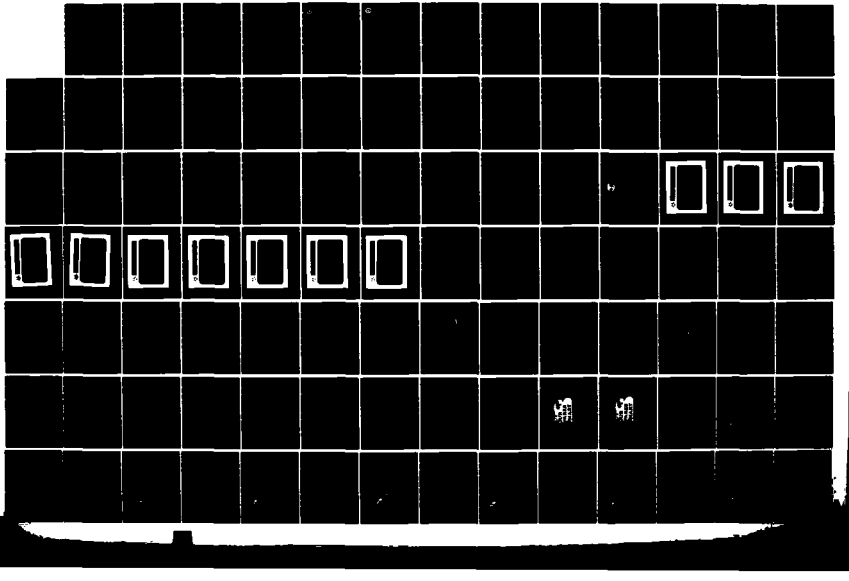
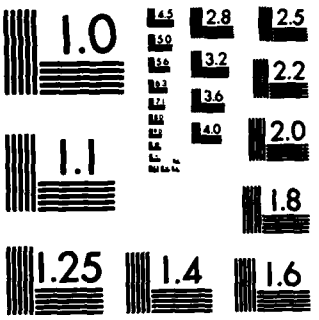
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PROCEEDINGS

of the

WORLDWIDE AIR FORCE PRICING CONFERENCE

"ENHANCING AIR FORCE PRICING"

sponsored by

HQ USAF
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&
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13-15 MARCH 1984

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We have limited the distribution of these proceedings to one copy per participating or requesting organization. Please share this publication with others in your area. Thank you.

This book was prepared by Capt Thomas E. Holubik an acquisition contracting staff officer in the Contract Pricing & Financial Office, HQ USAF/RDCP.

PROCEEDINGS

of the

WORLDWIDE AIR FORCE PRICING CONFERENCE

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DEPARTMENT OF THE AIR FORCE
WASHINGTON, D.C. 20330

OFFICE OF THE SECRETARY

MAR 9 1984

Welcome to the 1984 Worldwide Air Force Pricing Conference.

The conference theme "Enhancing Air Force Pricing" is a topic of vital importance to the Air Force. Much progress has been made in this area, but we must continue our efforts to improve the pricing process.

This conference will bring you the latest thoughts and initiatives from leaders in the war on excessive acquisition costs. The conference has been designed as a forum for our experts from both the government and industry to address the issues. Through your active participation in this conference, you are invited to contribute to a better understanding of the problems, and what needs to be done to correct those problems.

I appreciate your support of this Air Force conference and I am sure that your participation will help to insure it's success.

Verne Orr
Secretary of the Air Force

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, D.C.

21 May 1984

FROM THE DIRECTOR

The Worldwide Air Force Pricing Conference provided an open forum for members of the contracting community to gain a mutual understanding of the current initiatives we have undertaken to enhance Air Force contract pricing.

This important conference attracted over 300 attendees, including most of the Air Force's directors of contracting and chiefs of pricing, and many of our counterparts from industry. There were also representatives from the DOD/IG, the Department of Justice, audit agencies, the press, a Congressman, the Governor of Oklahoma, and most importantly, many of the price analysis and hands-on contracting officers who are implementing the changes being made.

The conference was dynamic, and during its two and one-half days, we received a variety of presentations. We started with general policy discussions which provided an understanding of the extent of the pricing problems while reviewing the complexity of the issues. We then moved to the analysis of specific, technical details. For each session, our speakers and panelists were key Government and Industry experts who served as effective catalysts by outlining the issues and providing a common ground for the questions and discussions which followed.

I believe the following highlights show that our conference achieved its goal.

General Skantze, the Air Force's Vice Chief of Staff, gave the keynote speech. He stressed that the entire DOD budget is at risk due to the spares pricing problem. He emphasized the issues of baselining, increasing competition, placing NTE limits and strong command management on unpriced orders, and other initiatives. He also stressed the point that buyers must challenge prices which are not indicative of the intrinsic value of the items we are buying.

Mr. Vander Schaff, Deputy DOD/IG, discussed the causes and categories of overpricing, and indicated that over 250 audits have been recently conducted or are planned in the acquisition area. He assured us that we can expect an expanded auditor role in all of our program and contracting activities.

Congresssman Dave McCurdy, in discussing the need for better long-range, fiscally restrained planning, stated that he would support a bill for a multi-year defense budget (two or three years), and he suggested that the PPBS, covering only five years, is too short for effective planning. He identified other needs; such as stable,

realistically priced programs; a core of professional acquisition managers; and the overall industrial base revitalizaton. He also indicated that Congress will support a "Competition" bill requiring specific goals, perhaps as high as 60% versus our present 32%.

Industry representatives, in general, expressed concern over data rights and warranty issues. We have much to do in working the policy clarification of these issues.

Mr. Walt Mossberg, the Wall Street Journal's Deputy Washington Bureau Chief, shared his views on our lack of creditibility because of the "Horror stories," and offered to publish the Air Force spare parts story when we are ready.

Special workshops concentrated on our actions to institutionalize fixes for the spare parts pricing problems. Particular emphasis was directed at new techniques such as the Competition Advocate Program and pricing policies for unit price integrity. Specific "How-to" sessions also covered pricing low value spares, should cost techniques and spare parts breakout. These workshops were designed to develop practical skills for on-the-job application.

In conclusion, the conference helped to enhance Air Force pricing policies and procedures by publicizing our initiatives and opening many new lines of communication. There is an abundance of opportunity and challenge here, and I am confident that we are off to a good start in solving our problems. Finally, the program, the facilities and the support from the Oklahoma City Air Logistics Center were all superb and I could not have been more pleased with the results.

BERNARD L. WEISS
Brig General, USAF
Director, Contracting &
Manufacturing Policy

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KEYNOTE SPEECH

GENERAL LAWRENCE A. SKANTZE
VICE CHIEF OF STAFF
HQ UNITED STATES AIR FORCE

WORLDWIDE AIR FORCE PRICING CONFERENCE
GENERAL SKANTZE - OKLAHOMA CITY, 13 MAR 84

I'M EXTREMELY PLEASED TO BE HERE TODAY AT THIS VERY IMPORTANT CONFERENCE. THE THEME OF THE CONFERENCE, "ENHANCING AIR FORCE PRICING," AND THE PURPOSE, "TO IMPROVE THE PRICES WE PAY FOR GOODS AND SERVICES," ARE NOT JUST WORTHWHILE GOALS. THEY ARE MANDATORY REQUIREMENTS.

I DON'T NEED TO TELL THIS AUDIENCE ABOUT THE TREMENDOUS GROWTH IN THE SOVIET THREAT THE DECLINE IN DEFENSE BUDGETS DURING THE 1970s. BUT TODAY WE RE MAKING EVERY EFFORT TO REBUILD OUR DEFENSES AND FIELD WEAPON SYSTEMS NECESSARY TO DETER AND, IF NEED BE, DEFEAT THE ENEMY THREAT.

BUT REBUILDING ISN'T CHEAP. THE DEFENSE BUDGET FOR FY 85 COMES TO $305 BILLION. THE AIR FORCE SHARE, INCLUDING FOR THE FIRST TIME ALMOST $5B FOR RETIREMENT ACCRUAL, IS $108B. WE'RE CONCENTRATING ON STRATEGIC MODERNIZATION, READINESS AND SUSTAINABILITY, INCREASED AIRLIFT CAPABILITY AND MODERNIZING AND EXPANDING OUR TACTICAL FORCES. BUT OUR EFFORTS ARE AT RISK.

THE AMERICAN PEOPLE ARE VERY CONCERNED ABOUT HUGE BUDGET DEFICITS. RIGHTLY OR WRONGLY, MANY TAXPAYERS BLAME THE DEFENSE BUDGET FOR THESE DEFICITS. THE RISING COSTS OF MAJOR WEAPON SYSTEMS, THE PLETHORA OF "HORROR STORIES" REGARDING SPARE PARTS, AND RELATIVELY ISOLATED BUT HIGHLY PUBLICIZED INSTANCES OF FRAUD, WASTE, AND ABUSE HAVE FUELED THE FIRES OF CRITICISM.

IN THE LAST COUPLE OF YEARS, THERE'S BEEN A CONCERTED EFFORT ACROSS THE GOVERNMENT AND DEFENSE DEPARTMENT TO IMPROVE OUR REQUIREMENTS AND CONTRACTING PROCESS TO INSURE WE'RE GETTING OUR MONEY'S WORTH. THE 32 "CARLUCCI INITIATIVES" WERE AIMED AT IMPROVING THE ACQUISITION PROCESS. A NEW DOD IG HAS BEEN ESTABLISHED AND DEREK VANDER SCHAAF WILL BE TALKING TO YOU ABOUT THE ROLE THIS NEW OFFICE IS PLAYING AND WILL CONTINUE TO PLAY IN GETTING OUR HOUSE IN ORDER. SECRETARY WEINBERGER INITIATED A TEN-POINT PROGRAM TO END SPARE PARTS PRICE ABUSES. THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL, THE GRACE COMMISSION, PRODUCED, AMONG OTHERS, FOUR DOD REPORTS WHICH INCLUDED 374 ISSUES AND RECOMMENDATIONS FOR IMPROVING MILITARY MANAGEMENT AND USE OF RESOURCES. OUR OWN AIR FORCE MANAGEMENT ANALYSIS GROUP (AFMAG), HEADED BY GENERAL

DEWEY LOVE, COMPREHENSIVELY ANALYZED OUR SPARES ACQUISITION PRACTICES, AND CAME UP WITH OVER 170 RECOMMENDATIONS TO IMPROVE OUR BUYING AND COSTING OF SPARES. FINALLY, SECRETARY ORR, PERSONALLY, HAS BEEN VERY ACTIVE IN INSURING THE PRICES WE PAY FOR SPARES ARE REASONABLE. MORE THAN AT ANY TIME IN OUR HISTORY, INTEREST IS FOCUSED ON HOW WE'RE SPENDING THE TAXPAYERS MONEY.

BUT DEVELOPING RECOMMENDATIONS AND PROPOSING INITIATIVES IS ONLY THE FIRST STEP. WE CAN'T IMPROVE THE WAY WE'RE BUYING SPARE PARTS AND SPECIAL TEST EQUIPMENT UNTIL WE IMPLEMENT THESE RECOMMENDATIONS. I'M HAPPY TO REPORT THAT WE'RE MAKING PROGRESS. BY NEXT MONTH WE WILL HAVE CLOSED OUT 30% OF THE AFMAG RECOMMENDATIONS AND EXPECT TO CLOSE OUT 60% OF THEM BY SEPTEMBER. THE REST WILL TAKE A LITTLE LONGER WITH SOME COMPLEX CHANGES EXTENDING OVER THE NEXT SEVERAL YEARS.

WE'RE WORKING HARD TO IMPROVE OUR ACQUISITION PROGRAMS AND WE'RE CONCENTRATING OUR MANAGEMENT EFFORTS ON SIX KEY INITIATIVES WHICH CONTINUE TO SURFACE WHENEVER WE STUDY THE ACQUISITION PROCESS.

THE FIRST ONE -- AND ARGUABLY THE MOST IMPORTANT -- IS PROGRAM STABILITY. SLIPPING SCHEDULES, CHANGING REQUIREMENTS, AND ESCALATING COSTS ARE MAJOR PROBLEMS. IN MANY INSTANCES, PROGRAMS HAVE GOTTEN "OFF TRACK" EARLY IN THE ACQUISITION PROCESS AND WE'VE HAD TROUBLE RECOVERING. WE'VE MADE CHANGES TO OUR ORIGINAL CONCEPT, SOMETIMES WITHOUT A LOT OF THOUGHT. WE'VE "SACRIFICED THE GOOD WHILE HUNTING FOR THE BEST." SUCH CHANGES DISRUPT SMOOTH PROGRESS IN A PROGRAM, AND MORE IMPORTANT, COST US MONEY -- LOTS OF MONEY.

TO IMPROVE OUR PROGRAM STABILITY, WE'VE INITIATED "PROGRAM BASE-LINING AND COST CAPPING." WITH THIS CONCEPT, WE MANAGE A PROGRAM WITHIN THE CONSTRAINTS OF A DEFINED BASELINE AND COST CAP. SIMPLY STATED, WE GET ALL THE MAJOR PLAYERS TO AGREE UP FRONT ON REQUIREMENTS, PROGRAM CONTENT, AND COST OF A SPECIFIC PROGRAM. THEN, WE HAVE EVERYBODY INVOLVED -- THE USING COMMAND, AIR FORCE SYSTEMS COMMAND, AIR TRAINING COMMAND, AND AIR FORCE LOGISTICS COMMAND -- FORMALLY COMMIT TO THE PROGRAM BY SIGNING THIS AGREEMENT. FOR MAJOR WEAPON SYSTEMS, I ALSO MUST SIGN. WE TRY TO DISCOURAGE ALL BUT "SAFETY OF FLIGHT" AND "MAKE WORK" CHANGES AND, ONCE SIGNED,

WE DON'T ALLOW ANY CHANGES UNLESS EVERYBODY AGAIN AGREES. IN THIS WAY, AT LEAST, WE MAKE CHANGES WITH OUR "EYES OPEN" AND AVOID THE TENDENCY TO ADD "EVERY BELL AND WHISTLE" THAT MIGHT BECOME AVAILABLE. SUCH STABILITY IS A REQUIREMENT FOR THE OTHER INITIATIVES TO WORK. IN THE FY 85 PRESIDENT'S BUDGET, SOME OF THE PROGRAMS PLANNED FOR BASELINING INCLUDE THE C-5B, THE GROUND-LAUNCHED CRUISE MISSILE, THE B-1B, AND THE PEACEKEEPER.

THE SECOND MAJOR INITIATIVE IS MULTIYEAR PROCUREMENT. THROUGH FY 84, WE ESTIMATE SAVINGS IN THE AIR FORCE ALONE AT OVER $2.5B FROM MULTIYEAR CONTRACTS WE ALREADY HAVE ON THE BOOKS. THE AFMAG REPORT INCLUDED RECOMMENDATIONS TO EXPAND THE USE OF MULTIYEAR CONTRACTING TO SPARES. AND THERE ARE MANY MORE OPPORTUNITIES FOR SAVINGS THROUGH MULTIYEAR CONTRACTING. BUT MANY OF THESE OPPORTUNITIES ARE CONTROVERSIAL. WHEN WE SIGN A MULTIYEAR CONTRACT, IT PROMOTES PROGRAM STABILITY AND REDUCES COSTS. BUT, IT ALSO LIMITS PROGRAMMING FLEXIBILITY. CONSEQUENTLY, SOME IN CONGRESS AND DOD ARE CONCERNED OVER THEIR LOSS OF BUDGET FLEXIBILITY. IN 1984, ONLY TWO OF SIX AIR FORCE RECOMMENDED PROGRAMS WERE APPROVED --

THE B-1B AND ADVANCED-BUY PARTS FOR THE DEFENSE SATELLITE COMMUNICATIONS SYSTEM. YET, SOME MULTIYEAR CONTRACTING IS CLEARLY IN THE BEST INTEREST OF THE AIR FORCE AND THE TAXPAYERS, AND WE WILL CONTINUE TO STRONGLY AVOCATE THE EXPANDED USE OF THIS CONTRACTING STRATEGY.

THE THIRD INITIATIVE IS ECONOMIC PRODUCTION RATES. AGAIN, THE SUCCESS OF THIS INITIATIVE DEPENDS ON STABLE PROGRAMS. BECAUSE OF FUNDING CONSTRAINTS, WE TOO OFTEN PROGRAM LOWER THAN OPTIMUM PRODUCTION RATES ON SOME PROGRAMS. THIS DRIVES UNIT PRICES UP. IN DEVELOPING THE FY 84 BUDGET, 30 OF 53 DOD-WIDE MAJOR PROGRAMS WERE "STRETCHED OUT" AT REDUCED PRODUCTION RATES. REASONS FOR STRETCHING THESE PROGRAMS ARE MANY -- TECHNICAL PROBLEMS, FISCAL CONSTRAINTS, AND SIMPLY TOO MANY PROGRAMS TO HANDLE. ALTHOUGH 9 OF THE 30 "STRETCHED PROGRAMS" WERE RESTORED DURING THE PROGRAM BUDGET DECISION PROCESS, TOO MANY REMAIN WITH INEFFICIENT RATES. WE NEED TO DO A BETTER JOB. WE'VE TASKED OUR PROGRAM ELEMENT MONITORS TO DETERMINE ECONOMIC PRODUCTION RATES FOR THEIR PROGRAMS AND TO DESCRIBE THE VARIATIONS THAT ARE ACCEPTABLE. YOU CAN EXPECT INCREASED EMPHASIS ON ECONOMIC PRODUCTION RATES FOR HIGH PRIORITY

PROGRAMS, EVEN IF IT MEANS CANCELLATION OF SOME LOWER PRIORITY PROGRAMS.

ON THE SPARES FRONT, ECONOMIC ORDER QUANTITIES MAY BE EVEN MORE IMPORTANT. SEVERAL OF THE "HORROR STORIES" INVOLVED BUYING "ONESIES" AND "TWOSIES" AT TERRIFIC COSTS WHEN A LITTLE PLANNING WOULD HAVE LOWERED THE UNIT PRICE GREATLY. EVERYONE INVOLVED WITH SPARES BUYING NEEDS TO LEARN THIS LESSON. WE MUST LOOK AHEAD; ESTIMATE OUR LONG TERM NEEDS; AND BUY IN SUFFICIENT QUANTITY FROM THE RIGHT SOURCE TO DRIVE OUR COSTS DOWN.

THE FOURTH INITIATIVE IS REALISTIC BUDGETING -- ANOTHER BIG PROBLEM. AS PRESIDENT EISENHOWER SAID IN 1955, "AS QUICKLY AS YOU START SPENDING FEDERAL MONEY IN LARGE AMOUNTS, IT LOOKS LIKE FREE MONEY." BUT, AS WE ALL KNOW, IT'S NOT "FREE MONEY," AND WE NEED TO MAKE BETTER ESTIMATES OF OUR COSTS. TODAY, WE'RE INCREASING EMPHASIS AND FREQUENCY OF INDEPENDENT COST ANALYSES (ICAs). IN 1983, WE ACCOMPLISHED 16 ICAs COMPARED TO ONLY 6 AS RECENTLY AS 1981. IN 1984, WE EXPECT TO ACCOMPLISH 16 TO 20 ICAs. AGAIN, PROGRAM STABILITY IS CRUCIAL. IF WE CONTINUE TO CHANGE REQUIREMENTS, ALTER PRODUCTION RATES, AND OTHERWISE MODIFY THE SYSTEMS WE ARE BUILDING, IT WILL

BE IMPOSSIBLE TO GET A HANDLE ON COSTS. WE MUST DEVELOP REALISTIC ESTIMATES AND WE MUST MANAGE TO THESE ESTIMATES. IT DOES LITTLE GOOD TO ESTABLISH OUR GOALS ON THE BASIS OF STATEMENTS OF WHAT WE'D "LIKE" THINGS TO COST. GOALS MUST BE ESTABLISHED ON THE BASIS OF WHAT THEY "WILL" COST.

OUR FIFTH INITIATIVE IS IMPROVED READINESS AND LOGISTICS SUPPORT. WEAPONS THAT AREN'T READY WHEN WE NEED THEM, WHERE WE NEED THEM, AND FOR AS LONG AS WE NEED THEM SIMPLY WON'T DO. THEREFORE, WE ARE WORKING TO "BUILD IN" READINESS AND SUPPORT RIGHT FROM THE START. MULTI-COMMAND "ADVANCED CONCEPT SUPPORTABILITY TEAMS" ARE NOW PROVIDING LOGISTICS SUPPORT IN EARLY PHASES OF OUR PROGRAMS. WE'RE REQUIRING EARLIER PROGRAM PLANNING AND BUDGETING TO INSURE THE HARDWARE IS AVAILABLE FOR EFFICIENT TESTING AND EVALUATION. AND WE'RE PROMOTING TECHNOLOGIES WITH HIGH LOGISTICS PAYOFFS TO ENSURE MAINTAINABILITY AND SUPPORTABILITY. WE'RE INCREASING EMPHASIS ON THOSE IMPROVEMENTS THAT REDUCE COSTS FOR THE LIFE-CYCLE OF A WEAPON SYSTEM.

THE SIXTH INITIATIVE IS TO ENCOURAGE COMPETITION. IN 1983

WE COMPETED 75% OF OUR 3.5 MILLION CONTRACT ACTIONS. HOWEVER, THIS ACCOUNTED FOR ONLY 32% OF OUR OBLIGATED DOLLARS. FIFTY PERCENT OF OUR DOLLARS GO TO MAJOR WEAPON SYSTEMS LIKE B-1, PEACEKEEPER, AND F-15, WHICH, ALTHOUGH THEY WERE ORIGINALLY COMPETED, ARE NOW SOLE SOURCED TO PRIME CONTRACTORS. WE'VE JUST COMPLETED A MAJOR COMPETITION FOR THE ALTERNATE FIGHTER ENGINE, KNOWN IN THE PRESS AS "THE GREAT ENGINE WAR$." NOW, WE WILL HAVE TWO SOURCES OF FIGHTER ENGINES AND THE COMPETITION WILL SAVE US MONEY FOR YEARS INTO THE FUTURE. WE'RE ALSO ENCOURAGING "MULTIPLE SOURCING" TO GET MORE COMPETITION IN OTHER SYSTEM PRODUCTION AND FOLLOW-ON CONTRACTS. FOR EXAMPLE, WE HAVE TWO CONTRACTORS FOR THE AMRAAM AND THE IMAGING-INFRARED (IIR) MAVERICK, BUT WE NEED MORE COMPETITION ACROSS THE BOARD.

MANY OF OUR PROBLEMS IN SPARES PROCUREMENT HAVE BEEN ATTRIBUTED TO A LACK OF COMPETITION. SEVERAL OF THE AFMAG'S KEY RECOMMENDATIONS WERE AIMED AT INCREASING COMPETITION. TO THAT END, WE'RE ENLARGING AND STRENGTHENING OUR "COMPETITION ADVOCATE" PROGRAM. WE'RE CURRENTLY ADDING 1000 MORE MANPOWER POSITIONS SPECIFICALLY TO HELP "BREAK OUT" ITEMS FOR COMPETITION AND TO IMPROVE OTHER AREAS OF OUR ACQUISITION

PROCESS. WE'VE ALSO SET COMPETITION GOALS FOR EACH OF OUR COMMANDS AND TASKED THEM TO PREPARE PLANS TO INCREASE COMPETITION FOR ALL ACQUISITION PROGRAMS. WE'VE ASKED THEM TO SPECIFICALLY TARGET THEIR LARGE DOLLAR PROGRAMS FOR CONVERSION TO COMPETITION. ALL THIS TALK OF COMPETITION REMINDS ME OF A STORY ABOUT TWO GOOD FRIENDS WHO WERE VIRTUALLY INSEPARABLE. THEY WORKED TOGETHER, PLAYED SPORTS, HUNTED AND FISHED. IN ALL THESE PURSUITS, THOUGH, THEY WERE VERY COMPETITIVE -- SEEING WHO COULD "WIN." ONE DAY THE TWO WERE SKYDIVING. THE FIRST JUMPED OUT OF THE AIRPLANE, DESCENDED A FEW THOUSAND FEET, PULLED HIS RIPCORD, AND BEGAN TO FLOAT GENTLY TOWARD EARTH. ABOUT THIS TIME, HIS FRIEND JUMPED OUT, PULLED HIS RIPCORD, BUT NOTHING HAPPENED. HE PULLED HIS EMERGENCY RELEASE AND, AGAIN, NOTHING HAPPENED. IN A MATTER OF SECONDS, HE WHIZZED PAST HIS FRIEND, PLUMMETING LIKE A STONE. THE FIRST JUMPER, SEEING HIS FRIEND STREAK PAST, EXCLAIMED, "AHA!" AND YANKING OFF HIS HARNESS SCREAMED, "SO YOU WANNA RACE!"

THAT KIND OF MINDLESS COMPETITION WE OBVIOUSLY DON'T NEED. WHAT WE DO NEED IS THOROUGH REVIEW AND SCRUTINY OF THE PRICES

WE PAY FOR ALL SYSTEMS, SPARES, SUPPLIES AND SERVICES. AND WE NEED TO CHALLENGE PRICES WHEN THEY'RE NOT RELATED TO INTRINSIC VALUE. COMPETITION, COST CONSCIOUSNESS, COST AVOIDANCE, AND COST REDUCTION HAVE TO BECOME A WAY OF LIFE IN THE AIR FORCE. THIS CONFERENCE OFFERS US A GREAT OPPORTUNITY. WE HAVE THE RIGHT PEOPLE HERE -- THE REAL EXPERTS. WE UNDERSTAND OUR COSTING PROBLEMS BETTER THAN EVER BEFORE. NOW IS THE TIME TO IMPROVE OUR PERFORMANCE.

BUT NO ONE ORGANIZATION OR GROUP CAN DO THE JOB ALONE. IT WILL TAKE THE BEST EFFORTS ON ALL OUR PARTS -- AIR FORCE AND INDUSTRY -- TO FIX OUR PROBLEMS. I WISH YOU WELL IN YOUR PANELS AND DELIBERATIONS. THE JOB WE HAVE BEFORE US COULDN'T BE MORE IMPORTANT. THANK YOU VERY MUCH FOR INVITING ME AND GOOD LUCK.

DOD/IG VIEW OF THE OVERPRICING PROBLEM

MR. DEREK K. VANDER SCHAFF
DEPUTY INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

REMARKS BY MR. DEREK J. VANDER SCHAAF
AT THE 1984 WORLDWIDE AIR FORCE PRICING CONFERENCE
OKLAHOMA CITY, OKLAHOMA
MARCH 13-15, 1984

This morning I want to confine the major portion of my remarks to spare parts pricing and the major ongoing DoD-wide audit of spare parts pricing. If time permits, I will briefly touch on what the Inspector General is doing on defective pricing matters and the system to followup on contract audits.

At the risk of boring many of you in the audience, I want to start off by stating some facts that you in all probability already know. This needs to be done because the spare parts problem we face is not a simple single problem of paying more than we should. In fact, overpricing is the result of a number of other shortcomings in:

- requirements determination
- inventory management
- automated data support
- cataloging
- use of technical data
- poor use of nomenclature
- failure to standardize
- proprietary designations
- uneconomical quantities purchased
- personal attitudes
- and most importantly lack of cost incentives

The sheer size of the DoD spare parts operation can be viewed as a problem in itself. The Department supply system manages about 4.3 million items, of which over 3.5 million can be reasonably classified as spare parts. In comparison, the largest and best supermarkets in the country stock a mere 25,000 items. We are adding from 5,000 to 7,000 items to this inventory each month. When we try and further divide the requirement up into (1) peacetime operating stocks, (2) war reserve stocks, and (3) other war reserve categories we further unnecessarily complicate the problem.

Poor use of nomenclature and failure of buyers to familiarize themselves with items purchased lead to horror stories.

As a matter of fact we are finding that certain key words in the description often can be a tip-off that an item is overpriced. When the nomenclature includes the words safety or alignment, as in:

"parachute clip safety" or "alignment tool" hold on to your billfold.

We have been unsuccessful in encouraging contractors to use standard (already stocked) items instead of designing a new item or making a minor modification to an existing item, which results in a new Federal Stock Number and further complicates the process.

Because of the sheer size of the system, it has been clericalized to an extent that many purchases do not receive appropriate scrutiny. Buyers and item managers are rated on the number of procurement actions handled, or obligations made, not on what they paid for parts purchased. These pressures work directly against increased competition.

The use of should cost analysis and the development of alternative sources consume time and effort in a system which rewards speedy procurement and is short of trained personnel to make the analysis.

Cost or price is not viewed as an important factor on individual items, it only plays a role in determining the quantity and range of items to be procured.

Cost and pricing data are not normally requested for many smaller (under $500,000) negotiated contracts.

Reviews of contractor estimating and accounting systems by DCAA and ACO's are not made for the specific purpose of determining the ability of the system to appropriately allocate costs to individual spare procurements. I will have more to say about this later.

The desire for speed in procurement resulted in excessive use of price redeterminable basic ordering agreements and unpriced orders. The use of these procurement techniques provides little incentive for the contractor to hold down costs or make timely deliveries. As you know this contract form is being eliminated, but there is still a lot of equipment to be delivered under earlier price redeterminable BOA's.

All together too many parts have been pyramided or passed from an original producer through jobbers and distributors to a prime manufacturer, with each level adding on overhead and profit.

Costs for engineering technical support startup, etc., are appropriately included in the initial provisioning price. Then all too often this initial provisioning price becomes a baseline for follow on procurement in which all of the engineering and other overhead costs should not be repeated.

The DoD pays for technical data which it often does not receive or when received are incomplete. Even when technical data are available they often are not used to develop competitive sources of supply.

Until recently, technical data that include proprietary designations are seldom challenged.

WHAT WE ARE DOING TO CORRECT THE PROBLEM

After all this bad news there is some good news. Each of the Military Departments and the Defense Logistics Agency have major efforts under way to correct many of the problems summarized above. These efforts include:

o Screening all purchases for breakout to second or competitive sources. There is an addition of 7,000 people in the FY 1985 budget for this purpose.

o A competition advocate has been established at each major buying command and buying activity.

o Performing front end work to ensure that the prime contractor seeks more than one supplier for various parts of the weapon system and that the prime contractor agrees to provide necessary data to support competitive follow on purchases of spares. The Air Force fighter engine contract is the best example of this. I congratulate the Air Force on breaking through this long-standing problem with the engine manufacturers. The Air Force has always been the leader in innovative contracting. It did not always turn out the way you expected--a la C-5A. But innovations all the same. Other improvements include:

o More "should cost" and value analyses.

o The Services are ordering more spares concurrent with production of the end item.

o Plans are being developed to execute the spare parts purchases annually and execute early in the year. Thus, reducing the number of orders/contracts placed.

o The Secretary of Defense issued policy guidance on the spares procurement process in July and issued more detailed program guidance last August. These policy objectives included rewards, discipline, refusing to pay unfair prices, refunds and continuing to audit for pricing abuses. The second memorandum established specific program objectives which the Military Departments are implementing under the supervision and guidance of the USDR&E.

REMAINING ISSUES

This does not mean the battle is over. Further work is required to:

1. Establish the size and extent of the overpricing problem: efforts to accomplish this will be discussed in a moment.

2. Verify that the corrective actions taken during the past year are in fact effective. This along with ensuring that these actions do not adversely affect military readiness is something that we have to start reviewing in detail in 1985.

3. Finally we must find ways to reduce excessive vulnerability to overpricing on small quantity, low value items. In other words, stop the horror stories. We will never stop all the horror stories but we can do much better.

One of the first things the Reagan Administration did after taking over the Pentagon three years ago was to launch a campaign against fraud, waste and abuse and make some sweeping reforms in management and procurement. There is quite a revolution taking place in the defense marketplace. The Department's internal auditors are playing an important role in that revolution.

PAST AUDITS RELATING TO THE SPARE PARTS BUYING PROCESS

For example: 140 audits have been completed, 87 were in process and 25 additional audits planned by DoD's internal audit organizations. This listing clearly establishes that the Department took the initiative in identifying the various spare part problems. The requirements area and inventory management have received a lot of audit coverage. However, it also indicates that not much audit attention has been given to the matters of pricing, technical data and disposal activities. We may be vulnerable in those areas and you should be paying particular attention to them.

We are going well beyond audits in getting to the bottom of the spare parts pricing issue. The Department of Defense/Department of Justice Fraud Unit has already obtained indictments and guilty pleas in cases where criminal mischarging was involved. We had 657 white collar crime convictions last year. We have received refunds from suppliers who have overcharged the Department. The numbers of suspensions and debarments have increased dramatically during the past three years. We have also directed that the Defense Contract Audit Agency (DCAA) conduct more defective pricing audits and new auditors are being hired for that purpose.

Some specific examples include:

The Commercial Fasteners Corporation recently plead "nolo contendere" to 23 counts of making false statements in connection with bids for contracts to sell hardware items.

Several large DoD semiconductor manufacturers may have supplied defective or faulty microchips now part of many electronic devices used by the military; from walkie-talkies and jeeps to battleships

and fighter aircraft. Last week, the National Semiconductor Company pleaded guilty in a 40 count indictment of falsifying records relating to the testing of electronic spare parts. While I am not personally satisfied with the settlement based upon what I currently know about it, the guilty plea does send a message. We expect further convictions in the near future.

Officers and owners of Standard Air Parts, Inc., were indicted and convicted on charges related to bribery/kickback schemes to defraud the Government in the supplying of spare parts.

We are investigating a DoD contractor for overpricing spare parts for tanks, nuclear submarines, aircraft and helicopters. We are checking out a spare part that is being provided to DoD at a cost of $820.00 when an affiliated company could provide it for $2.40. Three other items have been identified which were procured by DoD at unit prices of $12.50, $9.50 and $24.75, while the contractor acquired them for $.21, $.64, and $.07, respectively.

The General Dynamics Corporation charged the Air Force $1,900 for a part while paying only $31 for the part. Investigation substantiated the overpricing, and resulting action led to a change in the standard part price.

An investigation was initiated from a tip that a $148.04 commercially procured washer could be fabricated from readily available materials at a significantly reduced price. Inquiry determined the feasibility of the idea and action was taken to produce a quantity of the items in-house. They have now been introduced into the supply system at a price of $10.93.

The President of the Brothers Machine Company pled guilty to a charge of making false statements. The contractor had forged the signature of a Government quality assurance representative on inspection forms in order to receive payment for defective spare parts.

You in the audience are probably all familiar with the Davey Compressor case or the B.H. Aircraft case where the wheels of justice continue to grind. The list goes on and on.

The important point is that many firms are now getting the picture that the risks involved in overcharging or cheating DoD have increased substantially.

DoD-wide Spare Parts Audit

Now that I have told you what you already know, I'll address what the Department's internal auditing arms are doing to verify what you already know.

I am speaking about the largest single audit ever undertaken by the Department of Defense. We refer to this audit as the DoD-wide Audit of Spare Parts Procurement. The audit was personally requested by Secretary Weinberger last August--and when I mean personally, I mean personally. We did not in any way urge him to conduct this audit. He felt it was necessary as a result of the "fallout" from some earlier audits of the spare parts process.

The objective of this audit is to quantify the extent to which unreasonable prices are being paid for spare parts and to determine if the "fixes" that have already been put into place or are being implemented address all of the pricing problems identified in the audit. We will not make unnecessary recommendations.

For this audit the Military Department internal auditors and the auditors randomly selected 2,300 spare parts for which we spent approximately $253 million. While the parts to be audited were randomly selected, the 202 contractors covered by the audit have not been randomly selected. The contractors reviewed represent the largest dollar suppliers of spare parts at the buying activities audited.

This situation was turned around in DLA where the contractors were randomly selected from among those doing the most business with DLA. The parts were not randomly selected, but were the ones accounting for the largest purchased amounts from the contractors. Aircraft engine part suppliers were excluded because of our previous work in this area.

One aspect of this audit we wanted to avoid was making the same mistakes that occurred in the aircraft engine spares audit. As you will recall in that audit we tried to work on the basis that the previous price was acceptable or fair and monitored increases in price from the previous price. That approach to an audit is full of pitfalls as we found out. In fact, I'm convinced that one of our problems in buying spare parts is an excessive reliance on the previous price paid in making the determination that the new price is fair and reasonable. The aircraft spare parts audit certainly had a lot of examples which indicate that this is a bad assumption. The aircraft engine spares audit also pointed out the huge number of errors and incomplete data contained on the procurement history tapes.

Now getting back to the current audit. We have provided the Secretary of Defense with an interim status report on our progress through mid-December. The individual Service auditors and IG auditors have each issued separate interim reports on their portions of this DoD-wide audit.

We have not attempted to draw any conclusions or final recommendations with respect to our findings to date. I can

only pass on to you some of the preliminary data. As of mid-December, we had made determinations on about 650 of the 2,300 parts in the random sample and classified about 430 parts as reasonably priced and about 220 parts as unreasonably priced. Thus, slightly more than one third of the parts reviewed at that time were believed to be unreasonably priced.

There are some aspects that this audit has already revealed that bother me. One is the large number of items had to be referred to the Defense Contract Audit Agency, in order to assist in making a determination if the price was fair and reasonable. About 1,500 of the 2,300 items sampled (nearly two thirds) had to be referred to Contract Audit because the procurement files did not have data readily available to determine the reasonableness of the price paid. Yet each and every buyer certifies that the price is fair and reasonable under the circumstances. We realize that additional time and personnel are needed to prepare and analyze data if managers are going to be able to say, without equivocation, that the price paid is fair and reasonable. Costs of accomplishing this would of course reduce any savings resulting from making price a more prominent consideration in our purchasing procedures. But this situation in turn illustrates my earlier comments about clericalization of the process and incentivizing people to move paper rather than get the best price.

The auditors are classifying a price as unreasonable if they conclude after consideration of a number of factors that DoD should have paid a lower price. Some of the factors considered are the procurement histories, quantities procured, sources of supply, frequency of buys, engineering appraisals, the intrinsic value of the item and physical characteristics of the item. We also looked at the contractors' cost and his catalog prices if he sold the item to buyers other than the Government.

To date, we have placed the items found to be unreasonably priced in one of seven categories. These categories are:

1. Lower prices available from another source;
2. Price paid exceeded intrinsic value;
3. Pricing methodology overstated the item's value;
4. Uneconomical quantities purchased;
5. Prices paid exceeded catalog prices;
6. Pricing errors and related deficiencies; and
7. Higher price paid to fulfill an urgent requirement.

Lower Prices From Another Source

Now I want to say a few words about each of these categories without attempting to draw any conclusions. Essentially the first item, lower prices available from other sources, ties to long-standing breakout issues. Higher prices were paid because we did not solicit known sources or the buyer was not informed

by technical staff that other sources existed. This occurred when available documentation, such as drawings and prior procurement histories, were not used to identify the other sources. Also in this category are purchases from prime contractors when the prime was not the actual manufacturer and did not add any value to the part. The kinds of problems covered in this category are well known and as far as I can tell are being addressed in all the Military Department's programs to improve the spare parts buying process.

Price Exceeded Intrinsic Value

In the second category, price paid exceeded intrinsic value, an engineering team reviewed drawings and physically observed the item. The engineers based their judgement on familiarity with similar items, estimate of labor hours to produce, labor rates, material cost, overhead, profit and special tooling in order to develop an estimated price of the item. The contributing cause of items identified as overpriced through this methodology was generally that buyers were not familiar with the items they bought and adequate engineering reviews were not performed.

Pricing Methodology Overstates Value

The third category, pricing methodology overstated item value, relates to the well known problems of using equal allocation of costs methodology. Individual items are not separately priced or negotiated as a single procurement action and the contractor quotes a price for all of the items. In our preliminary review about 19 spare parts actually were overpriced on an individual item basis. In most cases the auditors were able to determine that a fair and reasonable price was paid when the order was reviewed in its totality. However, I do not mean to infer by this that there are no problems with this pricing methodology. This pricing technique often resulted in high price initial spare prices becoming the basis for price estimates on future purchases. This action also established a price for our own stock fund operation. When the next purchase is made and only a comparison of price to the past purchase is used as a basis for determining price reasonableness, we are liable to get stung and badly. Also, transferring this price to the stock fund can result in selecting a substitute item which appears to be less expensive but may in fact be more expensive.

Buying in Uneconomical Quantities

The fourth category covers uneconomical quantities. The auditors found a significantly large number of items where the procuring activities did not take advantage of price breaks offered by vendors for larger buys of needed items. They also found that uneconomical purchases of initial spares were made because emphasis had been placed on ordering minimum quantities, although

the items design was stable, and larger purchases could be justified. The auditors also identified a number of items where more than one Federal Stock Number was assigned for the same part or a preferred substitute part was available. Combining these requirements would have obviously reduced costs.

Price Exceeds Catalog Price

A small number of items were purchased when the price paid exceeded the vendor's catalog price. We often found that the DoD buyer did not have the vendor's catalog in hand and thus, was unable to check the price against an existing catalog price. Our auditors have issued a separate report on one particular vendor who has charged the Government considerably more than he charged commercial airlines for a number of spare parts.

Pricing Errors and Deficiencies

Under the heading of pricing errors and deficiencies, we have identified two particularly significant problems. This is the problem of negotiating an initial spares award based on subcontractor quotes provided by a prime. Procuring officials did not request technical or field pricing reviews of the subcontractor's proposal primarily because it was believed that such field pricing support cannot be obtained in a timely manner. Subsequent to negotiations with the Government, the prime contractor was able to obtain lower prices from the subcontractor and did not pass the savings along to the Government. When this happens we can get stung badly. We have also issued a report on this situation as it applies to certain major weapon system awards that has received a lot of recent press coverage.

Another group of items in this category were overpriced because significant price escalation took place within a short period of time, but these escalations were not challenged and there was no explanation available for the much higher price paid.

Urgent Requirement

The last and final of the seven categories includes paying a higher price to fulfill an urgent requirement. Only a few items in our preliminary status report fall into this category. We accepted the higher prices paid on some items when a record was available to document that the requirement was urgent. Unfortunately, in two cases there was a substantial increase in price because of failure to seek competition on the basis that it would take too long to fill the urgent requirement. The requirement was known 18 months in advance, but not acted upon in a timely manner.

Let me finish up by saying the preliminary data suggests, note I did not say conclude, that there are many instances of overpricing and that the percentage of overpricing on individual items may be high--that's the bad news. However, the good news is that the total dollar amount of overpricing tended to be small either because the overpricing occurred on low dollar value items or because small quantities of the items were procured. Of the 220 items preliminarily classified as unreasonably priced, just a few items accounted for over half of the dollar value. The few larger dollar value items involved situations where we paid higher prices either because the procurement was improperly treated as urgent or because we bought from small business under the "set aside" program and paid an unreasonably high price.

Unfortunately, the numbers of items with high percentage increases is rather significant even though the dollar amounts are not, as indicated on this chart. We are well aware that we do not want to "chase a nickel in savings with a dollar in cost" and will be mindful of that when we write our final report.

DCAA's ROLE

Now before I finish, I want want to say a few words about DCAA's role in this audit. In general, DCAA provided excellent support. They furnished us with actual costs, when available, or reviewed the accuracy of the original pricing. Since most contractors do not maintain actual costs by individual part, DCAA often had to review the adequacy of an estimate, make an estimate themselves, or apply recommended loadings to purchased parts costs on pass-through items. This was often difficult to do because some of the contractors estimating systems had not been previously reviewed or were not designed to effectively track costs to small purchases.

Based on what I know to date, let me advise those of you who are in the spare parts procurement business to always obtain and use preaward surveys of accounting systems for new suppliers and to update periodically. We found contractors that had never been audited because of only accepting orders under the threshold value that required field pricing review. This was most noticeable at 30 contractors who initially denied access to DCAA on procurements where DCAA did not have contractual right to their accounting records. The IG's statutory rights to data exceed the contractual rights. Thus, through the threatened use of our subpoena powers, we convinced all 30 of those contractors to provide necessary cost data or catalog pricing sales data to DCAA to assist in our DoD-wide audit. As we further refine our data, it will be interesting to note the extent of overpricing by these 30 contractors.

DEFECTIVE PRICING

So far, I have concentrated my remarks on the pricing of spare parts; however, I am just as concerned about the pricing of major weapon systems. Our contract audit followup reports for the period ended September 30, 1983, indicate that 206 defective pricing reports were over six months old. The reports included recommendations for downward price adjustments totaling $248 million. The rate of sustention for 101 defective pricing reports closed during the period was 18 percent. I consider that unacceptable. By comparison, the overall sustention rate for contract audit reports was 53 percent.

As many of you know, I believe that the Department can do better on resolving defective pricing audits. I presented some of my views on this subject to the Senate Committee on Governmental Affairs and the Senate Armed Services Committee last year and I am scheduled to discuss this subject and its relationship to the old Renegotiation Board process before the House Banking, Finance and Urban Affairs Committee next week. I also directed my staff to look for ways to get more bang for the buck from defective pricing reviews.

Our contract audit followup efforts on the defective pricing situation are beginning to have an impact. We have conducted a series of reviews at one major Air Force buying command and pointed out deficiencies in the procedures used to settle defective pricing cases. In response, the Air Force has initiated or reinforced the following policies:

1. The contracting officer does not have the authority to waive the Government's right to future defective pricing claims in order to settle a current claim with the contractor.

2. Price adjustments made as a result of defective pricing must be made on the instant contract. The adjustments cannot be deferred to other contracts or fiscal years.

3. The applicable DAR provisions, DAR 3-807.9 and 3-801.5, will be followed to ensure that the procurement contracting officer is aware of all DCAA audits of subcontractor proposals for the prime contractor. If the procurement contracting officer is not made aware of the assist audit when the prime contract price is negotiated, the Air Force will pursue recovery of any overpricing under the defective pricing clause.

Another recent Air Force contract audit followup review addressed the proposed settlement of seven defective pricing cases at one contractor location totalling some $30 million. In response to our observations, the Deputy Assistant Secretary of the Air Force (Acquisition Management) concurred that available legal and audit resources were not effectively used in the proposed

settlement. A detailed legal review was subsequently conducted, and negotiations were scheduled to reopen as soon as conflicting views are resolved between the auditor, legal advisor and negotiation team. The pricing office is revising its procedures to strengthen the requirements for documentation and legal reviews. The placement of the Designated Independent Senior Acquisition Official was also changed to provide more independence. Other changes are under review.

The Air Force is making a very positive response to some of my office's efforts. Senior management in the Air Force, from the Secretary on down, recognize a need for some changes. I sincerely appreciate your cooperation. I thank you for giving me an opportunity to talk about these pricing issues.

AIR FORCE INITIATIVES

A PANEL DISCUSSION

MODERATOR: BRIG GEN RICHARD L. STONER
DEPUTY DIRECTOR, LOGISTICS PLANS & PROGRAMS
DCS/LOGISTICS & ENGINEERING
HQ UNITED STATES AIR FORCE

PANELISTS: BRIG GEN KENNETH R. JOHNSON
DEPUTY CHIEF OF STAFF, ACQUISITION LOGISTICS
AIR FORCE SYSTEMS COMMAND

BRIG GEN JAMES C. DEVER
DEPUTY CHIEF OF STAFF, CONTRACTING & MANUFACTURING
AIR FORCE SYSTEMS COMMAND

BRIG GEN RICHARD D. SMITH
DEPUTY CHIEF OF STAFF, CONTRACTING & MANUFACTURING
AIR FORCE LOGISTICS COMMAND

BRIG GENERAL KENNETH R. JOHNSON
DEPUTY CHIEF OF STAFF
ACQUISITION LOGISTICS
HEADQUARTERS AFSC

FOR: 1984 WORLDWIDE AIR INITIAL PROVISIONING
ASSIGNED TO TALK ABOUT INITIAL PROVISIONING
HOWEVER, IN TODAY'S TERMINOLOGY -- SUBJECT IS THE TOTAL PROVISIONING PROCESS

--COVERS A MUCH BROADER RANGE

TRADITIONAL DEFINITION: "MINIMUM RANGE & MINIMUM QUANTITY OF SPARE PARTS NEEDED TO SUPPORT SYSTEM THROUGH INITIAL PERIOD OF OPERATIONAL USE (NORMALLY ONE TO TWO YEARS).

IN THIS CONTEXT, PROVISIONING WAS A VERY RESTRICTIVE CONCEPT.

SOME GOOD REASONS FOR THIS CONCEPT

--CONTROL RISK IN UNSTABLE DESIGN ENVIRONMENT

HOWEVER: THE OLD CONCEPT --

--INHIBITED US FROM TAKING ADVANTAGE OF SOME GOLDEN OPPORTUNITIES TO ACHIEVE BETTER PRICES (THE VERY FIRST TIME WE BOUGHT A SPARE PART) --

--FORCED US TO PAY HIGH PRICES - BECAUSE OF LIMITED INITIAL SPARES BUDGETS AND SMALL QUANTITY BUYS.

THE REAL PROBLEM: WE NEEDED A GRAND STRATEGY.

I'M HAPPY TO REPORT THERE'S A "DRAMATIC"CHANGE TAKING PLACE IN THE AIR FORCE IN THE WAY THAT WE PROVISION WEAPON SYSTEMS TODAY.

--STARTING WITH B-1, PEACEKEEPER THE ATF AND OTHERS.

TWO THINGS HAVE PRECIPITATED THE CHANGE

1. AFMAG REPORT

--HIGHLIGHTED: "PROVISIONING SETS THE STAGE FOR EVERY ITEM

---PRICE

---COMPETITION

--WHAT WE DO (OR FAIL TO DO EARLY IN SYSTEM DEVELOPMENT) DETERMINES HOW WE MANAGE AN ITEM OVER THE LIFE OF A SYSTEM.

2. A "NEW ORDER" IN ACQUISITION LOGISTICS

--MY ORGANIZATION IN HQ AFSC IS AN INTEGRAL PART OF THAT NEW ORDER.

--JUST AS: PRODUCT AL'S AND NEW AFALC

--THEME OF THE "NEW ORDER":

EARLY "FRONT-END" PLANNING AND EXECUTION

NOW - LET ME DESCRIBE WHAT'S REALLY DIFFERENT BESIDES A BUNCH OF NEW POLICIES AND ORGANIZATIONS

--PUTTING MANPOWER RESOURCES (I LIKE TO CALL THEM "STRATEGIC PROVISIONING PLANNERS - SPP's") IN OUR PROGRAM OFFICES EARLY BEFORE FSD

--DEFINE "ACQUISITION STRATEGY FOR SPARES" -- WHILE STILL IN COMPETITIVE PHASE (PRE-FSD) OF PROGRAM

-- NOT CONSTRAINING BUY QUANTITIES ON STABLE ITEMS --I.E. MULTI-YR; LIFE-OF-TYPE BUY, ETC.

-- PREPLANNING THE USE OF ICS TO COVER UNSTABLE ITEMS --I.E. LET CONTRACTOR SUPPORT THESE ITEMS UNTIL "RISK" IS MANAGEABLE UNDER NORMAL SPARE PARTS ACQUISITION

-- USE "LOGISTICS SUPPORT ANALYSIS" TO FULLY SUPPORT PROVISIONING DECISIONS -- ELIMINATE COSTLY REDUNDANT DATA

-- CONCENTRATE ON GETTING A FAIR AND REASONABLE PRICE -- THE VERY FIRST TIME WE BUY AN ITEM THROUGH AFPRO ACTIVITIES (TENDENCY IN THE PAST TO TREAT "PROV PRICES" LIGHTLY -- IN FACT, FIRST PRICE YOU PAY HAS STRONG, LASTING INFLUENCE)

LASTLY, -- CONCENTRATE ON MAINTAINING COMPETITION (THAT STARTS IN PRE-FSD PHASE)

--- IDENTIFY ACTUAL MANUFACTURERS

--- PROMOTE DUAL/MULTIPLE SOURCES

--- OBTAIN UNLIMITED DATA RIGHTS (SO WE CAN BUILD COMPETITION IN POST PRODUCTION PHASE)

--- PRE-DETERMINATION OF RIGHTS CLAUSE

--- CHALLENGE LIMITED RIGHTS

--- "FLOW-DOWN" DATA RIGHTS REQUIREMENTS TO SUB-CONTRACTOR

--- BREAKOUT EARLY ... EVEN IN PRODUCTION (EXAMPLE: B-1)

--- PARTS CONTROL PROGRAM

... MANDATORY IN AF SINCE 1970

--- QUALITY OF APPLICATION IS THE KEY

WE ALL RECOGNIZE THE BASIC WEAKNESS OF THE WHOLE SPARE PARTS ACQUISITION PROCESS

--IT'S A TREMENDOUSLY "MANPOWER INTENSIVE" PROBLEM

THE ONLY SALVATION WE HAVE IS TO "AUTOMATE AND INTEGRATE" THE ENTIRE PROCESS

-- NOT JUST "ISOLATED" AUTOMATION (D220)

THIS IS THE ONE PLACE WHERE BOTH AFSC AND AFLC ARE CONCENTRATING

THE SPARE PARTS PROBLEM IS NOT THE EXCLUSIVE PROPERTY OF AFLC -- WE ALL SHARE IN IT.

