  
DoD Hotline 1.800.424.9098