LOGISTICS CONTRACTING

SPARE PARTS PRICING INITIATIVES

BRIEFER: BRIG GEN RICHARD D. SMITH

AFLC - Lifeline of the Aerospace Team

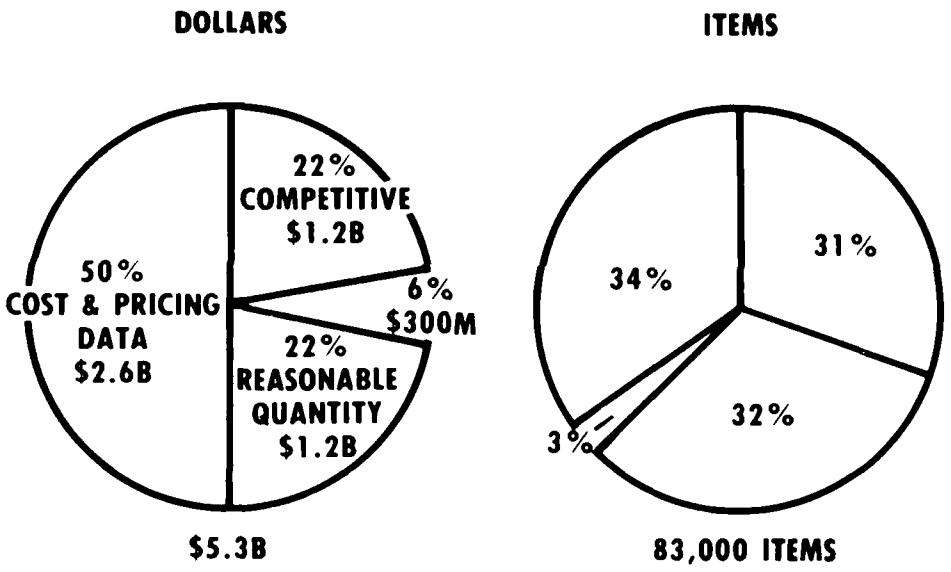
SPARE PARTS PRICING INITIATIVES OUTLINE

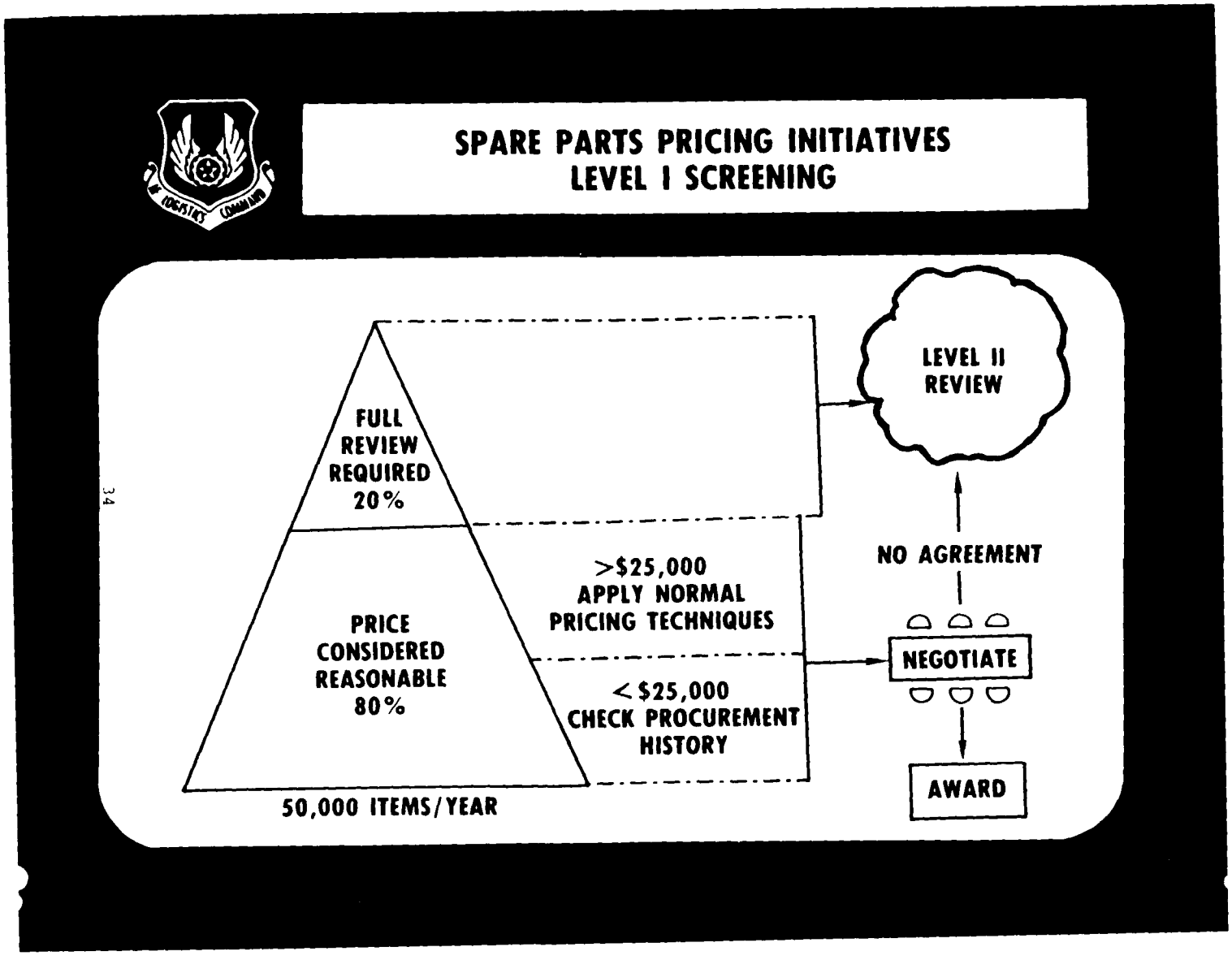
- SMART PRICING
- PARTS
- FORMULA PRICING AGREEMENTS
- BUYER TOOLS

SPARE PARTS PRICING INITIATIVES
Small purchases Management Analysis and Review Technique

- SMART PRICING
- HOW BIG IS OUR PROBLEM
- LEVEL I SCREENING
- TARGET PRICE IN PROCUREMENT HISTORY RECORD (PHR)
- LEVEL II SCREENING
- ADDITIONAL CONTROLS

SPARE PARTS PRICING INITIATIVES
HOW BIG IS THE PROBLEM?



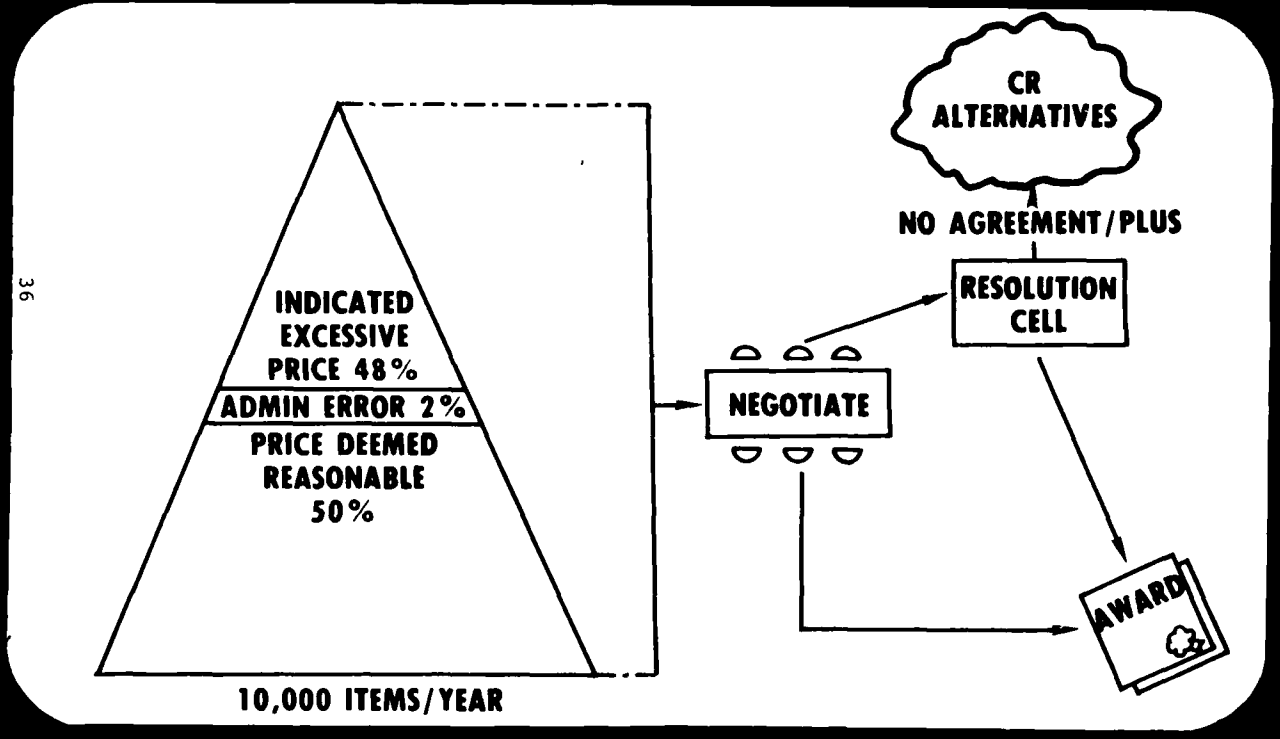

SPARE PARTS PRICING INITIATIVES
LEVEL I SCREENING
FULL REVIEW REQUIRED 20%
PRICE CONSIDERED REASONABLE 80%
50,000 ITEMS/YEAR
>$25,000 APPLY NORMAL PRICING TECHNIQUES
<$25,000 CHECK PROCUREMENT HISTORY
LEVEL II REVIEW
NO AGREEMENT
NEGOTIATE
AWARD

SPARE PARTS PRICING INITIATIVES
TARGET PRICE DATA IN PHR

	ANNUAL QUANTITY	MONTH-YEAR OF ANALYSIS	DIRECT MATERIAL	LABOR HOURS	INDIRECT COST & PROFIT	TARGET PRICE
			$	$	$	$
LEVEL I	570	11-83				1.90
LEVEL II	570	11-83	.32	1.0	.58	1.90

(SAMPLE PHR)

SPARE PARTS PRICING INITIATIVES
LEVEL II SCREENING





SPARE PARTS PRICING INITIATIVES
ADDITIONAL CONTROLS

- PCO DECISION TO AWARD
  - POSSIBLE SR MGMT ACTION
  - ALC/CC TO CEO WHEN APPROPRIATE
- IDENTIFY PROBLEM CONTRACTORS
  - CRV-PMW/Z REVIEW

SPARE PARTS PRICING INITIATIVES
PRICE ANALYSIS AND REVIEW TECHNIQUE FOR SPARES

- PARTS PRICING
- MULTIPLE ITEM CONTRACTS
- IMPLEMENTED COMMAND-WIDE
  - OVER $500,000
  - UNIT PRICE INTEGRITY
  - STANDARD TECHNIQUE

SPARE PARTS PRICING INITIATIVES
FORMULA PRICING

- INCREASE USE
  - CONTINUE EMPHASIS
  - CURRENT LEVEL
- REVIEWING AGREEMENTS

SPARE PARTS PRICING INITIATIVES
BUYER TOOLS

- PRICING HISTORY FILES
- COLOCATED PRICE ANALYST
- CRV LEVEL I SCREENING
- CRV LEVEL II SCREENING
- BUYER CHECKLIST
- PRICE INDEX WORKSHEET (PPI & DRI)
- NOMOGRAPHS

INDUSTRY VIEWS

A PANEL DISCUSSION

MODERATOR: BRIG GEN BERNARD L. WEISS
DIRECTOR, CONTRACTING & MANUFACTURING POLICY
HQ UNITED STATES AIR FORCE

PANELISTS: MR. S.F. IACOBELLIS
EXECUTIVE VICE PRESIDENT AND
B-1B PROGRAM MANAGER
ROCKWELL INTERNATIONAL CORPORATION

MR. WILLIAM C. MISSIMER
EXECUTIVE VICE PRESIDENT
PRATT & WHITNEY GROUP
UNITED TECHNOLOGIES CORPORATION

MR. VINCENT E. KEARNS
PRESIDENT
B.H. AIRCRAFT COMPANY, INCORPORATED

ROCKWELL INTERNATIONAL CORPORATION PRESENTATION
AT THE
1984 WORLDWIDE AIR FORCE PRICING CONFERENCE
SHERATON-CENTURY CENTER
OKLAHOMA CITY
MARCH 13-15, 1984

PRESENTED BY S.F. IACOBELLIS
NAAO EXECUTIVE VICE PRESIDENT &
B-1B PROGRAM MANAGER
ROCKWELL INTERNATIONAL CORPORATION

Good afternoon, Ladies and Gentlemen.

It's a pleasure to be here today speaking on behalf of Rockwell International, and to participate in a conference as timely to the government and industry as this one is.

Pricing has always been at the center of economics. Whether we're talking about the Phoenicians or today's modern society, pricing usually is the starting point of virtually every business transaction. It's literally that basic and important.

What I would like to do today is present a picture of Rockwell's own pricing philosophy, describe some newly established procedures that strengthen Rockwell's spares process, and explain how our spares strategy is being applied to the B-1B program. I know the emphasis of this conference is on spares pricing and procurement, but I also want to hit on another related subject that plagues all companies: The need for more expert pricers.

On pricing, we certainly don't claim to have all the answers, but we're working hard to make the system work better. Obviously, the importance of pricing is tremendously magnified for a diverse company like Rockwell. When many very large and complex programs make up the bulk of your business, the virtue of sound pricing takes on added dimensions. But no matter how diverse our programs may be -- they all have a common thread: The requirement for accurate pricing.

As I already indicated, the need for credible cost estimating has been around for a long time. Throughout history in the defense world when requirements were identified, they had to be estimated and budgeted.

When items were underpriced and budget targets missed, criticism followed and corrective actions were demanded. If there is a difference today, it's that the systems we build are extremely more sophisticated. Also because of the spotlight on defense spending, we operate in a fish bowl environment. The major challenge in obtaining credible cost estimates is to build a full awareness in both government and industry that realistic cost estimates are, in fact, required, and can be generated.

A number of approaches are taken into account in competent pricing. Realistic estimates can be generated in a statistical or parametric manner using prior history, with adjustments for complexity and economic factors.

Another critical factor in realistic pricing is the program schedule. There are tasks that cannot be acommplished in unreasonably short times without unduly affecting cost. Timespans on production can be shortened with reasonably concurrent development and production -- at additional cost and risk which can be estimated. A startling fact of military developments is that test programs usually incur 50% of their development cost in demonstrating 90% of the performance goals, the last 10% costing the other 50%. Clearly, since the last 10% is so important, the performance goals initially set should be realistically matched to programmatic requirements.

Now I would like to talk about the related subject that I believe plagues all companies -- the need for expert pricers, a key player in this whole process. As I mentioned earlier, expert ones are in short supply. An estimator must know financial and economic theories and applications. He must have the ability to communicate ideas. He must possess a knowledge of what is current in technology. He must maintain a data base concerning the cost of almost everything produced in the past. Most importantly, he must have plain, ordinary horse sense about what the approximate cost should be.

The estimating job has become extremely complex, and the requirement for highly qualified estimators has been critical for years. And yet the academic community generally has not addressed the problem. There are no college graduates that I can point to and say -- they have completed the course and are qualified estimators. If we want good estimators, we have to grow our own. This is where the emphasis should be. We have enough rules and regulations.

Let's look closer at the estimator or pricer. Where do they come from?

What are their qualifications? Traditionally, the estimators came from the shop environment where they gained experience in how materials are worked and parts are put together to form a system or product. In the last 10 to 20 years, estimators have come into the profession through various college degree programs -- economics, accounting, math and engineering. However, neither the shop nor formal education prepares a person to be an estimator the first day or even the first year on the job.

The process just doesn't happen overnight. To take an engineer or any other professional and make him a cost analyst by simply giving him a new title is as ridiculous as making a cost analyst or estimator and aeronautical engineer by simply moving him to that department. It just doesn't work.

Developing a credible estimate requires a great deal of sophistication. Any one can provide an estimate. However, it takes a trained professional to develop and document a good, accurate estimate. The designation of "professional" has become recognized as the hallmark of outstanding performance. It connotes the highest quality of work that the best persons in the field can deliver. The professional estimator must consider high standards of excellence as the guideline for his every action. To produce a good estimator with all the skills I mentioned takes a number of years of apprenticeship in an organization. Each organization has its own style, and, historically, each organization has trained its own estimators to fit its operations.

Professional organization such as the Institute of Cost Analysts and the National Estimating Society are leading the drive in setting professional standards with educational and certification programs. Rockwell and other aerospace companies are actively working with universities, such as USC and the professional organizations to establish degree programs to train our future cost estimators....so there are signs that things will get better in this regard.

So far, I've covered a great deal of the more pertinent aspects associated with estimating and pricing, and the need for more professional pricers. But it would be unrealistic for me to appear before you today and not address the issue of spare parts.

Obviously, there are many problem areas. I can assure you that Rockwell is fully aware that much work has to be done in this critical area, and our determination to further strengthen our own spare parts procedures

starts at the top. Last year, our corporation president, Don Beall, issued a memorandum to all operations presidents announcing the establishment of a corporate-wide task force to address the spare parts issue. String initiatives were subsequently recommended by the task force and endorsed by Mr. Beall. They are now implemented. Some of the more significant ones are:

1. When it is determined that an RFP or a spares order contains uneconomical quantities, we do respond to the requested quantity, but we also provide written notification to the government of this condition. If practical, we provide a written recommendation for an economical quantity.

2. When no value is added to a purchased part by Rockwell, we do respond to the requested order, but we also provide a written recommendation that the government procure the spare part directly from Rockwell's supplier.

3. We have developed an effective system which provides for management review and approval of all spare parts proposals. If a price appears to be distorted, we perform an in-depth analysis.

   We do not submit the proposal until the apparent price distortion is corrected or explained, and, at the time of negotiation, we ensure that prices reflect current information.

4. We now have in place a system to maintain historical records for each spare part RFP and order so that quotations and order prices are readily available for review.

5. At the time of negotiation, or upon receipt of an order, our prices will be updated to reflect current information.

   When errors in pricing are discovered after the fact, we must take immediate action to make an appropriate disposition with the cognizant government procurement office.

6. We are maintaining an effective spares order administration and pricing system which will assure timely, accurate responses to RFPs and orders.

   When the government has agreed to formula type pricing, factors used as basis of the pricing formula will be updated annually or more frequently to reflect current cost experience.

For the B-1B program we have initiated many other actions to focus management attention on the spare aprts arena to assure that spares are delivered on time at fair and reasonable prices. These actions include:

1. We have developed and issued an aircraft operations policy statement.

2. We have appointed an aircraft operations spares steering committee composed of senior management personnel to give guidance and to monitor the spares business.

3. We have implemented stringent spares pricing audits to quality check the accuracy of our spares pricing.

4. We have established a spares "Best Buy Advocate" office. This office screens government orders for uneconomical orders or for orders which Rockwell has no value added, and in essence is another check for price reasonableness.

Even with these initiatives it would be naive of me to believe some unreasonably priced items for whatever reason will not still slip through. But we can also have another check, the negotiation process, where I hope we can catch them all.

The spares acquisition for the B-1B program is taking advantage of two innovative strategies. First is maximizing the application of Spares Acquisition Integrated with Production. As you know, the SAIP acquisition strategy is not new, but is has not been maximized for various reasons, primarily due to a mismatch between funding availability and contractor schedules. Early planning between the Air Force and Rockwell has resulted in an EAB (Expanded Advance Buy) which procures most of the high cost investment items in the SAIP strategy. Spare orders are folded into the production run and are procured at the same cost as the production units. This avoids generating a stand-alone spares price which usually would be higher.

A second innovative strategy for the B-1B is that we are computing the initial spares requirements for all the aircraft up front to realize the economics of larger spares buys. Experience has shown that significant savings can be realized by procuring spares in larger lot buys. The recent AFMAG study confirmed the recognized savings by combining multi-year spares buys into a single buy and advocated the implementation of this acquisition strategy.

To summarize, spare parts are just too important to give them anything less than our fullest attention.

I believe I speak for Rockwell -- and I hope it doesn't sound out of place to say I believe I speak for a broad spectrum of industry on the following points:

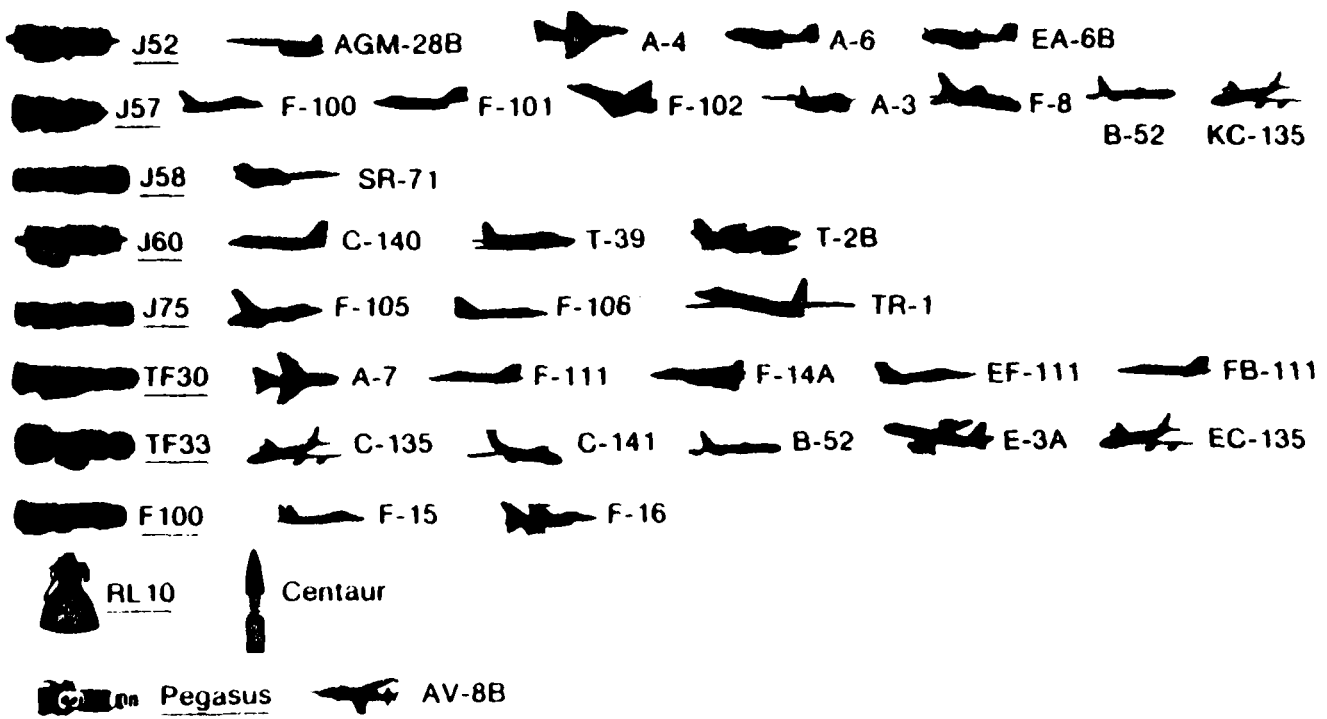
- o We want to provide spares to the government at the most economical cost.
- o There's no question in my mind that we want to provide spares in such a way that prices correlate with the apparent intrinsic value of the part,
- o And, finally, we want spares to do the job of keeping the products we make operational in the field.

Thank you.

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1984 P&W ENGINES/APPLICATIONS

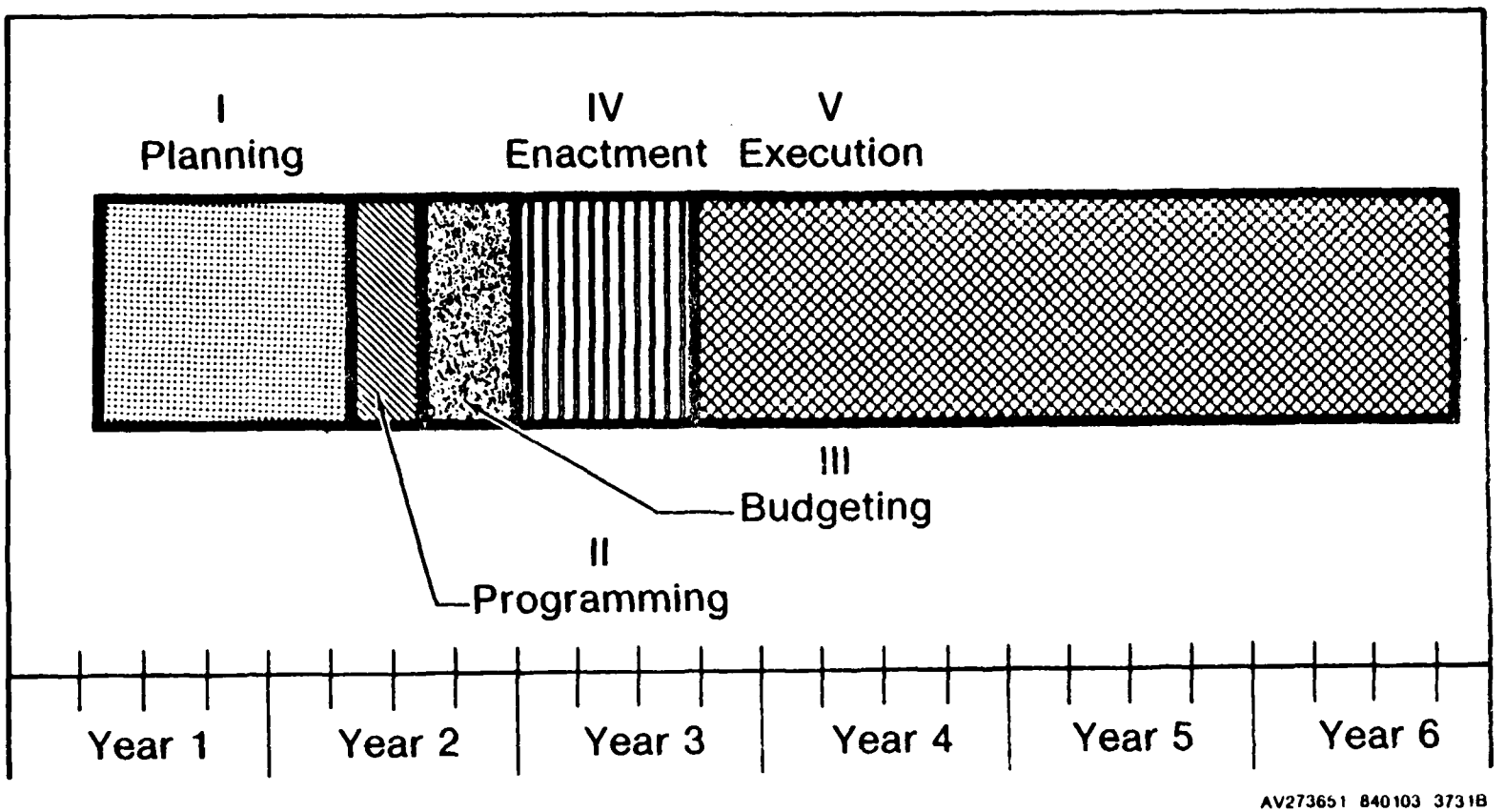
Ten engines - 32 applications



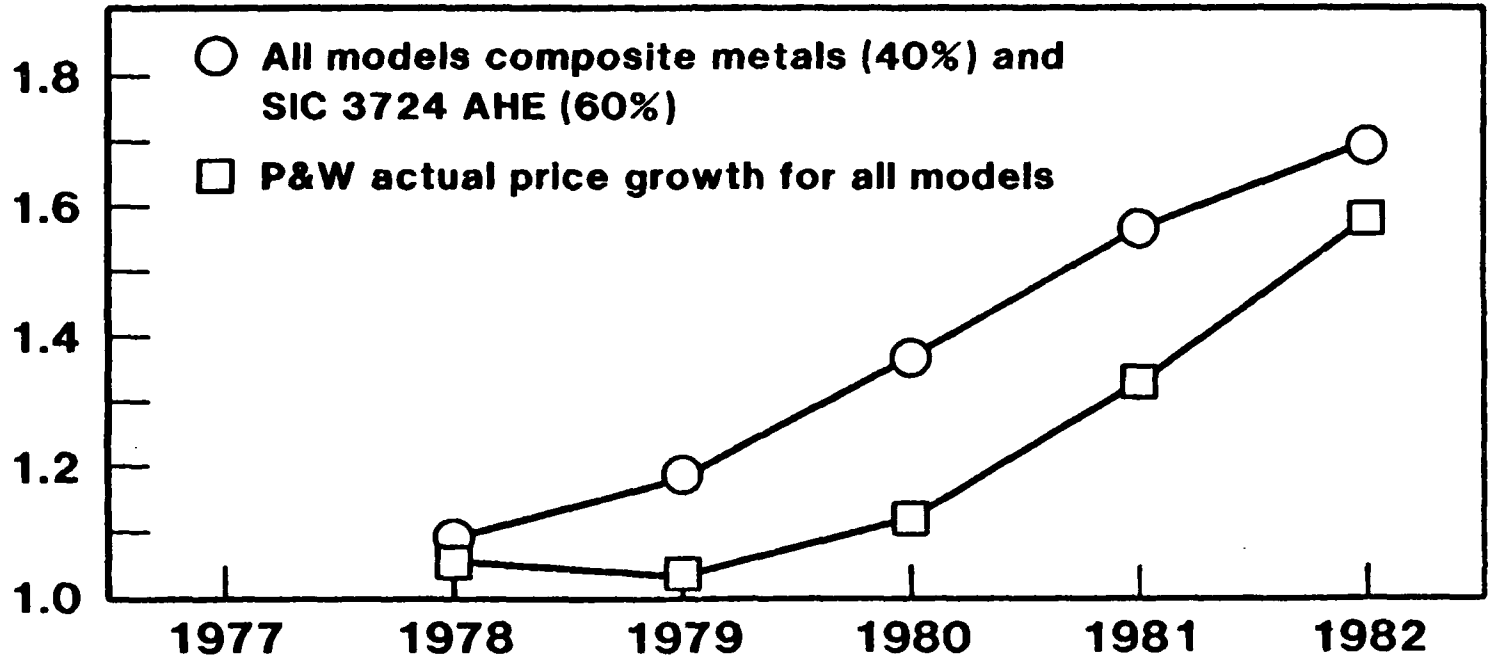
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BACKGROUND: DOD BUDGET CYCLE

Development and enactment is long and tenuous



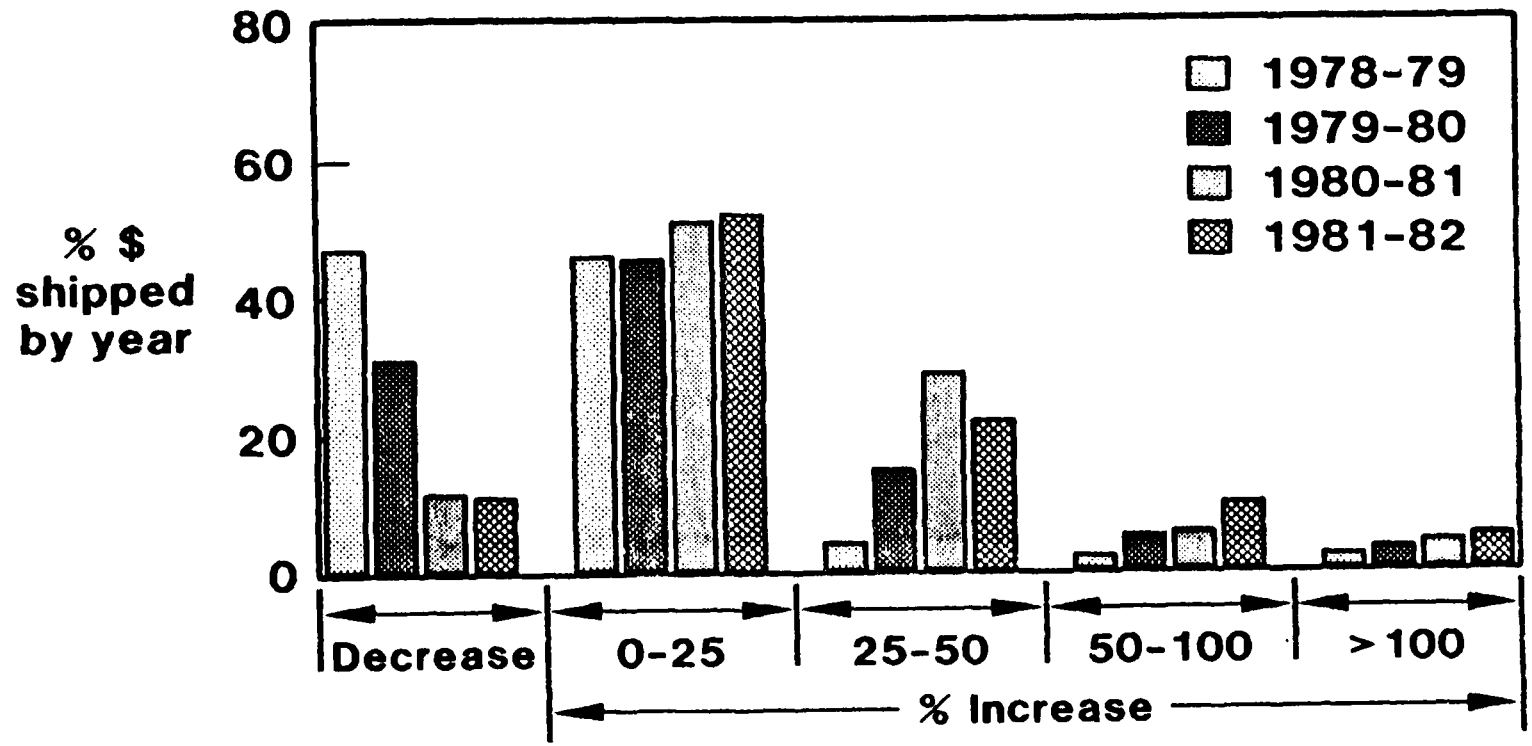
P&W SPARE PARTS PRICE GROWTH FOR ALL MODELS vs COMPOSITE OF GROWTH IN METALS PRICES AND AVERAGE HOURLY EARNINGS FOR AIRCRAFT ENGINES AND ENGINE PARTS



RB685TX.001

PRICE CHANGES 1978-1982

The majority of the annual increases are in the 0-25% range



RB685TX.005

MILITARY SPARE PARTS ORDERING PATTERNS
CY 1981

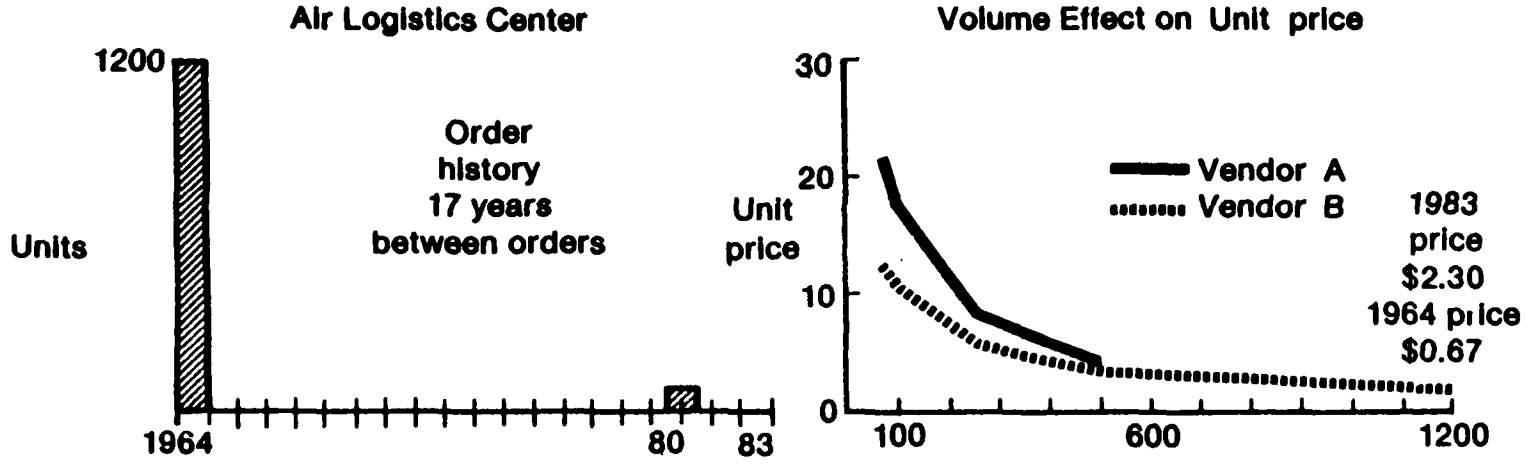
Quantity range	AFMAG study: Number of purchase requests	AFMAG study: % to total	P&W study: Number of Purchase requests, parts	P&W study: % to total
1-5	24,193	19.6%	2,421	26.7%
6-10	13,870	11.2%	938	10.3%
11-20	15,548	12.6%	1,033	11.4%
21-30	9,943	8.1%	689	7.6%
30+	59,773	48.5%	3,989	44.0%
Totals	123,327	100.0%	9,070	100.0%

RB685TX.010

DoD INSPECTOR GENERAL REPORT ITEM: P/N 391529, BOLT

When volume is considered, P&W price increase is well below inflation

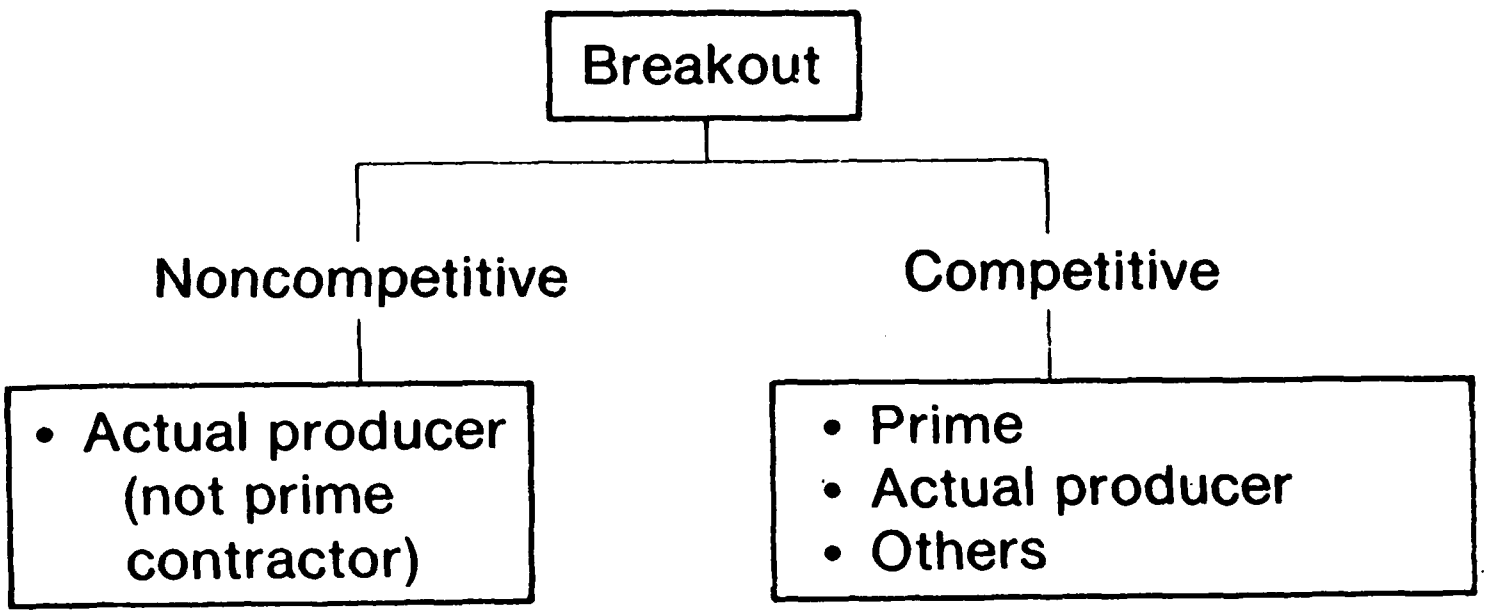
"Part increased from $0.67 (1980) to $17.59 (1982)"
$0.67 estimate based on 1200 units in 1964
$17.59 actual based on 83 units in 1980



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BACKGROUND: BREAKOUT

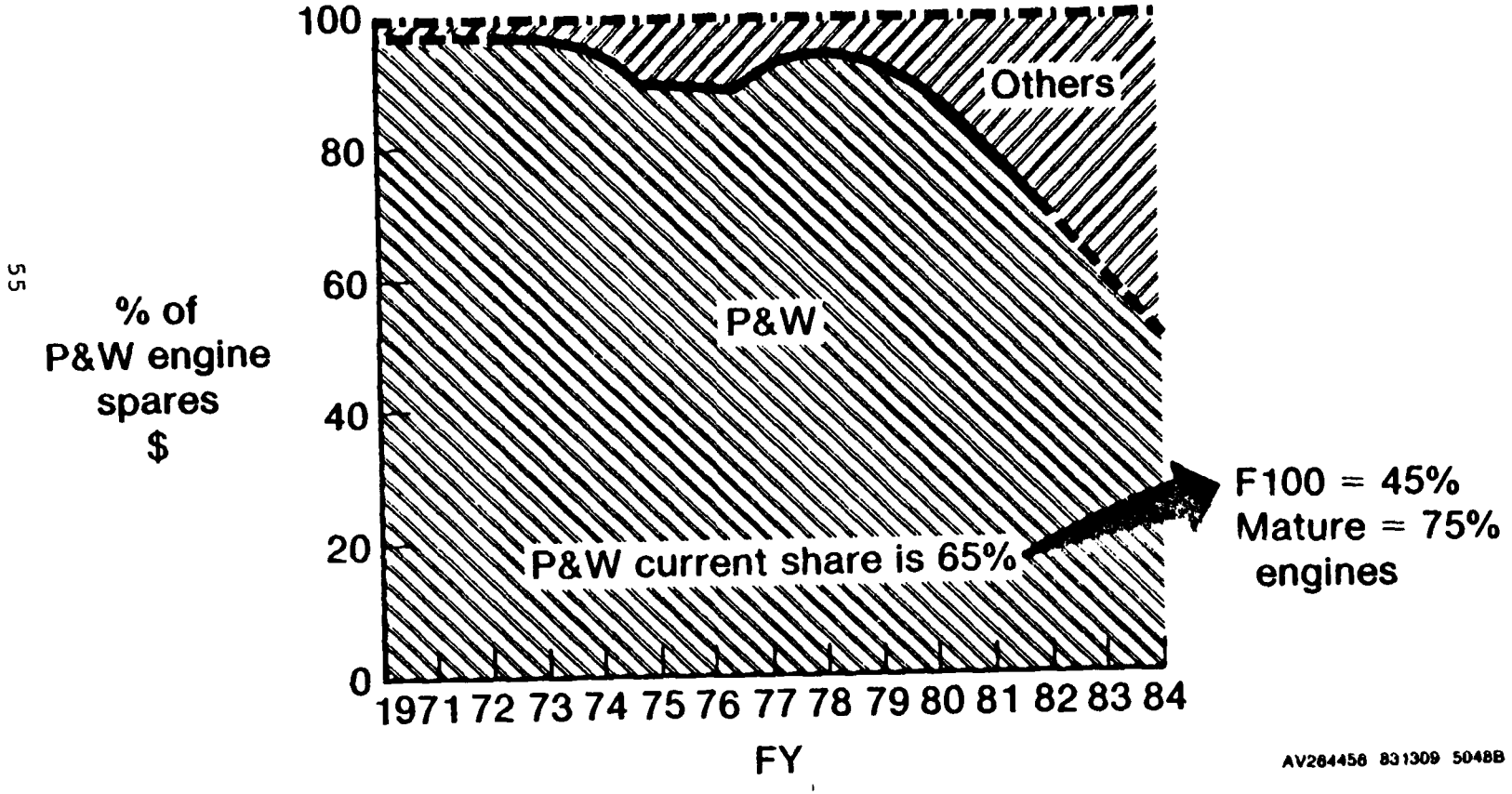
Prime not sole source; action not necessarily competitive



AV273652 840103 3729B

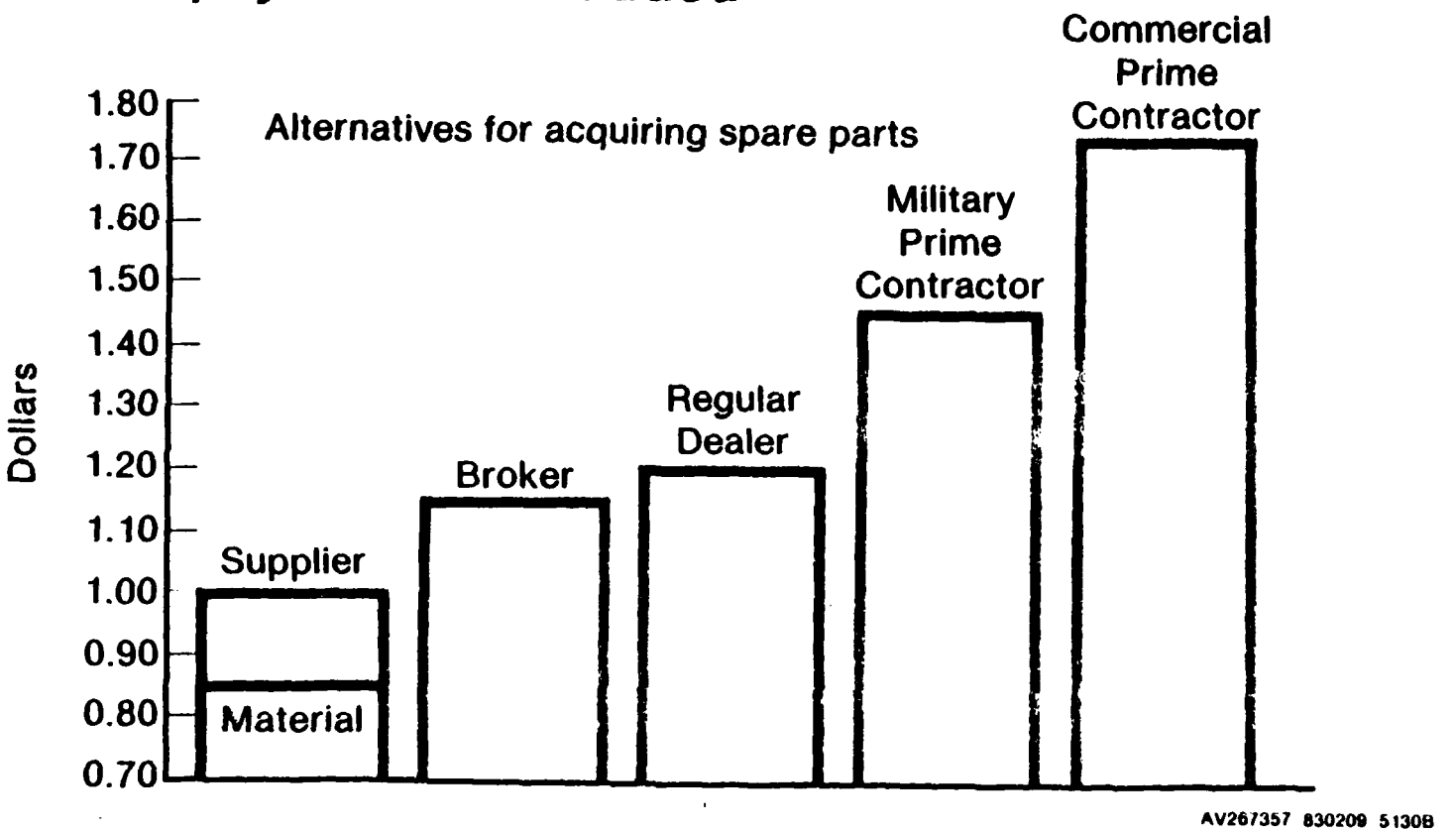
BACKGROUND: MARKET SHARE

Customer increasing spare parts breakout/competition



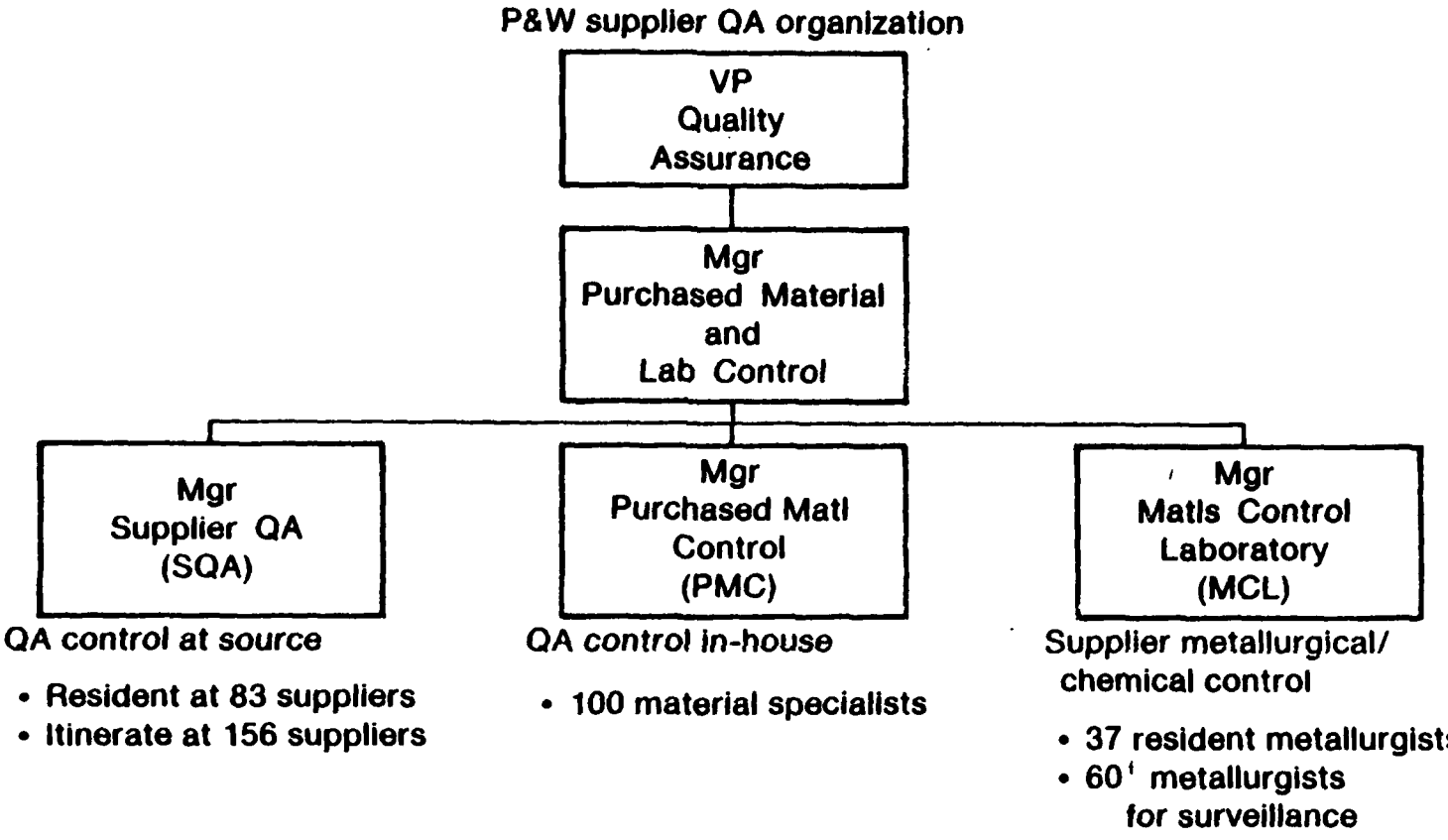
AIRCRAFT SPARE PARTS VALUE ADDED CONCEPT

Consumer pays for value added



VALUE ADDED: QUALITY ASSURANCE (QA)

P&W has over 3000 people directly involved in QA with over 400 servicing purchased materials



VALUE ADDED - WARRANTIES (F100)

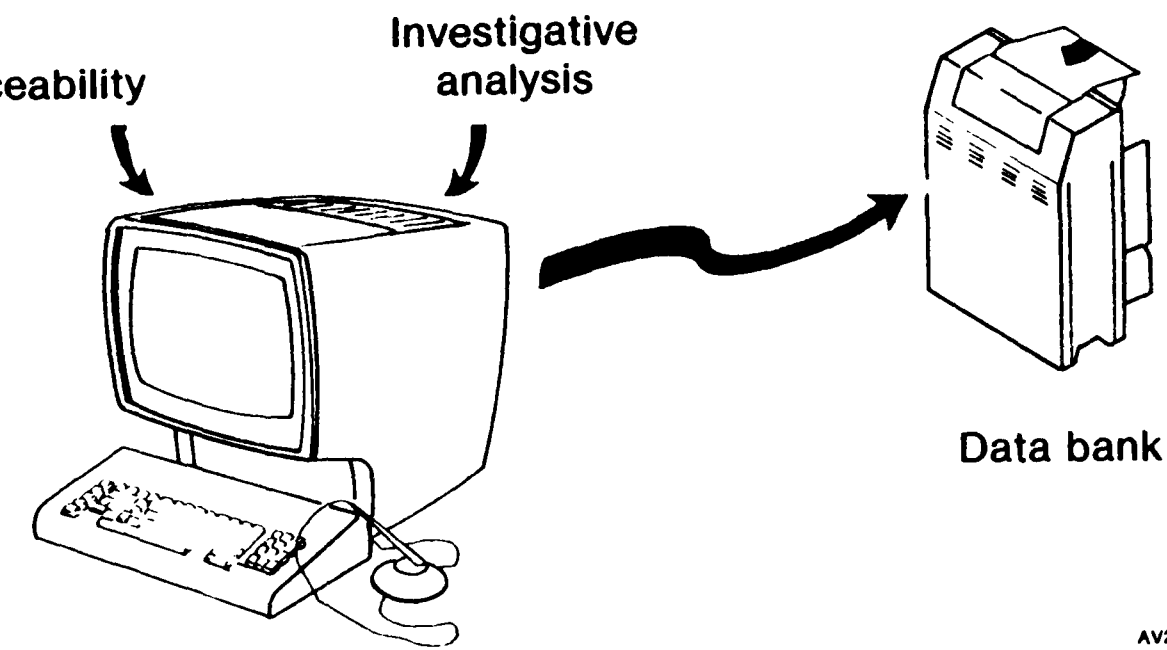
Breakout could impact engine warranty savings:

Warranty Coverage	P&W	Other
• Parts population	All	Individual
• Time	Extended (yrs)	90 day
• Parts	Repair/replace	?
• Labor	As req'd	?
• Failure analysis	As req'd	?
• Corrective action	As req'd	?

AV273654 840203 3751B

VALUE ADDED: DATA/ TRACEABILITY CONTROLLED

P&W has systems in place to assure traceability of all serialized parts and most others



AV264469 832508 5040B

PROCUREMENTS BY P&W
1979 - 1982

	Competitive	Sole source	Noncompetitive
Total P&W	68%	16%	16%
Military spares	72%	16%	12%

Sole source - only one source capable of making a part

Noncompetitive - awards to other than low bidder due to factors such as urgent requirements and dual vendor sourcing

RB6851x.012

RECOMMENDATIONS

- Establish and procure economic ordering quantities
- Procure selected spares on a multi-year basis
- Procure initial provisioning spares with engines (multi-year)
- Buyout spares for older engine models (J57, J58, J75)
- Conduct coding conferences to redefine procurement source codes
- Establish competitive advocacy group at Pratt & Whitney, Government Products Division
- Prepare detailed value added briefing for Air Logistics Centers
- United States Government consider value added in price evaluations
- Keep leadtimes current
- Apply commercial automated ordering system to military spares

AV264476 832909 5126B

STATEMENT OF VINCENT E. KEARNS

PRESIDENT, B. H. AIRCRAFT COMPANY, INC.

WORLDWIDE AIR FORCE PRICING CONFERENCE

SHERATON-CENTURY CENTER, OKLAHOMA CITY

TUESDAY, MARCH 13, 1984

For over fifty years, B. H. Aircraft has been serving the aerospace industry with a wide range of products. In more recent years, the Company has been a leading fabricator of complex precision weldments and assemblies of high temperature alloys to the jet engine segment of the industry.

Our entry into government contracting is relatively new since, for all practical purposes, we had no direct dealing with defense procurement agencies prior to November 1981. Over the last 28 months we have become involved in the procurement process far beyond our initial expectations.

We are here today at the invitation of General Weiss to comment on the procurement system and in particular, the acquisition of spare parts by the Air Force Logistics Command.

We trust that our critique, although perhaps biting at times, will be taken as it is intended - to be constructive.

The Federal Procurement System - where does one begin and where does one end? A full dissertation on the subject would enable me to surpass Senator Strom Thurmond's filibuster record, and we could break in time for tomorrow evening's banquet.

However, in the interest of all in attendance, I will attempt to limit my remarks to a more concise time frame.

Popular theory has it that the existing acquisition system has evolved over the years from a relative simple set of guidelines to its current monstrous state, influenced by periodic inputs from bureaucratic agencies, legislative initiatives and pressures from varied special interest groups. I personally take issue with this theory. I find it impossible to believe that we would do this to ourselves. The only rational assumption is that this system was foisted upon the American people by an adverserial assemblage such as the Kremlin.

We are well aware that initiatives are under way to implement changes in the system by a variety of Defense Department agencies. On the other hand, it is our opinion that the authority structure, in these procurement operations, is so fragmented, that policy reforms are doomed to failure. In order to optimize the disbursement of defense dollars, the process must be simplified and not made more complex.

In order to standardize the government procurement practices of several agencies, and seemingly to simplify these procedures, the Office of Federal Procurement Policy has issued new regulations which will become effective April 1, 1984. This new directive known as FAR (Federal Acquisition Regulations) unfortunately consists of thousands of pages. As if this amazing number of rules and regulations were not enough, the Department of Defense has published a DOD-FAR Supplement of some one thousand additional pages which, in effect, reinstates the supposedly obsolete DAR.

For the life of us, we cannot determine how this overwhelming amount of print can aid in facilitating or improving the acquisition of goods and services.

In contrast, during the early months of the year 1776, Thomas Paine published a pamphlet, I repeat pamphlet, which brilliantly, clearly and simply stated the demands of the colonists for independence, a far more complex set of problems than the procurement of goods and services. This compact publication was aptly titled - "Common Sense"

We prescribe that the government procurement agencies give serious consideration to publishing a succinct purchasing manual with the same inscription.

The most glaring weakness we have detected in the procurement command is the dearth of good, common sense. As a matter of fact, there is such an array of nonsensical directives, that sensibility is regimented out. Statements attesting to this very fact have been personally made to me by Air Force Contracting personnel. It is theoretically impossible to gain efficiencies in programs of this ilk without the use of good, old fashioned, horse sense.

The inordinate mass of paperwork inherent to government procurement agencies is both stiffling to the system and expensive to the taxpayer. As an example, we were notified recently, by one of the Air Force Logistic Commands, that an award had been made for a part we had previously bid on. Along with the statement that the award had unfortunately gone to a competitor, the Air Force proudly disclosed that 80 prospective contractors had been solicited, a number we found to be preposterous. Astoundingly, they also revealed that only 4 proposals were received, thereby admitting that little effort had been made, by the command, to evaluate the manufacturing facilities of prospective sources. We surmise this to be an overzealous reaction to the pressures to compete so-called unrestricted spare parts and, an unwarranted waste of funds spent in providing so many copies of the solicitations If the DAR or FAR requires that business be conducted in this manner, we strongly suggest that the regulations be changed. I would venture to say that you would not find anyone in industry conducting business in such a fashion.

Ironically, instead of attempting to imitate the more efficient practices of industry, the Department of Defense has evidently decided to go in the opposite direction. Due in large measure to the televised histrionics of a Johnny-Come-Lately Defense Contract Auditor, a purchasing system was recently disapproved at one of the prime contractors with whom we do business The recommendation of the DOD was that this procurement function would be revalidated once it had clearly demonstrated compliance with approved government policy and procedure.

We find it amusing that the government would elect to criticize the procedures of any industrial procurement department. Let there be no mistake about it, the Air Force would save hundreds of millions of dollars per year if it emulated the more professional purchasing practices of any company represented here today.

As an aside, the Air Force team responsible for auditing this contractor is in place and actively pursuing its mission. This fact is obvious to us because of the increased paper requirements and the concurrent delay in the time taken to place orders. This will inevitably result in readiness problems at operational squadrons, and more cost to the taxpayer through reduced efficiencies. Reiterating our previous statements, it would be much more cost effective to re-examine government's own policies and procedures.

In examining ways to enhance the Air Force buying function, we would begin by recommending that the number of forms currently required be evaluated and compared with those utilized by industry. As long as the paper load remains massive, form will take precedence over substance and price evaluation will never be the prime consideration of the buyer. It is also inconceivable that procurement personnel will perform adequately when they are not provided the proper tools. How can the buyers judge the adequacy of a price when they are not required to have blueprints, sketches, samples or even descriptions of the products they are purchasing? I seriously doubt that these same individuals would purchase personal consumer goods in such a haphazard fashion. Equipped with the appropriate instruments and with a modicum of training, the procurement function should be able to improve its performance dramatically at existing manpower levels.

Another area we perceive to be in need of reform is the Engineering Function. An unsolicited proposal we submitted in early 1982 to the San Antonio Air Logistics Command was rejected, out of hand, by Material Management Officials because they did not possess the expertise to judge our manufacturing capabilities.

This decision was made despite the fact that we were offering a savings of over 16 million dollars, when comparing our prices to those paid, on the previous contract, to a European company, designated by the Prime Contractor as an approved source. Also ignored was the data package we submitted, consisting of detailed manufacturing process sheets, documentation indicating that we were already approved to the necessary specifications required by the Prime to fabricate the assembly, and weld samples to authenticate our competency. The Air Force was perfectly content, however, to do business with a foreign source charging outrageous prices. To add insult to injury, this approved foreign source had been forced to hire a United States agent to provide it with materials and details for its assemblies, since this company did not know where to shop for these items on its own.

Much hoopla has surrounded recent Air Force initiatives to institute a breakout program in the acquisition of spare parts. This program is destined for defeat if judgments cannot be made on the reliability of firms who have been furnishing parts to the military establishment for decades. On the other hand, should the Prime designate "Dandy Don's Blacksmith Shop and Barbecue Joint" as an approved source, the Air Force would feel secure in soliciting that establishment with no questions asked. Time and time again we were told by Material Management Officials that our bid would be considered if we could secure a statement, from the Prime, that we were an approved source. Apparently, decision making is an aspect of their somewhat lofty positions with which they take great umbrage. We view this to be an abrogation of the responsibilities vested in them. Nevertheless, for our case in point, their decisions prevailed.

Concluding our exclusion from the bidding process to be absurd and having exhausted appeals with sympathetic procurement officials at San Antonio Air Logistics Center and non committal officials at Air Force Logistics Center in Wright Patterson, we decided on a different course.

A formal protest was filed with the General Accounting Office which delayed the procurement process for a year until we were eventually approved and awarded a contract at considerable savings to the government.

The 28 months we spent pursuing this contract came at considerable expense to our rather small organization. We were convinced that the stonewalling techniques employed by particular individuals were intended to discourage our efforts in the hope that we would eventually disappear. This, of course, did nothing more than strengthen our resolve to press forward until a satisfactory conclusion was achieved.

A number of issues have evolved from the actions we took and the investigations launched by a variety of Federal Agencies. For one, is it in the national interest to be so heavily dependent or at all dependent on foreign sources for this nation's front-line fighters? Secondly, what does the future bode for the United States industrial base in the power plant field? Third, does a double standard exist in the Defense Department in its approach to foreign entities versus United States companies? Despite the compelling evidence of overcharging that has emerged, there has been no indication that the government has pressured these companies for rebates as they have been doing to domestic contractors. Perhaps the picture will become clearer if and when the Federal Grand Jury, investigating these matters, announces its determinations.

A great deal of publicity has been generated relating to spare parts procurement by agencies of the Department of Defense. For the most part, criticism has been leveled at United States Prime Contractors for purported overindulgence in their sole source contracts. We have neither the inclination nor the expertise to comment on these incidents. However, our experience indicates that abuse has certainly been evident in the so-called competitive arena. These agrievements could have easily been avoided by simple awareness and that seemingly missing trait - common sense.

Earlier in my presentation I mentioned Thomas Paine. After publishing the aforementioned pamphlet, he came out with another paper entitled "Crisis". The first issue contained the following noted line, "These are the times that try men's souls".

Over the last 15 months or so, many individuals connected with the defense procurement system have experienced trying times. The fourth estate has led many to believe that nearly everyone connected with accepting or disbursing defense related funds is either tainted or incompetent. It is up to those of us involved to alter that image.

Let us trust that the reassessment the system is currently undergoing will delineate each of our roles more clearly, will result in a relationship which is beneficial to all parties, and more importantly will regain the public confidence.

MILITARY AGENCY VIEWS
A PANEL DISCUSSION

MODERATOR: MAJ GEN DEWEY K.K. LOWE
COMMANDER
SACRAMENTO AIR LOGISTICS CENTER

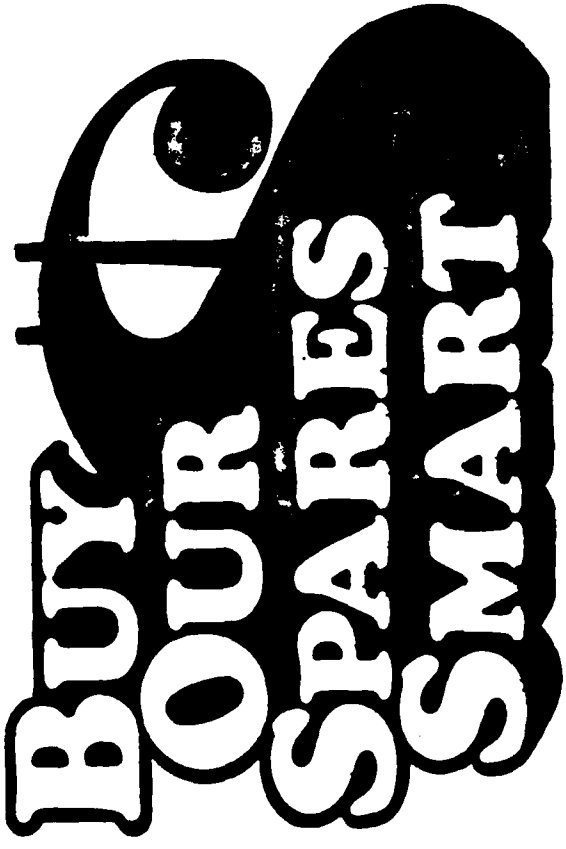
PANELISTS: CAPT CECIL A. JARMEN, JR., USN
ASSISTANT TO THE COMMANDER FOR BREAKOUT
NAVAL SUPPLY SYSTEMS COMMAND

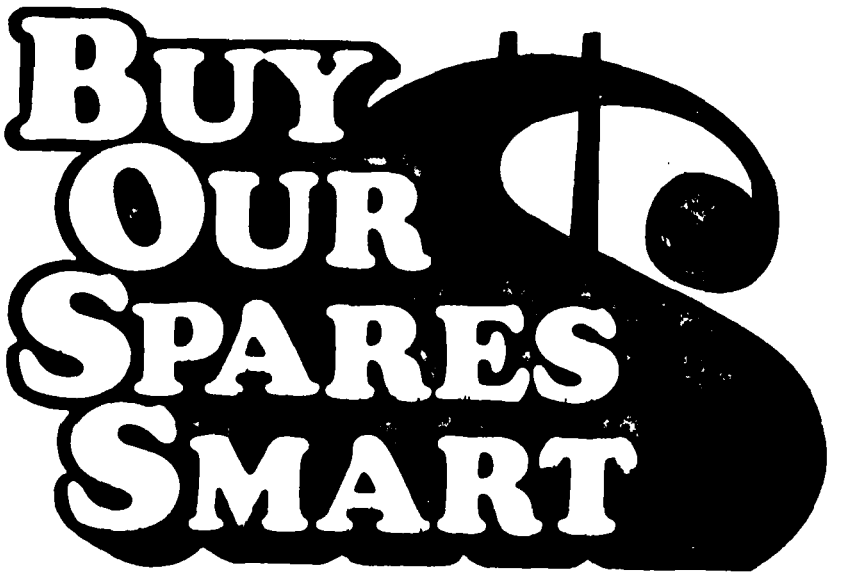
BRIG GEN (P) HARRY G. SKEEN, USA
COMMANDER
DEFENSE INDUSTRIAL SUPPLY CENTER
DEFENSE LOGISTICS AGENCY

MR. THOMAS J. MORAN
CHIEF OF THE PRICING BRANCH
DEVELOPMENT AND READINESS COMMAND (DARCOM)

PRESENTER: CAPT C.A.JARMAN, JR., USN

UNCLASSIFIED





UNCLASSIFIED

BOSS LOGO

GOOD AFTERNOON DISTINGUISHED GUESTS, LADIES AND GENTLEMEN. I AM PLEASED TO REPRESENT THE NAVY AT THIS CONFERENCE. WE SHARE COMMON PROBLEMS WITH THE AIR FORCE, ARMY AND DLA, AND IT IS IMPORTANT THAT WE WORK TOGETHER TO RESOLVE THEM.



The Problem

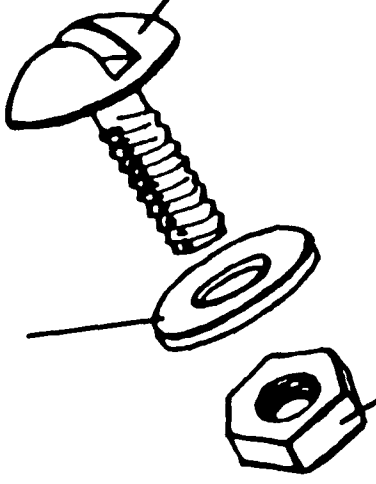
- Rate of Competitive Buys Are Too Low
- Breakout Efforts Have Been on Back Burner
- Clericalization of Spare Parts Procurements
- Perception that Contractors are Unethical

THE PROBLEM

WE IN THE NAVY ARE CONVINCED THAT THE EXCESSIVE PRICES OF INDIVIDUAL SPARE PARTS WHICH HAVE MADE THE HEADLINES ARE NOT THE RULE... BUT NEVERTHELESS, THE NAVY RECOGNIZES THAT THERE ARE SOME PROBLEMS IN HOW WE ACQUIRE SPARE PARTS. WE KNOW THAT WE HAVE A NUMBER OF AREAS WHICH REQUIRE OUR IMMEDIATE ATTENTION--NAMELY, WE SIMPLY DO NOT BUY ENOUGH SPARES ON A COMPETITIVE BASIS. WE HAVE HISTORICALLY NOT EMPHASIZED THE BENEFITS TO BE GAINED FROM BREAKOUT AND WE HAVE ALLOWED PRODUCTIVETY TO BECOME THE OVERRIDING FACTOR IN PROCUREMENT, THEREBY CLERICALIZING THE PROCESS. THESE ARE THE REAL PROBLEMS FROM OUR VIEWPOINT...BUT WE MUST ALSO DEAL WITH THE PUBLIC PERCEPETION THAT DEFENSE CONTRACTORS ARE UNETHICAL. THEREFORE, SPARES PRICING IS NOT JUST A NAVY OR AIR FORCE PROBLEM...IT IS ALSO ONE IN WHICH INDUSTRY MUST ASSIST IN REACHING A FERMANENT SOLUTION.

BUY OUR SPARES SMART

Pentagon Parts Catalogue



Slotted Geodesic Constricting Master Unit

Stationary Frisbeestic Slippage Eliminator

Hexagonal Maximizer Terminal

PENTAGON SPARE PARTS CATALOG

BEFORE I DISCUSS THE NAVY APPROACH TO SPARES PRICING, I JUST WANT TO SHOW YOU A HYPOTHETICAL EXAMPLE OF WHAT CLERICALIZATION CAN MEAN...A HARRIED BUYER FACED WITH THE IMPOSING NOMENCLATURE OF THIS ITEM AND NO OTHER INFORMATION WOULD NOT HAVE ANY IDEA WHAT THE INTRINSIC VALUE OF THE ITEM IS. ALTHOUGH THIS EXAMPLE IS OVERDRAMATIZED TO MAKE THE POINT, WE ARE FINDING THAT CONFUSING NOMENCLATURE IS, IN FACT, A PROBLEM. IN A REAL LIFE EXAMPLE, HOW MANY OF YOU KNOW WHAT A DIVING CANNISTER CLAMP SHOULD COST?.... DOES $67.10 SOUND REASONABLE? IT DID TO OUR BUYER UNTIL HE ACTUALLY SAW THE CLAMP (HOLD UP THE CLAMP). NOW WE PAY $1.80 FOR THIS CLAMP.



Navy's Response - All Hands

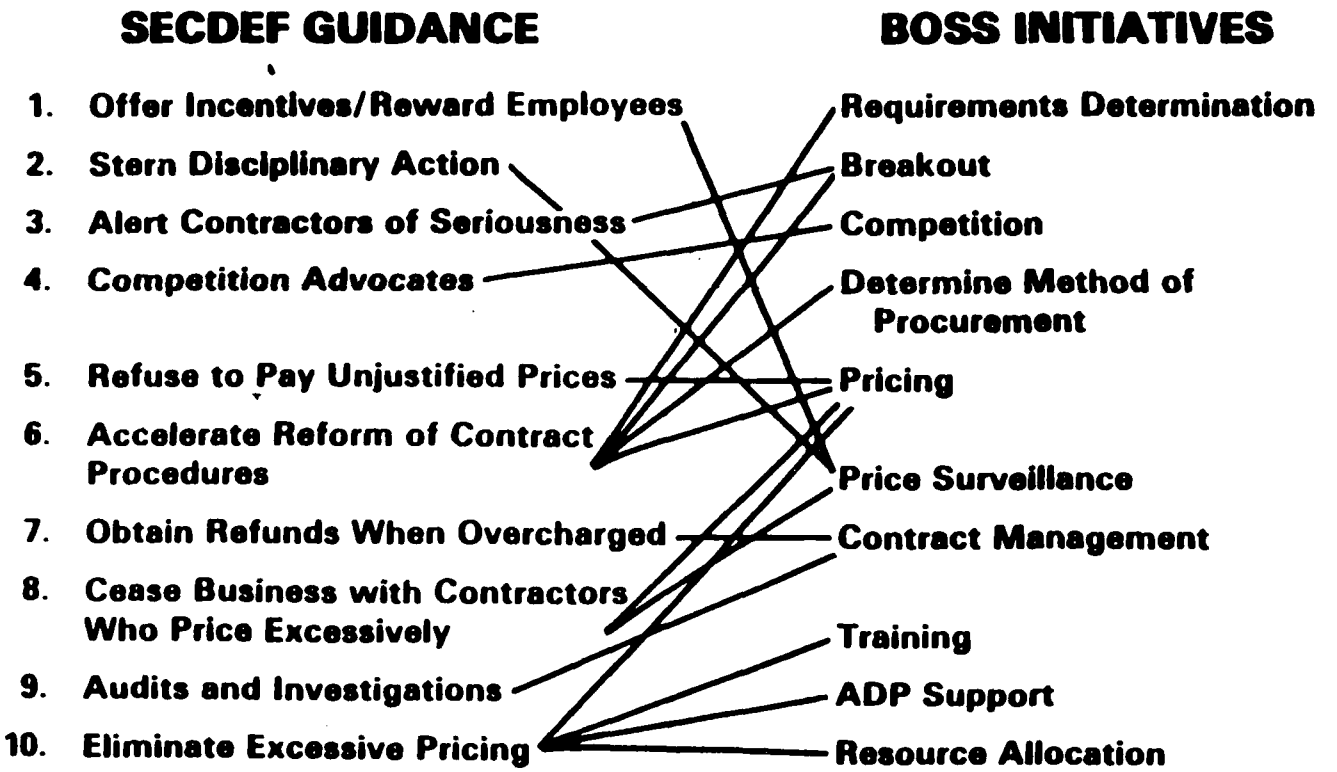
Project BOSS - Over 100 Initiatives

NAVY'S RESPONSE--ALL HANDS

THE NAVY RESPONSE TO THESE CHALLENGES IS THAT ALL HANDS MUST BE INVOLVED. THIS IS NOT JUST A PROCUREMENT PROBLEM - IF AFFECTS EVERY ASPECT OF THE TOTAL ACQUISITION PROCESS.

PROJECT BOSS IS THE NAVY INITIATIVE TO ATTACK AND RESOLVE THE PROBLEMS ASSOCIATED WITH SPARES ACQUISITION. OUR OVERRIDING OBJECTIVE IS TO REDUCE THE COST OF SPARES IN THE LIFE CYCLE SUPPORT OF OUR WEAPONS SYSTEMS.

Functional Breakdown of BOSS Initiatives



FUNCTIONAL BREAKDOWN OF BOSS INITIATIVES

BOSS HAS OVER 100 INITIATIVES COVERING TEN FUNCTIONAL AREAS. IT ADDRESSES ALL ASPECTS OF SECRETARY WEINBERGER'S 10 POINT PROGRAM AS WELL AS MANY OTHER AREAS WHICH PLAY A ROLE IN THE ACQUISITION OF SPARES. OUR PRIMARY EMPHASIS IS ON REQUIREMENTS DETERMINATION, BREAKOUT, COMPETITION AND PRICING.



Progress to Date

PROGRESS TO DATE

WE BELIEVE THAT WE ARE MAKING EXCELLENT PROGRESS. IN THE NEXT FEW VIEWGRAPHS I WANT TO TELL YOU A LITTLE BIT ABOUT PROJECT BOSS AND WHAT WE HAVE ACCOMPLISHED TO DATE.



Requirements Determination

- Common Use Items Deleted from Aircraft Modification Kits
- Shipbuilders to Use Supply System for Initial On Board Spares to Support CFE
- 75% of Replenishment Buys are made Only on Annual Basis
- Central Procurement Vice Local Procurement for GSA Spare Parts and DLA Spare Parts

REQUIREMENTS DETERMINATION

ONE OF THE PRECEPTS OF LOGISTICS MANAGEMENT IN THE GOVERNMENT IS TO USE THE SUPPLY SYSTEM TO SATISFY ALL POSSIBLE REQUIREMENTS. IN SUPPORT OF THIS GOAL WE ARE DELETING COMMON USE ITEMS FROM AIRCRAFT MODIFICATION KITS, REVERSING A POLICY THAT PREVIOUSLY REQUIRED CONTRACTORS TO INCLUDE ITEMS AS MUNDANE AS STEEL WOOL AND MASKING TAPE IN KITS. THESE KITS ARE INSTALLED IN DEPOTS WHERE SUCH MATERIALS ARE READILY AVAILABLE, AND WE FOUND THAT THE CONTRACTOR-FURNISHED ITEMS WERE OFTEN NOT USED. WE ARE ALSO TESTING A POLICY CHANGE IN THE SHIPBUILDING WORLD, WHEREBY THE BUILDER MUST USE AVAILABLE ASSETS IN THE SUPPLY SYSTEM TO SATISFY REQUIREMENTS FOR ON BOARD SPARES PROVIDED WITH CONTRACTOR FURNISHED EQUIPMENT. BOTH ACTIONS ARE SIGNIFICANT CHANGES IN HOW WE DO BUSINESS, AND THE POTENTIAL SAVINGS ARE ALSO SIGNIFICANT.

THE NAVY IS MAXIMIZING THE USE OF ANNUAL PROCUREMENTS FOR REPLENISHMENT SPARES, A POLICY WHICH SHOULD BE WELCOMED BY OUR INDUSTRIAL REPRESENTATIVES IN THE AUDIENCE.. . . AND WE ARE LISTENING WHEN SUPPLIERS TELL US THE SIZE OF THEIR ECONOMIC PRODUCTION QUANTITIES.

Continued



Requirements Determination

- Common Use Items Deleted from Aircraft Modification Kits
- Shipbuilders to Use Supply System for Initial On Board Spares to Support CFE
- 75% of Replenishment Buys are made Only on Annual Basis
- Central Procurement Vice Local Procurement for GSA Spare Parts and DLA Spare Parts

A FINAL POINT IN THE REQUIREMENTS DETERMINATION AREA IS THAT WE HAVE FOUND THAT A LARGE NUMBER OF SPARE PARTS MANAGED BY GSA AND DLA ARE CODED FOR LOCAL PROCUREMENT. SINCE THIS PRECLUDES ORDERING ECONOMIC PRODUCTION QUANTITIES AND INCREASES THE RISK OF PAYING AN EXORBITANT PRICE DUE TO LACK OF COMMODITY KNOWLEDGE AT FIELD ACTIVITIES, WE WANT TO CENTRALIZE SPARES PROCUREMENT AS MUCH AS POSSIBLE. GSA HAS REVIEWED A LIST OF LOCALLY PURCHASED ITEMS AND HAS RETURNED 430 ITEMS WITH AN ANNUAL BUY VALUE OF $4.6 MILLION TO CENTRAL MANAGEMENT. GSA HAS ALSO AGREED TO BUY ALL NEW ITEMS CENTRALLY UNTIL DEMAND PATTERNS CAN BE ESTABLISHED. WE ARE WORKING WITH DLA TO DO THE SAME TYPE OF FILE REVIEW.



Breakout

- Four Year Program Funded to do Full Screen Reviews
- Proprietary Data Rights Being Challenged on Several Fronts
- Voluntary Sub Vendor Information Received from Industry
- Licensees

BREAKOUT

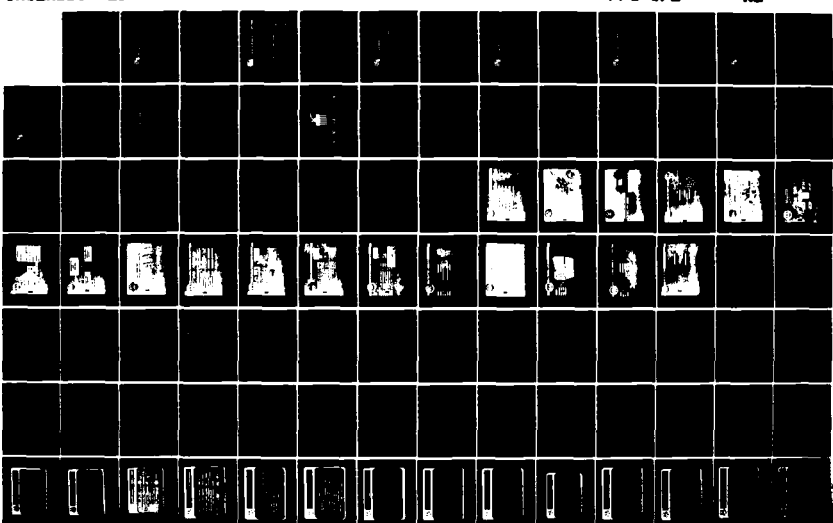
TO ACHIEVE FULL IMPLEMENTATION OF DAR SUPPLEMENT NO. 6 IN AN EFFICIENT MANNER, THE NAVY HAS BEGUN A FOUR YEAR PHASED PROGRAM TO PERFORM FULL SCREEN BREAKOUT REVIEWS OF THE 20,000+ ITEMS IN OUR INVENTORY WHICH HAVE AN ANNUAL BUY VALUE GREATER THAN $10,000. WE ARE TURNING TO CONTRACTOR SUPPORT TO DO SOME OF THE SCREENING, SINCE WE FEEL THAT THIS IS THE MOST COST EFFECTIVE WAY FOR US TO WORK THROUGH OUR BACKLOG OF UNSCREENED ITEMS.

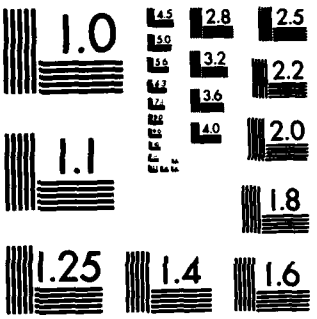
WE ALSO HAVE AN AGGRESSIVE PROGRAM OF PROPRIETARY DATA CHALLENGES. IN MANY CASES WE HAVE RECEIVED IMMEDIATE POSITIVE REPLIES TO LETTERS ASKING CONTRACTORS TO REVIEW PROPRIETARY LEGENDS ...OVER $4 MILLION IN ANNUAL BUY VALUE TO DATE. IN CASES WHERE WE BELIEVE THAT A CONTRACTOR DECISION TO INSIST ON PROPRIETARY RIGHTS IS UNJUSTIFIED, WE HAVE ISSUED FORMAL LEGAL CHALLENGES. WE ARE PRESENTLY IN THE FINAL STAGES OF TAKING TWO CASES TO COURT IF NECESSARY.

Continued

AD-A143 848 PROCEEDINGS OF THE WORLDWIDE AIR FORCE PRICING CONFERENCE 'ENHANCING AIR..(U) DEPARTMENT OF THE AIR FORCE WASHINGTON DC MAR 84 2/5

UNCLASSIFIED F/G 5/1 NL





MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A



Breakout

- Four Year Program Funded to do Full Screen Reviews
- Proprietary Data Rights Being Challenged on Several Fronts
- Voluntary Sub Vendor Information Received from Industry
- Licensees

As I said earlier, Industry is definitely a full partner in any solution to the spares pricing problem. We are taking every opportunity to seek industy cooperation. Among the the assistance we seek is information concerning items bought from vendors and sold to us without adding any magic to the item. We ask that Primes refuse to even quote on such parts. We are looking for greater efforts in Value Engineering and for candidates for multiyear procurements. . . . our Flag Officers and SES members will not participate in industry association meetings unless the topic is spare parts pricing . . . We have collected responses from industry and have publicized their commitments to all of our buying activities. This is one of the areas where we should pool our information to make sure we are all getting everything that has been promised.



Contractor Breakout Cooperation

ATP&S INC.*
ATS CO.*
BABCO*
DRW MANUFACTURING*
ELECTRIC BOAT*
GENERAL ELECTRIC*
GRUMMAN*
HUGHES AIRCRAFT*
IBM*
INGERSOLL RAND*
KAMAN*
LITTON*
LOCKHEED*
MARTIN MARIETTA
McDONNELL DOUGLAS*
MOTOROLA
PRATT & WHITNEY*
RALOID*
SIKORSKY*
SINGER
SPERRY*
TEXAS INSTRUMENTS
TRANSAMERICA DeLAVAL
VOUGHT*
WESTINGHOUSE

Specific Breakout Candidates Identified by Contractors*	
Total Items Offered Through Jan 31, 1984	56,000+
Valid Candidates (Cross to NSN)	
• Navy Managed	3,218
• DLA/Other Service	7,295
Do Not Cross to NSN	8,789
Review Incomplete	37,000+

CONTRACTOR BREAKOUT COOPERATION

WE HAVE HAD A GOOD DEAL OF COOPERATION FROM INDUSTRY. FOR INSTANCE, OVER 50,000 VENDOR ITEMS HAVE BEEN IDENTIFIED TO DATE. THE EARLY SUBMITTALS WERE NOT MADE IN A FORM THAT WAS EASY TO RESEARCH, AND WE ARE WORKING WITH INDUSTRY TO OBTAIN THE INFORMATION IN A FORMAT THAT OUR AUTOMATED SYSTEMS CAN USE. WE BELIEVE THAT THERE IS CONSIDERABLE POTENTIAL HERE, AND WE ARE ACTIVELY GOING AFTER CONTRACTORS WHO HAVE NOT YET PARTICIPATED IN THIS PROGRAM.



Competition

- Overall Navy FY 83 Competition Rate 30.5%
- FY84 Competition Thru January 1984...41.3%
- Competition Advocates Actively Working at 47 Contracting Activities and 150 Requiring Activities
- Competition Advocate General Successes

COMPETITION

WE MADE SOME PROGRESS IN RAISING COMPETITION RATES IN FY 83 WHEN THE NAVY EXCEEDED ITS GOAL AND INCREASED ITS PERFORMANCE OVER FY 82 BY 14%. OUR GOALS FOR FY84 HAVE BEEN RAISED MARKEDLY, ESPECIALLY AT OUR TWO INVENTORY CONTROL POINTS, WHERE THE MAJORITY OF OUR SPARES ARE PROCURED. OUR EARLY RETURNS IN FY 84 SHOW SIGNIFICANT PROGRESS . . . THE NAVY'S COMPETITION RATE THROUGH JANUARY IS 41.3%, WHICH IS A SUBSTANTIAL INCREASE OVER OUR FY 83 PERFORMANCE.

WE HAVE COMPETITION ADVOCATES AT 47 BUYING ACTIVITIES...AND IN ADDITION, WE HAVE APPOINTED THEM AT OVER 150 CUSTOMER ACTIVITIES WHOSE ANNUAL PROCUREMENT REQUIREMENTS EXCEED $1 MILLION. IN THIS WAY, WE ARE INVOLVING TECHNICAL AND OPERATING PERSONNEL AT THE FRONT END OF THE REQUIREMENTS DETERMINATION PROCESS.

Continued



Competition

- Overall Navy FY 83 Competition Rate 30.5%
- FY84 Competition Thru January 1984...41.3%
- Competition Advocates Actively Working at 47 Contracting Activities and 150 Requiring Activities
- Competition Advocate General Successes

FINALLY, OUR FLAG LEVEL COMPETITION ADVOCATE GENERAL HAS BEEN VERY SUCCESSFUL IN HIS WORK WITH INDUSTRY CEO'S. HE NEGOTIATED CONCESSIONS FROM ONE CONTRACTOR CONCERNING DATA RIGHTS TO SEVERAL NAVIGATION SYSTEMS, AND SECURED THE PROMISE OF ANOTHER THAT THE NAVY HAD THE RIGHT TO USE ANY OF THE TECHNICAL DATA ASSOCIATED WITH THE COMPUTER SYSTEMS DEVELOPED BY THAT FIRM. IN ADDITION, HE HAS OBTAINED THE AGREEMENT OF AN AIRCRAFT MANUFACTURER TO ALLOW THE PRIME'S LICENSEES TO BID DIRECTLY ON NAVY SPARES BUSINESS AND HAS SECURED THE AGREEMENT OF ANOTHER PRIME TO ALLOW THE DIRECT PROCUREMENT OF PARTS FOR SONAR SYSTEMS. THE COMPETITION ADVOCATE GENERAL ALSO FOCUSES ATTENTION IN HOUSE WITH THE OBJECTIVE OF ENSURING THAT NEW ACQUISTIONS ARE DESIGNED TO PROMOTE LATER COMPETITION FOR THE SPARES TO SUPPORT THEM.



Pricing Surveillance

- PRICE FIGHTER Team ..ablished
- Customer Overpricing Reports Up Six Fold
- Refunds Totaling $390K Received from Contractors
- Twenty Awards to Date
- Stock Funding of Aviation DLRs Approved for FY 85

PRICING SURVEILLANCE

THE MAIN GOAL OF OUR PRICING AND PRICING SURVEILLANCE INITIATIVES IS TO PAY THE "SHOULD COST" VALUE OF OUR SPARES. WE HAVE ESTABLISHED A SMALL TEAM CALLED PRICE FIGHTER TO DO THIS. THIS TEAM IS MADE UP OF ENGINEERS, TECHNICIANS AND PRICING/CONTRACTING SPECIALISTS. THEY ANALYZE ITEMS IDENTIFIED BY OUR CUSTOMERS AND OUR INVENTORY MANAGERS TO ESTIMATE THE INTRINSIC VALUE. IT IS SIMILAR IN CONCEPT TO AN AIR FORCE PROGRAM, AND I WANT TO ACKNOWLEDGE THE ASSISTANCE GIVEN BY THE FOLKS HERE AT TINKER WHO HELPED OUR PROJECT OFFICER LAST FALL.

WE HAVE HAD A PRICING HOT LINE SINCE 1979, BUT THE BUSINESS ON THIS LINE HAS INCREASED SIX-FOLD SINCE LAST SUMMER. WE EXPECT THIS LEVEL OF INTEREST IN PRICES TO CONTINUE AND EVEN INCREASE AS WE MOVE INTO THE STOCK FUNDING OF AVIATION DEPOT LEVEL REPAIRABLES IN FY 85. THIS MEANS THAT OUR CUSTOMERS WILL HAVE TO PAY FOR ALL REPAIR PARTS INSTEAD OF GETTING THEM FREE, AND THEY WILL BE MUCH MORE SENSITIVE TO THE COST OF THEM.

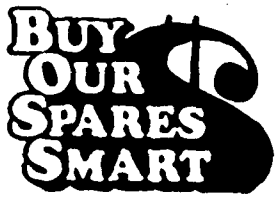
Continued



Pricing Surveillance

- PRICE FIGHTER Team Established
- Customer Overpricing Reports Up Six Fold
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- Twenty Awards to Date
- Stock Funding of Aviation DLRs Approved for FY 85

AS A RESULT OF PRICE FIGHTER, REPORTS FROM THE HOT LINE AND THE WORK OF OUR BUYERS AND NEGOTIATORS, WE HAVE RECEIVED REFUNDS TOTALING NEARLY $400,000. WE ARE RECOGNIZING THOSE INDIVIDUALS WHO HAVE MADE EXTRAORDINARY CONTRIBUTIONS TO THE SUCCESS OF THESE AND OTHER INITIATIVES, AND WE FIND THAT THERE IS INCREASED INTEREST AMONG OUR WORKFORCE AS A RESULT OF THE RECOGNITION BEING GIVEN TO THE TRULY DIFFICULT JOB OF PROCURING SPARES.



Bottom Line

- Early Results from BOSS are Encouraging
- Support from ALL HANDS Essential
  - Technical/Operational Community
  - Logistics/Procurement Community
  - Industry
- Tough Challenges Remain - Solutions Must Be Institutionalized

BOTTOM LINE

PROJECT BOSS IS AN AMBITIOUS PROGRAM. THE EARLY RESULTS WHICH I HAVE OUTLINED ARE ENCOURAGING...BUT THEY DON'T COME FREE. WE ARE INVESTING A SIGNIFICANT AMOUNT IN ADDITIONAL PERSONNEL, CONTRACTOR SERVICES AND ADP SUPPORT. WE FEEL THAT THIS INVESTMENT WILL PAY BIG DIVIDENDS OVER THE LONG RUN AND WE INTEND TO ENSURE THAT THE SOLUTIONS ARE INSTITUTIONALIZED THROUGHLUT THE NAVY.

COLE'S LAW

Buying Spare Parts is Like Making Love to an Elephant. If You Do It Right , Nothing Happens for Two Years. If You Do It Wrong, You Get Trampled to Death.

COLE'S LAW

IN CLOSING, I WANT TO SHOW YOU ONE LAST VIEWGRAPH WHICH WAS CREATED BY THE BOSS PROJECT MANAGER, AND WHICH I FEEL SUMMARIZES THE CHALLENGE WE ALL FACE IN THE ACQUISITION OF SPARE PARTS.

THIS CONFERENCE IS A WORTHWHILE VENTURE. . . I AM PLEASED WITH THE JOINT SERVICE APPROACH AND WITH THE INDUSTRY PARTICIPATION. THANK YOU FOR YOUR KIND INVITATION TO SPEAK TODAY.

PRESENTER: BRIG GEN HARRY G. SKEEN

(CHARTS FOLLOW SCRIPT, SEE PG 123)

DEFENSE INDUSTRIAL SUPPLY CENTER

PRESENTER: BRIG GEN HARRY G. SKEEN

SLIDE 1 - ON

AS HAS BEEN SAID, I AM THE COMMANDER OF THE DEFENSE INDUSTRIAL SUPPLY CENTER IN PHILADELPHIA. BUT, I AM HERE REPRESENTING THE DEFENSE LOGISTICS AGENCY. I AM HERE BECAUSE IN DLA THE PRICING OF ITEMS IS DONE AT MY LEVEL AND WE FELT WE COULD MAKE THE GREATEST CONTRIBUTION TO YOUR CONFERENCE BY SENDING A REPRESENTATIVE FROM A SUPPLY CENTER.

DISC HAS BEEN DEEP INTO COMPETITION AND PRICING ISSUES FOR SOME TIME. AS MANY OF YOU MAY BE AWARE, DISC PURCHASED THE NOW FAMOUS PLASTIC END CAP FOR A STOOL LEG FOR THE AWACS. SO, WE HAVE SOME DIRECT EXPERIENCE IN THE OVER PRICING ARENA. I WELCOME THE OPPORTUNITY TO PARTICIPATE IN YOUR CONFERENCE BECAUSE I BELIEVE WE ALL FACE SIMILAR PROBLEMS AND WE NEED A CONTINUOUS INTERCHANGE AS WE MEET AND RESOLVE THESE PROBLEMS.

SLIDE 1 - OFF - SLIDE 2 - ON

THESE ARE THE TOPICS I WILL COVER THIS AFTERNOON. FIRST, TO PUT THINGS IN PERSPECTIVE, I'LL PROVIDE SOME BACKGROUND DATA ON THE SIZE AND SCOPE OF DISC'S MISSION WORKLOAD. THEN I'LL OUTLINE THE ORGANIZATION ESTABLISHED TO ENHANCE COMPETITION AND PRICING EFFORTS. NEXT, OUR INITIATIVES IN BOTH AREAS, AND, FINALLY, A CONCLUSION.

SLIDE 2 - OFF - SLIDE 3 - ON

THERE ARE SIX SUPPLY CENTERS IN DLA. THESE INCLUDE DEFENSE FUELS, DEFENSE PERSONNEL SUPPORT AND FOUR HARDWARE CENTERS. DISC IS ONE OF THE HARDWARE CENTERS. THE OTHERS ARE DEFENSE ELECTRONICS, DEFENSE CONSTRUCTION, AND DEFENSE GENERAL. THESE HARDWARE CENTERS MANAGE PRIMARILY CONSUMABLE TYPE ITEMS. DISC IS AN INVENTORY CONTROL POINT FOR APPROXIMATELY 900,000 ITEMS, ALMOST 400,000 OF WHICH ARE ACTIVE, THE OTHER 500,000 HAVE FEW DEMANDS AND ARE PURCHASED LESS THAN ONCE A YEAR. THE TYPES OF ITEMS WE MANAGE ARE SHOWN ON THE CHART. WHILE WE CALL OUR COMMODITIES

"INDUSTRIAL HARDWARE", WE ACTUALLY PURCHASE A LARGE PERCENTAGE OF AIRCRAFT ENGINE PARTS AND AIRFRAME COMPONENTS.

SLIDE 3 - OFF - SLIDE 4 - ON

DISC RECEIVES OVER 6,000,000 REQUISITIONS AND AWARDS 175,000 CONTRACTS PER YEAR. 91% OF THESE CONTRACTS ARE LESS THAN $10,000. OUR ANNUAL STOCK FUND BUDGET FOR SPARES, $600,000,000. THAT AVERAGES OUT TO $3,400 PER CONTRACT. IN SHORT, OUR BUSINESS IS LARGE VOLUME, LOW DOLLARS BY COMPARISON TO THE SERVICES. IT IS ALSO CLEARLY A PRODUCTION ORIENTED OPERATION DUE TO THE SHEER NUMBER OF ITEMS WE MANAGE, THE NUMBER AND SIZE OF THE CONTRACTS WE PLACE EACH YEAR.

SLIDE 4 - OFF - SLIDE 5 - ON

OUR PROBLEM IN COMPETITION AND PRICING IS DUE IN PART TO ANOTHER CHARACTERISTIC OF THE INVENTORY WE MANAGE. APPROXIMATELY ONE-HALF OF OUR ITEMS CARRY NOTHING MORE THAN A PART NUMBER AS A REFERENCE. THAT IS THE DESCRIPTION OF THE ITEM IS A MANUFACTURER'S

PART NUMBER. WE DON'T ALWAYS KNOW THE END ITEM APPLICATION OR EVEN THE NEXT HIGHER ASSEMBLY. WE LACK THE FULL TECHNICAL DATA FAR MORE THAN WE HAVE IT. AS A RESULT, OUR BUYERS AND EQUIPMENT SPECIALISTS DO NOT ALWAYS HAVE THE ADVANTAGE OF COMMODITY KNOWLEDGE SUCH AS PRODUCT CHARACTERISTICS AND INTRINSIC VALUE. FURTHER, BECAUSE WE ARE A PRODUCTION ORIENTED OPERATION, ATTEMPTING TO MEET THE READINESS REQUIREMENTS OF OUR CUSTOMERS, TIME IS NOT ALWAYS AVAILABLE TO OBTAIN FULL DATA FOR COMPETITION. EVEN WHEN WE DO DEVELOP THE DATA, WE DO NOT HAVE THE ENGINEERING AUTHORITY TO APPROVE AN ALTERNATE OFFER OR ANOTHER SOURCE WHEN THE ITEM IS CODED SOURCE CONTROLLED. WE MUST OBTAIN THIS APPROVAL FROM THE END ITEM MANAGER OR THE COGNIZANT ENGINEERING ACTIVITY.

SLIDE 5 - OFF - SLIDE 6 - ON

NOTWITHSTANDING THOSE BARRIERS TO COMPETITION, DISC HAS DONE REASONABLY WELL OVER THE YEARS. THIS CHART SHOWS OUR HISTORICAL RECORD. THE DROP IN FY'83 WAS DUE IN LARGE MEASURE TO THE

CONSUMABLE ITEMS TRANSFER. THIS TRANSFER GAVE US ITEMS THAT ON THE AVERAGE WERE OF A HIGHER DOLLAR VALUE, AND A LOWER COMPETITION RATE.

SLIDE 6 - OFF - SLIDE 7 - ON

DLA HAS ESTABLISHED A COMPETITION AND PRICING OFFICE WITHIN THE DIRECTORATE OF CONTRACTING AND PRODUCTION IN EACH OF THE HARDWARE CENTERS.

THE COMPETITION AND PRICING OFFICE IS AN UMBRELLA ORGANIZATION IN THAT IT COORDINATES A NUMBER OF PROGRAMS AND EFFORTS ALREADY IN PLACE. SUCH AS VALUE ENGINEERING, COST AND PRICE ANALYSIS AND DAR SUPPLEMENT 6 EFFORTS. THE OFFICE IS WITHIN THE CONTRACTING DIRECTORATE BUT AS YOU SEE, IT HAS A DIRECT LINE TO ME. IT ALSO HAS A DIRECT INTERFACE WITH OTHER FUNCTIONAL ELEMENTS. THERE ARE 2 BRANCHES WITHIN THE OFFICE WHICH I'LL COVER IN A MINUTE.

SLIDE 7 - OFF - SLIDE 8 - ON

THIS CHART SHOWS HOW THE OFFICE FUNCTIONS. THE CIRCLES ON YOUR LEFT ARE THE VARIOUS INPUT MECHANISMS WHICH AFFECT THE MAJOR

EFFORTS OF THE OFFICE. WHENEVER A PROBLEM ARISES, OR AN AREA OF OPPORTUNITY IS SURFACED, THE COMPETITION ADVOCACY OFFICE FUNNELS THE ACTION TO THE APPROPRIATE PROGRAM ON THE RIGHT TO WORK THE ISSUE OR INITIATIVE. THE MIS BLOCK IS A MANAGEMENT INFORMATION SYSTEM WE ARE DESIGNING TO AVOID DUPLICATIVE EFFORTS, COORDINATE VARIOUS INITIATIVES AND REPORT OUR RESULTS. THE MIS FEEDS INTO AND IS FED BY THE 3 FUNCTIONAL AREAS OF SUPPLY MANAGEMENT, TECH DATA MANAGEMENT AND PROCUREMENT.

SLIDE 8 - OFF - SLIDE 9 - ON

THIS CHART SHOWS THE COMPETITION AND PRICING OFFICE ITSELF, HEADED BY A MILITARY -05, IT HAS A CIVILIAN DEPUTY AND CONSISTS OF 2 BRANCHES. THE COST AND PRICE BRANCH IS AN EXPANDED VERSION OF AN EXISTING FUNCTION. WE HAVE TRIPLED THE SIZE OF THAT BRANCH FROM 7 TO 21 PERSONS. THE COMPETITION ADVOCACY BRANCH DOES ALL THE STAFF WORK, RESEARCH, COORDINATION AND CONTROL, AND REPORTING. IN IT ARE PROCUREMENT ANALYSTS, A TECHNICAL SPECIALIST, AND SUPPLY MANAGER. THIS GROUP HAS THE SKILLS AND THE BRAIN POWER

TO ATTACK ANY AREA WITH A COORDINATED, CREATIVE APPROACH THAT CONSIDERS ALL FUNCTIONAL ELEMENTS. I'LL COVER THE MAJOR THRUSTS OF OUR EFFORTS IN A MOMENT.

SLIDE 9 - OFF - SLIDE 10 - ON

TO ACCOMPLISH THIS EFFORT WE HAVE ADDED A TOTAL OF 72 NEW SPACES. TWENTY-FIVE IN THE COMPETITION AND PRICE OFFICE AND 47 IN THE EXISTING TECHNICAL DATA MANAGEMENT AREA.

SLIDE 10 - OFF - SLIDE 11 - ON

AS SHOWN ON THIS SLIDE.

NOW FOR OUR EFFORTS AND INITIATIVES.

SLIDE 11 - OFF - SLIDE 12 - ON

THE SOLUTIONS TO OUR PROBLEM ARE LABOR INTENSIVE. THUS, WE CANNOT SOLVE THE PROBLEM ON AN ITEM BY ITEM BASIS. WAYS TO BREAKOUT MOST OR ALL OF OUR ITEMS BY OEM, BY WEAPON SYSTEM OR BY COMMODITY CLASSES MUST BE FOUND. THOSE EFFORTS ARE LONGER TERM AND REQUIRE STRICT PRIORITIES ON EACH SPECIFIC PROJECT. THE RESULTS MUST BE INSTITUTIONALIZED AND I MUST MAKE MAXIMUM USE OF AUTOMATION. BUT JUST AS IMPORTANT, WE MUST ASSURE THE

CONTINUAL INVOLVEMENT AND SUPPORT OF THE OEM.

SLIDE 12 - OFF - SLIDE 13 - ON

THESE ARE THE COMPETITION INITIATIVES THAT WE ARE TAKING.

WE HAVE APPROACHED A NUMBER OF OUR MAJOR OEM CONTRACTORS SEEKING TO DEAL WITH THEIR SOURCES OF SUPPLY, THE ACTUAL MANUFACTURER OF THE ITEM. THIS METHOD HAS SEVERAL ADVANTAGES. FIRST, IT IS FEASIBLE, ESPECIALLY IN THE CURRENT ENVIRONMENT. YOU ARE PROBABLY AWARE OF THE PRATT & WHITNEY INITIATIVE ~~OF~~ C/V SUPPLY SOURCES. I AM PLEASED TO REPORT SIMILAR EFFORTS WITH OTHERS SUCH AS GRUMMAN, LOCKHEED, VOUGHT, MC DONNELL DOUGHLAS, AND BOEING. WE FIND THAT WHEN WE DEAL WITH THE OEM'S SOURCE WE MAY STILL BE IN A SOLE SOURCE ENVIRONMENT BUT WE DO SAVE SIGNIFICANT MONIES, WE DON'T USUALLY HAVE QUALITY PROBLEMS AND WE DON'T NEED ADDITIONAL TECHNICAL DATA.

A SECOND APPROACH IS TO PROVIDE ADDITIONAL DATA TO KNOWN SOURCES OR SOURCES WE HAVE IDENTIFIED. SAID ANOTHER WAY -- ONCE WE KNOW A MANUFACTURER THAT PROVIDES ITEMS ASSOCIATED WITH A GIVEN OEM, WE IDENTIFY ALL ITEMS WE BUY THAT ARE ASSOCIATED WITH THAT OEM IN AN ATTEMPT TO HAVE THE MANUFACTURING SOURCE BID DIRECT

TO US. IN ADDITION, WHEN WE FIND A PROVEN SOURCE OF SUPPLY FOR A GIVEN COMMODITY, WE TELL THEM ALL THE ITEMS WE MANAGE IN THAT COMMODITY CLASS TO SEE IF THEY CAN SUPPLY OTHER ITEMS THAT WE WERE NOT AWARE OF. WE HAVE USED THIS APPROACH IN TENS OF THOUSANDS OF ITEMS IN RECENT MONTHS. IN ALL CASES THE ACTUAL MANUFACTURER HAS TO PROVIDE PROOF OF HAVING SUPPLIED THE OEM OR A TECHNICAL DATA PACKAGE WHEN THE ITEMS COME UP FOR A BUY.

ANOTHER INITIATIVE, WE ARE CONTINUALLY OBTAINING AND DEVELOPING TECHNICAL DATA AND INDUSTRY CROSS REFERENCE LISTINGS FOR NON-CRITICAL ITEMS TO ENHANCE COMPETITION.

IN A COUPLE OF CASES WE ARE WORKING WITH THE COGNIZANT ENGINEERING ACTIVITIES TO DEVELOP THIS DATA FOR FULL COMPETITION.

WE ALSO ATTEMPT TO ADAPT AN INDUSTRY OR PROFESSIONAL STANDARD TO COVER GROUPS OF ITEMS. THIS IS LABORIOUS AND TIME CONSUMING.

THE NEXT APPROACH IS ONE WITH THE MOST POTENTIAL FOR DISC BUT ALSO THE HARDEST. WE MANAGE THE COMMODITY COVERING GASKETS AND

SEALS. WE SPEND OVER $50,000,000 PER YEAR IN THAT COMMODITY CLASS. WHEN ONE CONCENTRATES ON THE GASKETS WITHIN THE COMMODITY CLASS, VERSUS THE SEALS, I AM CONVINCED THAT YOU DON'T OFTEN FIND ITEMS THAT ARE TRULY CRITICAL OR EXOTIC. GASKETS ARE RELATIVELY SIMPLE ITEMS. WE ARE EMBARKING ON AN EFFORT TO BREAKOUT THAT ENTIRE FIELD. TO DO SO, WE WILL USE ALL OF THE ABOVE APPROACHES SIMULTANEOUSLY. WE ARE CONVINCED THAT WE CAN MAKE LARGE SAVINGS BY USING THIS APPROACH.

ANOTHER TECHNIQUE IS BETTER ACQUISITION PLANNING TO MAKE SURE WE ARE BUYING THE RIGHT QUANTITIES OF THE PROPER ITEMS AT THE RIGHT TIME TO ENHANCE OUR LEVERAGE IN THE MARKET PLACE. FOR THE MOST PART, THIS IS BEING DONE WITH A FEW HIGH DEMAND/HIGH VALUE ITEMS. FINALLY, WE HAVE THE EVER POPULAR "HIT LIST" OF THE TOP 100 NONCOMPETITIVE ITEMS WE MANAGE. BUT, IF WE BREAKOUT EVERY ITEM ON THE LIST, IT WON'T PAY OFF AS MUCH AS ONE OF THE EFFORTS I'VE ALREADY MENTIONED. WE ALSO HAVE A COMPETITION AWARDS PROGRAM WITH A LOT OF INTERNAL PUBLICITY TO RAISE THE EMPLOYEE'S LEVEL OF AWARENESS.

SLIDE 13 - OFF - SLIDE 14 - ON

HERE ARE SOME OF THE OEM'S WE HAVE OBTAINED SOURCE DATA FROM AND THE ASSOCIATED NUMBER OF ITEMS. IT IS A PARTIAL LIST. I'VE TITLED IT OEM SUCCESS STORIES. BUT, LET ME PUT IN A WORD OF CAUTION HERE FOR THE FUTURE. I'LL USE THE LAST ITEM AS AN EXAMPLE. THE ITEM IS A BEARING USED ON THE LANDING GEAR OF THE NAVY A-7 AIRCRAFT. OBVIOUSLY LANDING GEAR BEARINGS UNDERGO CONSIDERABLE STRESS DURING CARRIER LANDINGS. IN THIS CASE, GOODYEAR DOES NOT MAKE THE BEARING NOR DO THEY ADD ANY VALUE TO IT. THE MANUFACTURER MAKES AND SHIPS IT TO GOODYEAR. GOODYEAR ADDS OVERHEAD COST TO THE MANUFACTURER PRICE AND SHIPS IT TO US. IT IS A PROPRIETARY ITEM. AS WE WORKED THIS PROBLEM, IT FINALLY TOOK A TELEPHONE CALL BETWEEN ME AND A GOODYEAR VICE PRESIDENT TO GET GOODYEAR TO ALLOW THE MANUFACTURER TO BID DIRECT TO US AND TO CUT GOODYEAR OUT. IN THIS CASE, I THINK THAT WAS APPROPRIATE. WE SAVED ALMOST A MILLION DOLLARS. I'M LEFT WITH THE QUESTION: WHAT HAPPENS IN THE FUTURE IF WE DRIVE GOODYEAR OUT NOW AND LATER WE NEED TO MAKE CHANGES TO THE BEARING DESIGN?

BOTTOM LINE - IN MOST CASES PRICE IS NOT THE ONLY THING WE SHOULD BE CONCERNED WITH. WE MAY BE CANCELLING OUT OEM SUPPORT NOW THAT WE WILL DEARLY NEED LATER.

SLIDE 14 OFF - SLIDE 15 - ON

THESE ARE OUR PRICING INITIATIVES. AS I SAID EARLIER WE HAVE TRIPLED THE SIZE OF THE COST AND PRICE ANALYSIS BRANCH. THIS GREATLY EXPANDS BOTH THE PRE AND POST AWARD PRICE REVIEWS THAT WE WILL ACCOMPLISH.

THE COST AND PRICE ANALYSIS BRANCH IS ALSO MY FOCAL POINT FOR HANDLING THE AIR FORCE ZERO OVERPRICING PROGRAM. I DON'T NEED TO SAY MORE ABOUT THAT PROGRAM FOR THIS AUDIENCE. SUFFICE IT TO SAY THAT SUCH A PROGRAM, THOUGH NECESSARY AND USEFUL, IS A MAJOR EFFORT. THE ARMY AND NAVY ARE ALSO ACTIVE IN THE AREA OF PRICE CHALLENGES. GIVEN THE TYPES OF ITEMS DISC MANAGES, IT IS NOT UNUSUAL TO RECEIVE THE SAME CHALLENGE FROM DIFFERENT UNITS IN THE SAME SERVICE AS WELL AS FROM OTHER SERVICES.

WE HAVE EXPANDED THE USE OF VARIOUS PROCUREMENT TECHNIQUES IN AN ATTEMPT TO ACHIEVE BETTER PRICES. WE FREQUENTLY SOLICIT ALTERNATIVE QUANTITIES ON HIGH DEMAND ITEMS. WE ALSO SOLICIT SPECIFIC QUANTITIES WITH A REQUEST FOR THE MOST ECONOMIC ORDER QUANTITY. WE HAVE EXPANDED THE USE OF INDEFINITE DELIVERY TERM CONTRACTS AND ARE USING MORE OPTION CLAUSES THAN EVER BEFORE. WE DO NOT USE PRICE REDETERMINABLE BOA'S. IN OUR POST AWARD AREA, WE HAVE BEEN PURSUING REFUNDS FOR OVERCHARGES. THERE IS A SINGLE PERSON IN MY COMMAND WHO IS RESPONSIBLE FOR OVER $1.5 MILLION IN CASH REFUNDS SINCE 1979. THIS PROGRAM IS GETTING MORE EMPHASIS AS WELL.

FINALLY, AS I MENTIONED EARLIER, DISC PURCHASED THE INFAMOUS STOOL CAP. GIVEN THE FACT THAT DISC AWARDS 175,000 PROCUREMENTS A YEAR, I AM CERTAIN THAT THERE IS A SIMILAR CONTRACT IN MY COMMAND THAT IS WAITING TO BE DISCOVERED. IN AN ATTEMPT TO MINIMIZE THAT POSSIBILITY AND BECAUSE WE BUY SO MANY ITEMS, I HAVE ESTABLISHED A PRICE DEVIATION REVIEW PROCEDURE.

SLIDE 15 - OFF - SLIDE 16 - ON

FOR EXAMPLE, IF A UNIT PRICE INCREASES BY MORE THAN 25% AND THE CONTRACT IS OVER $10,000, THE BUYER CANNOT MAKE THE AWARD WITHOUT HIGHER APPROVAL. THIS MATRIX SETS A WHOLE SERIES OF UNIT PRICE/ CONTRACT VALUE THRESHOLDS REQUIRING APPROVALS BY HIGHER LEVELS. I PERSONALLY MUST APPROVE ANY PURCHASE WHERE THE UNIT PRICE INCREASED BY 100% AND THE CONTRACT VALUE EXCEEDS $50,000. FORTUNATELY, NONE HAVE FALLEN INTO THIS CATEGORY AS YET. EVEN THOUGH WE USE THIS MATRIX, THE BUYER MUST STILL ASSURE ALL PRICES ARE FAIR AND REASONABLE.

SLIDE 16 - OFF - SLIDE 17 - ON

THIS SLIDE GIVES YOU THE BOTTOM LINE OF OUR EFFORTS. ON THIS CHART YOU SEE A COMPARISON OF PRICES FOR ALL ITEMS THAT WE BOUGHT IN BOTH FY'82 AND FY'83. ABOUT 38% OF OUR ITEMS WENT UP IN PRICE WHILE 62% WENT DOWN. OVERALL OUR PRICES WERE DOWN BY ABOUT 1% WITH A COMPETITIVE RATE OF 66%.

SLIDE 17 - OFF - SLIDE 18 - ON

THIS CHART SHOWS THE SAME COMPARISON, THIS TIME FOR ALL ITEMS PURCHASED IN THE 1ST QUARTER FY'84 THAT WERE ALSO PURCHASED IN FY'83. KEEP IN MIND THAT THERE ARE FEWER ITEMS IN THIS COMPARISON BECAUSE IT ONLY INCLUDES ONE QUARTER OF FY'84. BUT NOTE THE TREND IS THE SAME. 33% WENT UP. 67% WENT DOWN. OVERALL PRICES DECREASED BY 9% ON THESE ITEMS AND OUR COMPETITIVE RATE WENT UP TO 78%. I'M CERTAINLY ENCOURAGED BUT I DOUBT WE CAN KEEP UP THIS PACE FOR THE FULL YEAR. BUT THERE IS NO DOUBT WE WILL SHOW SIGNIFICANT IMPROVEMENT IN FY'84 OVER FY'83. IN FY'83 OUR PRICES DECREASED OVERALL BY ABOUT 1%. THIS YEAR I EXPECT AT LEASE THE SAME BUT MORE PROBABLY ABOUT 2%.

SLIDE 18 - OFF - SLIDE 19 - ON

WITH THE VOLUME OF BUSINESS WE DO, I'M CONVINCED WE CANNOT SOLVE THIS PROBLEM ON AN ITEM BY ITEM BASIS. WE MUST ATTACK IT IN A WHOLESALE, SYSTEMIC FASHION AS I HAVE DESCRIBED.

DLA IS DIFFERENT FROM THE MILITARY SERVICES. WE DO NOT HAVE THE AUTHORITY TO APPROVE ALTERNATE ITEMS OR EVEN A CHANGE IN

THE ACQUISITION MANAGEMENT CODE. THAT IS THE RESPONSIBILITY OF THE ENGINEERING SUPPORT ACTIVITY, ALSO CALLED COGNIZANT ENGINEERING ACTIVITY. AND THESE ACTIVITIES ARE LOCATED WITHIN THE MILITARY SERVICES. CONSEQUENTLY, WE MUST HAVE THE DAILY SUPPORT OF THE MILITARY SERVICES IF WE ARE TO BE SUCCESSFUL. AS WE STRIVE FOR INCREASED COMPETITION AND LOWER PRICES WE MUST KEEP EVER PRESENT THE FACT THAT QUALITY AND READINESS MUST HAVE AT LEAST AN EQUAL AND IN MANY CASES A HIGHER PRIORITY. AND FINALLY, WE WILL ALWAYS NEED THE OEM'S SO WE DRIVE THEM OUT AT OUR OWN PERIL.

THANK YOU VERY MUCH FOR ALLOWING ME TO PARTICIPATE IN YOUR CONFERENCE AND TO SHARE WITH YOU SOME OF OUR PROBLEMS AND OUR SUCCESSES.

SLIDE 19 - OFF

TOPICS

- DISC BACKGROUND
- ORGANIZATION
- COMPETITION INITIATIVES
- PRICING INITIATIVES
- CONCLUSIONS

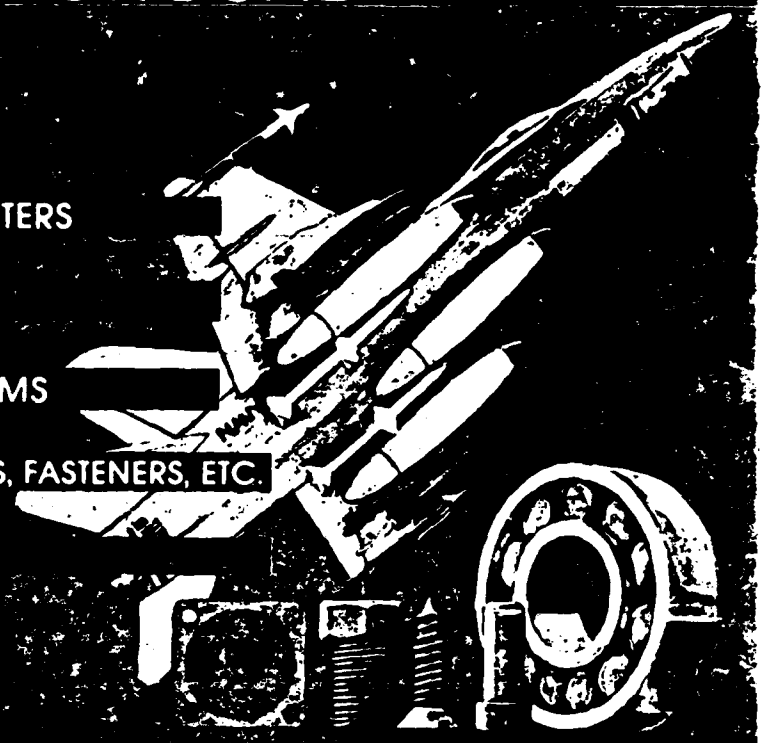
DISC BACKGROUND

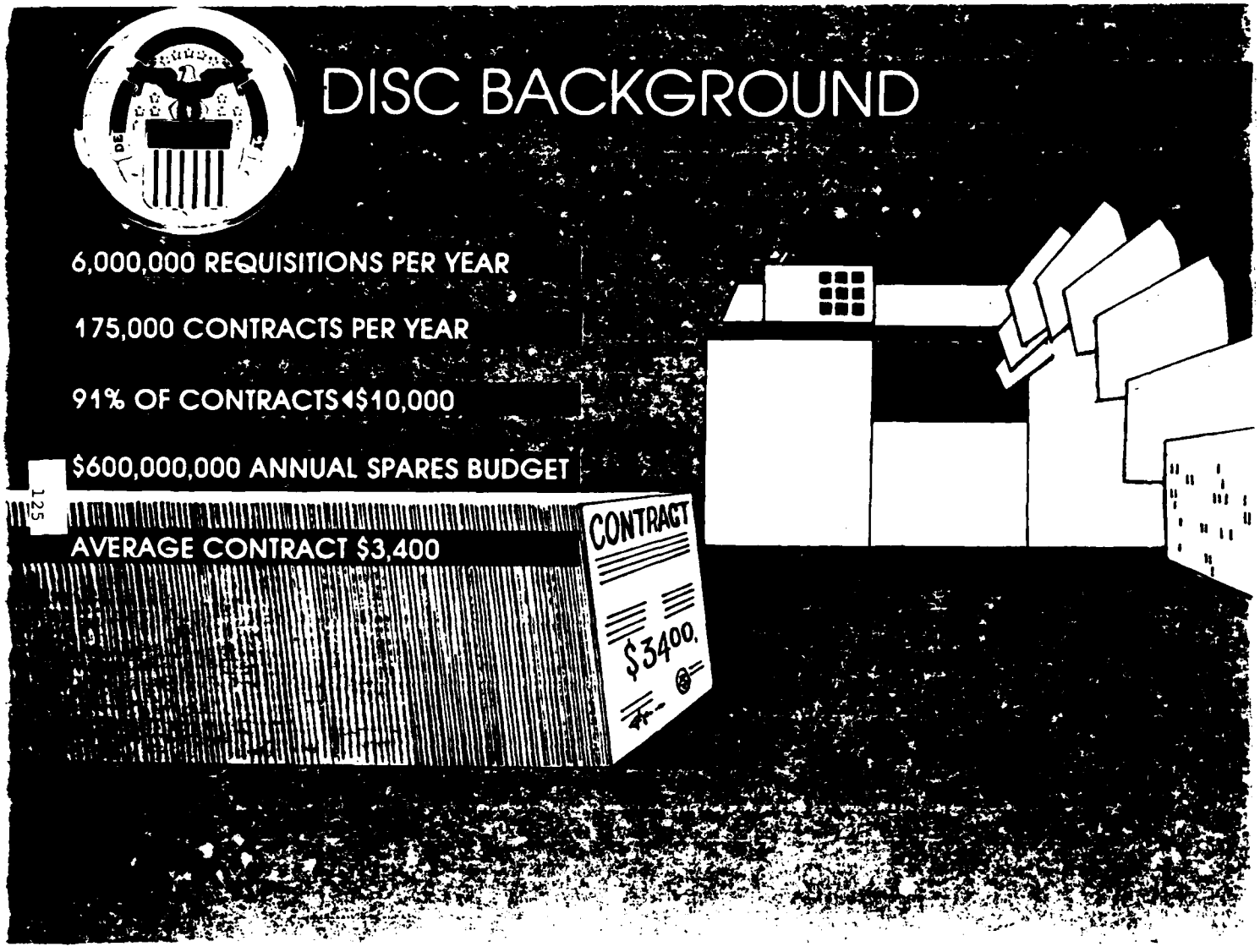
ONE OF FOUR DLA SPARE PARTS CENTERS

ICP FOR 900,000 ITEMS

MANAGE INDUSTRIAL HARDWARE ITEMS

- METALS, BEARINGS, GASKETS, SCREWS, FASTENERS, ETC.
- LARGE NUMBER OF AIRCRAFT SPARES




DISC BACKGROUND
6,000,000 REQUISITIONS PER YEAR
175,000 CONTRACTS PER YEAR
91% OF CONTRACTS◀$10,000
$600,000,000 ANNUAL SPARES BUDGET
AVERAGE CONTRACT $3,400
CONTRACT
$3400.

DISC BACKGROUND



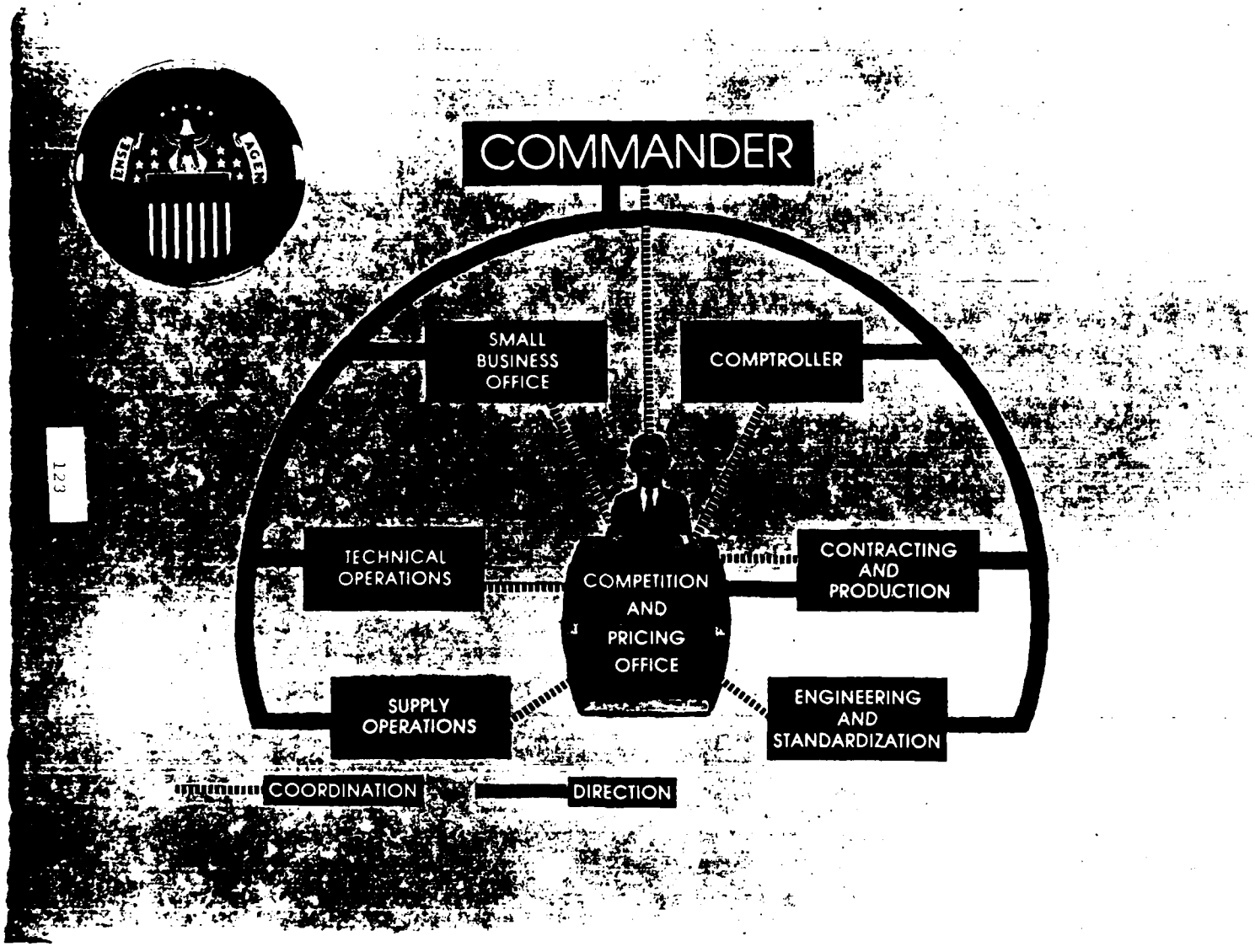
BARRIERS TO COMPETITION AND PRICING

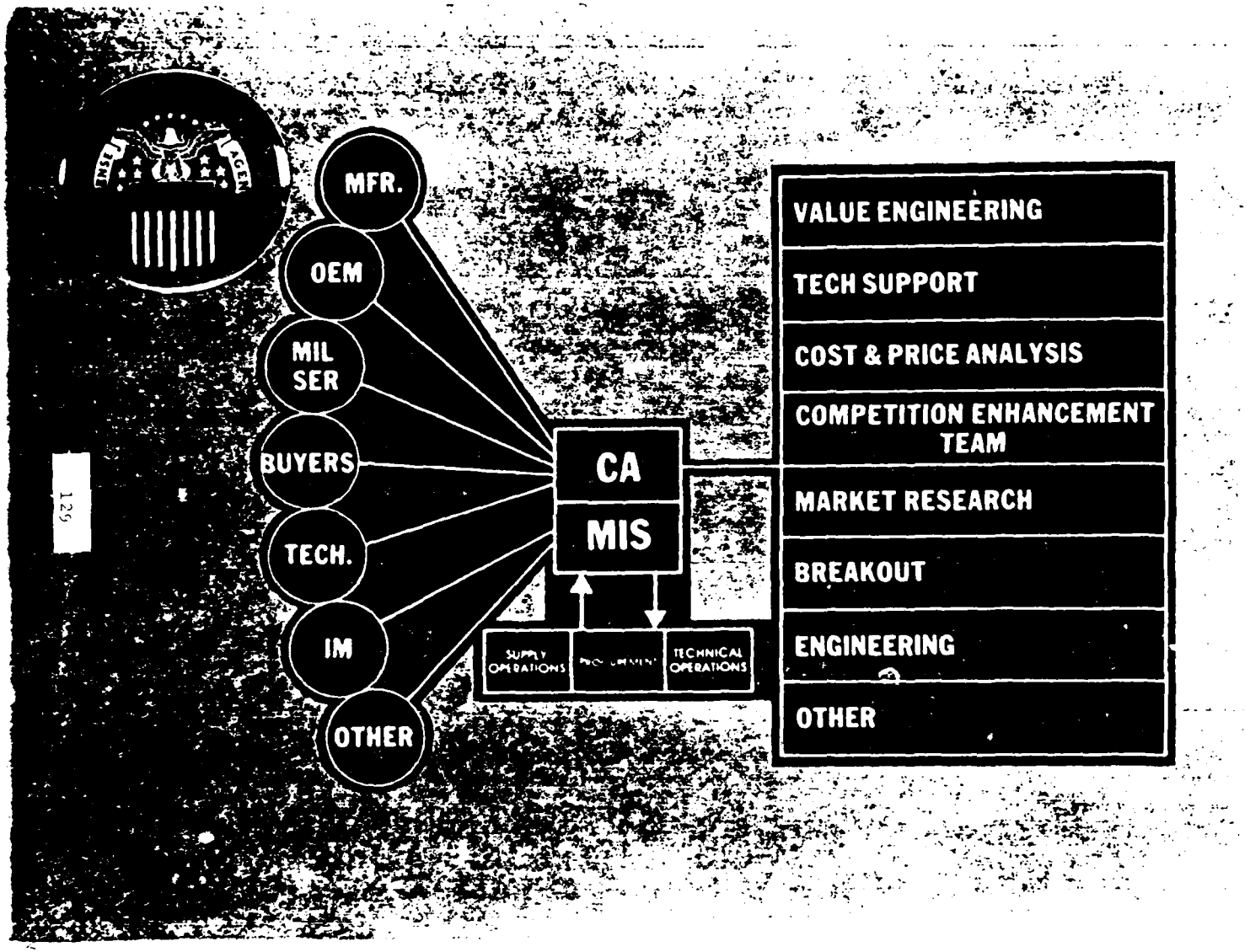
- LACK OF TECH DATA (50% P/N)
- LACK OF PRODUCT CHARACTERISTICS AND VALUE
- REQUIREMENT TO SUPPORT READINESS
- LACK OF TIME
- LACK OF ENGINEERING AUTHORITY

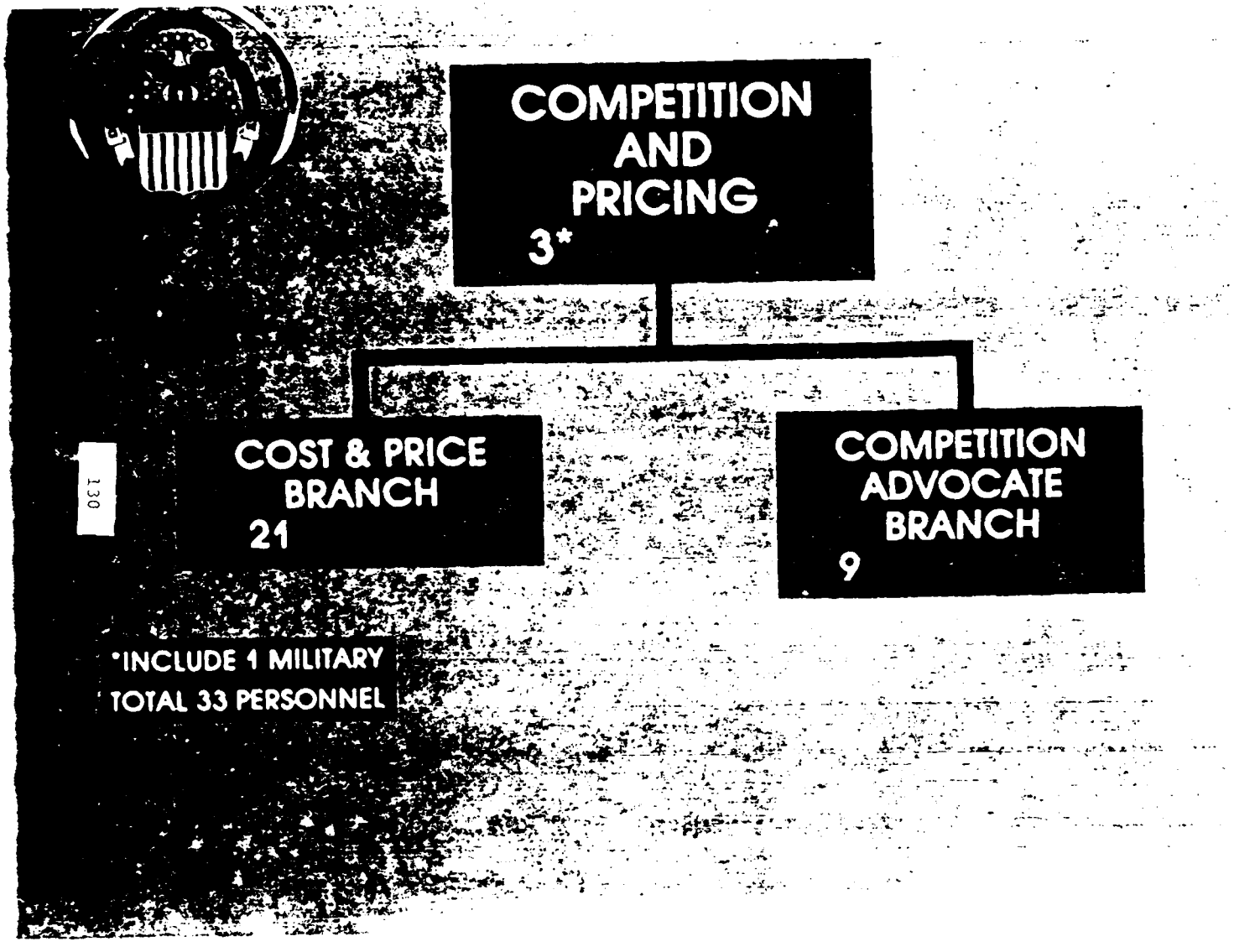
COMPETITIVE RATES

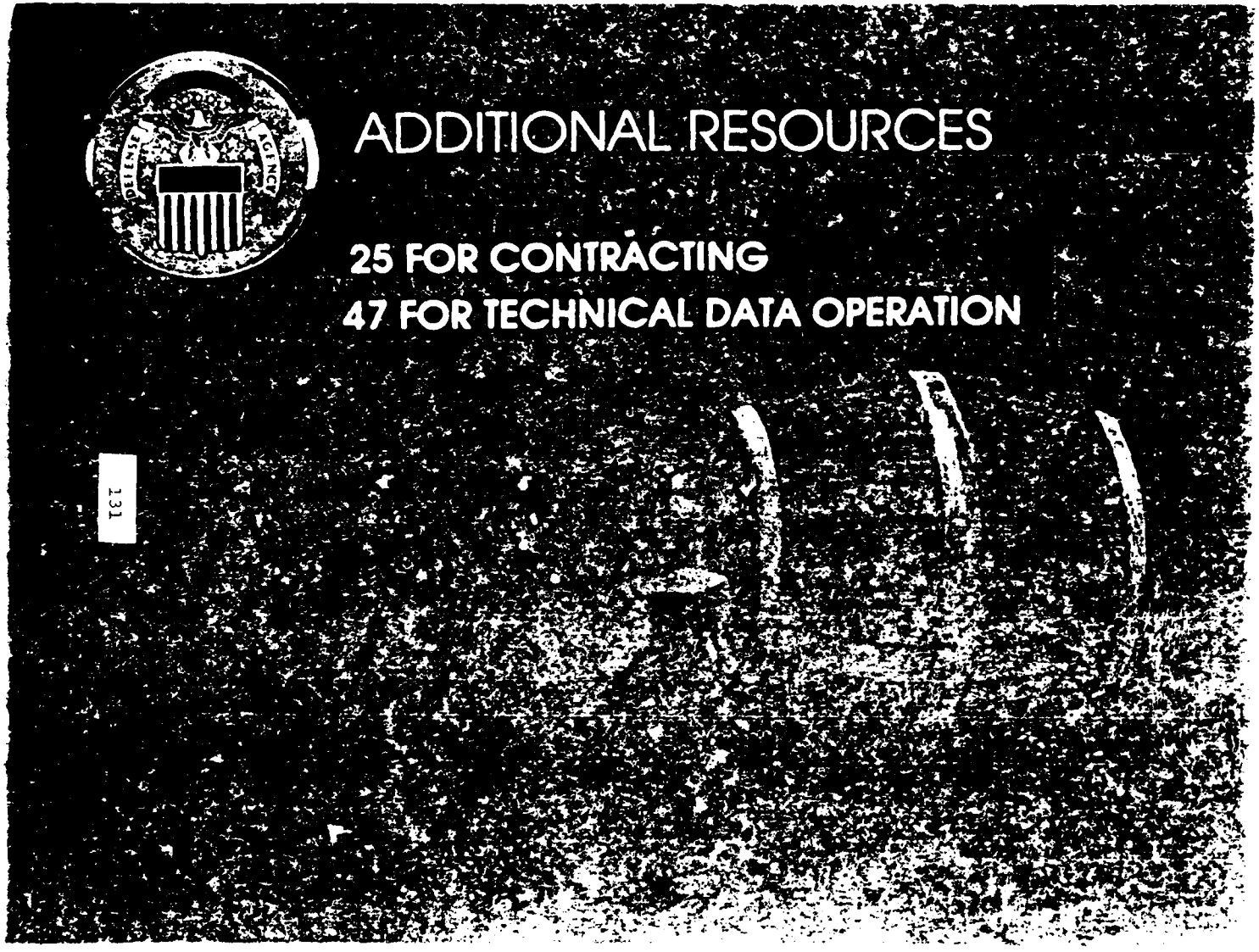
	FY78	FY79	FY80	FY81	FY82	FY83	YTD FY84
COMPETITIVE RATE	84.3	82.3	82.2	81.6	78.8	66.5	78.0




COMMANDER
SMALL BUSINESS OFFICE
COMPTROLLER
TECHNICAL OPERATIONS
COMPETITION AND PRICING OFFICE
CONTRACTING AND PRODUCTION
SUPPLY OPERATIONS
ENGINEERING AND STANDARDIZATION
COORDINATION
DIRECTION


MFR.
OEM
MIL SER
BUYERS
TECH.
IM
OTHER
CA
MIS
SUPPLY OPERATIONS
TECHNICAL OPERATIONS
VALUE ENGINEERING
TECH SUPPORT
COST & PRICE ANALYSIS
COMPETITION ENHANCEMENT TEAM
MARKET RESEARCH
BREAKOUT
ENGINEERING
OTHER

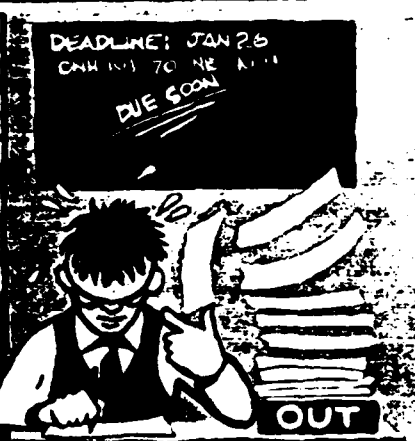

COMPETITION AND PRICING
3*
COST & PRICE BRANCH
21
COMPETITION ADVOCATE BRANCH
9
*INCLUDE 1 MILITARY
TOTAL 33 PERSONNEL
130


ADDITIONAL RESOURCES
25 FOR CONTRACTING
47 FOR TECHNICAL DATA OPERATION
131

TECHNICAL DATA OPERATIONS

VALUE ENGINEERING	7
COMPETITION/ BREAKOUT SUPPORT	17 ESTIMATED
PARTS CONTROL	10
DAR SUPPLEMENT 6	13

OPERATIONAL CONSIDERATIONS



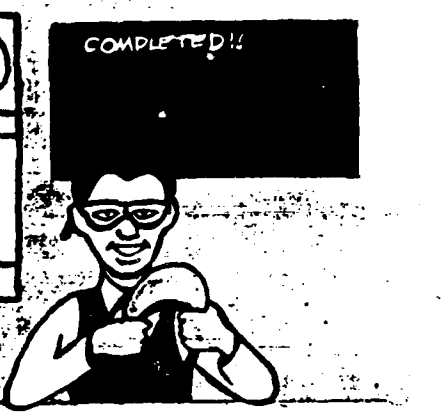
- PROBLEM IS LABOR INTENSIVE
- SOLUTION SHOULD BE SYSTEMIC AND SYSTEMATIC
- PRIORITIZE LABORIOUS EFFORTS
- NEED TO INSTITUTIONALIZE AND AUTOMATE PROCESS
- OEM FUTURE SUPPORT

COMPETITION INITIATIVES

- ASK OEM FOR SOURCE OF ACTUAL MFR
- PROVIDE ADDITIONAL DATA TO KNOWN SOURCES
- OBTAIN DEVELOP TECH DATA (VE)
- WORK WITH ESA/OEM ON A WEAPON SYSTEM
- ADAPT BSI/INDUSTRY STANDARDS
- ATTACK A SINGLE COMMODITY
- ACQUISITION PLANNING
- HIT LIST
- INTERNAL PUBLICITY/AWARDS



OEM SUCCESS STORIES

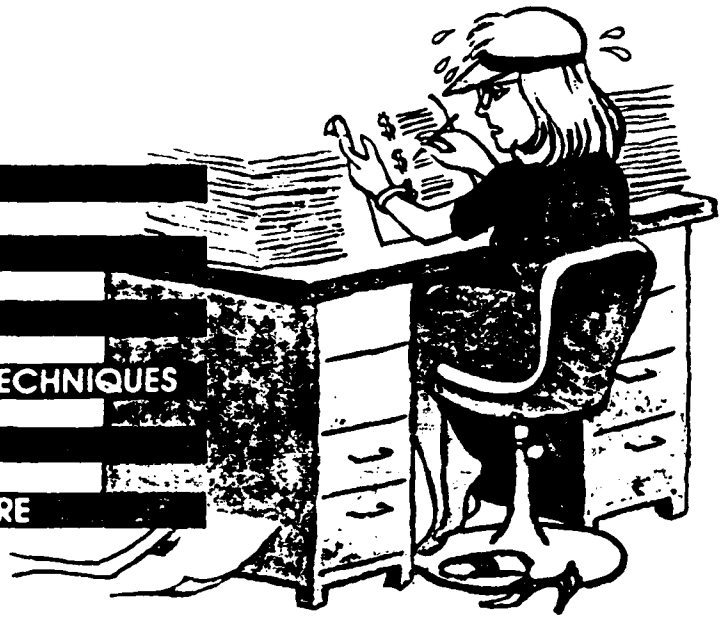


GRUMMAN AEROSPACE CO	13,000 NSN's
PRATT & WHITNEY	5,700 NSN's
LOCKHEED AIRCRAFT CO.	4,500 NSN's
VOUGHT	2,700 NSN's
MACDONNEL DOUGLAS	5,800 NSN's

GOODYEAR TIRE & RUBBER - ONE ITEM - $1 MIL

PRICING INITIATIVES

- EXPANDED PRE-AWARD ANALYSES
- EXPANDED POST AWARD ANALYSES
- PRICE CHALLENGES
- EXPANDED USE OF PROCUREMENT TECHNIQUES
- PURSUIT OF REFUNDS
- PRICE DEVIATION REVIEW PROCEDURE

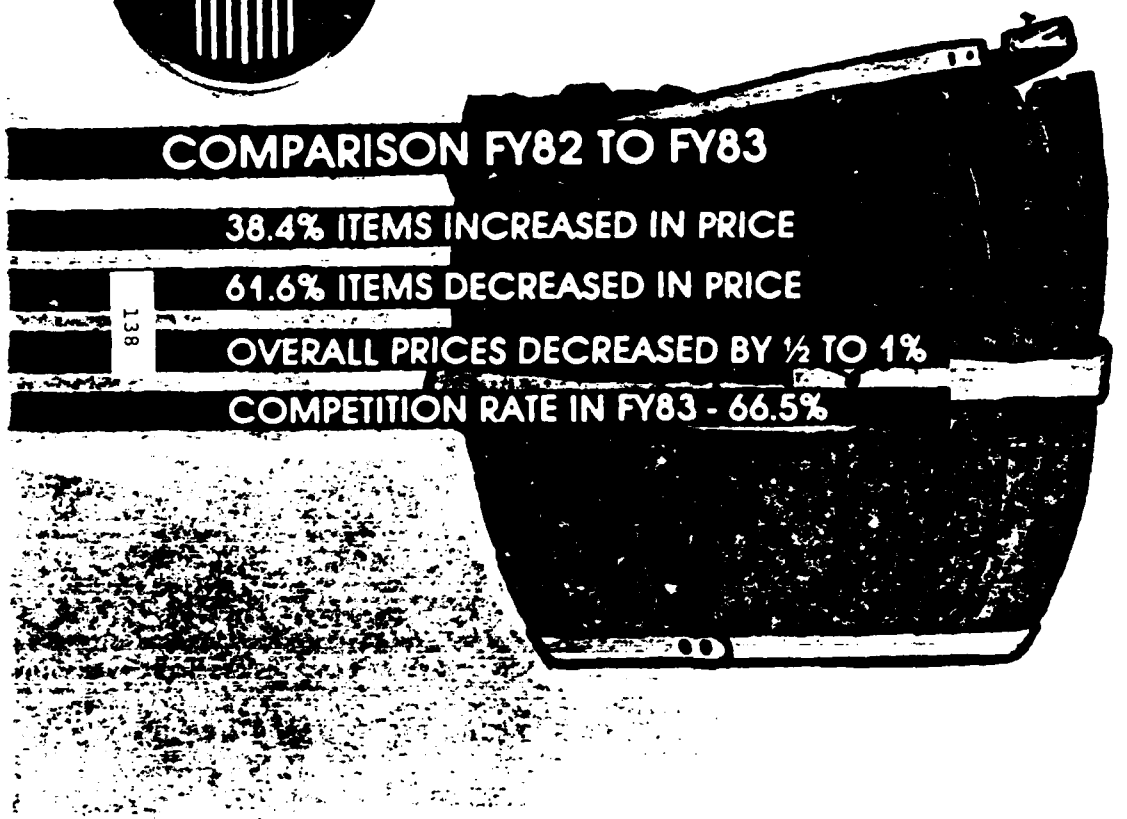




REVIEW AND APPROVAL OF PRICE INCREASES
TOTAL VALUE OF INDIVIDUAL NSN
BEING PROCURED (REVIEW LEVEL)

UNIT PRICE INCREASE PERCENTAGE	$1,000.00 AND UNDER	$1,000.01 TO $10,000.00	$10,000.01 TO $25,000.00	$25,000.01 TO $50,000.00	$50,000.01 AND OVER
UNDER 10%	BUYER	BUYER	BUYER	BUYER	SECTION
10% TO 25%	BUYER	BUYER	BUYER	BUYER	BRANCH
OVER 25% TO 100%	BUYER	BUYER	SECTION	BRANCH	DIVISION
OVER 100% TO 200%	BUYER	BRANCH	DIVISION	DIRECTOR	COMMANDER
OVER 200%	DIVISION	DIRECTOR	DIRECTOR	DIRECTOR	COMMANDER

PRICE TRENDS



COMPARISON FY82 TO FY83

38.4% ITEMS INCREASED IN PRICE

61.6% ITEMS DECREASED IN PRICE

138

OVERALL PRICES DECREASED BY ½ TO 1%

COMPETITION RATE IN FY83 - 66.5%

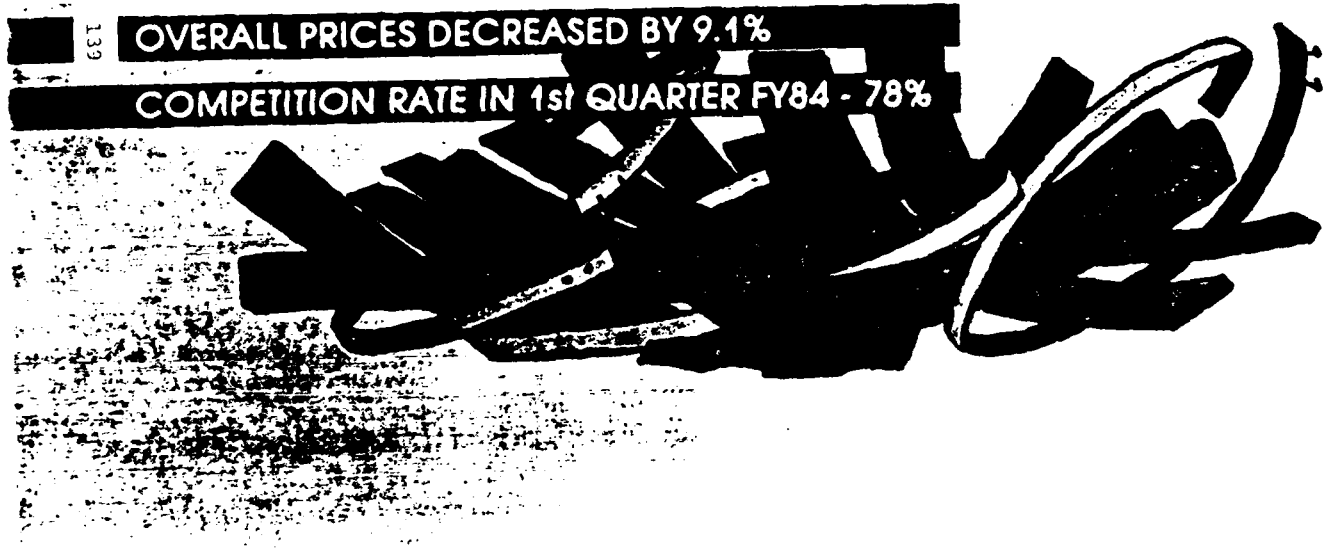
COMPARISON FY83 TO 1st QUARTER FY84

33.3% ITEMS INCREASED IN PRICE

66.7% ITEMS DECREASE IN PRICE

OVERALL PRICES DECREASED BY 9.1%

COMPETITION RATE IN 1st QUARTER FY84 - 78%



SUMMARY

- CANNOT SOLVE ITEM BY ITEM
- NEED ESA SUPPORT/ENGINEERING AUTHORITY
- MUST MAINTAIN QUALITY & READINESS
- MUST KEEP OEM INVOLVED

140

PRESENTER: MR. THOMAS J. MORAN

ARMY SPARE PARTS REVIEW

SPARE PARTS TASK GROUP:

- TASK GROUP ESTABLISHED IN JULY 1983
- REVIEW CONCENTRATED ON
  - — BREAKOUT PROGRAM
  - — PRICING
  - — CONTRACTING POLICY

• PRICING REVIEW

- OBJECTIVE: DETERMINE FAIR AND REASONABLE
- TWO PARTS OF THE PRICING REVIEW

(1) 13 AIRFRAME BOAs CONTAINING 12,098 ITEMS

A. 945 ITEMS SHOWED A 25% PER ANNUM INCREASE

B. "DID COST" REVIEW ON APPROXIMATELY 200 ITEMS WAS CONDUCTED

PRICING REVIEW

(2) A 3% SAMPLE OF THE DARCOM MANAGED PARTS-10,823 ITEMS IN THE REVIEW SAMPLE

A. 185 ITEMS: NON-COMPETITIVE, AND PROCURED AND PRICED MORE THAN ONCE, 25% PER ANNUM INCREASE

B. "DID COST" REVIEW HAS BEEN CONDUCTED ON APPROXIMATELY 60 ITEMS

DID COST REVIEW

- CONTRACTS > $25,000 10 COMPANIES VISITED
  - 250 ITEMS WERE REVIEWED
  - 30% OF THE ITEMS OVERPRICED
  - CEILING PRICE DOs, BUY ITEMS AND COSTS KNOWN WHEN CONTRACTS WERE DEFINITIZED

DID COST REVIEW

- CONTRACTS < $25,000 41 COMPANIES VISITED
  - 49 ITEMS WERE REVIEWED
  - 75% OF ITEMS OVERPRICED (30% PROFIT OR MORE)
  - BUYERS NOT ASKING FOR PRICE INFORMATION
  - "COMPETITION" NOT PROVIDING FOR REASONABLE PRICES (DEALERS/DISTRIBUTORS)
  - CONTRACTORS FELT EFFECTIVE COMPETITION ON LARGE ANNUAL BUYS/LITTLE COMPETITION ON SMALL SPARES BUYS
  - GOV'T FILES INADEQUATE
  - VOLUNTARY REFUNDS ARE BEING SOUGHT

RECOMMENDATIONS

- RECONCILE > 25% PER ANNUM INCREASES
- ANNUALIZE OUR SPARES BUYS
- OBTAIN PROCUREMENT HISTORY FROM PRIME PRIOR TO BREAKOUT
- GREATER AMOUNT OF PROSPECTIVE PRICING
- MORE AND BETTER TRAINED PEOPLE

AIR FORCE SYSTEMS COMMAND INITIATIVES AND PROJECT COST

LT GEN ROBERT M. BOND
VICE COMMANDER
HQ AIR FORCE SYSTEMS COMMAND

GENERAL ROBERT M. ROND
VICE COMMANDER, AIR FORCE SYSTEMS COMMAND
REMARKS AT THE WORLDWIDE AIR FORCE PRICING CONFERENCE
OKLAHOMA CITY, OK
14 MAR 84

AFSC INITIATIVES AND PROJECT COST

THANK YOU GENERAL BURPEE (MAJ GEN RICHARD A BURPEE, OKLAHOMA CITY ALC COMMANDER AND CONFERENCE HOST) AND GOOD MORNING LADIES AND GENTLEMEN.

IT IS MY PRIVILEGE THIS MORNING TO REPRESENT THE COMMANDER OF AIR FORCE SYSTEMS COMMAND, GENERAL ROBERT T. MARSH. MOST OF YOU ALREADY KNOW HOW STRONG GENERAL MARSH IS IN HIS SUPPORT FOR THE AIR FORCE'S COST CONTROL AND COST REDUCTION EFFORTS, SO YOU CAN APPRECIATE THAT IT WAS WITH GREAT RELUCTANCE THAT HE CANCELLED HIS PLANNED APPEARANCE HERE TODAY.

SO...I AM HERE TODAY CARRYING GENERAL MARSH'S MESSAGE AND THE MESSAGE OF THE ENTIRE AIR FORCE SYSTEMS COMMAND. IT IS A MESSAGE THAT WILL NOT SURPRISE YOU OR ANY OTHER MEMBERS OF THE DEFENSE ACQUISITION COMMUNITY. SIMPLY PUT, OUR MESSAGE IS THAT OUR COST CONTROL AND COST REDUCTION EFFORTS ARE EVERY BIT AS IMPORTANT TODAY AS THEY WERE A YEAR AGO OR THE YEAR BEFORE THAT.

TRUE, WE HAVE MADE PROGRESS ON THE COST CONTROL FRONT -- AND I WILL TELL YOU A LITTLE MORE ABOUT THAT PROGRESS IN A FEW MINUTES. BUT FIRST, I WANT YOU TO REALIZE JUST HOW IMPORTANT OUR COST CONTROL EFFORTS REALLY ARE.

LADIES AND GENTLEMEN, I BELIEVE THE FUTURE SECURITY OF THE UNITED STATES IS THREATENED TODAY. IT IS THREATENED BY ADVERSARIES WHO DOGMATICALLY ADHERE TO GOALS OF WORLD DOMINATION, WHILE AMASSING UNPRECEDENTED LEVELS OF MILITARY CAPABILITY.

FUTURE NATIONAL SECURITY IS ALSO THREATENED FROM WITHIN. THE RISING COST OF MILITARY SYSTEMS JEOPARDIZES OUR

ABILITY TO AFFORD THE CAPABILITIES REQUIRED IN THE FUTURE -- AND THAT THREATENS THE QUALITATIVE EDGE OF MILITARY CAPABILITY, WHICH IS THE VERY FOUNDATION OF OUR NATIONAL SECURITY STRATEGY.

I'M NOT GOING TO BELABOR THIS POINT. YOU ARE INTIMATELY AWARE OF THE RELATIONSHIP BETWEEN OUR ACQUISITION EFFORTS AND FUTURE NATIONAL SECURITY. BUT I WANT TO REMIND YOU THAT THIS IS THE REASON WE ARE SO CONCERNED ABOUT COST CONTROL AND ABOUT REDUCING THE COST OF MILITARY SYSTEMS IN THE FUTURE.

AND THAT'S WHY GENERAL MARSH INITIATED AFSC'S PROJECT COST LAST YEAR. TO FOCUS ALL OF THE COMMAND'S RESOURCES ON OUR COST REDUCTION EFFORTS, TO INTEGRATE EXISTING COST CONTROL PROGRAMS, TO FIND AND IMPLEMENT NEW INITIATIVES, AND TO INFUSE OUR COST CONTROL ACTIVITIES WITH THE URGENCY THAT NATIONAL SECURITY DEMANDS.

PROJECT COST IS NOT JUST A SLOGAN ABOUT COST CONTROL. IT IS AN EFFORT TO IMPROVE THE WAY WE DO BUSINESS IN THE ACQUISITION COMMUNITY.

THIS IS AN AMBITIOUS AND CHALLENGING TASK. EVERY MEMBER OF THE ACQUISITION COMMUNITY HAS BEEN ON THE FIRING LINE THIS LAST YEAR, SO I DON'T NEED TO TELL YOU HOW HAIR-RAISING THE TASK CAN BE. HOWEVER, NO MATTER HOW DIFFICULT THE TASKS, I REMAIN FIRMLY CONVINCED THAT THE AIR FORCE'S COST CONTROL INITIATIVES, AND AFSC'S PROJECT COST ARE AN ABSOLUTE NECESSITY IF WE ARE GOING TO ACQUIRE THE WEAPON SYSTEMS NECESSARY TO ENSURE OUR NATION'S FUTURE.

COST CONTROL IS AIR FORCE SYSTEMS COMMAND'S NUMBER ONE PRIORITY. THAT HAS NOT CHANGED.

I AM PLEASED TO REPORT TO YOU TODAY THAT AIR FORCE SYSTEMS COMMAND IS MEETING THE CHALLENGE. WITH PROJECT COST A LITTLE OVER A YEAR OLD, WE CAN STATE UNEQUIVOCABLY THAT WE HAVE MADE INROADS IN THE WAR ON COST GROWTH. OUR INITIATIVES ARE IN PLACE AND BEGINNING TO PAY OFF.

IN SOME CASES, OUR INITIATIVES HAVE BEEN TRULY INNOVATIVE AND ACHIEVED DRAMATIC IMPROVEMENTS. IN OTHERS, THE INITIATIVES INVOLVED A RETURN TO THE FUNDAMENTALS OF SOUND ACQUISITION MANAGEMENT AND THE APPLICATION OF A SLOW, DELIBERATE AND BARELY NOTICEABLE DOWNWARD PRESSURE ON THE CURVE OF RISING COSTS.

LET ME GIVE YOU AN IDEA OF OUR PROGRESS IN PROJECT COST. TIME PRECLUDES A FULL LISTING, SO I WILL JUST TELL YOU ABOUT SOME OF THE LARGER INITIATIVES.

INCIDENTALLY, AS I LIST THESE I ASK YOU TO CONSIDER HOW THESE INITIATIVES RELATE TO PRICING. IN MOST CASES, OUR PROJECT COST INITIATIVES HAVE A BEARING ON THE PRICING COMMUNITY. WHETHER WE'RE TALKING ABOUT BASELINES, COMPENSATION ISSUES, MULTI-YEAR PROCUREMENT, OR COMPETITION, THE IMPACT ON PRICING IS CLEAR. OUR PRICING POLICIES AND PROCEDURES MUST BE RESPONSIVE TO THE DOWNWARD PRESSURE ON THE COST CURVE.

THE FIRST INITIATIVE I WANT TO DISCUSS IS BASELINING. AS YOU KNOW, PROGRAM INSTABILITY WAS A MAJOR CAUSE OF SCHEDULE STRETCHOUT AND RESULTANT COST GROWTH. OUR BASELINING INITIATIVE HAS BEEN AN IMPORTANT FACTOR IN ELIMINATING THIS PROBLEM.

LAST YEAR WE INITIATED THE BASELINING PROCESS FOR OUR PROGRAMS. ALTHOUGH THE PROCESS HAS BEEN FRUSTRATING, WE HAVE MANAGED TO BASELINE A RESPECTABLE NUMBER OF OUR PROGRAMS. IN FACT, WE HAVE ACCOMPLISHED 55 BASELINES IN THE PAST 18 MONTHS REPRESENTING ABOUT 90 PERCENT OF THE AFSC PROCUREMENT FUNDS CONTAINED IN THE PRESIDENT'S BUDGET FOR FY 85.

AND WE ARE MANAGING TO THOSE BASELINES. PROGRAM OFFICES AND OTHER AIR FORCE ORGANIZATIONS INVOLVED IN A OUR PROGRAMS ARE TREATING BASELINES WITH THE RESPECT THEY DEMAND. FOR YOU IN THE PRICING COMMUNITY, THE IMPORTANCE OF BASELINES IS WELL KNOWN -- BASELINE MANAGEMENT BECOMES AN

IMPORTANT ELEMENT OF PRICING FOR INITIAL SPARES AND SUPPORT EQUIPMENT.

ANOTHER AREA OF LUCRATIVE SAVINGS UNDER PROJECT COST IS MULTI-YEAR PROCUREMENT. ALTHOUGH MYP HAS NOT RECEIVED AS MUCH SUPPORT IN THE PAST YEAR AS WE WOULD LIKE TO SEE -- WITH ONLY ONE OF SEVEN CANDIDATES BEING APPROVED, WE DO HAVE ABOUT 20 PERCENT OF OUR PROCUREMENT BUDGET COMMITTED TO MYP PROGRAMS.

MULTI-YEAR PROCUREMENT IS NOW SAVING MONEY. IT IS ALLOWING US TO ACQUIRE MORE WITHIN THE LIMITATIONS OF THE FUNDS AVAILABLE AND WE INTEND TO INCREASE ITS USE IN THE FUTURE. IN FACT, WE ARE LOOKING AT MYP PROCUREMENT OF SUB-SYSTEMS AND COMPONENTS -- EVEN SPARES.

PROJECT COST ALSO ADDRESSED COMPENSATION AND OVERHEAD COSTS DURING THE PAST YEAR -- AND THAT WAS A REALLY TOUGH ISSUE. YOU ARE ALL AWARE OF HOW TOUGH AN ISSUE THIS IS. WE ARE IN A DIFFICULT POSITION. CHARGED BY THE DAR TO ENSURE THE REASONABLENESS OF COMPENSATION COSTS, WE MUST ACCOMPLISH

THIS MISSION EFFECTIVELY WITHOUT INADVERTENTLY INSERTING OURSELVES WHERE WE DON'T BELONG -- SUCH AS INTO THE MANAGEMENT -- LABOR UNION ARENA.

AFSC ADDRESSED THIS ISSUE IN THE PAST YEAR. LABOR AND LABOR-RELATED COSTS ACCOUNT FOR 70 PERCENT OF OVERALL CONTRACT COSTS. THAT'S JUST TOO MUCH MONEY TO IGNORE.

OUR APPROACH HAS BEEN STRAIGHTFORWARD -- WE HAVE BEEN TOUGH NEGOTIATORS AND STRICT IN OUR APPLICATION OF REASONABLENESS STANDARDS. WE HAVE STEADFASTLY REFUSED TO PAY FOR COSTS THAT WE DETERMINE UNREASONABLE.

IN THE AREA OF INCENTIVES, WE HAVE BEEN REQUIRING CONTRACTORS TO SHOW A DEMONSTRABLE PROGRAM BENEFIT BEFORE WE WILL PAY INCENTIVE CLAIMS OR BONUSES.

FURTHER, WE HAVE BEEN USING FORWARD PRICING RATE AGREEMENT NEGOTIATIONS TO ENHANCE OUR EFFORTS IN THIS AREA.

OUR STRATEGY HERE IS SIMPLE. WE ARE COUNTERING THE TREND THAT PREDICTS THAT WAGES CONTINUALLY RISE. EVEN AFTER THE ECONOMY COOLS DOWN AND BEGINS TO RECOVER, WE HAVE

REFUSED TO PAY 8 TO 10 PERCENT WAGE GROWTH WHEN INFLATION WAS ONLY 5 PERCENT.

HOLDING THE LINE HAS NOT BEEN EASY. WE HAVE NEEDED AND RECEIVED SUPPORT FROM THE HIGHEST LEVELS. IN LOOKING AT OUR PROGRESS, I BELIEVE WE ARE BEGINNING TO TURN THE CORNER. I AM HEARTENED THAT THE NAVY, ARMY, DLA, AND DCAA ALSO ARE VERY MUCH INVOLVED IN THIS ISSUE AND ARE PURSUING ACTIONS SIMILAR TO OURS.

NEVERTHELESS, THERE ARE STILL SOME TOUGH NEGOTIATIONS AHEAD IN THE FORWARD PRICING AREA. A CONTINUED STRONG, BUT FAIR, APPROACH TO NEGOTIATIONS, COUPLED WITH BUYING ACTIVITY SUPPORT, WILL ENSURE THAT INDUSTRY CONTINUES TO HEAR OUR UNIFIED VOICE. WE MUST CONTINUE TO SAY THAT WE IN THE AIR FORCE AND THE DEPARTMENT OF DEFENSE WILL PAY FAIR AND REASONABLE PRICES AND NOT ONE CENT MORE!

OUR TOUGH STANCE ON PURCHASING SYSTEM APPROVAL HAS SENT STRONG SIGNALS THROUGHOUT THE AEROSPACE INDUSTRY. AGAIN, THIS IS AN AREA OF CRITICAL IMPORTANCE IN COST CONTROL. IT

IS NO SECRET THAT NEARLY ONE-HALF OUR DOLLARS ARE SPENT BY OUR PRIMES FOR PURCHASED GOODS AND SERVICES, AND OVER ONE-THIRD OF OUR NEW CONTRACT DOLLARS ARE OTHER THAN FIRM FIXED-PRICE. AND THAT MAKES IT VITAL THAT EACH OF THESE DOLLARS IS SPENT AS EFFICIENTLY AS POSSIBLE. WE HAVE A LEGITIMATE CONCERN, AND WE WILL CONTINUE TO SHOW OUR INTEREST THROUGH HARD-NOSED, BUSINESS-LIKE REVIEWS OF CONTRACTOR PURCHASING PROCEDURES AND DECISIONS.

ALSO INCLUDED IN OUR PROJECT COST ACTIONS ARE OUR EFFORTS TO ENHANCE CONTRACTOR PRODUCTIVITY AND EFFICIENCY -- ANOTHER VERY LUCRATIVE AREA FOR SAVINGS.

WE HAVE A NUMBER OF INITIATIVES UNDERWAY IN THIS AREA, BUT I WILL ONLY MENTION ONE TODAY, THE AIR FORCE TECH MOD PROGRAM.

A FORM OF SHARED PRODUCTIVITY SAVINGS, WE HAVE 26 TECH MOD EFFORTS NOW UNDERWAY. THEY REPRESENT A GOVERNMENT INVESTMENT OF ABOUT $270 MILLION, PRIMARILY AS SEED MONEY FOR MANUFACTURING TECHNOLOGY. THE CONTRACTOR COMMITTMENT TO

THESE PROGRAMS WILL BE OVER $950 MILLION. AND THE PROJECTED RETURN ON INVESTMENT IS A STAGGERING MINIMUM OF $2.5 BILLION IN COST AVOIDANCES.

THE APPLICATION OF SHOULD COST TECHNIQUES IS ANOTHER AREA THAT IS PAYING SIGNIFICANT SAVINGS UNDER PROJECT COST. BASICALLY, WHAT WE'VE DONE IS TO EXPAND OUR USE OF THESE SOPHISTICATED TECHNIQUES IN EVALUATING CONTRACTOR COSTS -- AND WE'VE HAD SOME FAIRLY DRAMATIC RESULTS.

THE ARMAMENT DIVISION'S USE OF SHOULD COST ANALYSIS ON THE 30 MM GUN POD PROGRAM, FOR EXAMPLE, RETURNED $178 FOR EVERY DOLLAR WE INVESTED, WITH TOTAL SAVINGS ESTIMATED AT OVER $22 MILLION.

WE ARE NEOPHYTES IN THIS AREA, SO OUR DATA BASE IS STILL SMALL. BUT IT DOES SHOW A TREND OF SIGNIFICANT COST SAVINGS POTENTIAL.

THE NEXT AREA I WANT TO MENTION IS COMPETITION, BUT I WILL NOT SAY MUCH ABOUT IT. GENERAL SKANTZE HAS ALREADY MENTIONED THE ALTERNATE FIGHTER ENGINE PROGRAM -- OUR MOST

RECENT SUCCESS STORY IN THIS AREA, GENERAL JIM DEVER FROM AFSC HAS DISCUSSED DATA RIGHTS -- A CRITICAL ELEMENT TO OUR PLANS FOR INCREASING COMPETITION. GENERAL LOWE IS GOING TO TALK ABOUT THE AFMAG -- WHICH MADE SIGNIFICANT RECOMMENDATIONS ABOUT COMPETITION IN THE SPARES ARENA, AND TONY DELUCA FROM AFSC IS GOING TO PARTICIPATE IN THE COMPETITION PANEL LATER TODAY. MY GUESS IS YOU WILL HEAR ENOUGH ABOUT WHAT AFSC IS DOING IN THIS AREA.

FOR MY PART, LET ME JUST SAY THAT INCREASING COMPETITION WILL PAY OFF BIG. I RECOGNIZE THAT IT IS EXTREMELY DIFFICULT TO QUANTIFY THE MAGNITUDE OF THE SAVINGS INVOLVED -- WE'VE BEEN TRYING AND THE METHOD STILL ELUDES US. HOWEVER, IT IS ABSOLUTELY CLEAR THAT THIS IS A VITAL AND LUCRATIVE AREA FOR COST SAVINGS.

THE FINAL PROJECT COST AREA THAT I WOULD LIKE TO MENTION IS PRICING ITSELF. MOST OF THE INITIATIVES I HAVE ALREADY MENTIONED HAVE A DIRECT RELATIONSHIP TO PRICING -- BASELINES, COMPENSATION, COMPETITION, AND SO FORTH. BUT WE

ALSO HAVE A NUMBER OF INITIATIVES UNDERWAY THAT ACTUALLY ADDRESS THE PRICING ARENA.

AMONG THOSE IS OUR EFFORT TO IMPLEMENT A VALUE ANALYSIS APPROACH TO PRICING. THE FORMULA APPROACH TO PRICING IS UNSATISFACTORY -- MATERIALS COSTS ALONE ARE AN INSUFFICIENT INDICATOR OF TRUE VALUE AND PROVIDE TOO MANY OPPORTUNITIES FOR DISTORTION. THEREFORE, WE ARE WORKING HARD TO DEVELOP MORE EFFECTIVE, VALUE-ORIENTED PRICING TECHNIQUES.

WE ARE STILL ON THE THRESHOLD IN THIS AREA, BUT IT IS CLEAR THAT THERE IS MUCH POTENTIAL FOR COST SAVINGS AND A MORE ACCURATE ASSESSMENT OF WHAT PRICE TAG SHOULD BE PLACED ON A COMPONENT.

A RELATED EFFORT IS THE CMD SURVEY OF CONTRACTOR COST ALLOCATION METHODS THAT WAS USED BY THE AFMAG. BASICALLY, THE RESULT OF THIS SURVEY IS TO PROVIDE US WITH THE TYPE OF DATA BASE WE NEED TO BEGIN REQUIRING A CAUSAL RELATIONSHIP BETWEEN A CONTRACTOR'S CLAIMED COST AND BENEFIT TO THE

COMPONENT. FOR EXAMPLE, QUALITY COSTS ALLOCATED TO THE PRICE OF A COMPONENT SHOULD BE DIRECTLY REFLECTED IN THE COMPONENT'S QUALITY.

OUR USE OF COMPONENT BREAKOUT IS ANOTHER PRICING-ORIENTED AREA. WE'VE BEEN TAKING A HARDER LOOK AT COMPONENT COSTS, INITIAL SPARES COSTS, AND SO ON TO DETERMINE WHETHER IT MAKES SENSE TO BREAK THEM OUT. WHILE THIS IS DEFINITELY NOT NEW, THE MANAGEMENT EMPHASIS PROVIDED BY PROJECT COST -- AND IN THE WAKE OF THE AFMAG'S RECOMMENDATIONS -- IS NEW.

I KNOW YOU ARE ALL FAMILIAR WITH THE AFMAG'S RECOMMENDATIONS -- AND THEY PARALLEL SOME OF OUR OWN PROJECT COST INITIATIVES. WE ARE INCREASING OUR AUTHORIZATIONS FOR PRICING SPECIALISTS, FOR EXAMPLE. BUT AFSC HEADQUARTERS IS ALSO IN THE MIDDLE OF A SURVEY OF PRICING PERSONNEL JOB REQUIREMENTS AND THE CAPABILITIES OR QUALIFICATIONS OF OUR PRICING PEOPLE. WE'RE GOING TO IDENTIFY THE EDUCATIONAL AND TRAINING NEEDS OF OUR PEOPLE AND THEN MEET THOSE NEEDS TO MAKE THEM MORE EFFECTIVE, AND

BETTER PREPARE THEM TO IMPLEMENT NEW PROCEDURES -- LIKE VALUE PRICING.

ONE FINAL POINT ON PRICING. I WANT TO ADD A SPECIAL MESSAGE FOR THOSE OF YOU WHO ARE INVOLVED IN PRICING. THE MESSAGE IS THAT BOTH GENERAL MARSH AND I SUPPORT YOUR EFFORTS. WE ARE DEEPLY INVOLVED IN PRICING ISSUES -- GENERAL MARSH, FOR EXAMPLE, TESTIFIED YESTERDAY IN CONGRESS ABOUT OUR REQUIREMENTS FOR DATA RIGHTS TO FURTHER OUR COST REDUCTION EFFORTS. WE WILL BRING TO BEAR THE HIGH LEVEL MANAGEMENT ATTENTION REQUIRED TO PROVIDE YOU THE TOOLS YOU NEED TO ENHANCE OUR PRICING PRACTICES.

I COULD GO ON ABOUT THE PROGRESS WE HAVE BEEN MAKING AND THE EFFORTS ONGOING. AS YOU PROBABLY GUESSED BY NOW, I AM PLEASED.

SO MUCH FOR WHERE WE HAVE BEEN. LET'S LOOK TO THE FUTURE NOW AND TURN OUR ATTENTION TO THE SECOND YEAR OF PROJECT COST AND THE CHALLENGES AHEAD -- TO GO BEYOND COST CONTROL AND ACHIEVE REAL SAVINGS ON OUR ACQUISITION PROGRAMS.

THE KIND OF SAVINGS THAT TRANSLATE INTO MORE WEAPON SYSTEMS PROCURED AT THE SAME COST, OR EARLIER PRODUCTION STARTS FOR NEW SYSTEMS. FOR AFSC, 1984 IS TO BE THE YEAR THAT WE IMPROVE EFFICIENCY AND DRIVE ACQUISITION COSTS DOWN.

NOW, I DON'T WANT TO GIVE THE IMPRESSION THAT WE HAVE NOT BEEN CONCERNED WITH EFFICIENCY IN THE PAST ...FAR FROM IT. WE HAVE AN EXCELLENT TRACK RECORD IN THIS AREA. BUT, LIKE ANY GOOD PROGRAM, GREATER EMPHASIS AND SHARPER FOCUS WILL MAKE IT EVEN BETTER.

IN THE LAST COUPLE OF YEARS, THIS COMMAND HAS PIONEERED STRATEGIES AND POLICIES FOR LOWER PRODUCTION COSTS. AS I MENTIONED A MOMENT AGO, OUR TECH MOD AND OTHER PROGRAMS ARE PAYING DIVIDENDS ALREADY. BUT THERE IS MORE WE CAN DO. I BELIEVE WE CAN MAKE REAL PROGRESS TOWARD REDUCING WEAPON SYSTEM COSTS. LET ME TELL YOU WHAT I HAVE IN MIND.

PICTURE THE SIMPLE COST-QUANTITY CURVE, WITH COST ON THE VERTICAL AXIS AND QUANTITY ALONG THE HORIZONTAL SIDE.

THAT CURVE SHOWS DECREASING COSTS AS HIGHER QUANTITIES ARE PRODUCED.

MANY OF THE STRATEGIES THAT WE HAVE ADOPTED IN PROJECT COST CAPITALIZE ON THIS RELATIONSHIP. FOR EXAMPLE, WE ARE DOING EVERYTHING POSSIBLE TO STABILIZE PROGRAMS ...TO PUT AN END TO THE STARTS AND STOPS IN PRODUCTION THAT MOVE US BACK UP THE CURVE TO HIGHER COSTS AND LOWER PRODUCTION RATES.

WE ALSO ARE EMPHASIZING ECONOMIC PRODUCTION RATES SO THAT WE CAN GAIN THE BENEFITS OF OPTIMUM QUANTITY PRODUCTION RUNS OVER FEWER YEARS. ONE LUCRATIVE EFFORT IN THIS AREA IS MULTIYEAR PROCUREMENT. ALTHOUGH WE HAVE NOT RECEIVED CONGRESSIONAL APPROVAL FOR ALL THE MYP CANDIDATES WE RECOMMENDED, THE TREND IS IN THE RIGHT DIRECTION. MULTIYEAR PROCUREMENT IS GAINING GREATER ACCEPTANCE IN PRACTICE AS WELL AS PRINCIPLE.

HOWEVER, STABILITY AND MULTIYEAR ALONE ARE NOT THE CURE-ALLS FOR HIGH ACQUISITION COSTS. TRUE, THEY ALLOW US TO MOVE DOWN THE CURVE AND GAIN THE BENEFIT OF GREATER

QUANTITIES WITH CONSEQUENT LOWER PRICES, BUT THEY DO NOT REALLY ATTACK THE BASIC SHAPE OR RELATIVE POSITION OF THE CURVE -- AND THAT IS THE CHALLENGE FOR 1984.

WHILE LAST YEAR'S EFFORTS WERE GEARED TOWARD COST CONTAINMENT, . . .NEXT YEAR'S CHALLENGE WILL ADDRESS THE KINDS OF DRAMATIC DROPS IN WEAPON SYSTEM COSTS THAT WILL INCREASE THE QUANTITIES OF SYSTEMS WE CAN PROCURE WITHIN THE PARAMETERS OF AFFORDABILITY.

AS YOU KNOW, COST EQUATIONS INCLUDE MORE THAN MATERIALS, OVERHEAD, AND THE HOURLY RATE PAID FOR LABOR. ALSO INCLUDED ARE THE NUMBER OF HOURS TO BE USED. OUR EFFORT DURING THE COMING YEAR WILL FOCUS ON THOSE HOURS TO BE USED. IT IS TIME TO INSIST ON PRODUCTIVITY WITH A CAPITAL "P."

ALL TOO OFTEN OUR NEGOTIATION STRATEGIES CENTER ON FLEXING THE LEARNING CURVE BY SOME SMALL FRACTION OF A PERCENTAGE. WE ARE OCCUPIED WITH DEBATING WHETHER 96.4

PERCENT OR 96 PERCENT IS THE PROPER FIGURE. THAT'S NOT GOOD ENOUGH ANYMORE -- THE MORE RELEVANT QUESTION IS: "I HEAR YOUR 96.4 PERCENT, BUT WHAT ABOUT 85 OR EVEN 80 PERCENT."

THE NAYSAYERS AND SCOFFERS WILL SAY THIS IS NOT A FAIR QUESTION TO ASK. AND I SAY: WHY NOT? IS THERE SOME RULE THAT SAYS WE CANNOT DARE TO WORK TOWARD TRULY INNOVATIVE SAVINGS? THE KIND OF INNOVATIVE SAVINGS PRESENT IN THE RECENT ENGINE COMPETITION, FOR EXAMPLE.

HAVING CAREFULLY READ OUR MANUFACTURING MANAGEMENT REVIEWS, SHOULD COST STUDIES AND THE AFMAG REPORT DURING THE PAST YEAR, I AM CONVINCED THAT THERE IS GREAT POTENTIAL FOR SIGNIFICANT SAVINGS THAT CAN RESULT FROM PRODUCTIVITY AND EFFICIENCY IMPROVEMENTS THROUGHOUT THE ACQUISITION AND MANUFACTURING PROCESS. WE ARE NOT NEARLY AS EFFICIENT AS WE SHOULD BE.

THIS TRANSLATES INTO DECREASED PRODUCTIVITY, HIGHER COSTS, AND LOST OPPORTUNITIES FOR INCREASING THE AFFORDABILITY OF OUR WEAPON SYSTEMS. INEVITABLY, THE CONCLUSION MUST BE THAT PRODUCTIVITY IS THE NEXT MAJOR FRONTIER FOR PROJECT COST SCRUTINY.

WE ARE GOING TO APPLY THE SAME DEDICATION ON THE EFFICIENCY FRONT THAT MADE POSSIBLE OUR PROGRESS IN BASELINES, COMPENSATION, AND OTHER PROJECT COST INITIATIVES.

WE ARE GOING TO IDENTIFY NEW WAYS OF DOING BUSINESS AND LEAD THE ACQUISITION TEAM -- GOVERNMENT AND CONTRACTOR ALIKE -- TO GREATER EFFICIENCY AND A REDUCED COST FOR THE CAPABILITIES REQUIRED.

EVERY PERSON IN THIS ROOM HAS A ROLE TO PLAY IN THAT EFFORT.

IF YOU ARE FROM THE PRICING COMMUNITY, YOU ARE GOING TO BE CHALLENGED TO MAKE EFFICIENCY A CRITERION. IF YOU ARE FROM INDUSTRY, YOU HAVE TO ACCEPT THE CHALLENGE BEING OFFERED, FOCUS MANAGEMENT ATTENTION ON EFFICIENCY AND

PRODUCTIVITY ISSUES, AND STRENGTHEN YOUR COMPANY ACCORDINGLY, AND IF YOU ARE FROM ONE OF THE AIR FORCE'S CONTRACTING OR BUYING ACTIVITIES, YOUR CHALLENGE IS TO PUT THIS NEW ATTITUDE INTO PRACTICE.

TOGETHER, AS AN INDUSTRY-GOVERNMENT TEAM, WE CAN ACCOMPLISH MUCH. WE CAN ACHIEVE OUR EFFICIENCY AND PRODUCTIVITY GOALS. WE MUST ACHIEVE THEM -- WE MUST DRIVE DOWN THE COST OF THE CAPABILITIES WE NEED TO ENSURE THE SECURITY OF FUTURE GENERATIONS OF AMERICANS. I AM CONFIDENT THAT WE WILL SUCCEED.

THANK YOU.

UNIT PRICE INTEGRITY
HOW DO WE DO THIS BETTER?
A PANEL DISCUSSION

MODERATOR: MR. ROBERT S. HANCOCK
DEPUTY CHIEF, COMMODITIES DIVISION
DIRECTORATE OF CONTRACTING & MANUFACTURING
OKLAHOMA CITY AIR LOGISTICS CENTER

PANELISTS: MAJ GEN WILLIAM P. BOWDEN
DEPUTY CHIEF OF STAFF, MATERIEL MANAGEMENT
AIR FORCE LOGISTICS COMMAND

COL MARVIN G. SPALLINA
DIRECTOR, CONTRACTING & MANUFACTURING
OKLAHOMA CITY AIR LOGISTICS CENTER

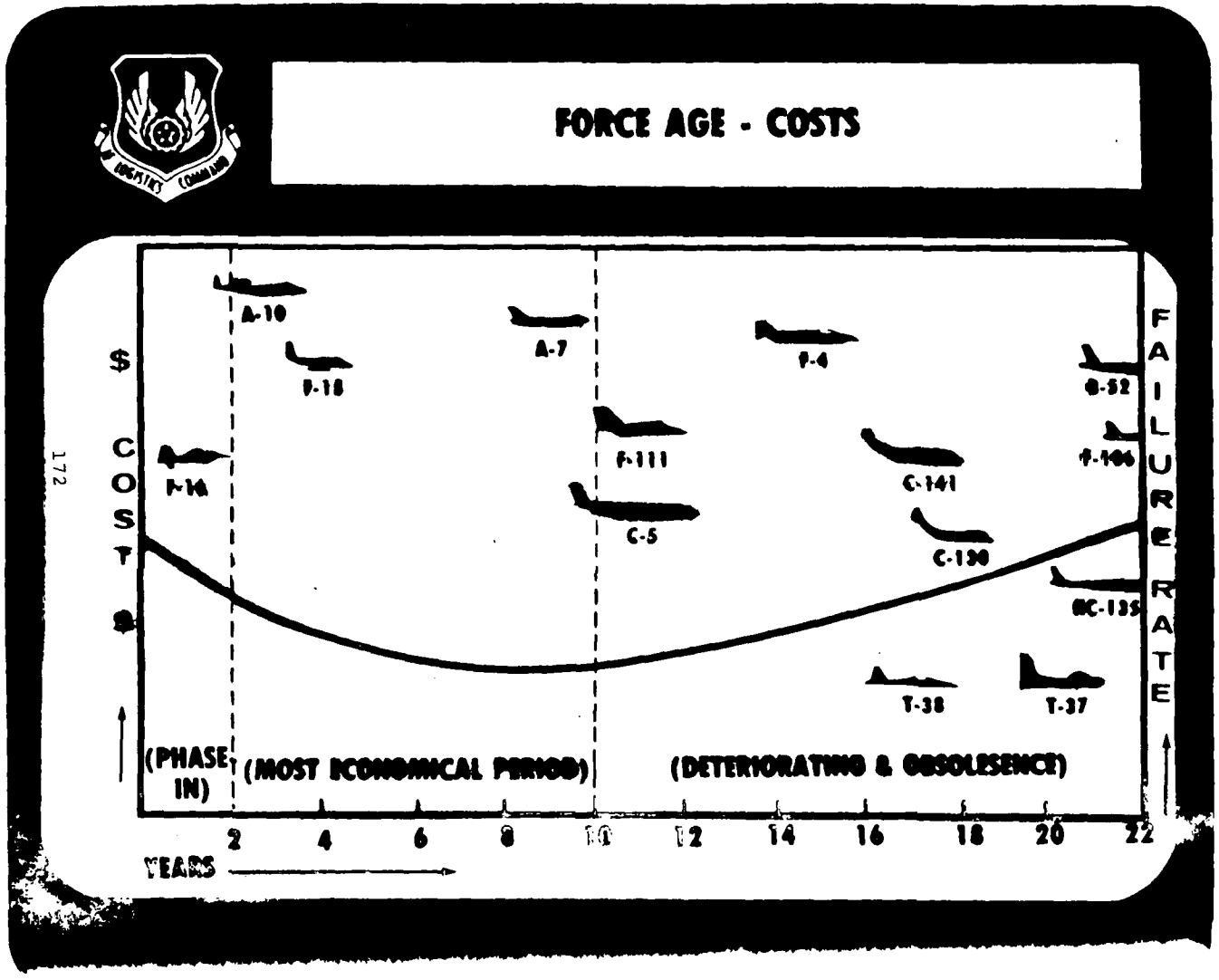
INTRODUCTION

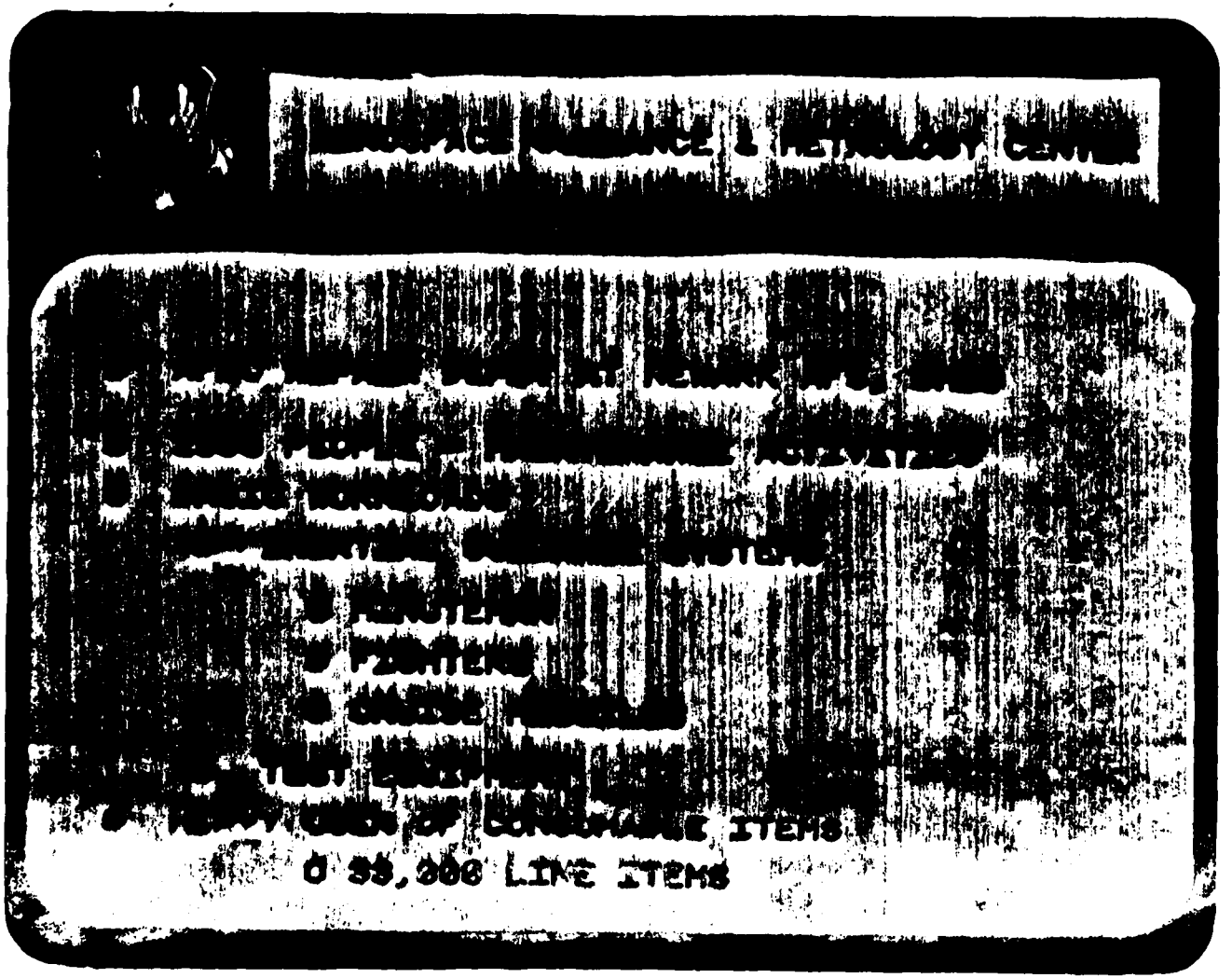
PRESENTER: MAJ GEN WILLIAM P BOWDEN

PRICE

BRIEFER: WG CDR BRIAN W. PRICE RAF
AFLC/MMMA

PRICE


FORCE AGE - COSTS
A-10
F-15
A-7
F-4
B-52
F-14
F-111
KC-135
C-141
C-5
C-130
T-38
T-37
$ COST
FAILURE RATE
(PHASE IN)
(MOST ECONOMICAL PERIOD)
(DETERIORATING & OBSOLESENCE)
2
4
6
8
10
12
14
16
18
20
22
YEARS

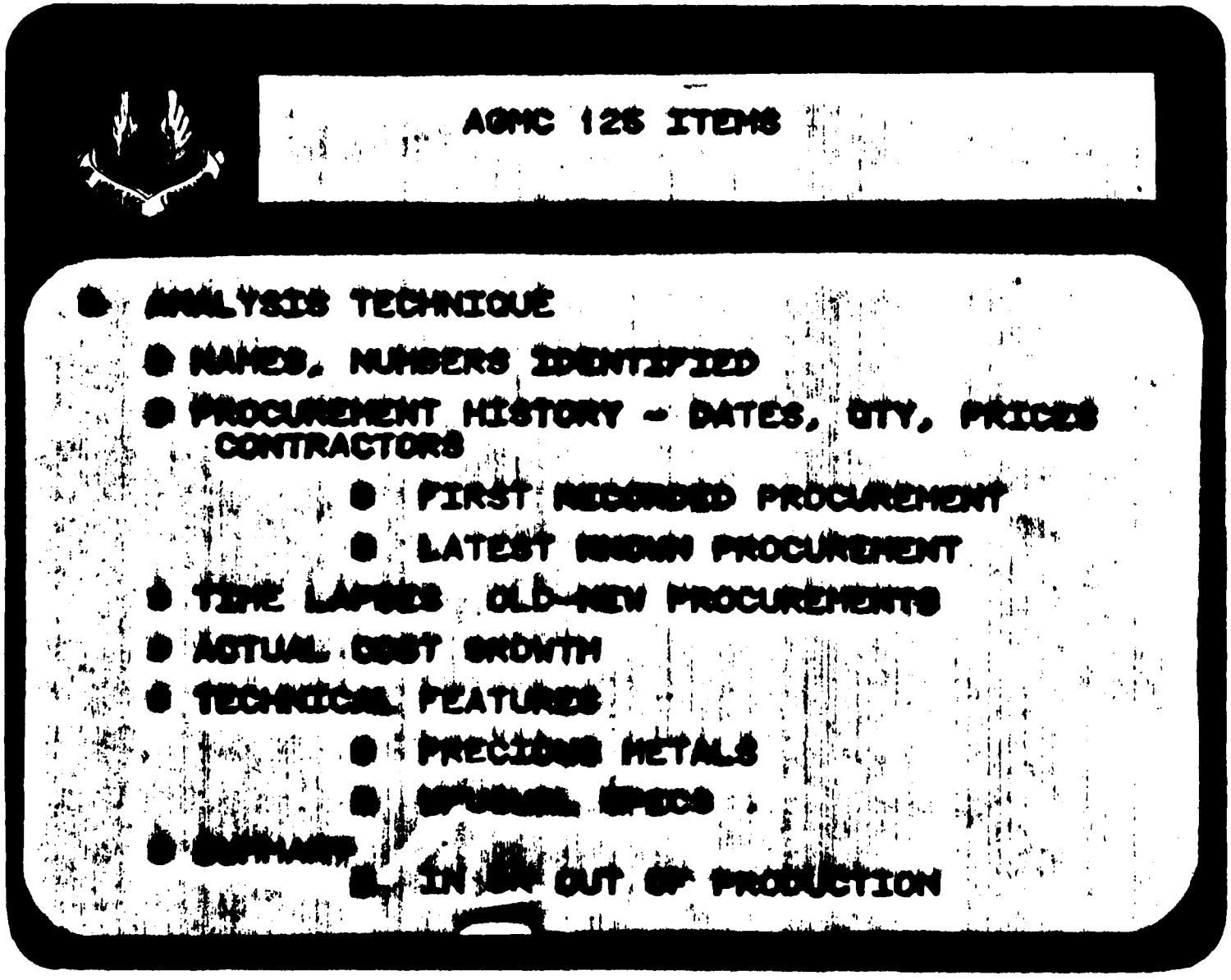

0 35,000 LINE ITEMS



AGMC 128 ITEMS

- EXAMPLES

	OLD COST	NEW COST
MINUTEMAN CIRCUIT CARD	[illegible]	[illegible]
PB-111 BEARING	[illegible]	[illegible]
A-7 SCREW	[illegible]	[illegible]
HELICOPTER PACKING RING	[illegible]	[illegible]
B-52 RUBBER SEAL	[illegible]	[illegible]
F-4 BUTTON ASSEMBLY SHIELD	[illegible]	[illegible]


AGMC 125 ITEMS
ANALYSIS TECHNIQUE
NAMES, NUMBERS IDENTIFIED
PROCUREMENT HISTORY - DATES, QTY, PRICES
CONTRACTORS
FIRST RECORDED PROCUREMENT
LATEST KNOWN PROCUREMENT
TIME LAPSES OLD-NEW PROCUREMENTS
ACTUAL COST GROWTH
TECHNICAL FEATURES
PRECIOUS METALS
IN OUT OF PRODUCTION

Proj _____

Mo _____ Yr _____ Cy _____



AOMC 125

MANAGEMENT

OC-ALC	48
OO-ALC	22
SH-ALC	23
WR-ALC	1
DLA	33
USN	5
ARMY	1
	125



AGMC 125

PROCUREMENT SOURCE	
ROCKWELL/AUTONETICS	49
HILTON INDUSTRIES	18
BENDIX CORP	7
NORTHROP	5
LEAR-SIEGLER	5
40 OTHER CONTRACTORS	40
	125



AGMC 125

USAGE DATA

USAGE/MONTH	0-1	1-2	2-10	10-30	30+
NO OF ITEMS	68	18	24	8	7

TIME LAPSE DATA

YEARS	0-1	2	3	4	5	6-9	10-15	15+
NO	19	13	7	7	11	22	35	3

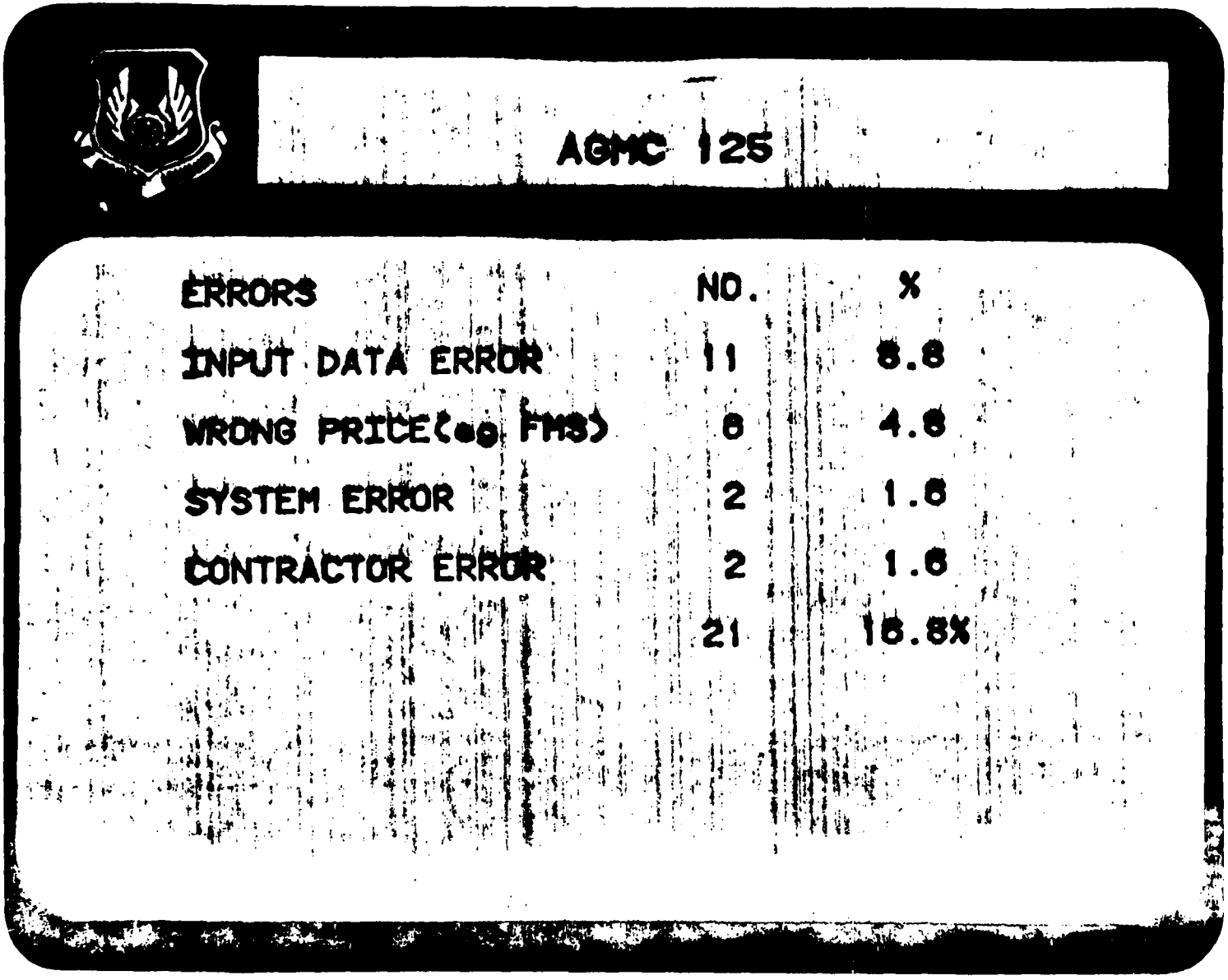
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AGMC 125

HISTORICAL GROWTH PERSPECTIVE

AVERAGE ANNUAL GROWTH	NO OF ITEMS
LESS THAN 10%	27
11-20%	48
21-30%	29
MORE THAN 31%	7
UNSPECIFIED	18


AGMC 125
ERRORS
NO.
%
INPUT DATA ERROR
11
8.8
WRONG PRICE(ex. FMS)
6
4.8
SYSTEM ERROR
2
1.6
CONTRACTOR ERROR
2
1.6
21
16.8%

AGMC 125

FINDINGS	NO.
COST GROWTH CONSISTENT WITH TIME/ECONOMIC CONDITIONS	39
COST GROWTH HIGH BUT SUPPORTED BY PRICE INVESTIGATION	33
COST GROWTH ABNORMAL BUT JUSTIFIABLE	22
PRICE DETERMINED UNREASONABLE	4
OTHER	28
	125



AGMC 125

DEDUCTIONS

- SPORADIC BUYING PATTERNS
- INTERMITTENT PRODUCTION
- BATCH SET UP COSTS ON EACH ORDER
- SOURCING DIFFICULTIES
- OLD TECHNOLOGY
- MANY 'OLD' ITEMS PRICES WITH SOME ANNUAL CHANGE (SURCHARGES)

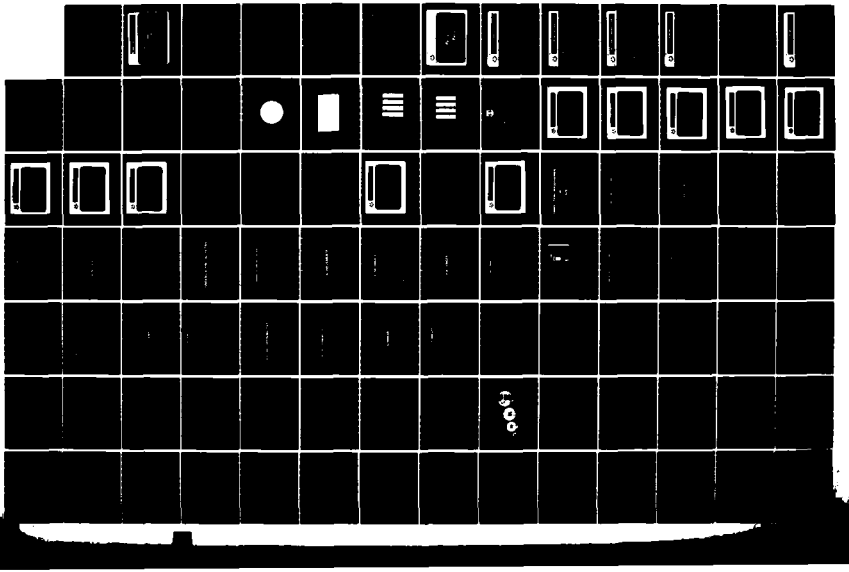


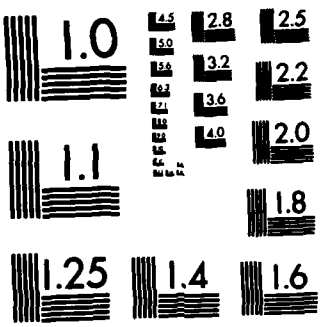
GENERAL OBSERVATIONS

- ERROR RATE HIGH
- TIME LAPSE SINCE PROCUREMENT
- TIME LAPSE TO CORRECT ERRORS
- NO INDICATION OF ESTIMATED PRICES
- ANOMALIES FROM "STANDARD SYSTEMS"
- LACK OF "SHOULD COST" CREDIBILITY
- EFFECT ON USER (O&M BUDGETS)

AD-A143 848 PROCEEDINGS OF THE WORLDWIDE AIR FORCE PRICING CONFERENCE 'ENHANCING AIR..(U) DEPARTMENT OF THE AIR FORCE WASHINGTON DC MAR 84 3/5

UNCLASSIFIED F/G 5/1 NL





MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A



SPARES ACQUISITION STRATEGY

- REVIEW OF PROVISIONING ESTIMATED PRICES
- 'SHOULD COST' VALUE ANALYSIS
- PARTS BREAKOUT TO SUB CONTRACTORS
- ACQUISITION OF PROPRIETARY RIGHTS/LICENCES
- VALIDITY OF TECHNOLOGY EMPLOYED
- REVIEW OF UNECONOMIC BATCH SIZE/ MAKE OR BUY DECISIONS

PRESENTER: COL. MARVIN G. SPALLINA

UNIT PRICE INTEGRITY: HOW DO WE DO THIS BETTER?

WEBSTER SAYS:

UNIT-----"THE FIRST AND LEAST NATURAL NUMBER: ONE"
OR
"A SINGLE QUANTITY REGARDED AS A WHOLE IN CALCULATION"
OR
"A DETERMINATE QUANTITY ADOPTED AS A STANDARD OF MEASUREMENT"

PRICE----"archaic: VALUE, WORTH"
OR
"THE QUANTITY OF ONE THING THAT IS EXCHANGED OR DEMANDED IN BARTER OR SALE FOR ANOTHER"
OR
"THE AMOUNT OF MONEY GIVEN OR SET AS CONSIDERATION FOR THE SALE OF A SPECIFIED THING"
OR
"THE TERMS FOR THE SAKE OF WHICH SOMETHING IS DONE OR UNDERTAKEN"
OR
"THE COST AT WHICH SOMETHING IS OBTAINED"

INTEGRITY--"AN UNIMPAIRED CONDITION: SOUNDNESS"
OR
"THE QUALITY OR STATE OF BEING COMPLETE OR UNDIVIDED: COMPLETENESS AKIN TO UNITY

POINT: DEFINING UNIT-PRICE-INTEGRITY MAY BE DIFFICULT. BUT, WITHOUT STRICT ADHERENCE TO THE CONCEPT, THE ABSENCE OF UNIT-PRICE-INTEGRITY MAKES INTELLIGENT LOGISTICS MANAGEMENT DECISIONS DIFFICULT OR IMPOSSIBLE.

HOW DO WE DO IT BETTER? MAYBE, IT'S CALLED "BACK TO THE BASICS".

PRICING IS A JUDGEMENT AREA. GOOD PRICES CANNOT BE PRODUCED BY FORMULA OR BY COMPUTER. ---ASPM NO. 2, PAGE 4-4. EVERY CONTRACT FILE MUST CONTAIN THE NECESSARY DOCUMENTATION TO SUPPORT THE ACTION TAKEN. ---PAGE 4-5.

THE CONCLUSION THAT A PRICE IS FAIR AND REASONABLE MUST BE BASED ON SOME FORM OF ANALYSIS. ---ASPM NO. 2, PAGE 4-1.

IMPORTANCE OF OBTAINING REASONABLE PRICES CANNOT BE OVEREMPHASIZED. EVERY INDIVIDUAL PARTICIPATING IN PROCUREMENT MUST ESTABLISH THE OBJECTIVE OF ACQUIRING FULL VALUE OF EVERY DOLLAR EXPENDED. A HIGH DEGREE OF DIDICATION .....USE SOUND JUDGEMENT AND DISCRETION IN EXERCISING THE AUTHORITY GRANTED..... ---ASPM NO. 2, PAGE 1-2.

CONTRACT PRICING: A SERIES OF ACTIONS USED TO OBTAIN, EVALUATE, ASSESS, VERIFY, AND ADJUDGE COST OR PRICING INFORMATION, AND TO RECORD THE STEPS TAKEN TO ASCERTAIN THAT PRICES AGREED TO HAVE BEEN DETERMINED (FOUND) FAIR AND REASONABLE. ---ASPM NO. 1, PAGE 1A-B5.

REASONABLE COST: A COST IS REASONABLE IF, IN ITS NATURE OR AMOUNT, IT DOES

NOT EXCEED WHAT WOULD BE INCURRED BY AN ORDINARILY PRUDENT PERSON IN THE CONDUCT OF COMPETITIVE BUSINESS. ---ASPM NO. 1, PAGE 1A-B15.

VALUE ANALYSIS: A SYSTEMATIC AND OBJECTIVE EVALUATION OF THE FUNCTION OF THE PRODUCT AND ITS RELATED COST. ITS PURPOSE IS TO ENSURE OPTIMUM VALUE. AS A PRICING TOOL, IT PROVIDES INSIGHT INTO THE INHERENT WORTH OF A PRODUCT. ----ASPM NO. 1, PAGE 1A-B18.

COST PRINCIPLES ARE CONCERNED WITH THE ALLOWABILITY, ALLOCABILITY, AND REASONABLENESS. A COST IS ALLOWABLE IF IT IS REASONABLE, ALLOCABLE, AND NOT PROHIBITED. (REASONABLE IS DEFINDED ABOVE) AN ALLOCABLE COST IS ONE WHICH IS ASSIGNABLE OR CHARGEABLE TO ONE OR MORE CONTRACTS BASED ON THE RELATIVE BENEFITS RECEIVED OR OTHER EQUITABLE RELATIONSHIP. ---AFP 70-6, PAGES 23 & 24. ALSO SEE ASPM NO. 1, PAGE 1A-B1 & B2 AND AFP 70-6, PAGE 3.

A COST IS ALLOCABLE TO A GOVERNMENT CONTRACT IF IT: (1) IS INCURRED SPECIFICALLY FOR THE CONTRACT; (2) BENEFITS BOTH THE CONTRACT AND OTHER WORK; (3) CAN BE DISTRIBUTED TO THEM IN REASONABLE PROPORTION TO THE BENEFITS RECEIVED; AND (4) IS NECESSARY TO THE OVERALL OPERATION OF THE BUSINESS, EVEN THOUGH A DIRECT RELATIONSHIP TO ANY PARTICULAR ELEMENT OF WORK CANNOT BE SHOWN. ---AFP 70-6, PAGE 24.

COST OR PRICING DATA ARE THE FACTUAL PORTIONS OF THE PROPOSAL OR THE FACTS UPON WHICH THE PROPOSAL IS BASED; THEY ARE THE PARTS THAT CAN BE VERIFIED. IT IS THIS ACCOUNTING REVIEW THAT FITS THE POPULAR CONCEPTION OF WHAT COST ANALYSIS IS AND, WHILE THERE IS MORE THAN THIS TO COST ANALYSIS, IT IS ONE OF THE THREE ANALYTICAL SKILLS INVOLVED IN CONTRACT PRICING. THE OTHERS ARE TECHNICAL ANALYSIS AND PRICE ANALYSIS.

> PRICE ANALYSIS IS WHATEVER ELSE YOU DO TO MAKE A SENSIBLE DECISION ABOUT THE PRICE PROPOSED BY THE OFFEROR. .....YOU MAY BE ABLE TO MAKE A SOUND PRICE DECISION USING ANALYSIS ALONE, BUT YOU CANNOT MAKE AN EQUALLY SOUND DECISION BY RELYING SOLELY ON ACCOUNTING AND TECHNICAL ANALYSIS OF THE PROPOSED COST. IN OTHER WORDS, YOU MUST PERFORM PRICE ANALYSIS ON EVERY PROCUREMENT.
>
> IN A TYPICAL SITUATION, WE HAVE SEVERAL INDIVIDUALS LOOKING AT A PROPOSAL, EACH FROM THEIR OWN VANTAGE POINT.
>
> LIKE THE BLIND MEN AND THE ELEPHANT, NO ONE SEES THE WHOLE ANIMAL, BUT EACH ONE DRAWS SOME CONCLUSION, BASED ON HIS EXAMINATION OF HIS OWN SET OF FACTS, AS TO THE NATURE OF THE (ANIMAL). SOMEONE HAS TO..... .....MAKE A DECISION. THIS SOMEONE IS THE CONTRACTING OFFICER. THE PUTTING-TOGETHER OF THE OBSERVATIONS TO MAKE THE DECISION IS CALLED PRICING AND THE SKILL IS CALLED PRICE ANALYSIS. ----ASPM NO. 1, PAGES 1A11 & 1A12.

ALL OF WHICH BRINGS US TO AN IMPORTANT .....POINT. PEOPLE MANAGE CONTRACTS. NO CONTRACT DOCUMENT OR PRICING ARRANGEMENT CAN SUBSTITUTE FOR THE EFFECTIVE PROGRAM/PROJECT MANAGEMENT BY BOTH GOVERNMENT AND CONTRACTOR. (TAKEN A LITTLE OUT OF THE SUBJECT MATTER FROM ASPM NO. 1, PAGE 2A11, BOTTOM PARAGRAPH)

POINT: CONTRACT UNIT PRICES HAVE MANY USES. FOR A PRICE TO HAVE REAL MEANING IN EACH OF ITS USES IT HAS TO BE FAIR AND REASONABLE BY ITSELF, APART FROM THE TOTAL PRICE OF THE CONTRACT. .... INTEGRITY IS HARD TO ACHIEVE WHEN YOU PRICE OUT A LIST OF SPARE PARTS ITEMS. ---ASPM NO. 1, PAGE 8B4.
FAIR AND REASONABLE DESCRIBES THE CONCLUSION THAT THE PRICE IS ACCEPTABLE AND FAIR TO BOTH PARTIES. WHEN PRICE ANALYSIS TECHNIQUES ARE USED, FAIR AND REASONABLE MEANS THAT THE PRICE EQUATES WITH VALUE AND WITH PRICES ASKED FOR OTHER COMPETING PRODUCTS OR SERVICES OR WITH PRICES PAID BEFORE. .....
.....
.....FOR SPARE PARTS, THEN, IT IS REALISTIC .....TO SETTLE ON THE FOLLOWING DEFINITION: A FAIR AND REASONABLE SPARE PART PRICE IS ONE THAT IS CLOSE TO WHAT IT IS LIKELY TO COST THE SELLER TO MAKE OR OTHERWISE ACQUIRE THE ITEM. MANY COMPANIES DO NOT ESTIMATE OR ACCOUNT FOR THE COST OF MAKING INDIVIDUAL SPARE PARTS. THESE COMPANIES DO HAVE SOME SYSTEM FOR COMING UP WITH PRICES.....AND MOST OF THOSE METHODS DO NOT PRETEND TO DEVELOP UNIT PRICES. .....----ASPM NO. 1, PAGE 8B3.
THE COMPANY'S OBJECTIVE IN THOSE INSTANCES WOULD BE TO END UP WITH A PREDICTED RELATIONSHIP BETWEEN SPARE PARTS REVENUES AND THE COST OF SALES.

CAN ANYONE AFFORD OTHERWISE ?

HAS OUR SYSTEM OVERBURDENED ITSELF WITH THE LIKES OF COST ACCOUNTING STANDARDS (AS AN EXAMPLE) ?

HAS OUR SYSTEM OVERBURDENED ITSELF WITH DOCUMENTATION REQUIREMENTS WHICH MAY HAVE LITTLE TO DO WITH THE BASIC PREMISE OF PRICE ANALYSIS AS THE BEST APPROACH ?

HAS THE DEFINITION OF "FAIR AND REASONABLE" LOST ITS PLACE IN OUR COUNTRY'S ACCOUNTING SYSTEM ?
OR
HAS THE TIME NOW COME FOR INDUSTRY AND GOVERNMENT TO TAKE A HARD LINE ON WHAT IS EQUITABLE AND REDEFINE ALLOWABLE, ALLOCABLE AND REASONABLE ?

cys to auditors

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE LOGISTICS COMMAND
WRIGHT-PATTERSON AIR FORCE BASE, OHIO 45433

18 OCT 1983

Get the word out!!

REPLY TO ATTN OF: PM

SUBJECT: Unit Price Integrity

TO: OC-ALC/PM, OO-ALC/PM, SA-ALC/PM, SM-ALC/PM, WR-ALC/PM, 2750 ABW/PM, 2803 ABG/PM, Det 6, 2762 LS, Det 8, 2762 LS, AFLC Liaison Office/LGSE

1. As you are aware, spare parts pricing is receiving intense scrutiny at all levels within DOD. Also, there is a very serious effort underway to increase competition.

2. For these reasons unit prices, particularly for items bought on a repetitive basis, must be given increased attention during negotiation with the objective of assuring that negotiated unit prices bear a reasonably close relationship to the cost of the item. Price negotiation memorandums must be documented accordingly. Without unit price integrity we are unable to detect increases (or decreases) in price or defend such increases where they may be justified. Lack of unit price integrity also makes intelligent management decisions difficult or impossible on questions of whether to breakout specific items to competition. Lastly, unbalanced unit prices can result in unwarranted and unnecessarily high early billings under our contracts, if for example, low cost items having disproportionally high unit prices are delivered earlier than more costly items.

3. It is not possible to lay down specific rules as to how unit prices in each acquisition must be justified, since each acquisition is to some extent different. We also recognize that DCAA audits do not generally focus on unit prices. Nevertheless, in each acquisition we must assure ourselves - based upon the best practical method under the circumstances - that negotiated unit prices bear a close relationship to the cost of the items. Obviously, the best method is by cost buildup from our concept of the results of negotiation of various elements of the proposal. Where this is impossible because of numerous items or lack of audit information, the decrement method may be acceptable.

4. It is extremely important that this matter be thoroughly understood by all persons involved in the acquisition process. All contracts submitted to AFLC for review and approval will be closely reviewed for compliance, and this will be an item for future IG inspections.

FOR THE COMMANDER

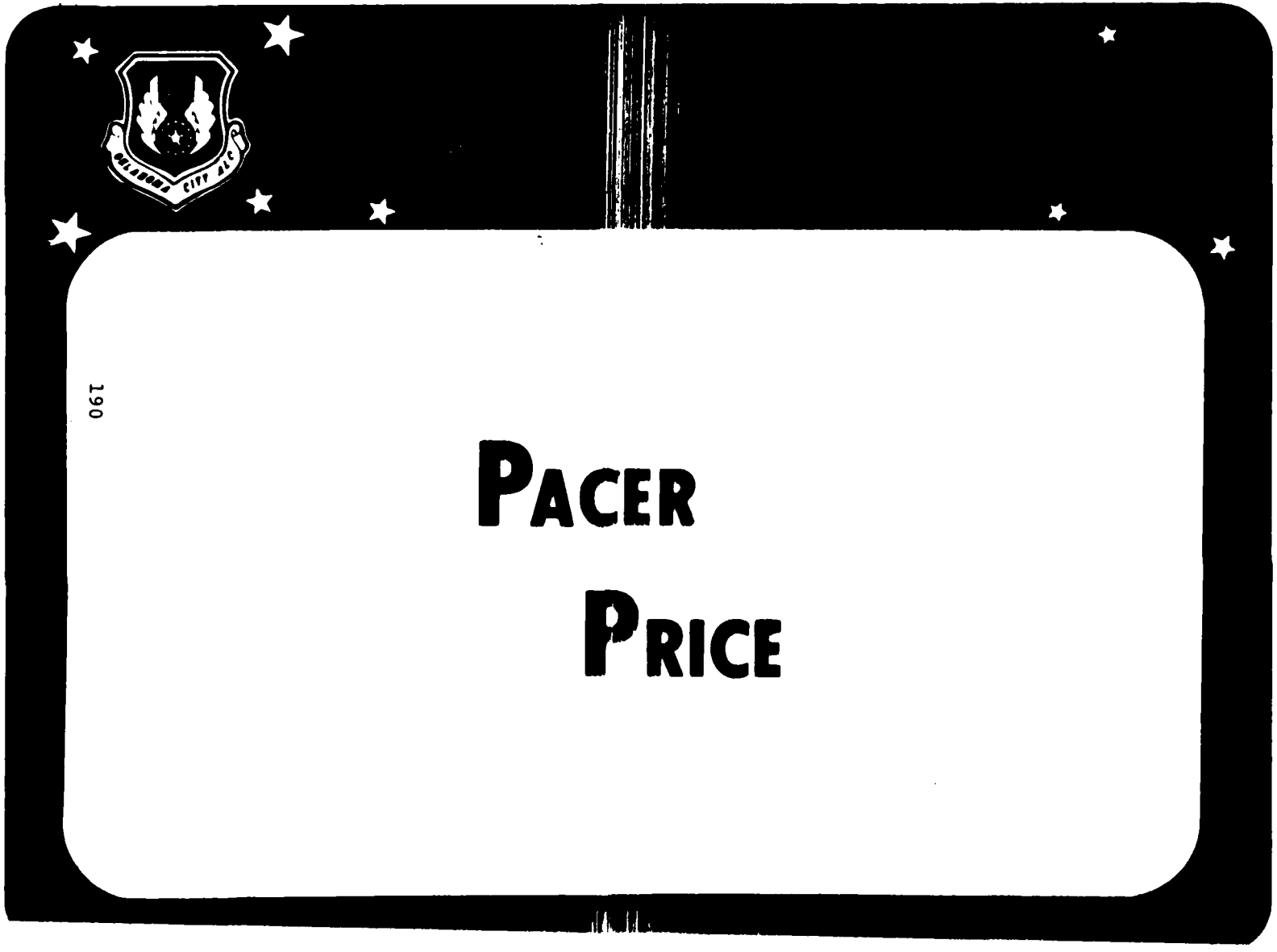
189

FRANCIS P. WILLIAMS, JR
Colonel, USAF
Asst DCS, Contracting & Manufacturing

Cy to: HQ AFLC/IG/PMC

AFLC - Lifeline of the Aerospace Team

25 OCT


190
PACER
PRICE

OBJECTIVES

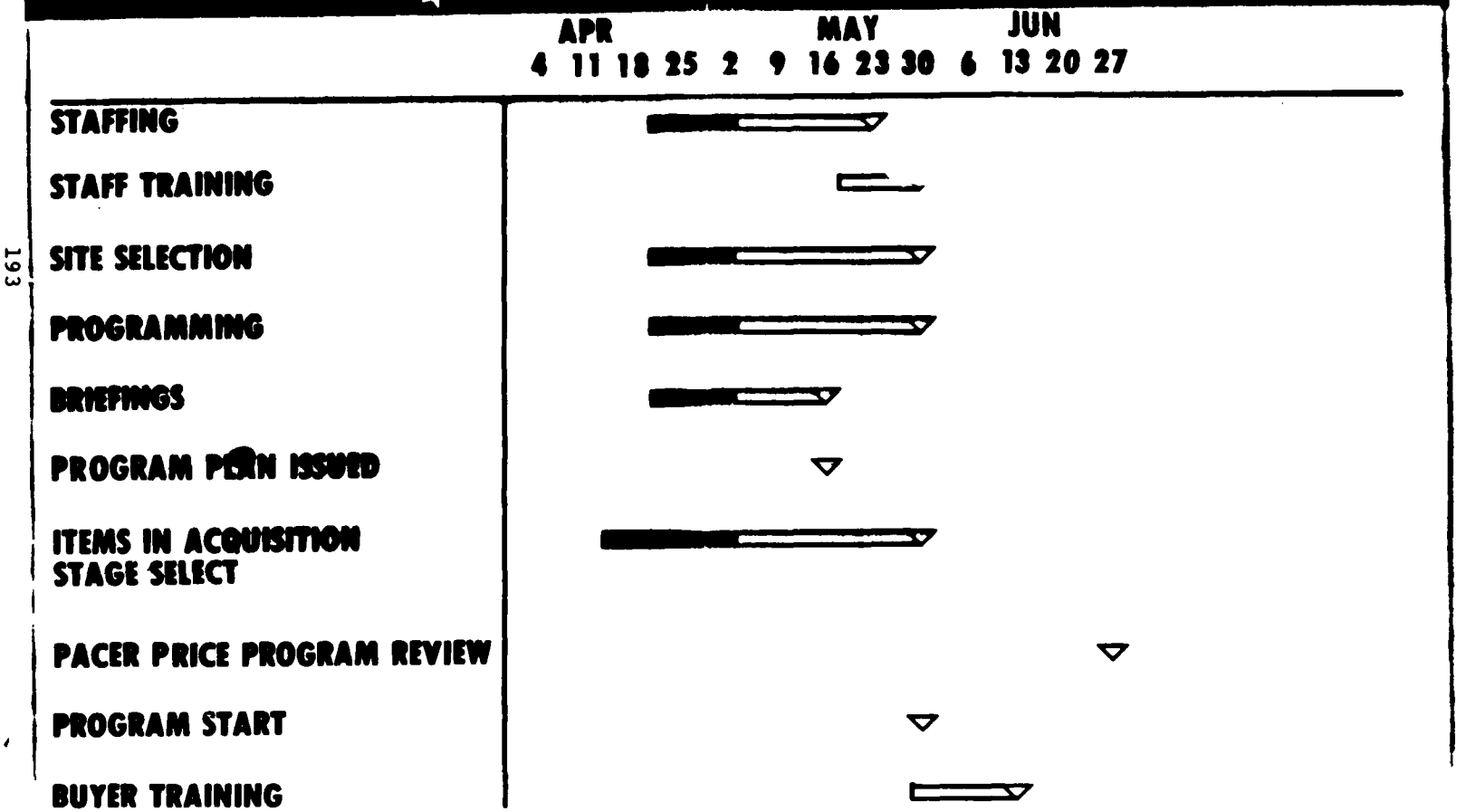
- REVIEW OVERALL ACQUISITION PROCESS BY:
  - REVIEWING REQUIREMENTS COMPUTATION
  - VALIDATING PMC CODES
  - INVESTIGATING RESTRICTIVE SOURCING
  - VALIDATING PRICES
- INPUT TO J041 SYSTEM
- REVIEW
- PREPARE REGULATION

PRIORITY MATRIX

ITEM STATUS	TYPE OF MARKET	PRICE INCREASE	PRIORITY, WHEN PURCHASE IN: PROGRESS	CURRENT FY	NEXT FY
ACTIVE	SOLE SOURCE	100% OR MORE	1A	1B	1C
ACTIVE	SOLE SOURCE	LESS THAN 100%	2A	2B	2C
ACTIVE	COMPETITIVE	ANY	3A	3B	3C
INACTIVE	ANY	ANY	--	--	--

(ORDER OF PRECEDENCE: 1A, 2A, 3A, 1B, 2B, 3B, 1C, 2C, 3C)

MILESTONE & PROGRESS CHART



PACER PRICE

EXISTING PROGRAMS

PROGRAM TITLE	FUNCTION	AUTHORITY
ZERO OVERPRICING	INVESTIGATE AND RESOLVE QUESTIONS OF OVERPRICING	OC/ALC-TAFBR 70-1 02 FEB 81
STATISTICAL METHOD OF PRICING SMALL PURCHASES	ASSURE THAT PRICES PAID IN NON-COMPETITIVE SMALL PURCHASES ARE FAIR AND REASONABLE THROUGH SAMPLING AND REVIEW OF PRICING METHODS USED IN A REPRESENTATIVE NUMBER OF SMALL PURCHASES	AFLCR 70-18(C1) 07 AUG 81
COMMERCIAL PRICING CERTIFICATION CLAUSE	GUARANTEE CONTRACTUALLY THAT THE PRICE PAID BY THE GOVERNMENT FOR AN ITEM DOES NOT EXCEED THE PRICE PAID BY ANY OTHER CUSTOMER	AFPI 7-4058 20 DEC 60

Small Item Purchase Waste Told

U.S. Gov't. Pays Sucker Prices for Defense Supplies

195

House Unit Reports Procurement Waste

$194.30 for $3.43 Gears
$277.77 for $1.62 Tubes
$256.92 for $1.62 Knobs
$1.55 for 6-cent Washers

DOD Cracks Down on Sloppy Buying

PACER PRICE

PROGRAM TITLE	FUNCTION	AUTHORITY
KNOW YOUR ITEM	ASSURE THAT BUYERS AND CONTRACTING OFFICERS HAVE KNOWLEDGE OF THE PHYSICAL AND MATERIAL CHARACTERISTICS OF AN ITEM THEY BUY	1962 AFLC POLICY INITIATIVE
SMALL PURCHASE PRICING MEMORANDUM (DD FORM 1784)	IMPLEMENT USE OF A STANDARD DOCUMENT REQUIRING BUYER/PCO TO INDICATE THE BASIS USED FOR DETERMINING PRICE FAIRNESS/ REASONABLENESS IN SOLE-SOURCE SMALL PURCHASES	DAR 16-613

THE COMPETITION ADVOCATE PROGRAM
HOW IS IT WORKING?

A PANEL DISCUSSION

MODERATOR: COL KENNETH V. MEYER
DEPUTY DIRECTOR OF CONTRACTING AND
MANUFACTURING POLICY
HQ UNITED STATES AIR FORCE

PANELISTS: COL WILLIAM J. HENTGES
ASSISTANT TO THE COMMANDER
FOR COMPETITION ADVOCACY
HQ AIR FORCE LOGISTICS COMMAND

MR. ANTHONY J. DELUCA
PRINCIPAL ASSISTANT DCS/CONTRACTING
AND MANUFACTURING
HQ UNITED STATES AIR FORCE

Opening Remarks on Competition Advocate Program

Col Kenneth V. Meyer, HQ USAF/RDC

GOOD MORNING, IT IS A PLEASURE TO BE WITH YOU AND DO WE HAVE A "TOPIC" FOR YOU NOW. COMPETITION, THIS SUBJECT HAS SEEN MORE BILLS INTRODUCTED IN CONGRESS THAN THE 1ST AMENDMENT. IT HAS BEEN THE ISSUE IN MORE COURT CASES THAN CIVIL RIGHTS. IT GENERATES ENOUGH STATISTICS TO KEEP A BASEBALL FANTIC IN ECSTASY.

COMPETITION NOT THE KIND THAT WE HAVE WITH THE RUSSIANS OVER SPACE OR TECHNOLOGY. NOT THE KIND THAT WE HAVE WITH THE NAVY OVER MISSIONS OR IN FOOTBALL. (ALTHOUGH IT'S GETTING HARDER TO CONSIDER NAVY FOOTBALL COMPETITIVE.) NOT EVEN THE KIND THAT WE HAVE AMONG OURSELVES BETWEEN WINGS FOR FLYING AWARDS OR BEHIND THE CLOSED DOORS IN THE PENTAGON FOR MONEY. THE COMPETITION WE'RE TALKING ABOUT THIS MORNING IS CONTRACT COMPETITION.

EVER SINCE DARWIN ESTABLISHED THE NATURAL LAWS OF SURVIVAL, THE CONCEPT OF COMPETITION HAS BECOME A PERVASIVE CONCEPT IN WESTERN THOUGHT. IT HAS FOUND A SPECIAL NICHE IN THE AMERICAN WAY OF LIFE. HERE IT BECAME CLOSELY IDENTIFIED WITH THE 19TH CENTURY DEVELOPMENT OF THIS COUNTRY, EXPECIALLY OUR WESTERN EXPANSION. COMPETITION HAS BECOME AS AMERICAN AS BASEBALL, APPLE PIE AND CHEVROLETS. COMBINED WITH OUR IDEAL OF FAIR PLAY, IT HAS BECOME A GUIDING PRINCIPLE OF OUR ECONOMIC EVALUATION.

THE CONGRESS, THE COURTS AND THE PEOPLE BELIEVE IN IT - IF YOU DOUBT IT, TAKE A LOOK AT YOUR LATEST TELEPHONE BILL. THEN CALL A TAX LAWYER TO HELP YOU FIGURE OUT WHAT IT SAYS ON THOSE 10 PAGES THAT REPLACED THE 2, OR CALL ONE OF THE 4 TOLL FREE NUMBERS OR ONE OF THE 3 COMPANIES OR JUST GIVE UP AND PAY THE "BOTTOM LINE" (USUALLY A BIGGER NUMBER.) AND REMEMBER, STRANGE THINGS CAN HAPPEN WHEN PEOPLE PERCEIVE COMPETITION AS UNFAIR, INADEQUATE OR NOT ADVOCATED.

LIKE IT OR NOT, THE UNITED STATES AIR FORCE, LIKE MA BELL, IS CAUGHT UP IN JUST SUCH A PERCEPTION. JUST LOOK AROUND. FIRST, THE CONGRESS IS DEMANDING IT. OUR COMPETION RATE EITHER GOES UP OR IT WILL BE LEGISLATED. LEGISLATION HAS ALREADY BEEN INTRODUCED TO THAT EFFECT. SECONDLY, THE PUBLIC IS QUESTIONING US. THEY HAVE CONFIDENCE IN COMPETITION. THEY DON'T UNDERSTAND THE NEGOTIATION PROCESS, RFPs, PNMs, FAR, ETC. AND, THEY HAVE DIFFICULTY ENVISIONING A MILLION DOLLARS, MUCH LESS THE BILLION DOLLAR PROGRAMS WE ARE MANAGING. BUT THEY DO BELIEVE THAT IF WE HAVE CLEAN, FAIR COMPETITION THEY HAVE A BETTER CHANCE OF SECURING THE BEST DEAL WITH THEIR DOLLARS.

THIRDLY, THE BUREAUCRACY IS BEING POSITIONED TO GUARANTEE SOME TYPE OF COMPETITION. FROM PRESIDENT REAGAN'S EXECUTIVE ORDER 12352, TO THE OFFICE OF FEDERAL PROCUREMENT POLICY REFORM TASK GROUPS, TO THE CARLUCCI INITIATIVES, TO THE DOD HIGH LEVEL WORKING GRUPS, TO THE DOD DIRECTIVES AND POLICY LETTERS, TO THE SECRETARY OF AIR FORCE POLICY, TO AF REGULATIONS, TO BUSINESS STRATEGY REVIEWS, TO D&Fs, TO PROGRAM REVIEWS AND ON, AND ON COMPETITIVE CONSIDERATION IS PERMEATING THE PROCESS.

SO WHERE ARE WE. LOOK AT THIS CHART. OF THE NEARLY 35 BILLION DOLLARS OBLIGATED LAST FISCAL YEAR ONLY 18% WAS STRICTLY NON COMPETITIVE. THAT'S GOOD. HOWEVER, ONLY 32% WAS COMPETED. THAT'S BAD. LIKE MOST STATISTICS IT DEPENDS HOW YOU LOOK AT THEM. LOOK AT THIS HISTORICAL PERSPECTIVE (NEXT CHART) OUR PROBLEM IS IN THE "FOLLOW-ON TO COMPETITION" CATEGORY, THAT IS, PROGRAMS THAT WERE INITIALLY COMPETED BUT NOW ARE SOLE SURCE. HALF THE AIR FORCE DOLLARS ARE IN THIS CATEGORY AND THEY INCLUDE MOST OF OUR BIG PROGRAMS, THE B-1s, THE F-16s, THE F-15s AND THE PEACE KEEPERS.

IN THE NEXT CHART YOU CAN SEE THAT THREE OF EVERY FOUR CONTRACTUAL ACTIONS ARE COMPETED. THAT IS GREAT. THE PROBLEM IS HOWEVER, THAT WHILE WE COMPETE MOST OF OUR ACTIONS THEY DO NOT INCLUDE MOST OF OUR DOLLARS.

WHEN YOU LOOK AT DOLLARS (NEXT CHART) YOU SEE A COMPLETELY DIFFERENT PICTURE. AFSC OBLIGATED OVER 60% (60.9) OF THE AF DOLLARS. COMBINED WITH AFLCs 28%, THESE TWO COMMANDS CLEARLY DOMINATE AIR FORCE DOLLAR STATISTICS. WHILE FOLLOW-ON ACTIONS BARELY SHOWED UP ON THE ACTIVITIES CHART, IT IS THE PREDOMINANT FIGURE HERE WHERE THE DOLLARS REALLY COUNT. IF THE AF IS TO IMPROVE ITS 32% COMPETITIVE RATE, CLEARLY IT FALLS ON THE SHOULDERS OF AFSC AND AFLC TO LEAD THE WAY.

THERE ARE MANY THINGS WE ARE DOING AT THE AIR STAFF TO WORK THIS PROBLEM. WE HAVE A COMPREHENSIVE PLAN CONTAINING NUMEROUS INITIATIVES FROM REPORTING TO LEGISLATION. BUT IF WE ARE TO IMPROVE - AFLC & AFSC MUST DO IT AT THE CONTRACT LEVEL.

I SHARE THE STAGE THIS MORNING WITH TWO GENTLEMEN, WHO ARE DIRECTLY RESPONSIBLE FOR GETTING THAT IMPROVEMENT. THEY ARE THE COMMAND COMPETITION ADVOCATES FROM AFSC & AFLC. THEY ARE FORMULATING THE PLANS, WRITING THE DIRECTION, CREATING THE REGULTIONS AND REVIEWS THE PROGRAMS AIMED DIRECTLY AT BEING RESPONSIVE TO THE GROWING DEMAND FOR IMPROVEMENT IN AIR FORCE COMPETITION RATES. ON THEIR SHOULDERS LIES THE RATHER AWESOME RESPONSIBILITY OF TRANSLATING THE GROWING DEMAND FOR IMPROVEMENT INTO JUDICIOUS CONTRACTUAL ACTIONS.

THE WHITE HOUSE

WASHINGTON

August 11, 1983

MEMORANDUM FOR THE HEADS OF DEPARTMENTS AND AGENCIES

SUBJECT: Competition in Federal Procurement

Competition is fundamental to our free enterprise system. It is the single most important source of innovation, efficiency, and growth in our economy.

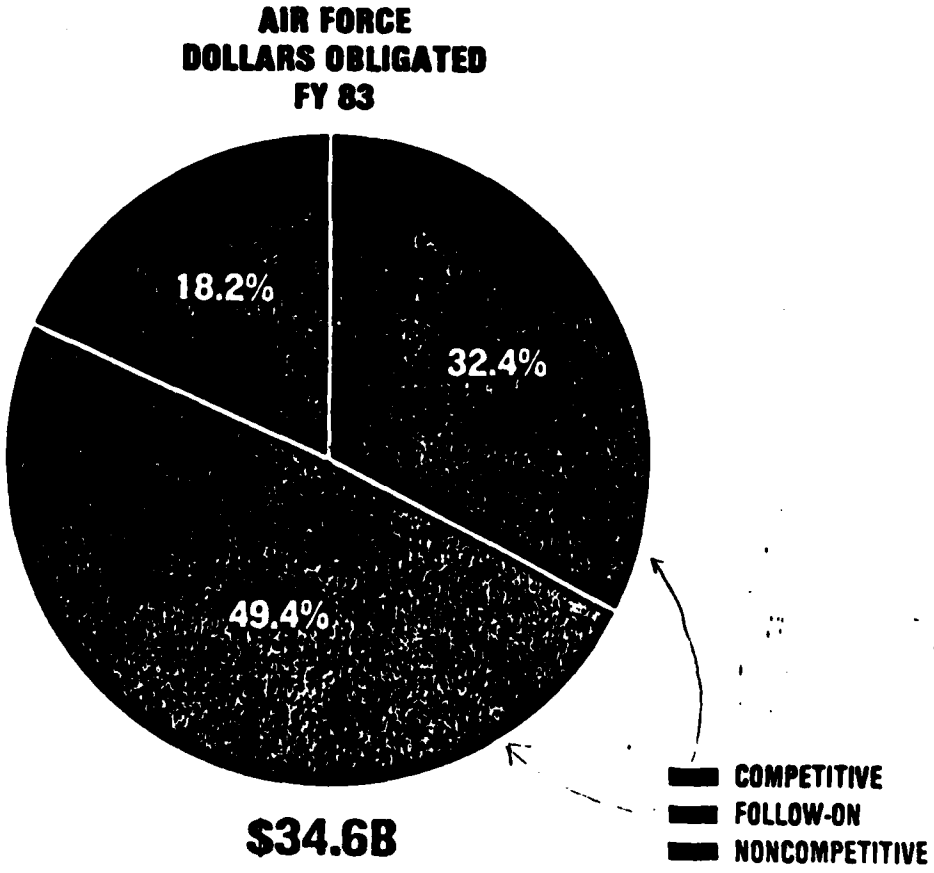
Yet, far too often the benefits of competition are excluded from the Federal procurement process -- a process which now results in expenditures of over $160 billion annually. Numerous examples of waste and exorbitant costs due to the lack of competition have been detailed by the Congress and the press during recent months.

Although efforts have been initiated by this Administration through the Reform '88 Management Improvement Program to correct this longstanding problem, I am convinced that more needs to be done. Consequently, I have directed Don Sowle, the Administrator for Federal Procurement Policy in the Office of Management and Budget, to issue a policy directive on non-competitive procurement to all departments and agencies. That policy directive will establish government-wide restrictions on the use of noncompetitive procurement and will be reflected in the government's procurement regulations. While such congressionally mandated programs as contracting with minority firms and handicapped persons will not be affected, the unwarranted use of noncompetitive practices must and will be curtailed.

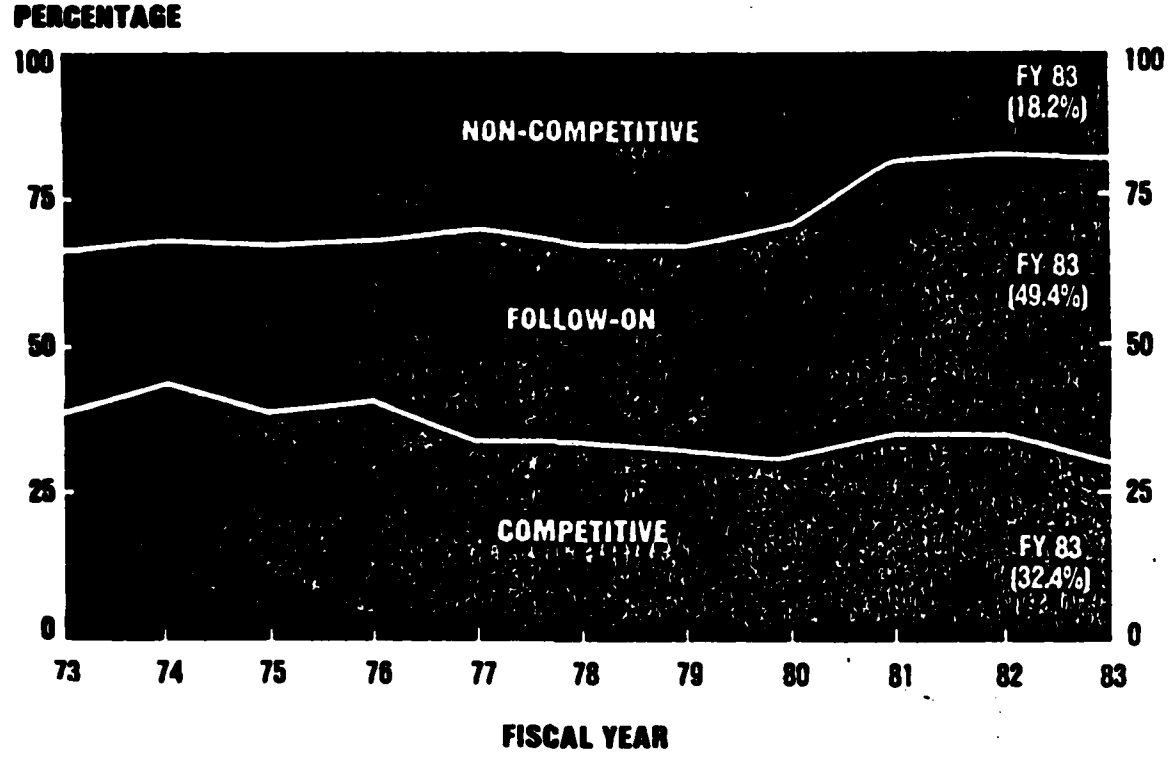
Pending the formal issuance of this new policy by the Administrator, I call upon each of you to assure that competition is the preferred method of procurement in your department or agency.

Ronald Reagan

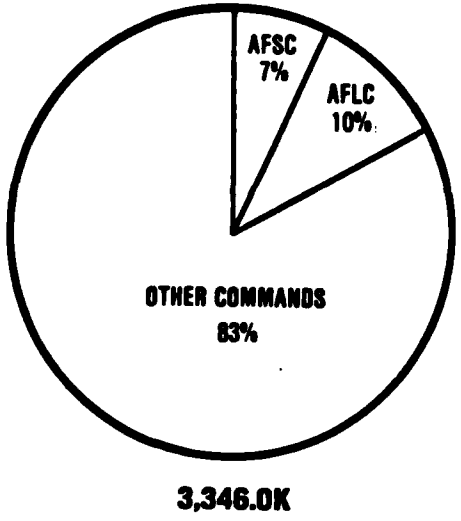
COMPETITION IN PROCUREMENT



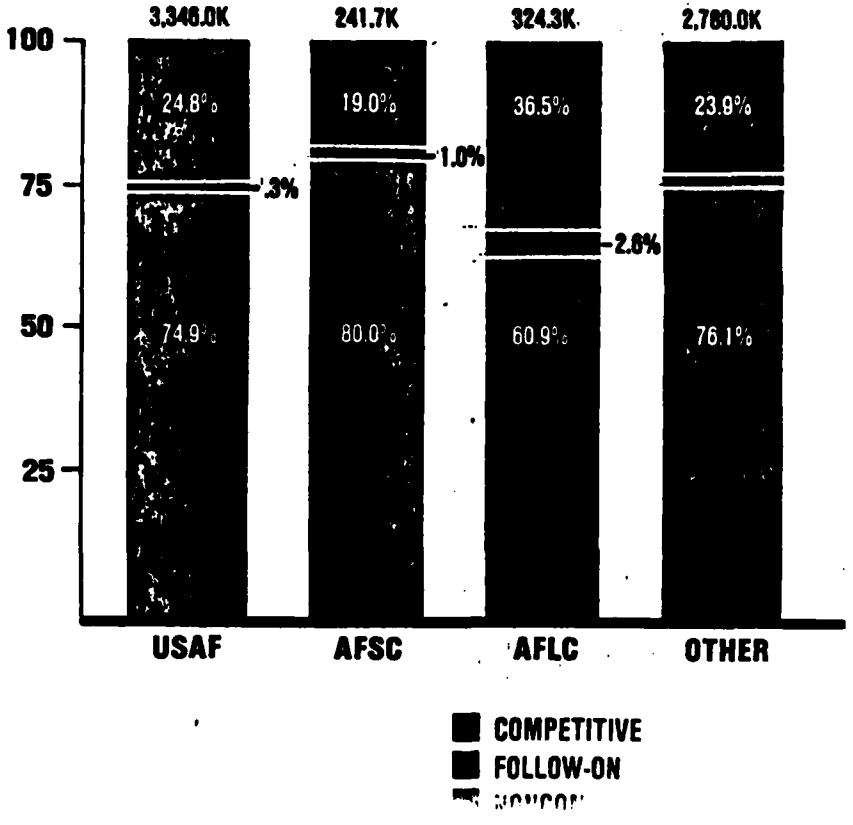
AIR FORCE
CONTRACTING DOLLARS COMPETED



AF COMMAND COMPARISON
CONTRACT ACTIONS
FY 83

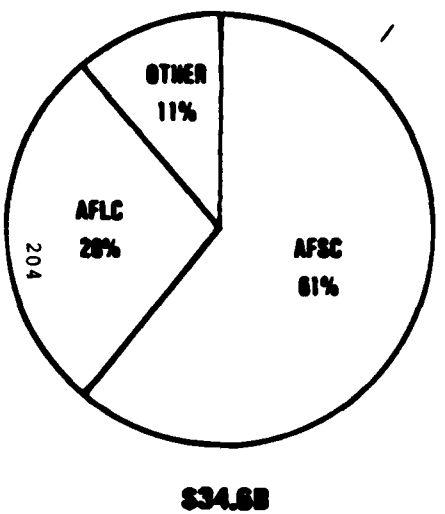


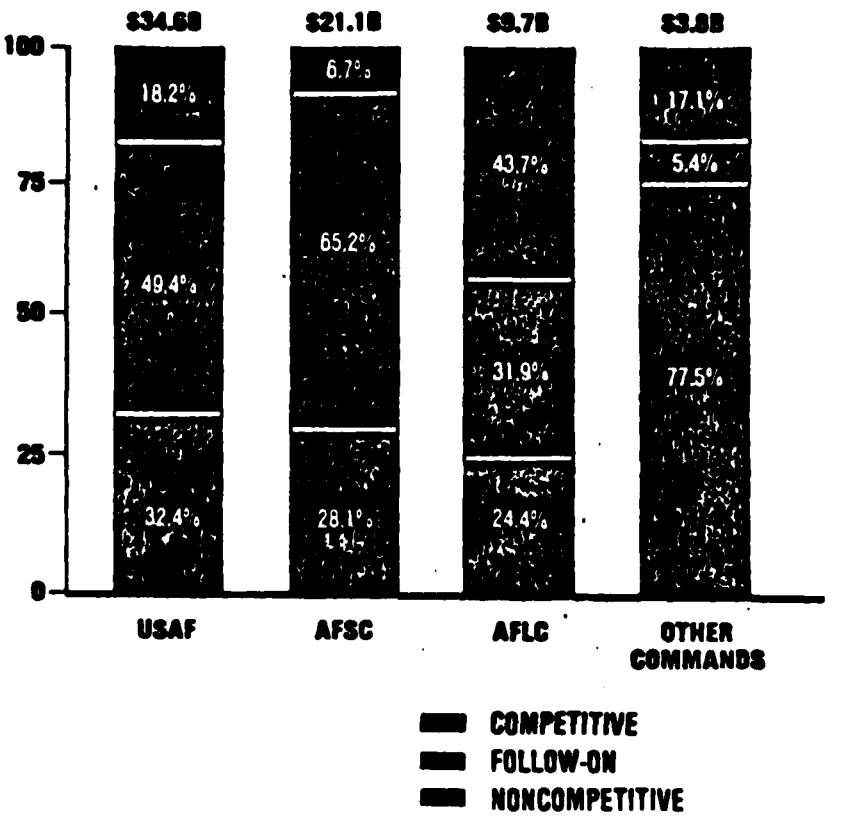
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AF COMMAND COMPARISON

DOLLARS OBLIGATED
FY 83





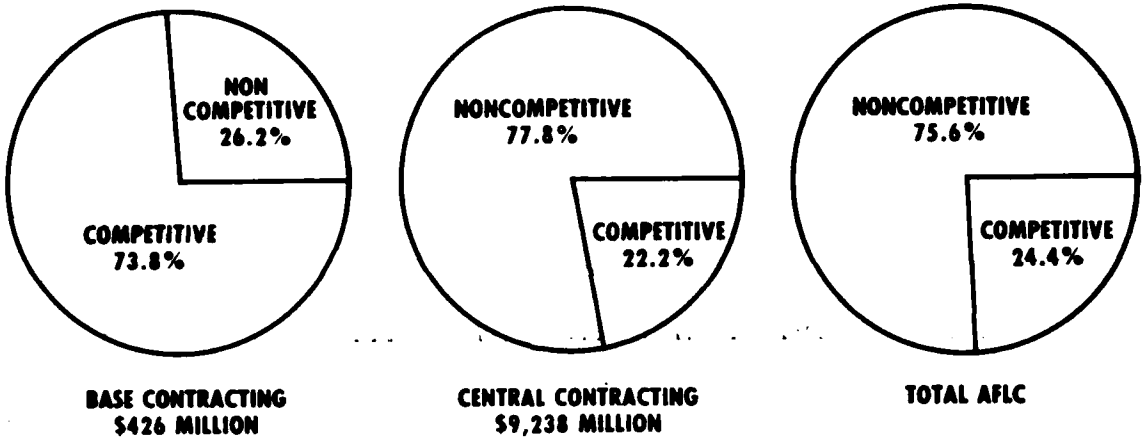


COMPETITION ADVOCACY

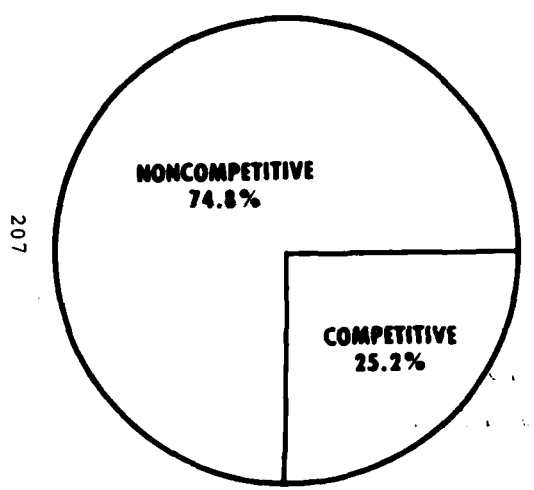
PRESENTER: COL WILLIAM J. HENTGES

AFLC - Lifeline of the Aerospace Team

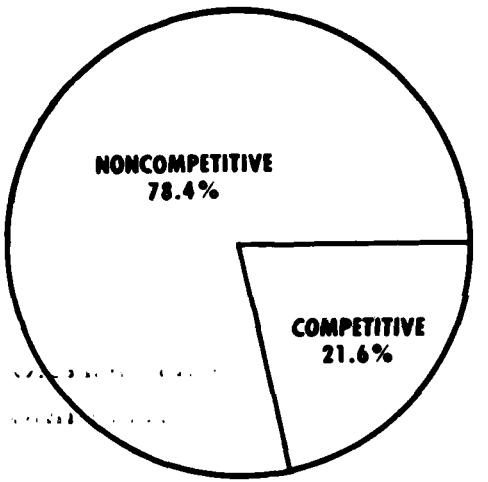
COMPETITIVE VS NONCOMPETITIVE ACQUISITION
FY 83



CENTRAL CONTRACTING
COMPETITIVE VS NONCOMPETITIVE ACQUISITION
FY 83

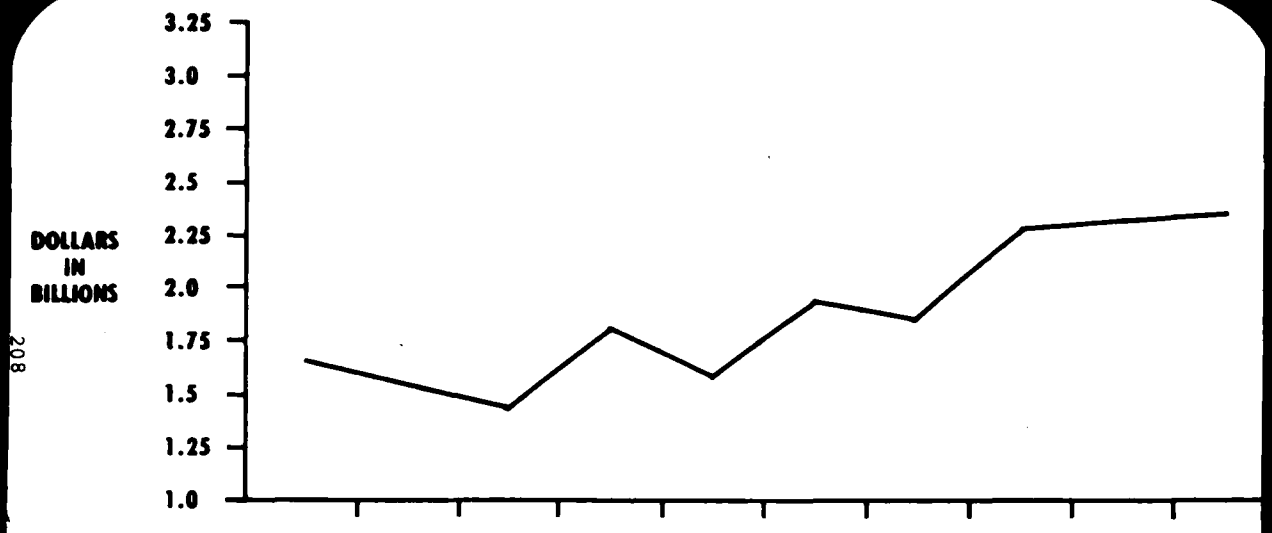


SERVICES
$1,441 MILLION



SUPPLIES AND EQUIPMENT
$7,797 MILLION

COMPETITIVE HISTORY
FY 83 NORMALIZED DOLLARS

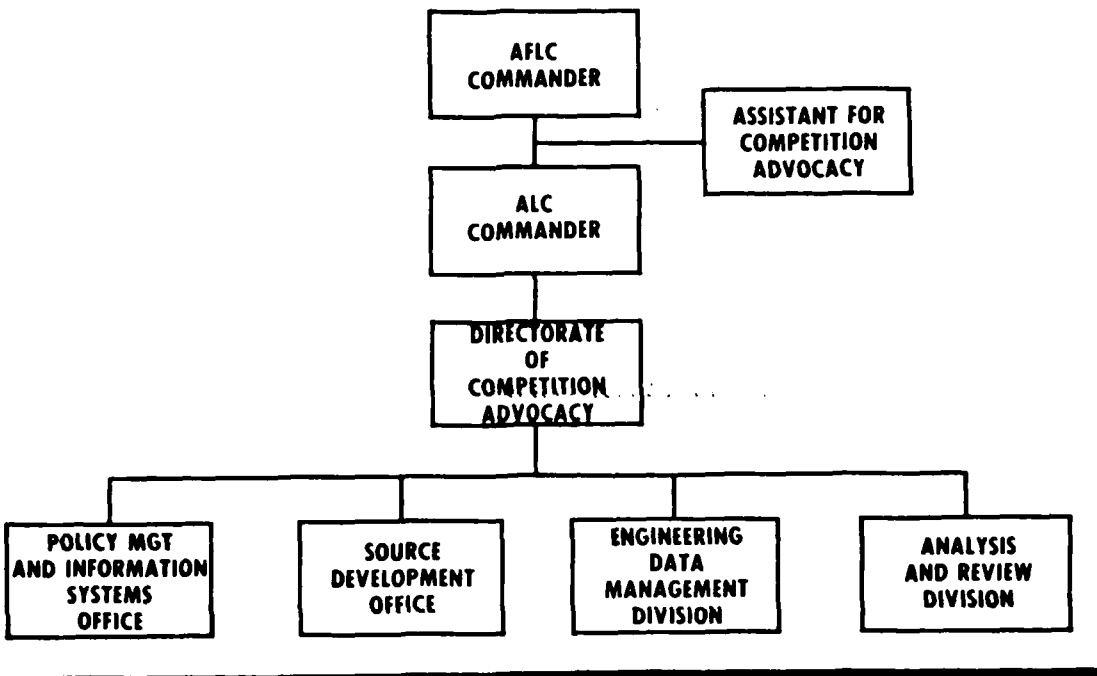


FY	74	75	76	77	78	79	80	81	82	83
COMPETITIVE DOLLARS (000,000)	1,647	1,561	1,403	1,784	1,597	1,956	1,852	2,343	2,358	2,371
TOTAL DOLLARS (000,000)	4,748	5,536	4,512	6,110	6,389	6,986	7,236	9,299	9,786	9,731

BACKGROUND

- INITIATED - JAN 82
- RESTRUCTURED - DEC 82
- AFMAG PROPOSAL - JUL 83
- SECRETARY ORR'S POLICY INITIATIVES - AUG 83
- REORGANIZED AND EXPANDED - SEP 83

ORGANIZATION





DIRECTOR OF COMPETITION ADVOCACY

- MANAGES THE COMPETITION ADVOCATE PROGRAM
- INSURES COMPLIANCE WITH DIRECTIVES AND REGULATIONS
- ESTABLISHES PROGRAMS TO ELIMINATE BARRIERS TO COMPETITION
- DEVELOPS TARGET PRICES UNDER PACER PRICE PROGRAM
- SCREENS ITEMS UNDER SPARE PARTS BREAKOUT PROGRAM
- MAINTAINS LIAISON WITH INDUSTRY, AFSC DIVISIONS AND DOD AGENCIES
- IMPLEMENTS PACER ZERO INITIATIVE

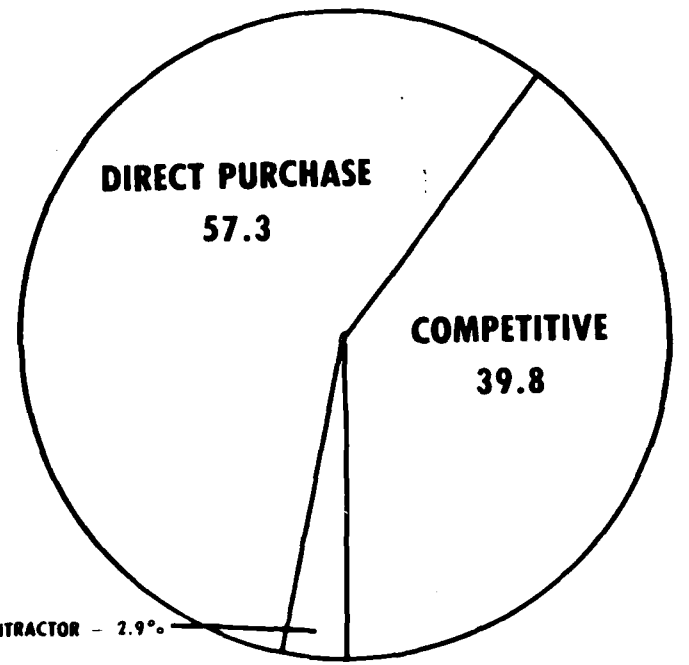
SOURCE DEVELOPMENT OFFICE

- RESPONSIBLE FOR RESOLUTION OF PRICE DISCREPANCIES
- CONDUCTS MARKET RESEARCH AND ANALYSIS
- PURSUES THE DEVELOPMENT OF NEW SOURCES
- VISITS CONTRACTOR PLANTS AND FACILITIES
- INTERFACES WITH THE SMALL AND DISADVANTAGED BUSINESS SPECIALIST
- ACTS AS LIAISON WITH INDUSTRY AND GOVERNMENT ACTIVITIES
- REVIEWS PROPOSED NONCOMPETITIVE LOCAL PURCHASES

ENGINEERING DATA MANAGEMENT DIVISION

- IDENTIFIES AND OBTAINS TECHNICAL DATA NEEDED FOR COMPETITION INITIATIVES
- REVIEWS AND EVALUATES DATA TO SUPPORT TARGET COST DEVELOPMENT
- COMPILES ENGINEERING DATA PACKAGES FOR COMPETITIVE BUYS
- IDENTIFIES LIMITED RIGHTS DATA AND SPONSORS ACQUISITION
- ACTS WITH MM, JA AND PM TO CHALLENGE PROPRIETARY RIGHTS CLAIMS
- SCREENS ITEMS FOR BREAKOUT TO DIRECT PURCHASE OR COMPETITION
- ENSURES ENGINEERING DATA PLANNING ON NEW ACQUISITIONS

ITEMS SCREENED AS OF 1 OCT 83



	AFLC	OC-ALC	OO-ALC	SA-ALC	SM-ALC	WR-ALC
ITEM WITH ASSIGNED AMC's	225125	61087	25273	75476	24501	38788

ITEM BREAKOUT STATUS

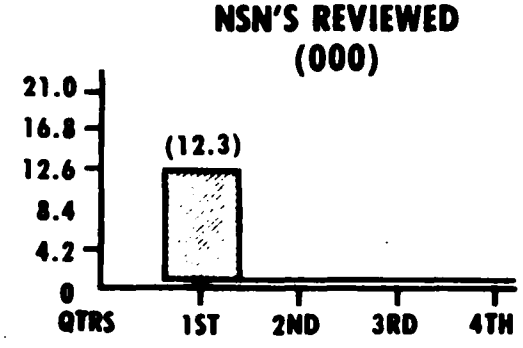
AS OF 30 SEP 83

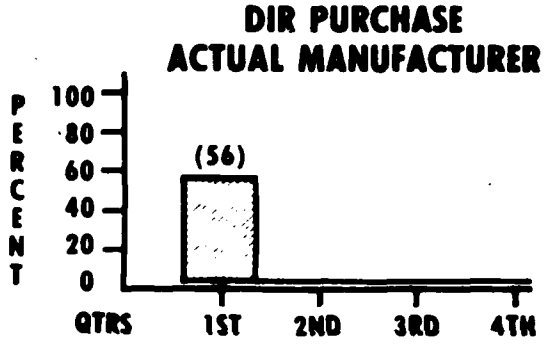
SCREENED -- 225,125 COMPETITIVE -- 89,482 SOLE SOURCE -- 135,643

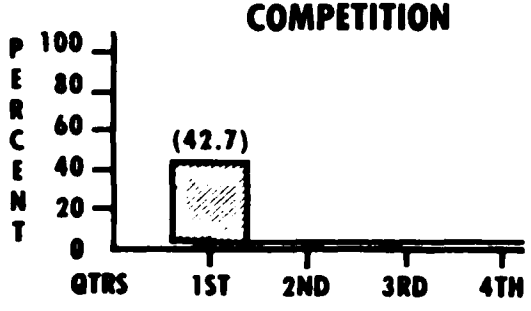
REASON FOR SOLE SOURCE

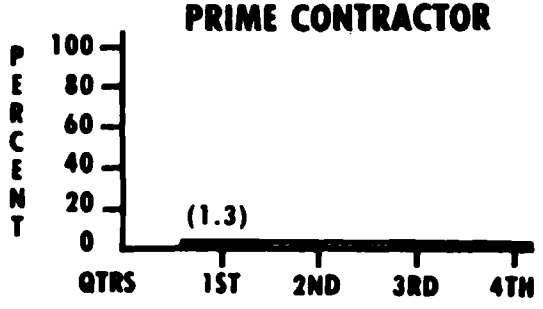
	TOTAL ITEMS	PERCENT
SOURCE CONTROLLED	14,263	11
NO DATA	23,466	17
INCOMPLETE DATA	28,657	21
PROPRIETARY	26,676	20
MISC.	42,581	31
	135,643	100

ACQUISITION METHOD CODE SCREEN











ANALYSIS AND REVIEW DIVISION

- CONDUCTS PACER PRICE ITEM ANALYSIS
- DEVELOPS TARGET PRICES
- EVALUATES ZERO OVERPRICING REFERRALS
- SUPPORTS FWA / GAO / IG INVESTIGATIONS
- INITIATES CORRECTION OF DATA BASE ERRORS THRU OPR

FY 84 SHOULD COST REVIEWS

AS OF 31 JAN 84

	TOTAL		ZERO OVERPRICING		PACER PRICE	
ITEMS REVIEWED	31220		931		30289	
LEVEL I :						
PRICE REASONABLE	24816		-		24816	
LEVEL II:						
UNABLE TO EVALUATE	1359		354		1005	
FULL REVIEW:	5045		577		4468	
STANDARD PRICE ERROR	105	(2%)	105	(18%)	-	
PRICE REASONABLE	2508	(50%)	308	(54%)	2200	(49%)
EXCESSIVE PRICE	2432	(48%)	164	(28%)	2268	(51%)
IN WORK	7400		2854		5046	



CHALLENGES

- ELIMINATE BARRIERS TO COMPETITION
- IMPLEMENT DOD REPLENISHMENT PARTS BREAKOUT PROGRAM
- PROMOTE SOURCE QUALIFICATION
- MANAGE ENGINEERING DATA
- IMPLEMENT PACER PRICE PROGRAM
- PROMOTE PACER ZERO PROGRAM

COMPETITION MANAGEMENT IN AFSC

220

BRIEFER: ANTHONY J. DELUCA
COMMAND ADVOCATE
FOR COMPETITION

BRIEFING OUTLINE

PHILOSOPHY

HISTORY

POLICY

ORGANIZATION/ACTIVITIES

ACHIEVEMENTS

CHALLENGES

PLANS

PRICING POSSIBILITIES

PHILOSOPHY

PHILOSOPHY

COMPETITION INCENTIVIZES INDUSTRY TO REDUCE COSTS AND IMPROVE PRODUCT PERFORMANCE. IT PRESERVES THE GOVERNMENT'S BARGAINING POWER AND STRENGTHENS THE DEFENSE INDUSTRIAL BASE. PLANNING FOR, AND MAINTAINING, COMPETITION IS AN INHERENT RESPONSIBILITY OF ACQUISITION MANAGEMENT.

HISTORY

HISTORY

- APRIL 82 ADVOCATE PROGRAM KICKED OFF
- JANUARY 83 FIRST QUARTERLY WORKSHOP
- APRIL 83 AFSC/CC STATES POLICIES
- MAY 83 COMMAND GUIDANCE ISSUED
- OCTOBER 83 AFSC EXCEEDS FY 83 GOAL

AFSC POLICY

AFSC POLICY

- MAXIMIZE EFFECTIVE COMPETITION
- MAINTAIN COMPETITION THROUGH FSD
- SCRUTINIZE SOLE SOURCE JUSTIFICATIONS
- EMPHASIZE PRODUCTION COMPETITION
- INCLUDE COSTS TO COMPETE IN BUDGET SUBMISSIONS
- EMPHASIZE COMPETITION IN SUBCONTRACTING
- MAINTAIN ADVOCACY PROGRAMS AT THE FIELD LEVEL
- ELIMINATE SYSTEMIC CONSTRAINTS

SOURCE: AFSC/CC LETTER - 1 APR 83

ORGANIZATION / ACTIVITIES

ORGANIZATION/ACTIVITIES

- COMMAND ADVOCATE (PART TIME)/ASSOCIATE (FULL TIME)
- ADVOCATES AT EACH BUYAC

  PART TIME

  SENIOR PERSONNEL (SES, O-6, GM-15)

- QUARTERLY FORECASTING/REPORTING
- ANNUAL PLAN
- GOALS FOR EACH DIVISION/CENTER
- QUARTERLY WORKSHOPS

ACHIEVEMENTS

ACHIEVEMENTS

- EXCEEDED FY 83 GOAL (28.1% vs 23%)
- CONVERTED $395 MILLION TO COMPETITION
- IMPROVED ORGANIZATIONAL COMMUNICATION
  - WITHIN AFSC
  - AFSC - AFLC
  - USAF - OTHER SERVICES
- INSTITUTIONALIZED COMPETITON ADVOCACY
- GREATER AWARENESS AMONG ACQUISITION PERSONNEL

CHALLENGES

CHALLENGES

- CONTINUING HIGH LEVEL PRESSURE
  - CONGRESS
  - DOD
  - HQ USAF
- DOMINANCE OF FOLLOW-ON OBLIGATIONS
- POSSIBLE AREAS OF CONFLICT
- COST OF CREATING PRODUCTION COMPETITION
- RESOURCES FOR COMPETITION ADVOCACY
- ACTIVE INVOLVEMENT/COMMITMENT OF ALL FUNCTIONS


YOU ARE
HERE
ROCK
HARD
PLACE

PRESSURES TO COMPETE

- CONGRESS MAY LEGISLATE COMPETITION
  - S 1904
  - S 338
  - HR 2545
- DOD ACQUISITION IMPROVEMENT PROGRAM
- HQ USAF
  - OUTREACH GOALS ASSIGNED BY CSAF/CV
  - ACQUISITION MANAGEMENT REVIEW
  - COMMAND COMPETITION PLAN
  - SUPPLEMENTAL GOALS
  - SUBCONTRACTING GOALS

DOMINANCE OF FOLLOW-ON PROGRAMS

- GOALS EXPRESSED IN OBLIGATED DOLLARS
- FOLLOW-ON 65% OF FY 83 OBLIGATIONS

  FOR EXAMPLE

  B-1 = 17%
  F-15 = 6%
  F-16 = 10%
  MX = 10%
  F100 = 4%

  } DRIVERS

- 84% OF FY 83 OBLIGATIONS ON PRE-83 CONTRACTS

  FY 82 = 34%
  FY 81 = 28%
  FY 80 = 5%
  FY 79 = 8%
  FY 78 = 9%

POSSIBLE AREAS OF CONFLICT

- DATA/PATENT RIGHTS POLICIES
- WARRANTIES
- IMIP/TECH MOD

COSTS

- DUAL-SOURCING FOR PRODUCTION COSTS MONEY
- PROGRAM SAVINGS FROM DUAL-SOURCING NOT PROVEN
- CONGRESS RELUCTANT TO FUND DUAL-SOURCING INVESTMENT WITHOUT GUARANTEED PAYOFF

RESOURCES

NEED PEOPLE TO DO ADVOCACY WORK

REVIEW PROGRAM DOCUMENTS:

SONS, PMDS, APS, CSPS, POMS

REVIEW SOLE SOURCE JUSTIFICATIONS:

500-600 PL 98-72 REVIEWS IN FY 84

TRACK PROGRAM STRATEGY DEVELOPMENT/IMPLEMENTATION:

40 PROGRAMS

PERFORM BREAKOUT REVIEWS

FUNCTIONAL INVOLVEMENT

ENTIRE ACQUISITION COMMUNITY

- PLANNERS
- PROGRAM MANAGEMENT
- PROGRAM CONTROL
- COMPTROLLER
- CONTRACTING/MANUFACTURING
- LOGISTICS
- DATA MANAGEMENT

MUST BE INVOLVED WITH/COMMITTED TO COMPETITION

PLANS

PLANS

- FULL TIME ADVOCACY STAFFS
  - AT HQ AFSC
  - IN FIELD
- IMPROVED PLANNING/FORECASTING
  - SON/PMD REVIEWS
  - POM PROCESS
  - COMMAND COMPETITION PLAN
- BETTER UNDERSTANDING OF COMPETITION COSTS/BENEFITS
  - AIR UNIVERSITY STUDY
  - AFCMD SUBCONTRACTING STUDY
- JOINT AFSC/INDUSTRY CONFERENCE
  - 21-22 MARCH 1984

PRICING POSSIBILITIES

PRICING POSSIBILITIES

COMPETITION:

- ELIMINATES NEED FOR DISCRETE PROFIT/FEE DETERMINATION
- PERMITS INCREASED USE OF PRICE VS COST ANALYSIS

SUMMARY

SUMMARY

- COMPETITION PART OF DRIVE TO INCREASE EFFICIENCY
- AFSC HAS AN AGGRESSIVE PROGRAM
- GOOD RESULTS TO DATE
- ENTERING NEW PHASE

  FOCUS ON INCREASING PRODUCTION COMPETITION
  GOAL TO REDUCE NONCOMPETITIVE FOLLOW-ON
  ACTIVE INVOLVEMENT BY ALL FUNCTIONS

MAJOR POLICY CHANGES TO IMPROVE PRICING AND COMPETITION

A PANEL DISCUSSION

MODERATOR: BRIG GEN DONALD J. STUKEL
COMMANDER
AIR FORCE CONTRACT MANAGEMENT DIVISION
AIR FORCE SYSTEMS COMMAND

PANELISTS: MR. DANIEL S. RAK
ASSISTANT GENERAL COUNSEL - PROCUREMENT
OFFICE OF THE SECRETARY OF THE AIR FORCE

MR. JOHN O'HARA
CORPORATE DIRECTOR OF CONTRACT POLICY
THE BOEING COMPANY

ENHANCING AIR FORCE PRICING

"COST ALLOCATIONS/MARKUPS"

BRIGADIER GENERAL DONALD J. STUKEL

COMMANDER

AIR FORCE CONTRACT MANAGEMENT DIVISION

OVERVIEW

- AFCMD SURVEY ON SPARES MARKUP
- MARKUP DISTORTIONS
- RECOMMENDATIONS
- SUMMARY

AFCMD SURVEY ON SPARES MARKUP

- OBJECTIVE
- APPROACH
  - MARKUP FACTORS OF 22 CONTRACTORS
  - IMPACT ON $1 DIRECT SHIP VENDOR ITEM
- CONCLUSION
  - PENALTY FOR BUYING THROUGH PRIME CONTRACTORS

AFCMD SURVEY ON SPARES MARKUP

- RANGE OF SPARES MARKUPS ($1 ITEM)
  - $1.15 (MINIMUM)
  - $1.50 (TYPICAL)
  - $1,105.00 (WORST CASE)

- "TYPICAL" MARKUP FACTORS

VENDOR UNIT PRICE	$1.00
PURCHASING (20%)	.20
	$1.20
G&A (12.5%)	.15
	$1.35
PROFIT (11%)	.15
CUSTOMER UNIT PRICE	$1.50

MARKUP DISTORTIONS

- LINE ITEM ALLOCATION
- UNDIFFERENTIATED SPARES TYPES

MARKUP DISTORTIONS

LINE ITEM ALLOCATION

- CONTRACTOR SPARES BURDEN POOL = $240
- ALLOCATION COMPARISON

# PARTS	VENDOR PRICE	LINE ITEM ALLOCATION	LINE ITEM PRICE	UNIT COST ALLOCATION	UNIT COST PRICE
1	$260	$ 80	$340	$130	$390
1	$218	$ 80	$298	$109	$327
1	$ 2	$ 80	$ 82	$ 1	$ 3

MARKUP DISTORTIONS

SPARES TYPE	COST ELEMENTS
VENDOR DIRECT-SHIP	PURCHASING/ORDER PROCESSING
	G&A
	PROFIT
	- PLUS -
PASS-THROUGH	RECEIVING & INSPECTION
	MATERIAL HANDLING
	ENGINEERING/PRODUCTION SUPPORT
	PACKAGING & SHIPPING
	- PLUS -
IN-HOUSE MANUFACTURE	ENGINEERING
	MANUFACTURING
	QUALITY ASSURANCE/INSPECTION

RECOMMENDATIONS

AIR FORCE

- "BREAK OUT" DIRECT PURCHASE SPARES
- MINIMIZE SMALL-QUANTITY BUYS OF LOW VALUE PARTS
- BUY SPARES CONCURRENT WITH PRODUCTION
- EMPHASIZE COST ESTIMATING RELATIONSHIPS
- REJECT UNREASONABLE PRICES

RECOMMENDATIONS

CONTRACTORS

- EXPLORE ALTERNATE PRICING MECHANISMS
- IMPLEMENT "POLICY PRICING"
- DECLINE SPARES ORDERS THAT CANNOT BE PRICED TO REFLECT REASONABLE ITEM VALUE

SUMMARY

- DISTORTIONS OF LOW-VALUE SPARES IDENTIFIED
- CORRECTIVE ACTION UNDERWAY
- DEFENSE COMMUNITY RESPONDING

FIELD PRICING SUPPORT

A WORKSHOP

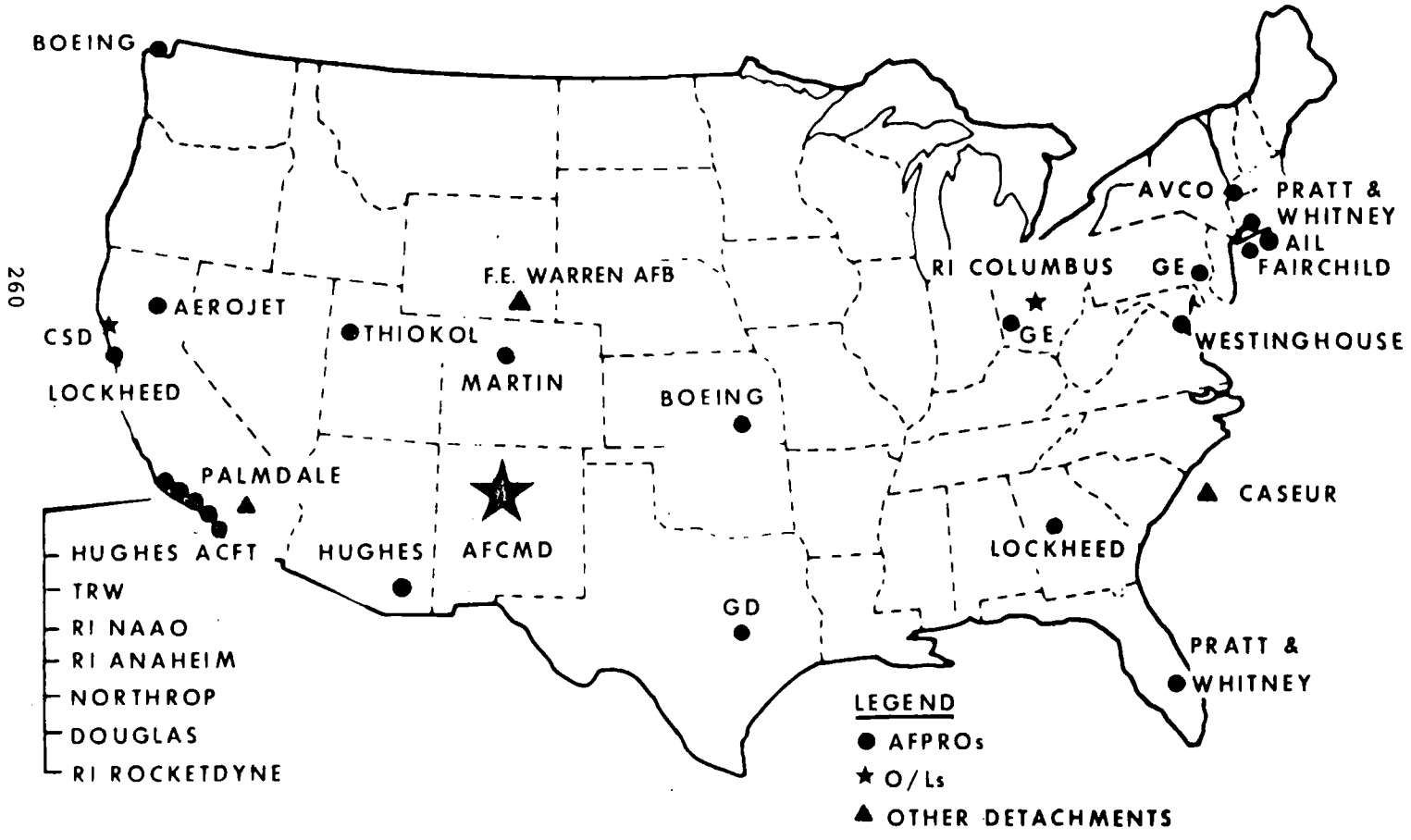
PRESENTERS: MR. WILLIAM J. SHARKEY
DEPUTY ASSISTANT DIRECTOR, OPERATIONS
DEFENSE CONTRACT AUDIT AGENCY

MR. BILL CHAMBERLAIN
CHIEF OF PRICING
AIR FORCE CONTRACT MANAGEMENT DIVISION
AIR FORCE SYSTEMS COMMAND

PRICING
OUTLINE OF DISCUSSION

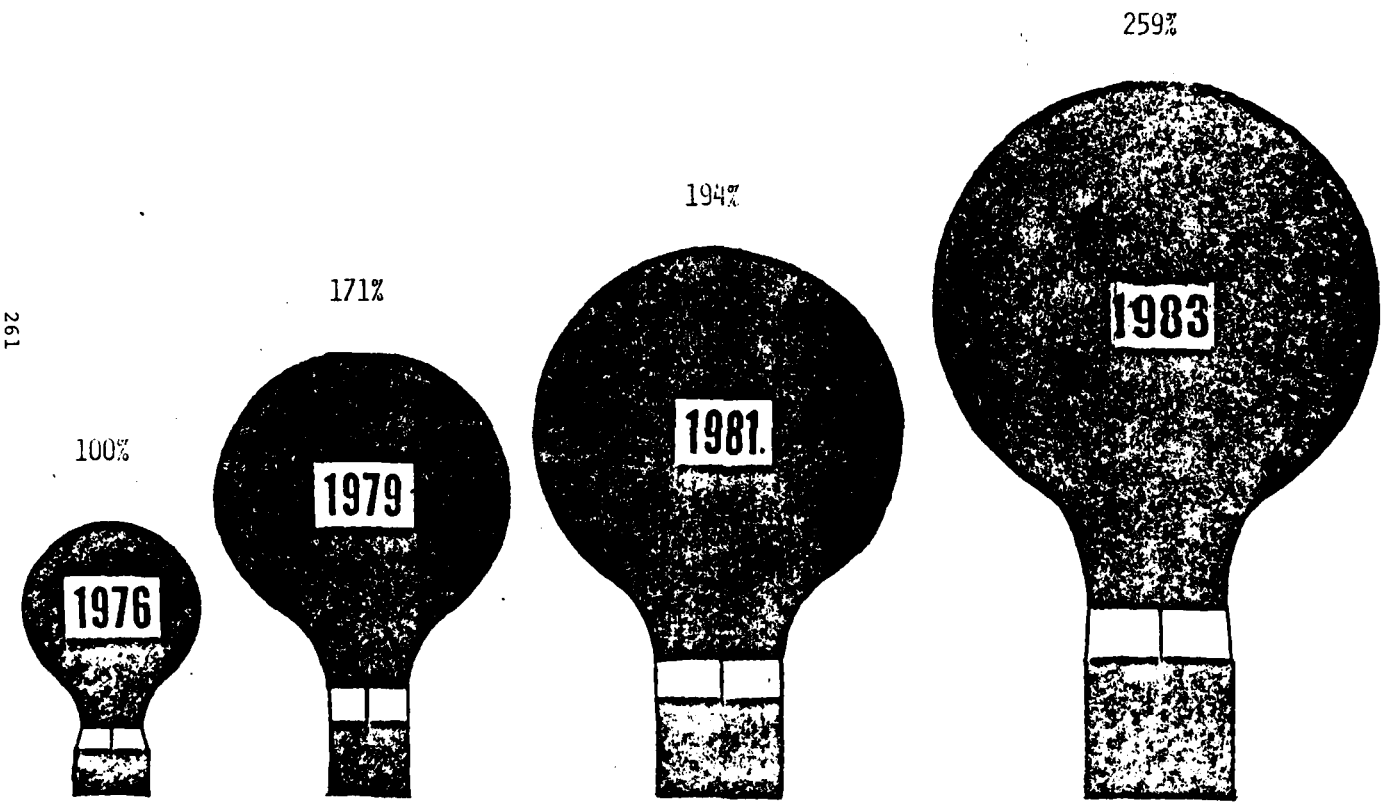
- ASSIGNED LOCATIONS
- COMMAND PRICING WORKLOAD TRENDS
- CUSTOMER SUPPORT
- PAYOFF FROM ON-SITE VISIBILITY
- KEY INITIATIVES
- SYNOPSIS

AFCMD GEOGRAPHICAL LOCATIONS



PRICING

PROPOSAL WORKLOAD TRENDS



PRICING

WORKLOAD TYPE DISTRIBUTION

TYPE	CASES	DOLLARS
NEW BUYS	8%	25%
FOLLOW-ON BUYS	12%	45%
CHANGES	25%	20%
SPARES	45%	5%
OTHER	10%	5%
TOTAL	100%	100%

PRICING

CUSTOMER SUPPORT DISTRIBUTION

BUYING OFFICE	CASES	DOLLARS
ASD	19%	35%
BMO/SD	6%	20%
ESD	7%	12%
NAVY	13%	10%
AFLC	45%	6%
ARMY	3%	7%
ALL OTHER	7%	5%
	100%	100%

PRICING

DIRECT CUSTOMER SUPPORT

- PROPOSALS
  - WITHOUT NEGOTIATION DELEGATION (PARS)
  - WITH NEGOTIATION DELEGATION (PNMS)
- RATES AND FACTORS
  - FORWARD PRICING RATE AGREEMENTS (FPRAS)
  - FORWARD PRICING RATE RECOMMENDATIONS (FPRRS)
- COMPUTERIZED COST MODELS
  - STANDARDIZED
  - TAILORED
  - DATA BANKS
- NEGOTIATION SUPPORT
  - AT THE BUYING OFFICE
  - ON-SITE

PRICING

INDIRECT CUSTOMER SUPPORT

- CONTRACTOR ESTIMATING SYSTEM
  - SERVE WITH DCAA IN SPECIAL SURVEY STUDIES
  - DAY-TO-DAY MONITORSHIP
    - -- ACCURACY - RELY UPON INFORMATION
    - -- EFFICIENCY - GRASS ROOTS/PARAMETRICS/STANDARDS
  - WORK WITH CONTRACTOR ON:
    - -- CORRECTIVE ACTION PLANS
    - -- MAJOR ESTIMATING REVISIONS
    - -- PRESENTING RULES OF ACCEPTANCE
  - ON-SITE FOCAL POINT FOR BUYING OFFICE CONCERNS
- COST MONITORING PROGRAM (DIRECT AND INDIRECT COSTS)
  - IN-HOUSE SURFACED AREAS
  - HIGHER LEVEL INQUIRES
  - BUYING OFFICE INQUIRES
  - WORKED WITH DCAA
- ON-SITE REPRESENTATION

PRICING

PAYOFF FROM ON-SITE VISIBILITY

"SHOULD COST" CONCEPT

- PRODUCTIVITY IS STILL A MAJOR PROBLEM
- QUESTIONS THAT SHOULD BE ASKED:
  - IS PRODUCTIVITY/EFFICIENCY GUARANTEED WHERE THERE IS NO COMPETITION?
  - IF FUTURE COST ESTIMATES ARE BASED ENTIRELY UPON INCURRED ACTUALS, ARE WE ASSURED OF REASONABLENESS?
  - WHAT MOTIVATES A SOLE SOURCE CONTRACTOR THE MOST -- PROFIT? OR REVENUE?
  - HOW MIGHT ONE EVALUATE A PROPOSAL TO BEST ENSURE FUTURE COST CONTROL?
- POSSIBLE SOLUTION TO QUESTIONS IS THE USE OF "SHOULD COST" CONCEPT OF PROPOSAL EVALUATION

PRICING

PAYOFF FROM ON-SITE VISIBILITY

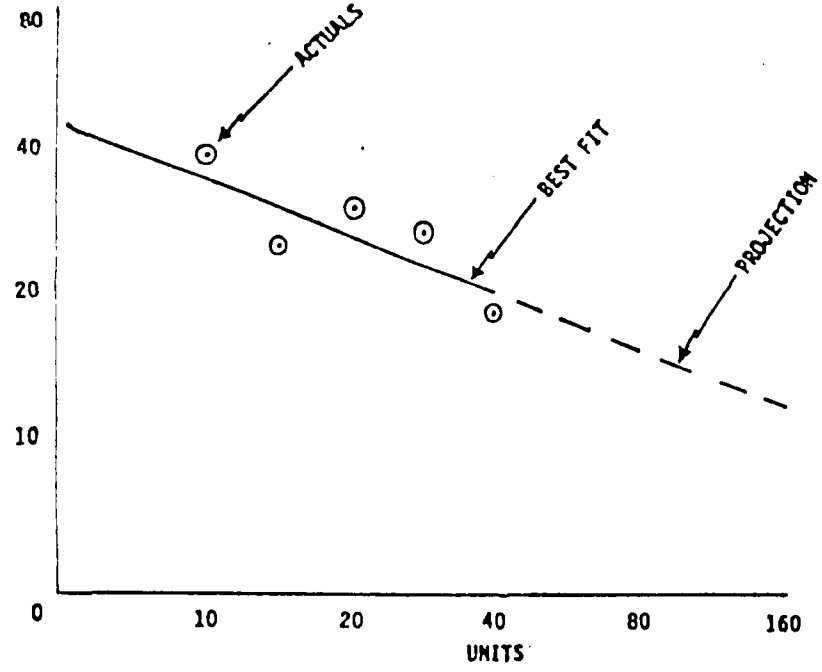
KEY INGREDIENTS FOR EFFECTIVE "SHOULD COST" ASSESSMENT

- HARDWARE
- CONTRACTOR DATA - RECORDS
  - DRAWINGS, SKETCHES
  - HISTORICAL DOCUMENTATION
  - FOREMAN RECORDS *
  - WORK BREAKDOWN STRUCTURE
  - PRODUCTION FLOW CHARTS *
  - PRODUCTION STATUS REPORTS
  - LABOR STANDARDS
  - QUALITY CONTROL RECORDS *
  - MAJOR CAPITAL EXPENDITURES *
- CONTRACTOR PERSONNEL INTERFACE
  - ESTIMATORS
  - FOREMEN
  - WORKERS
- TECHNICAL PERSONNEL IN PLANT COORDINATION
- CONCEPT WITHOUT ON-SITE REASONABLENESS ASSESSMENT
- EXAMPLES EMINATING FROM ON-SITE REASONABLENESS ASSESSMENTS

AFCMD FORM FEB 82 37 PREVIOUS EDITION WILL BE USED.

AFCMD PRESENTATION CHART

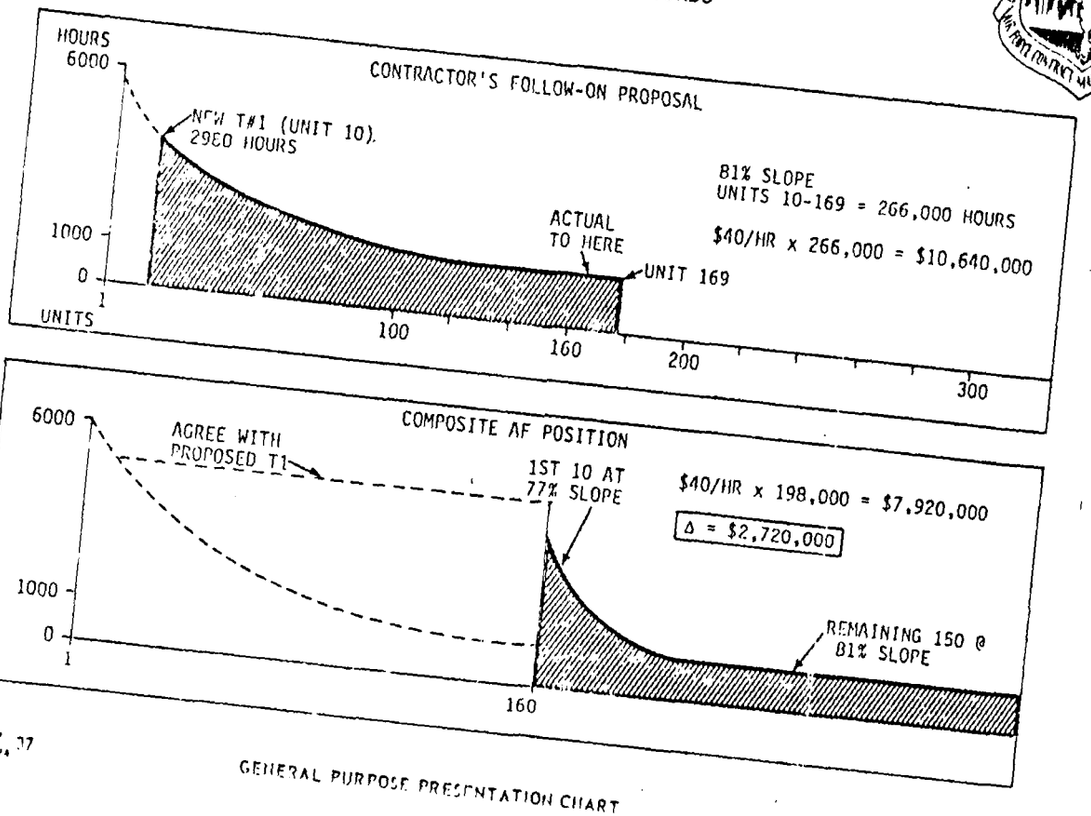
PRICING
CONCEPT WITHOUT ON-SITE
REASONABLENESS ASSESSMENT



AFCMD PRESENTATION CHART

AFCMD FORM 37 JUN 78

PRICING
PAYOFF FROM ON-SITE VISIBILITY
USE OF FOREMAN RECORDS

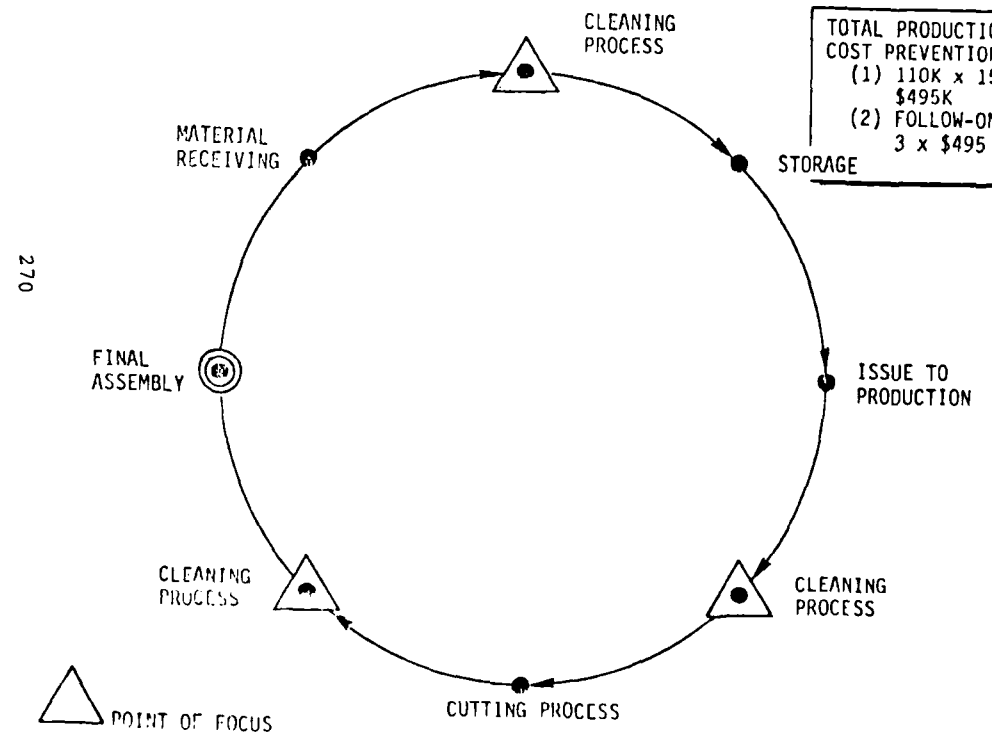


GENERAL PURPOSE PRESENTATION CHART

PRICING

PAYOFF FROM ON-SITE VISIBILITY

USE OF PRODUCTION FLOW CHARTS



TOTAL PRODUCTION HOURS 110K
COST PREVENTION
(1) 110K x 15% = 16.5K x $30 = $495K
(2) FOLLOW-ON BUYS OF THREE
3 x $495 = 1,485K
$1.9 MIL

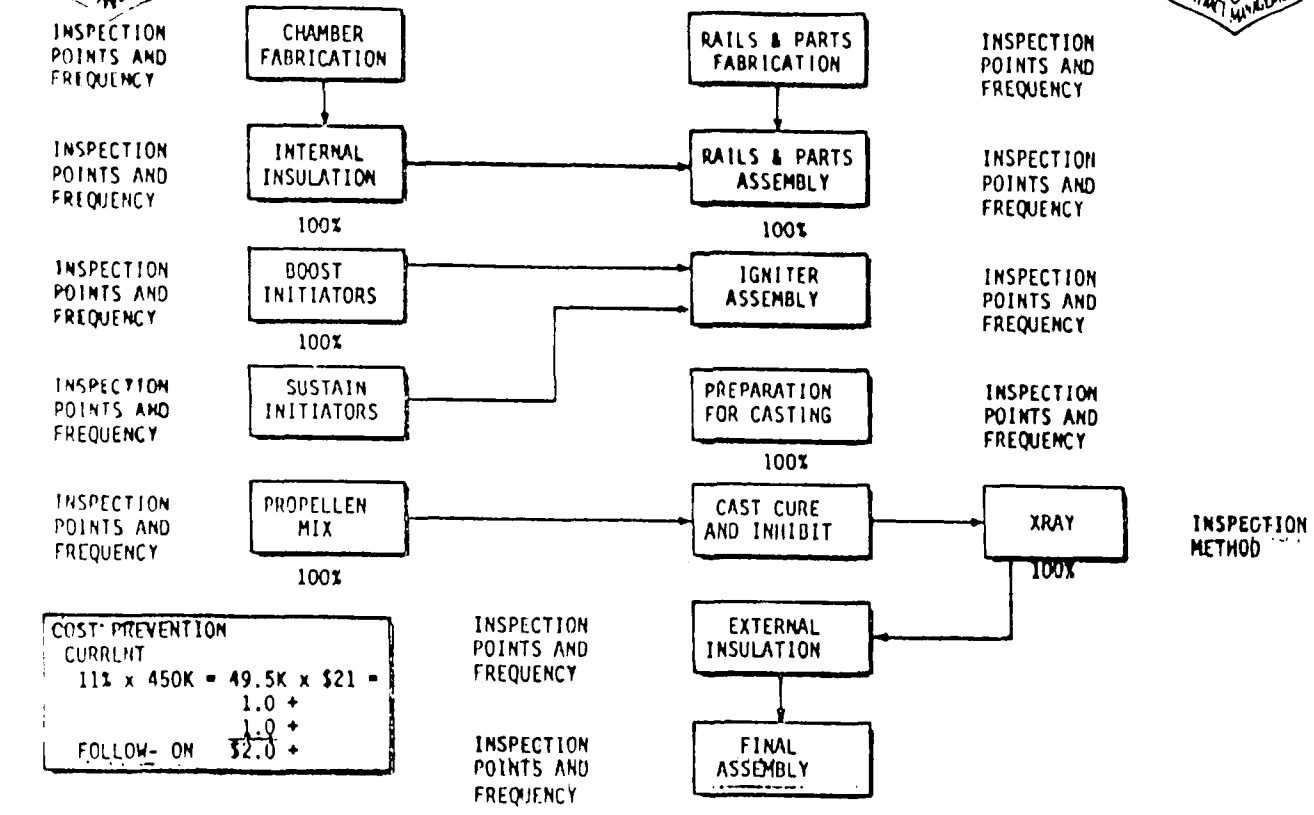
AFCMD FORM DEC 74 37

GENERAL PURPOSE PRESENTATION CHART

PRICING

PAYOFF FROM ON-SITE VISIBILITY

USE OF QUALITY CONTROL RECORDS



AFCMD FORM 37

GENERAL PURPOSE PRESENTATION CHART

PRICING

PAYOFF FROM ON-SITE VISIBILITY

MAJOR CAPITAL EXPENDITURE

- REVIEWED CAPITAL EXPENDITURE PROFILE
- IDENTIFIED TWO KEY AREAS
  - HONEYCOMB MILLING OPERATION
  - SKIN ADHESION VOID DETECTION
- ARRANGED FOR PLANT TOUR
- SUGGESTED CHIEF NEGOTIATOR OR HIS ADVISOR BE WITH PARTY
- SOLICITED POSITIVE COMMENTS ON NEW CONCEPTS FROM KEY PROCESS MANAGERS
- RESULTS
  - NEW ELECTROLYSIS MILLING TECHNIQUE FOR HONEYCOMB (10% REDUCTION)
  - NEW ULTRASONICS FOR DETECTING SKIN VOIDS (12% REDUCTION)

PRICING

KEY INITIATIVES

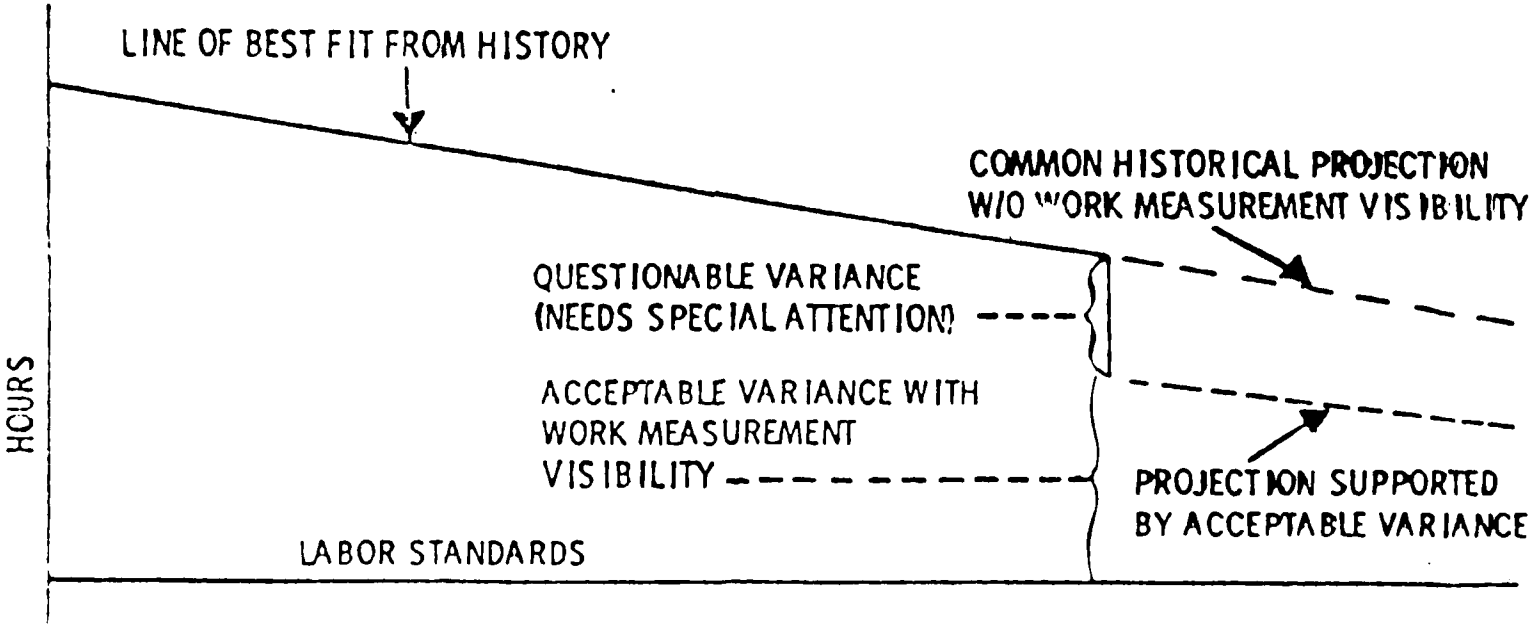
LABOR STANDARDS

- "SHOULD COST" - EFFECTIVE TOOL
  - REQUIRES MORE PEOPLE
- CAN LABOR STANDARDS BE USED AS A "SHOULD COST" TOOL?
- ILLUSTRATE HOW FOR MANUFACTURING HOURS
- ILLUSTRATE HOW TO EXPAND MANUFACTURING HOURS TO ASSESS OTHER LABOR CATEGORIES

PRICING

KEY INITIATIVES

LABOR STANDARDS



PRICING

KEY INITIATIVES

LABOR STANDARDS

- RATIO OF ALL OTHER LABOR TO MANUFACTURING

LABOR CATEGORY	FY 1981 RATIO	FY 1981 % GROWTH	FY 1982 RATIO	FY 1982 % GROWTH	CURRENT ESTIMATE RATIO	CURRENT ESTIMATE & GROWTH
ENGINEERING	.227	3	.224	(1)	.340	52
TOOLING	.255	2	.257	1	.321	25
QUALITY CONTROL	.194	1	.189	(3)	.200	6
MFG SUPPORT	.221	3	.220	-	.320	45

- PERCENT OF FUNCTIONAL DOLLARS TO TOTAL

FUNCTION	FY 1981 % TOTAL	FY 1981 % CHANGE	FY 1982 % TOTAL	FY 1982 % CHANGE	CURRENT ESTIMATE % TOTAL	CURRENT ESTIMATE % CHANGE
ENGINEERING	5		6		8	
TOOLING	7		7		8	
MFG SUPPORT	5		5		7	

PRICING

KEY INITIATIVES

COMPUTER APPLICATIONS

- COST MODEL DEVELOPMENT
  - TAILORED MODELS
  - GENERALIZED MODELS
  - RATE AND FACTOR DATA BANKS
- INFORMATION SYSTEMS
  - PRICING INFORMATION SYSTEM FOR MANAGERS (PRISM)
  - PERFORMANCE INDICATOR SYSTEMS
  - MANPOWER MODELS
- LOOKING OUT FRONT
  - MICRO COMPUTER SYSTEMS
  - COMMUNICATION CAPABILITY BETWEEN SYSTEMS

PRICING

KEY INITIATIVES

ESTIMATING SYSTEM ACTIVITY

- ESTIMATING SYSTEM DEFICIENCIES CAUSE DELAYS AND COST MONEY
- DCAA SPONSORED SURVEYS
  - WORK WITH DCAA
  - RESOLVE RECOMMENDATIONS
- ESTIMATING SYSTEM SPECIALIST
  - UNDERSTAND THE TOTAL SYSTEM
  - SERVE ON THE DCAA TEAM
  - AFPRS REPRESENTATIVE TO RESOLVE DEFICIENCIES
  - ADVISOR FOR DAY-TO-DAY MONITORSHIP
  - FOCAL POINT FOR REQUESTING SPECIAL DCAA STUDIES
  - EVALUATE AND NEGOTIATE COST ESTIMATING RELATIONSHIPS (CERS)
- SOLICIT FEEDBACK ON DEFICIENCIES FROM BUYING ACTIVITIES

PRICING

KEY INITIATIVES

SPARES

- PUBLISHED POLICY IMPLEMENTING AFMAG RECOMMENDATIONS
- INSURE LINE ITEM INTEGRITY
  - SPARES ACQUISITION SUPPORT TEAM (SAST)
  - VALUE REVIEW OF EACH LINE ITEM
  - COST ANALYSIS OF:
    - -- HIGH DOLLAR ITEMS
    - -- SUSPECT ITEMS
  - ESTABLISH PARTS PRICE HISTORY DATA BANK
- IMPROVE INTERCOMMAND COMMUNICATIONS
- WORK TOWARDS PRODUCTION/SPARES PRICING COMPATIBILITY

PRICING

KEY INITIATIVES

PARAMETRICS

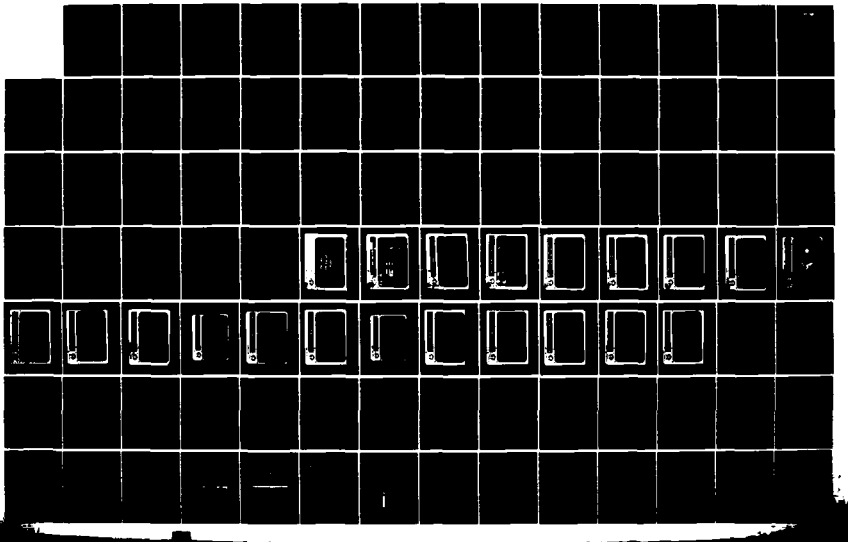
- JOINED WITH PROFESSIONAL SOCIETIES TO ADDRESS ACCEPTABLE USE
  - NATIONAL ESTIMATING SOCIETY (NES)
  - INTERNATIONAL SOCIETY OF PARAMETRIC ANALYSTS (ISPA)
  - SPACE SYSTEMS COST ANALYSIS GROUP (SSCAG)
- WORKED WITH OTHER AGENCIES
  - DCAA
  - DCAS
  - BUYING ACTIVITIES
- PUBLISHED CRITERIA FOR PROPER USE
  - MUST BE LOGICAL
  - MUST PREDICT WELL
  - MUST HAVE A STATISTICAL RELATIONSHIP
  - MUST BE TRACKED
- SUGGEST UNIFORM DOD POSITION

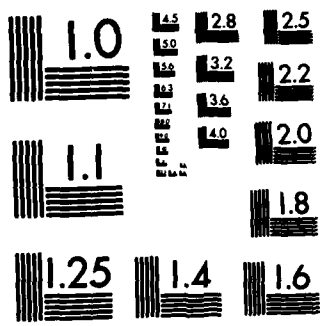
PRICING
KEY INITIATIVES
COMPENSATION

- BIENNIAL COMPENSATION REVIEWS AT PLANTS
  - BEFORE MAJOR UNION NEGOTIATIONS
  - WAGES, SALARIES & FRINGE BENEFITS COMPARED TO LOCAL, REGIONAL AND NATIONAL AVERAGES
- HIRED A TECHNICAL SERVICES CONTRACTOR
  - HEALTH CARE COST CONTAINMENT
  - METHODOLOGY FOR DATA BASE (COMP COSTS)
- AF PROPOSED CHANGES TO COST PRINCIPLES
  - REASONABLENESS
  - INCENTIVE COMPENSATION
- AGGRESSIVE FPRA/FPRR'S
  - SHOULD COST CONCEPT
  - LATEST ECONOMIC CONDITIONS
  - CECSR FINDINGS

AD-A143 848 PROCEEDINGS OF THE WORLDWIDE AIR FORCE PRICING CONFERENCE 'ENHANCING AIR.. (U) DEPARTMENT OF THE AIR FORCE WASHINGTON DC MAR 84 4/5

UNCLASSIFIED F/G 5/1 NL





MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A

PRICING

KEY INITIATIVES

RESPONSE TO BUYING OFFICE REQUESTS

- DELAYS RECOGNIZED
- FLOW TIMES AND DUE DATES BEING TRACKED
- PRIORITIZE REQUIREMENTS
- USING AUGMENTEES TO ASSIST DETACHMENTS
- BUILDING A RESERVE OF REHIRED ANNUITANTS
- MODIFYING OUR MONITORSHIP CAPABILITY
- REQUEST DUE DATE FLEXIBILITY

PRICING
SYNOPSIS

- WHERE WE ARE
- WORKLOAD TRENDS
- CUSTOMER SUPPORT POSTURE
- BENEFITS OF ON-SITE VISIBILITY
- INITIATIVES
- AWARENESS OF RESPONSE TO BUYING OFFICE REQUESTS

COST ALLOCATION ISSUES

A WORKSHOP

PRESENTERS:

MR. DONN V. AABY
DEPUTY DIRECTOR, CONTRACT MANAGEMENT
HQ AIR FORCE SYSTEMS COMMAND

MR. CHARLES L. CIPPOLA
ACTING DEPUTY ASSISTANT INSPECTOR GENERAL
FOR CONTRACT POLICY AND OVERSIGHT
DOD/IG

MR. JOHN A. SICHENZE
AUDITOR
OASD (COMPTROLLER)

MR. JAMES SWIFT
AIR FORCE PLANT REPRESENTATIVE OFFICE
PRATT AND WHITNEY, AIRCRAFT ENGINE COMPANY

WORKSHOP - COST ALLOCATION ISSUES

PANEL MEMBERS: DONN AABY, HQ AFSC PMM, MODERATOR; CHARLES CIPOLLA, DEP ASST IG CONT AUDIT, DOD IG; JOHN SICHENZE, OSD COMPTROLLER STAFF; JAMES SWIFT, AFPRO, P&W AEG

INTRODUCTION

DOD HAS BEEN CRITICIZED FOR NOT SPENDING OUR DOLLARS EFFICIENTY. WE SHOULD AVOID ANY DEFENSE SPENDING NOT NECESSARY TO NATIONAL SECURITY. DOD ACQUISITION PROCESS INITIATED BY, MONITORED BY, AND APPROVED BY BUYER RATHER THAN SELLER. RESPONSIBILITY FOR ALLOCATION OF FAIR AND EQUITABLE PRICE JOINTLY SHARED BY DOD/INDUSTRY. IF WE DON'T DO OUR JOB RIGHT, FURTHER REGULATORY CONTROLS MAY BE IMPOSED BY CONGRESS BECAUSE OUR DISCIPLINES ARE INCOMPLETE, DIVERSE, OR INCONSISTENT.

I. DISCUSSION

A. IS COST ACCOUNTING A PROBLEM?

1. ACCOUNTING SYSTEMS ALLOCATE COSTS; DO NOT CAUSE COSTS PER SE EITHER REASONABLE OR UNREASONABLE.

2. ACCOUNTING SYSTEMS ALLOCATE COSTS TO COST OBJECTIVES, PROGRAMS AND PARTS; POOR ACCOUNTING SYSTEMS ALLOCATE COSTS IN AN UNREASONABLE FASHION TO COST OBJECTIVES.

3. GOOD ACCOUNTING SYSTEMS IDENTIFY AREAS WHERE REAL COSTS ARE BEING INCURRED; THIS ALLOWS FOR BETTER COST CONTROL BY GOVERNMENT AND CONTRACTORS.

B. GOVERNMENT APPROACH TO COST ACCOUNTING:

1. WILL HIGHLIGHT ACCOUNTING WITH RESPECT TO SPARES
2. ACCOUNTING SYSTEM IS CONTRACTOR'S RESPONSIBILITY
3. GOVERNMENT (ACO/DCAA) REVIEW FOR:

A. ADEQUACY - DO WE CLEARLY KNOW HOW ACCOUNTING SYSTEM WILL ALLOCATE COSTS.

B. COMPLIANCE - IS ACCOUNTING SYSTEM FAIR AND EQUITABLE IN ALLOCATING COSTS? SPECIFICALLY, ARE REQUIREMENTS OF COST ACCOUNTING STANDARDS AND OTHER REGULATIONS MET?

4. ACO MAKES FINAL DETERMINATION; CONTRACTOR'S MAY APPEAL TO ASBCA OR U.S. COURTS.

X. DD FORM 633

A. PURPOSES

1. PROVIDE DOD WITH THE RIGHT OF ACCESS TO SUPPORTING DATA OF A PROPOSAL.
2. TRANSMIT CONTRACTOR'S PROPOSAL IN A CONSISTENT, UNDERSTANDABLE FORMAT.
3. PROVIDE DOD BUYER WITH A RATIONAL BASIS FOR ASSESSING INTRINSIC VALUE OF ITEMS.
4. PROVIDE MEANINGFUL COMPARISONS AMONG INDUSTRY PROPOSERS.

B. BREAKOUT

1. ADDITIONAL BREAKOUT OF ITEMS, ALONG WITH RESULTANT BENEFITS, WILL INCREASE DD FORMS 633 FOR DOD BUYERS AND DCAA REVIEW.

XI. DOD IG OVERSIGHT OVER DCAA.

XII. DCAA ROLE IN COST ALLOCATION REVIEWS.

XIII. CASE STUDY IN HOW A HAMMER PURCHASED FROM A VENDOR AT $8 GREW IN PRICE TO $435 BECAUSE OF DISTORTIONS IN COST ALLOCATIONS.

XIV. AFMAG RECOMMENDATION TO CHANGE METHOD OF ALLOCATING COSTS TO A "VALUE" BASIS, RATHER THAN "NON-VALUE" BASIS, SUCH AS NUMBER OF UNITS.

XV. FUTURE AF POLICY LETTER.

A. EMPHASIS ON CAUSAL - BENEFICIAL ANALYSIS WITH ALLOCATION OF COSTS AS PROPORTIONAL COSTING BASED ON DOLLAR VALUE, NOT A "NON-VALUE" BASIS. ASSESS INTRINSIC VALUE.

B. FINAL RESULT MUST BE A FAIR AND EQUITABLE PRICE TO DOD, IF NOT, BOTH DOD/INDUSTRY EXPLORE OTHER ALTERNATIVES ON CASE-BY-CASE BASIS.

MAJCOM PRICING PROBLEMS AND OPPORTUNITIES

A WORKSHOP

MODERATOR:

COL ROBERT P. LANSELL
CHIEF, CONTRACT PLACEMENT DIVISION
DIRECTORATE OF CONTRACTING AND MANUFACTURING POLICY
HQ UNITED STATES AIR FORCE

COL DAVID B. GERMANN
DIRECTOR OF CONTRACTING
HQ AIR TRAINING COMMAND

COL ZACK E. OSBORNE
DIRECTOR OF CONTRACTING
HQ MILITARY AIRLIFT COMMAND

COL RONALD K. SCHELTENS
DIRECTOR OF CONTRACTING
HQ TACTICAL AIR COMMAND

MR. JOHN L. ROBUCK
PROCUREMENT ANALYST, CONTRACT PLACEMENT DIVISION
HQ UNITED STATES AIR FORCE

AGENDA

14 MARCH 1984

SESSION C: SPECIAL WORKSHOP ON MAJCOM PRICING PROBLEMS AND OPPORTUNITIES

1330-1345	Opening Remarks	Gen Weiss
1345-1500	Pricing Workshop/ MAJCOM LGC Presentations	Col Osborne Col Germann Col Scheltens
1500-1530	Break	
1530-1700	Base Level Contracting Issues	Col Lansell

Pricing Issues

- Alternate Financing - Energy Production
- Mandatory Federal Supply Schedules
- Competition and Lease vs. Purchase of ADPE
- Local Purchase of Aircraft Spare Parts

Competition

- Command Competition Plans
- P.L. 98-72

FAR Implementation

- Command Training
- AF FAR Sup
- FAR Forms
- Clauses - ADP Formats

Service Contracting

- A-76 Program and Manning
- HAMS/Hospital Housekeeping
- Base-Level Services FMI

POINT PAPER
ON
ALTERNATE FINANCING FOR ENERGY PRODUCTION FACILITIES

- Concept to get contractor to finance and operate plant in return for long term contract

- Evolved from efforts to promote alternate energy sources and reduce MCP appropriations

- P.L. 97-214 authorizes up to 30 year contract for purchase of energy with:

  -- Approval by SecDef

  -- Congressional notification

- No DAR/FAR policy coverage on P.L. 97-214 contracts

  -- OSD developed draft DOD policy on subject which is now being staffed

  -- DAR coverage needed to define approval process and provide guidance on contract clauses

  -- Contracting offices using local adaptations of ASPS 5

- Close Congressional scrutiny of MCP requests for energy production facilities

  -- Review each MCP request closely and insist that third party/alternate financing option be pursued first

  -- Chanute AFB first project

    --- ATC issed RFP 10 Feb 84

    --- Offers due 10 Apr 84

  -- Anticipate K.I. Sawyer AFB will be next project (renovation)

Maj Rusby
AF/RDCL, x41685
8 Mar 84

POINT PAPER
ON
MANDATORY FEDERAL SUPPLY SCHEDULES

- Two problems

  -- Purifying list of mandatory FSS in DAR/FAR

  -- Eliminating or getting waivers from use of mandatory FSS or regional service schedule that are more expensive than local contractors

- Purifying list of mandatory FSS in DAR/FAR

  -- DAR 5-102.3(a) contains the list of FSS which by agreement between GSA and DOD are mandatory on DOD

     --- Last update in DPC 76-5, 15 Oct 76

     --- Numerous changes, additions or deletions needed

  -- New list sent to DAR Council Feb 84

     --- Considered sufficiently important to publish prior to implementing FAR

     --- Among other changes, it eliminated Federal Supply Groups 58 (Communication Equipment) and 70 (Automatic Data Processing Equipment, Software, Supplies and Support Equipment)

     --- Will stop practice of treating non-mandatory schedules as mandatory and vice versa.

- Using local vendors in lieu of FSS

  -- AF/RDCL is collecting data for GSA to demonstrate examples of regional service schedules being more expensive

     --- Examples include carpet installation and tire maintenance, repair, rehabilitation and reclamation services

     --- Suggestions and MAJCOM requests being reviewed

  -- AF/RDCL, DLA-PPP and GSA will meet to discuss issue later this spring.

Maj Barager
AF/RDCL, x42471
6 Mar 84

POINT PAPER
ON
COMPETITION AND LEASE VS. PURCHASE STATUS REGARDING ADPE (HARDWARE)

- Latest Congressional Direction issued on 19 Nov 83

  -- All ADPE will henceforth be purchased

  --- Unless another method represents the lowest total overall cost (LTOC)

  -- All ADPE (hardware) will be competed

  --- Unless time sensitive and of the highest national priority

  -- GSA Schedules of themselves are not considered competitive

- Latest DOD Direction issued 16 Jan 84

  -- Use a purchase strategy exclusively unless another strategy can be justified on basis of LTOC

  -- LTOC should normally be achieved thru competition

  -- Acquisitions based solely on GSA Schedules are not considered competitive

  -- Exceptions to the above can only be made on a case-by-case basis no lower than the major command level

  -- A comprehensive and permanent contracting officer training program must be developed

- Latest Air Force Direction issued on 16 Jan 84

  -- All ADPE will be purchased outright unless another financial arrangement meets the LTOC

  -- All ADPE will be competitively acquired unless a national exigency to support a time sensitive program exists

  -- Exceptions will be granted on a case-by-case basis by AF/SI thru the local single managers

  -- GSA schedules in themselves are not to be considered competition.

Mr. Milligan
AF/RDCL, x41965
7 Mar 84

UNCLASSIFIED

PENTAGON CONSOLIDATED
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ROUTINE ZYUW RUEAHQA7094 0170236
R 161835Z JAN 84 NO
FM HQ USAF WASHDC //SIP/ACB/RDC//
TO AIG 8618
AIG 8623
AIG 8624
AIG 8626
AIG 9418
ALMAJCOM-SOA//DRU/DC/KR/TP/DA//
ACCT AF-ACXJRF

UNCLAS ALMAJCOM-SOA 0031/84 SECTION 01 OF 02
FOR ADP SINGLE MANAGERS, COMPTROLLER ACTIVITIES, CONTRACTING ACTIVITIES, ADMINISTRATION, AND COMMUNICATIONS-ELECTRONICS
SUBJ: POLICIES AND CONTROLS ON ACQUISITION OF AUTOMATED DATA PROCESSING EQUIPMENT (ADPE)
1. DURING REVIEW OF THE FY 84 DEFENSE APPROPRIATION, BOTH THE HOUSE AND SENATE CRITICIZED OUR MANAGEMENT OF ADPE ACQUISITION. THE LANGUAGE IN THE CONFERENCE REPORT ON THE FY 84 DEFENSE APPROPRIATIONS BILL WILL HAVE A MAJOR IMPACT ON ACQUISITION OF ADPE. ESSENTIALLY, DOD WILL HAVE TO ADHERE TO THE FOLLOWING:
A. ALL ADPE WILL BE PURCHASED OUTRIGHT UNLESS ANOTHER METHOD OF FINANCING WILL PRODUCE A LOWER TOTAL OVERALL COST.
B. ALL ADPE WILL BE COMPETITIVELY ACQUIRED UNLESS A NATIONAL EXIGENCY TO SUPPORT A TIME-SENSITIVE PROGRAM OF THE HIGHEST NATIONAL PRIORITY WARRANTS AN ALTERNATIVE METHOD. AN ACQUISITION WILL NOT BE CONSIDERED COMPETITIVE SOLELY BECAUSE THE ADPE IS INCLUDED ON A GSA ADP SCHEDULE.
C. ALL ADPE WILL BE AUDITED TO ENSURE RENT IS NOT BEING PAID ON OWNED EQUIPMENT, TO DETERMINE PURCHASE CREDITS, AND TO FORM AN INVENTORY BASELINE.
D. A PROGRAM WILL BE INITIATED TO PROVIDE FOR THE ECONOMIC BUY-OUT OF ADPE IN USE BUT NOT OWNED BY DOD. LEASED ADPE THAT IS OBSOLETE WILL NOT BE PURCHASED IF REPLACEMENT IS PLANNED WITHIN TWO YEARS AND RESOURCES ARE IN THE FYDP. DOD WILL SUBMIT AN ACTION PLAN TO CONGRESS BY 1 APR 84 FOR IMPLEMENTING THIS INITIATIVE.
E. EXCEPTIONS TO COMPETITIVE ACQUISITIONS OR OUTRIGHT PURCHASES WILL BE GRANTED CASE-BY-CASE BY THE COMPONENT SENIOR INFORMATION RESOURCE MANAGEMENT OFFICIAL OR HIS DESIGNEE. ALL EXCEPTIONS WILL BE REPORTED QUARTERLY TO COMPONENT SENIOR ADP OFFICIALS WHO WILL BE PREPARED TO JUSTIFY EXCEPTIONS WHEN REQUESTED BY THE CONGRESS.
2. BASED ON THE CONGRESSIONAL LANGUAGE AND AF SECRETARIAT DIRECTION, THE FOLLOWING POLICIES/PROCEDURES NOW APPLY:
A. ALL ONGOING AND FUTURE ACQUISITIONS WILL BE APPROVED BY AF/SI UNLESS:
(1) THE ACQUISITION IS COMPETITIVE; AND
(2) THE FINANCING METHOD, E.G., OUTRIGHT PURCHASE, LEASE WITH OPTION TO PURCHASE (LWOP), LEASE TO OWNERSHIP (LTO) RESULTS IN THE LOWEST TOTAL OVERALL COST (LTOC).
B. ALL ONGOING AND FUTURE ACQUISITIONS OF ADPE WILL BE COMPETITIVE AS PRESCRIBED BY DEFENSE ACQUISITION REGULATION (DAR).

*** AF SECTION MESSAGE ***

1947HSG...ACT 2
AFLSC VIA JA...ACT 4

HQ USAF 26
ACTION ACB(3) DA VIA CC(1) (M)
INFO SI(3) RD(2) ACM(1) SG(2) RE(4) MP(1) ACF(1) AFDSC(1)
SI(3) FEDSIM(1) 1947HSG(2) AFPTC(1)
AF SECTION MESSAGE(1)

TOTAL COPIES REQUIRED 32

MCN=84017/04034 TOR=84017/0226Z TAD=84017/0303Z CDSN=MAD313

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[redacted]

C. REQUESTS FOR AF/ST APPROVAL SHOULD BE FORWARDED BY THE ADP SINGLE MANAGER TO AF/SIM AND MUST INCLUDE:

(1) DESCRIPTION OF THE REQUIREMENT.

(2) SOLE SOURCE JUSTIFICATION (IF APPLICABLE).

C3) PRESENT VALUE ANALYSES (WITH VENDOR IDENTITY DATA BLOCKED OUT).

C4) ANY OTHER DOCUMENTATION/JUSTIFICATION DEEMED ESSENTIAL.

D. ADP SINGLE MANAGERS WILL APPROVE COMPETITIVE ACQUISITIONS USING LEGALLY ACCEPTABLE FINANCING METHODS OTHER THAN OUTRIGHT PURCHASE, E.G., LEASE, WHEN THEY PROVIDE THE LOWEST TOTAL OVERALL COST. APPROVALS WILL BE MADE AND DOCUMENTED, CE.G. PRESENT VALUE ANALYSES), ON A CASE-BY-CASE BASIS.

E. ANY ACQUISITION OTHER THAN OUTRIGHT PURCHASE OR COMPETITIVE WILL BE REPORTED TO HQ USAF/SIPB QUARTERLY BY THE ADP SINGLE MANAGER, I.E., ON OR BEFORE THE TENTH WORK DAY OF JAN, APR, JUL AND OCT .RCS: HAF-SIP(Q)8401CCN)). FIRST REPORT WILL BE DUE APR 84. AS A MINIMUM, THE REPORT WILL CONTAIN:

(1) A TITLE PAGE:

(A) TITLE: EXCEPTIONS TO ADPE ACQUISITION POLICIES.

(B) COMMAND/SOA:

(C) PERIOD:

CD) POINT OF CONTACT: NAME:
OFFICE SYMBOL:
ADDRESS:
TELEPHONE:

(E) PREPARATION DATE:

(F) TOTAL HOURS AND MONETARY COST FOR PREPARATION AND SUBMISSION OF THIS REPORT:

(1.) MANHOURS:

(2.) MONETARY COST:

(2) A TABLE OF CONTENTS PAGE CONTAINING SEPARATE LISTS OF CONTRACTS AWARDED FOR EACH OF THE THREE TYPES OF EXCEPTIONS AS DESCRIBED IN THE FOLLOWING GROUPINGS. PROVIDE A SHORT DESCRIPTIVE TITLE FOR EACH CASE. IF A CONTRACT FALLS INTO MORE THAN ONE GROUPING, LIST IN EACH GROUPING AND PROVIDE AN APPROPRIATE CROSS REFERENCE. THE THREE GROUPINGS WILL BE:

(A) CONTRACTS AWARDED FOR OTHER THAN OUTRIGHT PURCHASE.

(B) CONTRACTS AWARDED FOR OTHER THAN LTOC.

(C) CONTRACTS AWARDED ON OTHER THAN COMPETITIVE BASIS (I.E., SOLE SOURCE, SPECIFIED MAKE AND MODEL, ETC.).

(3) A SEPARATE SUPPORTING PAGE FOR EACH CONTRACT BT

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ALMAJCOM-SOA//DRU/DC/KR/TP/DA//
ACCT AF-ACXJRF

UNCLAS ALMAJCOM-SOA 0031/84 FINAL SECTION OF 02
INCLUDED IN THE REPORT. EACH PAGE WILL BE NUMBERED CONSECUTIVELY IN EACH GROUPING, (I.E., A-1, A-2, A-3, ETC.) THE SUPPORTING PAGE SHOULD CONTAIN:

(A) BRIEF DESCRIPTION OF ADPE ACQUIRED:
(B) CONTRACT NO.:
(C) AWARD DATE:
(D) VENDOR:
(E) CONTRACT TERM: (INCLUSIVE DATES)

3. WE ARE STILL RECEIVING IMPLEMENTING GUIDANCE FROM OSD ON THE MECHANICS OF THE SPECIAL REVOLVING FUND, FURTHER FUNDING OF OUR OUT-YEAR BUY PROGRAM, AND INVENTORY-RELATED ISSUES (AUDIT, REUSE, ETC.). FOR NOW, PROCEED WITH PREVIOUSLY PLANNED/PROGRAMMED LEASE BUY-OUTS, BUT DO NOT REPROGRAM OTHER FUNDS TO ACCOMPLISH UNPROGRAMMED PURCHASES PENDING FURTHER GUIDANCE ON RESOURCING THIS LEASE TO PURCHASE CONVERSION. GUIDANCE WILL BE ISSUED WHEN FINALIZED. BT

*** AF SECTION MESSAGE ***

AF SECTION MESSAGE(1)

TOTAL COPIES REQUIRED 0

MCN*84017/04293 TOR*84017/0226Z TAD*84017/0249Z CDSN*MAD265
AIR FORCE MESSAGE

NATIONAL GUARD PERSONNEL, ARMY

Amendment No. 11: Appropriates $1,882,980,000 instead of $1,857,950,000 as proposed by the House and $1,977,600,000 as proposed by the Senate.

The conference agreement on items addressed by either the House or Senate is as follows:

[In thousands of dollars]

	Budget	House	Senate	Conference
[illegible]	80,300	72,300	76,600	75,500
[illegible]	322,581	114,381	114,381	114,381
[illegible]			47,800	
[illegible]	140,300	130,300	140,300	135,300
[illegible]	65,900	32,950	65,900	49,300
[illegible]	1,250,830	1,250,830	1,275,130	1,250,830
[illegible]	257,189	257,189	257,189	257,189
[illegible]	1,917,100	1,857,950	1,977,600	1,882,980

NATIONAL GUARD PERSONNEL, AIR FORCE

Amendment No. 12: Appropriates $589,100,000 as proposed by the House instead of $604,400,000 as proposed by the Senate.

The conference agreement on items addressed by either the House or Senate is as follows:

[In thousands of dollars]

	Budget	House	Senate	Conference
[illegible]	12,573	8,173	8,173	8,173
[illegible]			15,300	
[illegible]	540,927	540,927	540,927	540,927
[illegible]	552,500	549,100	564,400	549,100

TITLE III—OPERATION AND MAINTENANCE

The following items addressed by the conferees apply to more than one operation and maintenance appropriation of the Department of Defense.

ALLOCATION BY BUDGET ACTIVITIES

The authorization conference recommended OAM authorization levels at the budget activity within each appropriation but specified that the Department of Defense should retain certain flexibilities for transfers. The Appropriations Bill as passed the House recommended specific budget activity amounts within each appropriation while the Senate version recommended appropriation at the OAM account level as historically has been the case.

The conferees agree that appropriation at the budget activity level would unnecessarily inhibit the required flexibility in the Department of Defense for executing a complex operating budget during the course of the fiscal year. As a result, the conferees agree to appropriate at the account level rather than by specific budget activity. The conferees have worked diligently to ensure that each of the individual items being addressed in the conference are within the authorized limits.

ADP equipment acquisition

Both the House and the Senate criticized the management of ADP equipment acquisition in DOD. The House recommended a reduction of $680,000,000 in the operation and maintenance accounts and provided $150,000,000 for establishment of a special fund to buy ADP equipment currently being leased.

The conferees agree to a reduction of $150,000,000 to the operation and maintenance accounts to reflect savings from increased competition and reduced leasing, and to provide $150,000,000 to the Defense Industrial Fund to buy out existing leases as recommended by the House. The Conferees recognize that the revolving fund allowance is sufficient to begin a modest buy-out program. It is expected that the fiscal 1985 request will include additional funding to accelerate the purchase of leased ADP equipment where it is cost efficient to do so. As a means to replenish the revolving fund, the Department may wish to use an amortization schedule to annually reimburse the Defense Industrial Fund for a portion of the purchase value of the ADP equipment. This formula should assure the buy-out of most ADP equipment within five years.

The Department is expected to adhere to the following ADP management procedures:

1. All acquisition of ADP components will be purchased outright, unless cognizant ADP and contracting officials can justify a method of acquisition and financing that will produce the lowest total overall cost to the Government.

2. Consistent with longstanding guidance from the Congress, all acquisition of ADP equipment in DOD will be done in a manner that will achieve lowest total overall costs to the government; normally this will be accomplished through competition, unless warranted by a national exigency to support a time sensitive program of the highest national priority; acquisition is not to be considered competitive solely on the basis of inclusion on the GSA ADP schedule.

3. A comprehensive audit of all ADP equipment in DOD will be performed to ensure that DOD is not continuing to pay rent on equipment already owned, to determine accrued purchase credits on existing leased systems, and to form an inventory baseline so that ADP equipment excess to requirements in one activity can be transferred to another activity with an existing deficiency, provided that doing so does not perpetuate obsolescence. Leased ADP equipment that is obsolete will not be purchased if replacement is planned within two years and resources have already been identified in the Five Year Defense Plan.

4. A comprehensive and immediate training and advisory program is to be implemented to ensure that DOD contracting officers have sufficient ADP expertise to protect that Government's interest and to better understand internally developed ADP requirements in order to perform the most effective acquisitions.

5. A program is to be initiated to provide for the economic buyout of existing ADP equipment in use by DOD but not owned by DOD. By April 1, 1984, the Defense Department will submit to the Congress an action plan for implementing and resourcing this initiative.

6. Finally, no exceptions are to be made for competitive acquisition or outright purchase except with the specific case-by-case approval of the component Senior Information Resource Management (IRM) officials or their designees. These exceptions, however, are not to be justified by lack of necessary procurement funds or time-sensitivity. The exceptions will be reported to Military Department Senior ADP officials (OSD for Defense Agencies) on a quarterly basis. The department's Senior ADP Officials will be prepared to justify exceptions to the Congress when requested.

Stock fund accounting change

Both the House and the Senate directed DOD to record obligations at the time customer orders are placed against the stock fund. However, the House directed implementation on September 1, 1984, while the Senate directed implementation prior to the end of the fiscal year. Conferees agree that the Department should implement this accounting change prior to the end of the fiscal year as directed by the Senate.

Industrial plant equipment

The conferees agree to permit the Department of Defense to budget for industrial plant equipment in the customer operation and maintenance accounts as recommended by the Senate, and agree to provide a total of $414,500,000 instead of $364,500,000 as recommended by the House and $564,500,000 as recommended by the Senate.

The conferees fully support the modernization of the industrial plants of the Department of Defense. However, the many layers of bureaucracy between these industrial activities and the Congress have pro-

Backup to Point Paper on ADPE
(Competition/Lease/Purchase)

Possible MAJCOM Concerns:

- What's involved: Hardware only

- Must we always solicit the base options? Not if only purchase funding is available and the KO is convinced leasing would serve no useful purpose

- When is SI approval required:

  -- All sole sources

  -- It the type of funds available precludes choosing the LTOC arrangement

- Are hardware procurements in process affected? The Congressional direction applies to all ongoing actions

- Can lowest total overall cost (LTOC) be identified before eva;iatopm pf bods? No. However, the computer resources office should have a general idea of what the final cost will approach.

- Will the new Congressional Direction increase PALT? If SI approvals are required, it will. Otherwise, it will not.

- What should a contracting officer do if a PR is received for ADPE with lease funds? Solicit under the four arrangements and award to the LTOC arrangement

- Are APRs and DPAs still required: Yes and they should be inserted in the file before solicitiation (DAR 4-11000

- Is RDCL planning to elaborate further on the 16 Jan TWX? Yes. A policy letter will be issued shortly covering all items discussed above.

POINT PAPER
ON
LOCAL PURCHASE OF AIRCRAFT SPARE PARTS

- BCOs have been concerned about increasing number of purchase requests for aircraft spare parts

  -- Question their ability to obtain fair prices or ensure quality

  -- Been a topic at recent contracting conferences

- Recently, within AFLC, supply personnel identified a problem concerning status coding of requisitions

  -- Increase ALC cancellation or requisitions

  -- ALC technicians were not reviewing for safety-of-flight or configuation impacts

- To correct problem, AFM 67-1, Vol III being revised to prohibit cancellations of requisitions unless all of the following are met:

  -- Safety-of-flight considerations are not involved

  -- Configuration management of AGE or test equipment is not involved

  -- The item has a base identifiable source other than a prime Air Force contractor; e.g., Lockheed, Boeing, General Dynamics, etc.

  -- The item is commercially available without being especially manufactured to fulfill the requirement

- AF/RDC policy letter being sent to all MAJCOMs by 12 Mar 84

  -- Directs BCOs to use above criteria to determine which pruchase requests for aircraft spare parts to accept or reject

  -- Policy letter coordinated with LEY and sent to LGS also

Maj Barager
AF/RDCL, x42471
7 Mar 84

POINT PAPER
ON
COMMAND COMPETITION PLANS

- We have an AF initiative to require competition plans from each command

  -- Master plan for attaining command's competition goal

  -- Approved by the commanders

- Annual plan, covering three fiscal years

  -- Set forth generic management initiatives to enhance competitive environment

  -- New policy guidance, customer education programs

  -- Target specific noncompetitive acquisitions for conversion to competition

- Plans received have been reviewed

  -- Plan to address specific comments back to commands

  -- Want to share our general impressions with you

- Plans varied in quality and level of detail and analysis

  -- We expected this on initial submission

  -- Will use best features to develop a revised format

- Most commands are starting with a competition rate of 75% or more

  -- The plans only have to address 25% or less of the dollars being contracted

  -- However, these are the buys that are difficult to compete

- Most plans made an effort to identify specific problem areas that inhibited competition

  -- Insufficient customer training; lack of specification; special "one of a kind" buys

-- This is a crucial feature which will be recommended for all plans

- Not all plans identified specific programs for conversion (though most did to some extent)

-- We will recommend that all known buys over a certain dollar value be addressed

--- If conversion appears feasible, lay out plans to convert

--- If not, state why not and whether any potential solutions exist

--- Two or three plans mentioned A-76 reviews: OK, but not the same as conversion of sole source to competition

- A common thread running through the plans was a problem with buys under $1,000

-- Not required to compete, so coded noncompetitive

-- Some commands want to exlude from base

-- Others want to code as competitive when price is based on competition

-- We will look at this

- Some useful features

-- Analyzing, in broad terms, reasons behind non-competitive obligations

-- Spreading "experimental" initiatives among several bases: See what works best

-- Improving customer education and awareness of competition

Mr. Robuck
AF/RDCL, x42679
9 Mar 84

POINT PAPER
ON
P.L. 98-72 AND YEAR-END

- P.L. 98-72 could have a significant impact on year-end contracting

  -- 15 day synopsis, 30 day bid/proposal time are mandated by the law

  -- Synopsis provisions may not be waived except for very specific cases - i.e., mandatory GSA contracts, unsolicted proposals, public exigency, etc.

  -- A significant portion of the base contracting workload, especially for Civil Engineering occurs in August and September

- We have notified Air Staff and the MAJCOMs about this potential problem

  -- 12 Oct 83 letter to all DCS warned of year end impact

  -- 19 Aug 83 message provided similar warning to MAJCOMs

  -- February TIG Brief also asked functional areas to plan ahead for year end crunch

  -- 30 Nov 83 AF/LEE message asked all Civil Engineers to work with Comptrollers to minimize impacts

- Each MAJCOM should be looking at ways of avoiding the year end rush

  -- Comptroller/CE should be looking at early reprogramming

  -- Contracting should get advance notice of projects. Early synopsis and RFP preparation should be considered for most likely projects

  -- Abuse of public exigency will lead to a legal tightening of this exception

- Issues

  -- Are MAJCOMs and local bases developing work around plans?

Mr. Smalling
AF/RDCL, x41650
7 Mar 84

2 RR RR UUUU

HQ USAF WASH DC//RDCL//

AIG 515

AS

1921002 AUG83

: NOTICE OF P.L. 98-72

ON 11 AUG 83 THE PRESIDENT SIGNED INTO LAW P.L. 98-72 WHICH IS
GNED TO IMPROVE SMALL BUSINESS ACCESS TO FEDERAL PROCUREMENT
MATION AND PROMOTE COMPETITION. THE NEW LAW HAS SEVERAL
ISIONS THAT WILL HAVE A SIGNIFICANT IMPACT ON AIR FORCE
ACTING. THESE INCLUDE:

A. A MANDATORY 15 DAY WAITING PERIOD AFTER PUBLICATION OF A
PSIS IN THE CBD BEFORE A SOLICITATION MAY BE ISSUED. THIS PERIOD
D DAYS FOR RESEARCH AND DEVELOPMENT.

B. A 30 DAY WAITING PERIOD AFTER ISSUANCE OF THE SOLICITATION
RE THE BID/OFFER/QUOTE PERIOD MAY BE CLOSED. NEGOTIATIONS
OLE SOURCE CONTRACTS MAY NOT COMMENCE UNTIL AFTER THE EXPIRATION
SIMILAR 30 DAY PERIOD.

C. ELIMINATION OF THE SYNOPSIS EXEMPTIONS FOR PERSONAL AND
ESSIONAL SERVICES AND CONTRACTS WITH EDUCATIONAL INSTITUTIONS.
OPSIS REQUIREMENTS WILL BE AT $10,000.

SMALLING/RDCL/41650/SB

ERT P. LANSELL, Colonel, USAF
ief, Contract Placement Division
Directorate, Contracting
& Warfare Buying Policy

MES 8/19

D. A REQUIREMENT THAT SOLE SOURCE (INCLUDING UNSOLICITED PROPOSAL) NEGOTIATIONS MAY NOT COMMENCE UNTIL AFTER APPROVAL BY THE HCA, OR DEPUTY, OF THE AUTHORITY TO ENTER SUCH A CONTRACT. DOLLAR LIMITS ARE $1,000,000 FOR FY84, $500,000 FOR FY85, AND $300,000 FOR FY86. THE AIR FORCE GENERAL COUNSEL HAS RULED THIS MAY NOT BE DELEGATED BELOW THE HCA'S IMMEDIATE DEPUTY (I.E., AS NOW WRITTEN, THE MAJCOM VICE COMMANDER).

2. THE DAR COUNCIL IS CURRENTLY WORKING TO DEVELOP SPECIFIC IMPLEMENTATION LANGUAGE. IMPLEMENTATION DATE IS MANDATED BY THE LAW FOR 1 OCT 83 FOR THE SOLE SOURCE APPROVAL REQUIREMENTS AND 11 NOV 83 FOR OTHER PROVISIONS.

3. IT IS CLEAR THAT THIS LAW WILL HAVE A SIGNIFICANT IMPACT ON CONTRACT ADMINISTRATIVE LEADTIME. CUSTOMERS AND REQUIREMENTS PERSONNEL SHOULD BE NOTIFIED OF THE POTENTIAL IMPACT. COMMANDS THAT ANTICIPATE A SIZEABLE NUMBER OF SOLE SOURCE APPROVALS AT HEADQUARTERS SHOULD BEGIN TO PLAN FOR HOW TO HANDLE THE INCREASED WORKLOAD.

(LEEPP/Kishiyama/Junkin/55701/ayk/23Nov83)

0102 [illegible] RR RR UUUU

LEEPP - COORD (LTC-6)
LEEPP - READ
LEEP - READ
LEE - READ

cc: AF/LEEC w/atchs
AF/RDCL
HQ AFESC/DEM w/atchs
AF/LEET

HQ USAF WASH DC//LEE//

ALMAJCOM//DE//

HQ USAFA COLORADO SPRINGS CO//DE//

INFO HQ AFESC TYNDALL AFB FL//CC//

USAFRGNCIVILENGR 1114 COMMERCE ST DALLAS TX//CR//

USAFRGNCIVILENGR 526 TITLE BLDG ATLANTA GA//ER//

USAFRGNCIVILENGR 630 SANSOME ST SAN FRANCISCO CA//UR//

AFRCE-BMS NORTON AFB CA //CC//

UNCLAS

SUBJECT: PL 98-72, IMPROVE SMALL BUSINESS ACCESS TO FEDERAL PROCUREMENT INFORMATION AND PROMOTE COMPETITION

REF: AF/RDCL MSG, 192100Z AUG 83 (AIG 515)

1. SUBJECT STATUTE WAS ENACTED 11 AUG 83 FOR IMPLEMENTATION IN FY 84. MAIN POINTS FOR ENGINEERING AND SERVICES ARE:

A. CONSTRUCTION AND SERVICES CONTRACTS OVER $10,000 MUST BE SYNOPSIZED IN THE COMMERCE BUSINESS DAILY (CBD). A MANDATORY 15 DAY WAITING PERIOD MUST ELAPSE BEFORE A SOLICITATION FOR BIDS IS ISSUED.

LEE

RDC/ACB/

COL KISHIYAMA

LEEPP/55701

H. CARY ALMOND
Brigadier General, USAF
Deputy Director
[illegible] Engineering & Services

02 02 301340Z NOV 83 RR RR UUUU

B. A SOLICITATION PERIOD OF 30 DAYS IS MANDATORY AFTER THE MINIMUM CBD SYNOPSIS PERIOD HAS ELAPSED.

C. SOLE SOURCE PROCUREMENT NEGOTIATIONS INVOLVING CONTRACTS OVER $1.0 MILLION IN FY 84 ($500 THOUSAND IN FY 85; $300 THOUSAND IN FY 86) MAY NOT COMMENCE UNTIL APPROVED BY THE HEADQUARTERS CONTRACTING AUTHORITY OR DEPUTY.

2. THE PROVISIONS OF THIS STATUTE MAY HAVE SIGNIFICANT IMPACT ON YEAR-END PROCUREMENTS, PARTICULARLY SMALL O&M PROJECTS. CONTRACT ADMINISTRATIVE LEAD TIME WILL BE LONGER AND THUS REQUIRES YEAR-END EXECUTION PLANNING EMPHASIS. AF/LEE IS EXPLORING WAYS TO ALLEVIATE THE BURDEN; WE WILL KEEP YOU ADVISED. IN THE MEANTIME, MAJCOM/DE STAFFS SHOULD REVIEW PL 98-72 WITH THEIR COMPTROLLER AND PROCUREMENT COUNTERPARTS. THE PROVISIONS OF THIS STATUTE, INCLUDING ITS EXCEPTIONS, WARRANT ATTENTION. APPROPRIATE FIELD GUIDANCE AND EMPHASIS IS ENCOURAGED.

M. GARY ALKIRE
Brigadier General, USAF
Deputy Director
Directorate of Engineering & Services

RD

12 OCT 1983

Impact of Public Law 98-72

AF/AC AF/DA AF/IG
AF/LE AF/MP AF/PR
AF/SA AF/SG AF/XO

1. The President has recently signed into law an act that could have a significant impact on certain Air Force functions. Public Law 98-72 was designed to increase small business participation in federal contracting. It impacts our ability to solicit and award contracts.

2. In general, the law requires a period of 45 days (60 days for research and development) to elapse after publication of a notice in the Commerce Business Daily before the bid or proposal period can be closed. The law also requires approval of large dollar value sole source contracts ($1 million in FY84, $500,000 in FY85, and to $300,000 in FY86) by the Heads of Contracting Activities (non-delegable). HCA authority is vested in the Commanders/Vice Commanders at the MAJCOMS, except for AFSC and AFLC where the DCS for Contracting and Manufacturing may be designated deputy HCA.

3. We see the acquisition leadtime impact of this law to be significant in pipeline inventory costs. Also impacted will be year end reprogramming of funds. Other affected areas are currently being identified by the field. Some of these may also affect general Air Force policies and procedures. If you have not already done so, we suggest you work with your functional counterparts in the field to assess impacts and make any necessary policy/procedural changes.

DONALD L. LAMBERSON, Maj Gen, USAF
Deputy for Research, Development and
Acquisition

POINT PAPER
ON
FAR IMPLEMENTATION

- Interim Air Force FAR supplement completed for distribution to commands 9 March 1984

  -- MAJCOM "Murder Board" (AFSC, AFLC and TAC) completed on 28-29 February 1984

  -- Final coordination and publication cycle yet to go

- Initial FAR changes (FAC 84-1) advance copy to field estimated 16 Mar 1984

  -- Major coverage included is FAR Patent coverage (part 27) and related clauses

  -- Other items in FAC have previously been changed in DAR such as revision to Trade Agreements Act threshold

- Initial DOD FAR SUP changes (DAC 84-1) advance copy to field estimated 16 Mar 1984

  -- Includes initial coverage and clauses on Part 25, Foreign Acquisition, and Part 27.4, Technical Data (both basically same as present DAR)

- Interim guidance on areas not in initial FAR Change to be provided via message--estimated 16 Mar 1984

  -- Examples include Davis-Bacon, Service Contract Act regulation changes, P.L. 98-72 implementation, facilities cost of capital

  -- All of these areas (except Service Contract Act changes) alreandy in the DAR or DOD FAR Supplement

  -- Service Contract Act changes being disseminated by DAC 76-49

Col McChesney
AF/RDC-DAR, x79441
9 Mar 84

POINT PAPER
ON
FAR FORMS

- New standard forms should be in the AF Publications Distribution Center on 16 Mar 84

- AF/DAPD msg of 2 Mar 84 tells PDOs to begin accepting orders

- AF/RDCL msg of 7 Mar 84 tells BCOs to place orders

- DAR Council has authorized local reproduction until forms can be obtained through forms channels

  -- Forms shown in the FAR should be used as masters for local reproduction

- DAR Council has given HCAs authority to continue using old forms

  -- Determination must be on form-by-form basis

  -- Reasons include large quantities of existing forms on hand and no substantial changes between old and new forms

CMSgt Hartley
AF/RDCL, 42626
9 Mar 84

POINT PAPER
ON
FAR CLAUSES IN WORD PROCESSING FORMAT

- We now have FAR and DOD Supplement Clauses on word processing format.

  -- Formats available are:

    --- IBM Display writer

    --- Xerox 860

    --- CPT

  -- WANG Formats may be available shortly

- Copies of the available formats have been furnished to each MAJCOM/LGC that requested them

  -- Only limited numbers of copies were available

  -- MAJCOMs will have to locally duplicate the discs if they require additional copies

- Share the wealth

  -- If you have extra copies or duplicating ability call Lt Col Benton so we can share among the MAJCOMs.

Lt Col Benton
AF/RDCL, x42679
7 Mar 84

POINT PAPER
ON
SERVICES CONTRACTS ISSUES

- PWS Finalization

  -- Five PWSs sent to AFLC/JA for review

    --- Refuse Collection
    --- Mess Attendants
    --- Full Food Service
    --- Commissary Shelf Stocking
    --- Custodial

  -- Refuse Collection PWS now in final form and nearing publication

  -- Now working with Functional OPRs to finalize other JA reviewed PWSs

  -- Also working with Functional OPRs to ready additional PWSs for AFLC/JA review

- FMI of Administration of Base-Level Service Contracts

  -- Findings

    --- Manpower impact of AFR 400-28 not assessed, resulting in ineffective QAE surveillance

    --- Base-level QAE training inadequate

    --- Noncompliance with AFR 400-28 casued unsatisfactory surveillance practices

    --- Contracting Officers failed to take deductions for unsatisfactory services

    --- Policy guidance for the QAE program was vague, resulting in ineffective surveillance

    --- Lack of functional management involvement in services contracting increased the potential for Fraud, Waste and Abuse

  -- RDC believes other functions should be OPR for some findings and recommendations

    --- Manpower impact finding: OPR - Air Staff Function Areas, OCR - AF/MPM

--- Fraud,, Waste and Abuse findings: OPR - Air Staff Functional Areas

-- Working with AF/MPM to improve manning, based on A-76

--- FMI found that A-76 contract administration manpower spaces were allocated, by MAJCOMs, to otheer than contract administration functions

--- RDC has asked AF/MPM to develop manpower policy requiring MAJCOMs to allocate A-76 spaces to contract administration functions

-- Revision to AFR 70-9 at MAJCOMs for final review

--- Strengthened Air Force policy statement to make it clear that objectives are:

1. Quality and timely performance
2. Corrective action when performance is substandard
3. Use AFR 400-28 concept to maximum extent

--- Tells FAC to submit surveillance plan with PR package and spells out what the surveillance plan must contain

--- Adds emphasis to importance of QAE and gives criteria for appointment, including requirement to review records to determine suitability for position of trust

--- Tells FAC to nominate QAE at least 90 days prior contract start and tells BCO to train QAE within 90 days of receipt of appointment letter

--- Tells FAC to get QAE involved in precontract planning so he will be familiar with requirements of contract and surveillance plan

--- Tells FAC to check QAE's job performance

--- Tells BCO to check contract administrator's job performance

--- Tells contracting to visit work site to make sure surveillance is going according to plan but to avoid assuming supervisory role vis-a-vis the QAEa

- Medical Services Contracting Issues

-- RDCL and AFMSC/SGSL now agreed on QA surveillance for future HAMS and Hospital Housekeeping

-- Customer Assisted Complaint System of Surveillance to replace Random Sampling in order to achieve Total Clean

-- When Customer Assisted Complaint Surveillance System is finalized bases will have latitude to include in existing contracts, if desired

-- AFR 70-9 and AFR 400-28 will govern contract preparation and management

-- Actions underway:

--- AFLC Asked to incorporate Customer Complaint Surveillance Plan into HAMS solicitation

--- HAMS RFP will be back on street by mid-March

--- RDCL working with AFMSC/SGSL to resolve remaining details

--- RDCL will advise MAJCOMs, by letter, of changes in Medical Services Contracting Procedures

--- AFMSC/SGSL finalizing new surveillance plan for Hospital Housekeeping

Maj Connolly
AF/RDCL,x41711
2 Mar 84

POINT PAPER
ON
BASE CONTRACTING MANNING STANDARD

- The new approach will be a combination of work sampling and operational audit techniques

- Test measurement was conductd at March AFB in Nov/Dec 83

  -- Revealed short commings in the original technique

    --- No accounting for backlog and overtime

    --- Ignored the Performance Work Statement

- AFMSMMET and RDCL have worked together to develop unique measurement method to overcome dificiencies

  -- Work sampling to be conducted by manpower personnel at 23 locations

    --- Examines manpower currently in place

    --- Measures productive, nonproductive and non-available manhours

  -- Contracting personnel will develop operational audit data for measurement at 10 of the 23 locations

    --- Ensures that all tasks identified in the PWS are are accounted for

    --- Establishes accomplishment times for all direct tasks

- MAJCOMs will provide experienced contracting personnel for operational audit workshop to be held late May/June

  -- Protects interest of contracting community

  -- Unique method leading to a more accurate standard

- Milestones completion dates are:

  -- Data collection/measurement phase — Jun 84
  -- Analysis — Sep 84
  -- Final Report — Nov 84

Lt Col Benton
AF/RDCL, x41732
9 Mar 84

POINT PAPER
ON
GS-1102 CLASSIFICATION STANDARDS

- New GS-1102 Classification Standards have been issued

  -- CCPO's have six months from receipt to reclassify all GS-1102 positions

- All GS-1102 position descriptions (PDs) will be written in Factor Evaluation System (FES) format

  -- Supervisors or employees writing new PDs should carefully review the new standard and instruction book of FES

  -- For supervisory positions, should also review suprervisory Grade-Evaluation Guide, Part II

- Concern has been expressed over possible down grading as a result of the new standard

  -- The Director of Civilian Personnel has assured us new standard will not result in any downgrading of properly classified positions

  -- There may be upward or downward adjustments to a few positions due to changes in job requirements.

- MAJCOMs should closely monitor the reclassification actions within their commands

  -- We strongly endorse a functional and personnel team approach

  -- MAJCOM Directors of Personnel and CCPO's will provide assistance

  -- Those commands with similar positions to be reclassified should to talk to each other to consider consistency

- We will, by letter, be requesting of you a report on the results of reclassification in your commands

  -- Problems that cannot be resolved at MAJCOM level should be brought to our attention

  -- Ted Houston is A/O, AV225-9051

Mr. Houston
AF/RDCX, 59051
9 Mar 84

POINT PAPER
ON
PROJECT COPPER TOP

- Project COPPER TOP developed in response to spare parts acquisition problems surfaced by AFMAG

  -- Contracting work force deficient in completion of DOD mandated training

  -- AFMAG recommended allocations for mandatory training equal at least 90% of requirements

- COPPER TOP planning team was established jointly by AF/RDC and AF/MPP (Directorate of Personnel Programs)

  -- Team representatives are from AFLC, AFSC, TAC, ATC, AU, AF/MPP, AF/MPK and AF/RDC

- COPPER TOP is designed to cover civilian and military training Air Force-wide (beyond spare parts acquisition)

  -- Estimated 14,000 course shortfall in completion of entry and intermediate level manadatory training

  -- ATC and AFIT developing extraordinary game plans for corrective action over 3 year period

  -- AF/MPP and AF/RDC developing POM initiatives to provide for additional funds for mandatory training

- Implementation of Project COPPER TOP anticipated for June 1984

  -- Records review will be part of plan to verify actual needs

  -- Management emphasis at all levels is imperative. Personnel must be released for training

- Project COPPER TOP a high interest program with:

  -- House Appropriations Committe, Surveys and Investigation Staffers

  -- DOD Inspector General

  -- Air Force Vice Chief of Staff

Mr. Houston
AF/RDCX, x59051
9 Mar 84

POINT PAPER
ON
CONTRACT SIMPLIFICATION

- Phase II testing was delayed because of delay in publishing DAC 76-47

  -- SAC, ATC, other MAJCOMs began in February

  -- AFSC Product Divisions will convert to annual representations and certifications

  -- AFLC will begin testing/Apr 84. ADP software changes prevented an earlier start

- FAR deviation to continue test has been signed by OUSDR&E(AM)

  -- Deviation will allow test to continue after changeover to FAR

  -- DAR Council still needs to republish "omnibus" clauses

- Issues

  - Have test sites been having problems? - we've not had any feedback yet

  - Significant delays at some locations in getting test started

Mr. Smalling
AF/RDCL, x41650
7 Mar 84

POINT PAPER
ON
COPARS/COCESS

- New COPARS format will be sent to field shortly

  -- Incorporates audit/Air Staff changes into COPARS format

  --- Some rebuilt/aftermarket lists will be incorporated in a separate line item

  --- Exchanges will be allowed

  -- Will be asking MAJCOMs to notify Air Staff if they are going to test

  -- We want to limit test bases to assess new changes before going Air Force-wide

- There is renewed audit interest in COPARS and COCESS contracts

  -- Recently completed DOD(IG) followup to 1981 GAO audit

  -- Two other audits are being conducted on COCESS

  -- A primary concern has been why we are not conducting cost studies

  --- We do not believe A-76 or AFR 26-1 require such cost studies of efforts already contracted out

  --- Enormous efforts are necessary to develop material cost estimates - interim support for 6 months

- GAO may conduct a study of Army and Navy why they can not go COCESS

  -- Century Industries (Wisconsin) is pushing through their Congressional delegation

  -- Air Force may not be involved in study

- Issues

  -- We are still interested in volunteer bases (no more than 5) for new test format

  -- SAC has been testing a new COCESS format. What is its status?

Mr. Smalling
AF/RDCL, x41650
7 Mar 84

POINT PAPER
ON
CEMAS

- Prototype on Civil Engineering Material Acquisition System still being tested at Tinker AFB

  -- Initial test scheduled for June 1983, postponed to Sep 83 and then 1 Feb 84

  -- Software "debugging" problems and turn over from contractor to Air Force Design Center were the primary problems

  -- AFESC now believes they have a working system, however

  -- Tinker/PMK is not satisfied with the system performance for contracting

     --- Lack of consolidation

     --- No Material Requirements List

     --- No CIAPS interface

  -- Formal testing began 1 Feb 84. An assessment of system performance will be based on formal test criteria

- Additional test sites are still scheduled

  -- Davis-Monthan will be electronic interface rather than collocation. Delay in buying ADPE has delayed test to 1985

  -- Zweibrucken and Misawa are still scheduled for overseas

- Still hope to compete CEMAS with COCESS in A-76 studies

- Issues

  -- Automated CEMAS still has many unsolved problems

  -- Testing at other bases has slipped

  -- Collocation of buyers may still be an issue

  -- Interface with BCAS not yet worked out

Mr. Smalling
AF/RDCL, x41650
7 Mar 84

PRICING LOW VALUE SPARES, THE BREAKOUT PROGRAM AND PACER PRICE

A WORKSHOP

PRESENTERS:

MR. ROBERT S. HANCOCK
DEPUTY CHIEF, COMMODITIES DIVISION
DIRECTORATE OF CONTRACTING AND MANUFACTURING
OKLAHOMA CITY AIR LOGISTICS CENTER

MR. JOHN W. SCHULTZ
COMPETITION ADVOCATE
OKLAHOMA CITY AIR LOGISTICS CENTER

MR. PAUL K. MCDANIEL
CHIEF, VALUE ANALYSIS PRICING DIVISION
DIRECTORATE OF COMPETITION ADVOCACY
OKLAHOMA CITY AIR LOGISTICS CENTER

PRESENTER: MR ROBERT S. HANCOCK
VIEWGRAPHS BEGIN ON PAGE 328

TITLE VIEWGRAPH

IF WE REALLY KNEW AN ACCURATE AND ECONOMICAL WAY TO PRICE LOW VALUE SPARE PARTS, I SUSPECT THE NEED FOR THIS PRICING CONFERENCE WOULD NOT HAVE BEEN QUITE AS GREAT AND I KNOW THAT I PERSONALLY COULD HAVE SAVED MYSELF A LOT OF WORK THE LAST YEAR OR SO.

VIEWGRAPH # 2

I GUESS THE FIRST QUESTION WE HAVE ALWAYS ASKED OURSELVES IS WHY BOTHER PRICING THEM AT ALL? THE AFMAG ANALYSIS CONCLUDED THAT THE PROBLEM PARTS COMPRISED ABOUT SIX PERCENT OF THE SPARES DOLLARS IN THE BUDGET. IT IS ILLOGICAL TO SPEND SCARCE RESOURCES ON A SIX PERCENT PROBLEM. THAT'S WHY IN YEARS PAST WE HAVE LOOKED FOR EXPEDIENT WAYS TO HANDLE THOSE PARTS. WE HAVE RELIED ON GROSS ESTIMATES, STATISTICAL APPROACHES, FORMULA PRICING AND OTHER EXPEDIENCIES AND AS IS THE CASE IN EVERY EXPEDIENCY, WE HAVE SACRIFICED A LITTLE ACCURACY.

VIEWGRAPH # 3

HOWEVER, THAT SIX PERCENT OF THE DOLLARS TRANSLATES TO 30 PERCENT OF THE ITEMS AND THAT IS A VERY LARGE NUMBER OF ITEMS. IN ADDITION, IN TERMS OF VULNERABILITY TO "EXCESSIVE PRICING" THIS GROUP OF LOW VALUE ITEMS INCLUDE MOST OR ALL OF THE ATTRIBUTES WHICH THE AFMAG CONCLUDED CAN LEAD TO THE APPEARANCE OF, OR ALLEGATIONS OF, OVER PRICING. WE DON'T COMPETE ALL THAT WE COULD EVEN WHEN THERE ARE NO CONSTRAINTS BECAUSE OUR ECONOMIC ANALYSIS HAS TOLD US THAT THE VALUE OF THOSE PARTS IS SUCH THAT IMPROVING THE COMPETITIVE BASE IS JUST NOT WORTH THE EFFORT. SIMILARLY OUR POLICY

AND REGULATORY GUIDANCE HAVE LONG RECOGNIZED THAT THE ACCUMULATION OF COST AND PRICING DATA IS EXPENSIVE. THE ANALYSIS OF THAT COST AND PRICING DATA IS ALSO EXPENSIVE AND BOTH CAN BE ADMINISTRATIVELY BURDENSOME. WE HAVE ALREADY HEARD THAT NEARLY HALF THE TIME WE ORDER IN QUANTITIES OF FIVE OR FEWER REPARABLE ITEMS, AND SOMEWHERE AROUND 15 PERCENT OF THE TIME WE ORDER FIVE OR FEWER NON-REPARABLE ITEMS EACH TIME WE ORDER. OBVIOUSLY THE IMPACT OF THE COST ACCUMULATION PROCESS IS MORE NOTICEABLE OR DRAMATIC ON THE LOWER VALUED ITEMS. THERE IS ANOTHER IMPORTANT "HOWEVER" AS WELL. THE PUBLIC HAS A DIFFICULT TIME RELATING MILLIONS OF DOLLARS FOR A NEW AIRPLANE TO ANYTHING WITHIN THEIR EXPERIENCE. THEY DO NOT HAVE THAT DIFFICULTY HOWEVER WHEN THEY READ ABOUT HUNDRED DOLLAR DIODES, FOUR HUNDRED DOLLAR HAMMERS AND THOUSAND DOLLAR ALLEN WRENCHES OR WHATEVER. THAT PUBLIC PERCEPTION, WHETHER WE LIKE IT OR NOT, IS AN IMPORTANT ELEMENT IN RESTORING PUBLIC CONFIDENCE IN WHAT THEIR AIR FORCE IS UP TO.

VIEWGRAPH # 4

WHAT DO WE DO ABOUT IT? OR MAYBE THAT SHOULD READ, WHAT CAN WE DO ABOUT IT? TO SAY WE CAN COMPETE MORE LOW VALUE PARTS IS A BLINDING FLASH OF THE OBVIOUS BUT WE WILL HAVE TO DO JUST THAT EVEN IF IT MEANS REDUCING THE SCREENING LEVELS AS RECOMMENDED BY THE AFMAG. THE ECONOMIC ANALYSIS WHICH LEAD US TO CONCLUDE THAT SCREENING BELOW A CERTAIN DOLLAR THRESHOLD IS UNECONOMICAL HAS TO BE REVISITED. WHAT I AM SUGGESTING IS THAT AN ADDITIONAL ELEMENT HAS ENTERED THAT EQUATION. WE CAN CALL IT PUBLIC PERCEPTION OR CONGRESSIONAL INTEREST OR MEDIA ATTENTION OR WHATEVER, BUT THE FORMULA HAS CHANGED AND WE HAVE TO RECOGNIZE IT. ONE OF THE

COMMAND'S COMPETITION ADVOCATES IS HOLDING FORTH IN ANOTHER ROOM RIGHT NOW GOING OVER BREAKOUT INITIATIVES UNDERWAY WITH ORIGINAL EQUIPMENT MANUFACTURERS. I THINK HE IS PROBABLY TALKING ABOUT A NUMBER OF ITEMS THAT THE ORIGINAL EQUIPMENT MANUFACTURER DOES NOT MANUFACTURE NOR ADD ANYTHING OF APPRECIABLE VALUE TO, AS A STARTING POINT FOR THE BREAKOUT EFFORT. INTERESTINGLY ENOUGH, THE MANUFACTURERS, OR MANY OF THEM WITH WHOM I HAVE DISCUSSED THIS ISSUE, HAVE NOT STRENUOUSLY DISAGREED. MANY OF THOSE PARTS WHICH THE PRIMES ORDER FOR US, RATHER THAN BUILD FOR US, HAVE TURNED OUT TO BE, WHEN THEY THINK ABOUT THEM, MORE TROUBLE THAN THEY ARE WORTH. MANY OF THOSE PARTS, BROKEN OUT, WOULD REDUCE THE ORIGINAL EQUIPMENT MANUFACTURERS MANAGEMENT PROBLEMS, DELIVERY PROBLEMS, PRICING PROBLEMS, CONTRACT ADMINISTRATION PROBLEMS AND ON AND ON WITHOUT, IN MANY INSTANCES, SIGNIFICANTLY AFFECTING THE SALES BASE.

VIEWGRAPH # 5

WHAT DO WE DO ABOUT THE LACK OF COST AND PRICING DATA? AND, OF COURSE, WHAT WE ARE TALKING ABOUT HERE IS NOT THE PL 87 653 REQUIREMENT FOR FULL BLOWN DD FORM 633 COST DETAILS WITH THE ACCOMPANYING CERTIFICATION AS TO CURRENCY AND ACCURACY, ETC. WHAT WE ARE TRYING TO GET AT IS THE RECOGNITION THAT MOST OF THE TIME EVERYTHING WE KNOW ABOUT THE PROPOSED PRICE IS WHAT THE CONTRACTOR TELLS US. HE ESTABLISHES THE DATA BASELINE. FOR LARGE PROCUREMENTS, THE ANALYSIS THAT THE DEFENSE CONTRACT AUDIT AGENCY PERFORMS, THE TECHNICAL INPUT FROM THE FIELD, THE FIELD PRICE ANALYSIS AND ANY ADDITIONAL ANALYSIS PERFORMED BY THE CONTRACT NEGOTIATORS, BEGINS WITH THE DATA THE CONTRACTOR FURNISHES.

THE ATTITUDE OF THE CONTRACTORS WITH RESPECT TO FURNISHING DATA WHEN NOT ABSOLUTELY REQUIRED BY LAW, IS A REALLY MIXED BAG. SOME CONTRACTORS HAVE AUTOMATED PRICE ESTIMATING SYSTEMS IN ADDITION TO THEIR ACCOUNTING SYSTEMS AND THEY AUTOMATICALLY SPIT OUT REAMS OF SUPPORTING DOCUMENTATION ON EVEN THE SMALLEST PROPOSALS AND WHETHER WE ASK FOR IT OR NOT. AT THE OTHER EXTREME ARE THOSE CONTRACTORS WHO ADAMANTLY REFUSE TO PROVIDE ANY SUPPORT FOR THEIR PROPOSED PRICES WHEN UNDER THE DOLLAR THRESHOLD OF THE LAW WITHOUT TIME CONSUMING MANAGEMENT INTERVENTION AND ESCALATION. IN BETWEEN ARE THE MAJORITY OF OUR SUPPLIERS WITH CORPORATE POLICIES REPRESENTING EVERY VARIANT BETWEEN THE EXTREMES IMAGINABLE. I THINK WE ALL UNDERSTAND AND RECOGNIZE THAT THE PROPOSAL PREPARATION PROCESS COSTS MONEY BUT SO DOES LEAD TIME AND IN MOST INSTANCES A FEW ADDITIONAL COST DETAILS CAN MINIMIZE THE TIME BETWEEN RECEIPT OF THE PROPOSAL AND EXECUTION OF THE CONTRACT OR ORDER. THE GOVERNMENT'S ATTITUDE, ON THE OTHER HAND, IS ONE OF UNQUENCHABLE THIRST. I GUESS, AS A GENERAL RULE, INDUSTRY CANNOT GENERATE ENOUGH DATA TO SATISFY US. THE BUYERS REALIZE THAT THEY HAVE AN ABSOLUTE AND UNAVOIDABLE MANDATE UNDER THE LAW TO ANALYZE EVERY PRICE SUBMITTED IN A NONCOMPETITIVE ENVIRONMENT AND SOME HOW DETERMINE THAT PRICE TO BE FAIR AND REASONABLE. THERE HAS TO BE ROOM FOR A COMPROMISE.

ALTHOUGH WE ARE STILL THRASHING AROUND A BIT WE ARE PROCEEDING WITH A SYSTEMATIC APPROACH TO VALUE ANALYSIS UNDER THIS COMMAND'S PACER PRICE PROGRAM. THIS IS OUR FIRST REAL DEPARTURE FROM COST BASED PRICING TO GET AT THE ACTUAL VALUE OR WORTH OF INDIVIDUAL ITEMS. IT

IS PROBABLY A LITTLE EARLY TO DRAW ANY CONCLUSIONS ABOUT WHERE THAT ANALYSIS WILL TAKE US BUT AS ANOTHER DATA POINT FOR THE CONTRACT NEGOTIATOR TO USE AT THE TABLE IT SHOULD BE THE GENESIS OF SOME VERY INTERESTING DIALOG. THE COMPROMISE I MENTIONED A MINUTE AGO SEEMS TO ME TO LIE IN INDIVIDUAL AGREEMENTS AND WORKING RELATIONSHIPS BETWEEN SUPPLIERS AND GOVERNMENT BUYERS THAT WILL RESULT IN SOME SORT OF SIMPLIFIED BREAK DOWN. PERHAPS AN ELEMENTAL BREAK DOWN -- JUST LABOR, MATERIAL, SOME NOTION OF THE OVERHEAD RATES, ADMINISTRATIVE EXPENSES APPLIED, WHETHER OR NOT TOOLING IS INVOLVED, MAYBE A PROFIT RATE. THE ALTERNATIVE SEEMS TO BE TO CONTINUE READING ABOUT OURSELVES IN THE NEWS PAPER BECAUSE WITH NO DATA AT ALL TO ANALYZE, THE PART MAY APPEAR OVER PRICED EVEN WHEN IT IS IN FACT ENTIRELY REASONABLE. WE HAVE MET WITH A NUMBER OF SUPPLIERS HERE IN OKLAHOMA CITY AND ON A ONE-ON-ONE BASIS WORKED OUT JUST SUCH AN AGREEMENT.

VIEWGRAPH # 6

HOW ABOUT THE PRACTICE OF BUYING IN LOW QUANTITIES? AND I COULD INSERT PARENTHETICALLY, SEVERAL TIMES EACH YEAR. I GUESS I SHOULD ALSO MENTION AT THIS POINT THE STANDARD CAVEAT THAT THESE ARE MY VIEWS, NOT NECESSARILY THOSE OF MY SUPERIORS, THE COMMAND, OR THE AIR FORCE BECAUSE I THINK OUR PRACTICE HAS BEEN REDICULOUS. FOR YEARS IN THE AIR FORCE, AS WE HAVE ATTEMPTED TO COPE WITH BUDGET SHORTFALLS, WE HAVE AGONIZED OVER EQUATIONS AND FORMULAS, HOLDING COSTS, REORDER COSTS, ECONOMIC ORDERING QUANTITIES, QUANTITY DISCOUNT PROCEDURES. WE HAVE APPLIED THE MOST TORTUROUS LOGIC TO CONVINCE OURSELVES THAT WE SHOULD BUY ON FRIDAY ENOUGH TO SUPPORT OURSELVES OVER THE WEEKEND AND BUY AGAIN ON MONDAY. I KNOW THAT THAT IS

NOT A FAIR CHARACTERIZATION. I ALSO KNOW THAT SOME TRULY BRILLIANT PEOPLE HAVE WORKED THOSE PROBLEMS FOR YEARS BUT I ALSO KNOW THAT REGARDLESS OF THE LOGIC THAT COMPELLED US TO DO IT, THE RESULT HAS BEEN THAT WE ABSOLUTELY PAID THE HIGHEST PRICE PER UNIT BY BUYING IN SUCH SMALL QUANTITIES THAT WE COULD POSSIBLY PAY AND IN MANY MANY INSTANCES WE DID THAT TWO OR THREE OR MORE TIMES A YEAR. I KNOW THERE ARE NO EASY SOLUTIONS TO ANY OF THE ISSUES WE ARE ADDRESSING THIS WEEK AND THIS ONE CERTAINLY IS NO EXCEPTION. THE AFMAG OF COURSE HAS RECOMMENDED 5 TO 15 YEAR SUPPORT PERIODS FOR EXPENDABLE ITEMS AND 3 TO 5 YEAR SUPPORT PERIODS FOR RECOVERABLE OR REPARABLE ITEMS. IN ADDITION THEY HAVE RECOMMENDED THE ELIMINATION OF THE QUARTERLY REQUIREMENT COMPUTATION CYCLES REPLACING THEM WITH TWO SIX-MONTH CYCLES EACH YEAR. CERTAINLY, IN MY VIEW, A STEP IN THE RIGHT DIRECTION.

#7 WHAT ABOUT COST ALLOCATION METHODS AS IT IMPACTS THE PRICE WE PAY FOR PARTS? I DON'T THINK, IN GENERAL, WE ARE TALKING ABOUT COST ACCOUNTING SYSTEMS AND WHETHER OR NOT THEY COMPLY WITH COST ACCOUNTING STANDARD 418. THERE ARE PRICE ESTIMATING TECHNIQUES AS WELL AS EXPEDIENCES DEVELOPED BY THE NEGOTIATORS WHEN HANDLING LARGE NUMBERS OF CONTRACT LINE ITEMS WHICH TEND TO LEVEL THE DISTRIBUTION OF SOME ALLOCABLE CHARGES WHICH RESULTS IN VERY LOW VALUE PARTS BEARING A DISPROPORTIONATE SHARE OF THAT ALLOCATED EXPENSE. WE HAVE TO INCREASE OUR AWARENESS OF THE AFFECTS OF THOSE ALLOCATION TECHNIQUES AND RECOGNIZE, AS WE NEGOTIATE FORMULA PRICING AGREEMENTS AND OTHER AGREEMENTS WHICH WILL INVOLVE LARGE NUMBERS OF INDIVIDUAL LINE ITEMS OR PARTS, THAT THE BASIS FOR THE NEGOTIATION AND THE SUBSEQUENT DOCUMENTATION OF THOSE NEGOTIATIONS IN

OUR PNM'S MUST ADDRESS UNIT PRICE INTEGRITY. THE PRO-RATA DISTRIBUTION OF COST MUST BE VALUE BASED.

VIEWGRAPH # 8

THE INITIATIVES WE HAVE STARTED, AS WELL AS THOSE WE ARE STILL THINKING ABOUT, WILL NOT BE INEXPENSIVE. MOST OF THE FIXES WE HAVE DISCUSSED ARE LABOR INTENSIVE AND WE STILL CANNOT ALLOW THE EXPENDITURE OF THOUSANDS OF TAX DOLLARS TO SAVE HUNDREDS. IT IS PROBABLY STILL TOO EARLY TO DRAW ANY CONCLUSIONS ABOUT WHERE ALL THESE SO CALLED INITIATIVES ARE TAKING US. I CAN TELL YOU, HOWEVER, THAT WHAT WE ARE TRYING TO DO, COMBINED WITH WHAT CONGRESS HAS ALREADY DONE, IS DELAYING THE ACQUISITION PROCESS SIGNIFICANTLY AND LEAD TIME IS ALSO EXPENSIVE. WITH ALL THE BREAK OUT ACTIVITY, THE SEARCH FOR NEW SOURCES, THE APPROVAL PROCESS FOR RESTRICTED ACQUISITION METHOD CODE ITEMS, THE SYNOPSIS REQUIREMENT, THE MAJCOM COORDINATION ON LARGER SOLE SOURCE PROCUREMENT, AND HEIGHTENED BUYER AWARENESS HAVE ADDED MANY PIPE LINE DAYS TO OUR ADMINISTRATIVE LEAD TIME. IT IS NOT JUST HEIGHTENED <u>BUYER</u> AWARENESS, THE AUDITORS IN DCAA SEEM TO BE REQUIRING MORE DOCUMENTATION, MORE JUSTIFICATION. THEY SEEM TO BE QUESTIONING MORE COST, QUALIFYING MORE AUDITS. THE CONTRACTORS ARE INSTALLING THEIR OWN INTERNAL CHECKS WHICH ARE SLOWING DOWN THE PROPOSAL PREPARATION PROCESS. THE BUYERS THEMSELVES HAVE BECOME PAINFULLY AWARE THAT THE MOST POPULAR GAME IN TOWN THESE DAYS IS SENDING TEAMS OF AUDITORS OUT TO LOOK OVER THE BUYERS SHOULDER. FROM THE BUYER'S PERSPECTIVE THERE ARE MANY MORE PEOPLE CRITICIZING THEIR EFFORTS THAN THERE ARE PEOPLE HELPING HIM OR HER GET THE JOB DONE. IN MANY INSTANCES WE HAVE PEOPLE SPENDING

WEEKS EXAMINING WHAT WE GAVE THE BUYERS DAYS TO ACCOMPLISH IN THE FIRST PLACE AND DECIDING THE BUYER MIGHT HAVE BEEN ABLE TO DO A LITTLE BETTER JOB. THE BUYERS HAVE NOT HAD THEIR AWARENESS HEIGHTENED -- THE BUYERS HAVE BEEN TRAUMITIZED AND EVEN THE RELATIVELY LOW DOLLAR ACQUISITIONS FIND THE BUYER LOOKING FOR MORE DETAILS, DOING A MUCH MORE IN-DEPTH ANALYSIS, GOING TO MUCH GREATER LENGTHS AS THEY AGONIZE OVER THE REASONABLENESS DECISION THEY ARE REQUIRED TO MAKE. I REALLY BELIEVE THAT AS ALL THE SYSTEMIC CHOKE POINTS CREATED BY THE HOST OF INITIATIVES ARE SMOOTHED OUT AND IF WE GO A COUPLE OF WEEKS IN A ROW WITHOUT READING ABOUT OURSELVES IN THE NEWS PAPER, OR SPENDING OUR TIME RESPONDING TO AUDIT SURVEYS, THAT WE WILL GET THE PROCESS BACK UNDER CONTROL. IF NOT, IN MY VIEW, PROGRAM EXECUTION FOR FY 84 WILL BE SERIOUSLY JEOPARDIZED. I THINK MANY OF OUR MAJOR SUPPLIERS HAVE NOTICED A SLOW DOWN IN THEIR SALES AS A MANIFESTATION OF WHAT I AM TALKING ABOUT. I DON'T KNOW HOW IT LOOKS TO YOU BUT THAT'S THE WAY IT IS IN MY SHOP.

ARE THERE ANY QUESTIONS?

PRICING
LOW VALUE
SPARES

WHY BOTHER?

- ONLY 6% OF SPARES DOLLARS
- LOGICAL DISPERSION OF RESOURCES
- DICTATES OTHER PRIORITIES

HOWEVER!

- 30% OF ITEMS
- MOST VULNERABLE AREA
- COMBINES:
  - LACK OF COMPETITION
  - LACK OF COST & PRICING DATA
  - LOW QUANTITIES
  - IMPACT OF COST ALLOCATION METHODS MOST SIGNIFICANT
- PUBLIC PERCEPTION FACTOR

WHAT DO WE DO ABOUT IT?

- COMPETE MORE!
  - LOWER SCREENING LEVELS
  - COMPETITION ADVOCATE BREAKOUT INITIATIVES WITH OEMs
  - ZERO/MINIMAL VALUE ADDED
  - OEM ACCEPTANCE

WHAT DO WE DO ABOUT LACK OF COST & PRICING DATA?

- REQUIREMENT FOR BASELINE DATA
- CONTRACTOR ATTITUDES - A MIXED BAG
- GOVERNMENT ATTITUDE - AN UNQUENCHABLE THIRST
- VALUE ANALYSIS - DEPARTURE FROM COST BASED PRICING
- THE COMPROMISE

WHAT DO WE DO ABOUT OUR PRACTICE OF BUYING IN LOW QUANTITIES?

- AFMAG RECOMMENDATIONS:
  - 5, 10 & 15 YEAR SUPPORT PERIODS (NONREPARABLES)
  - 3 TO 5 YEAR SUPPORT PERIODS (REPARABLES)
  - ELIMINATE QUARTERLY REQUIREMENTS COMPUTATIONS

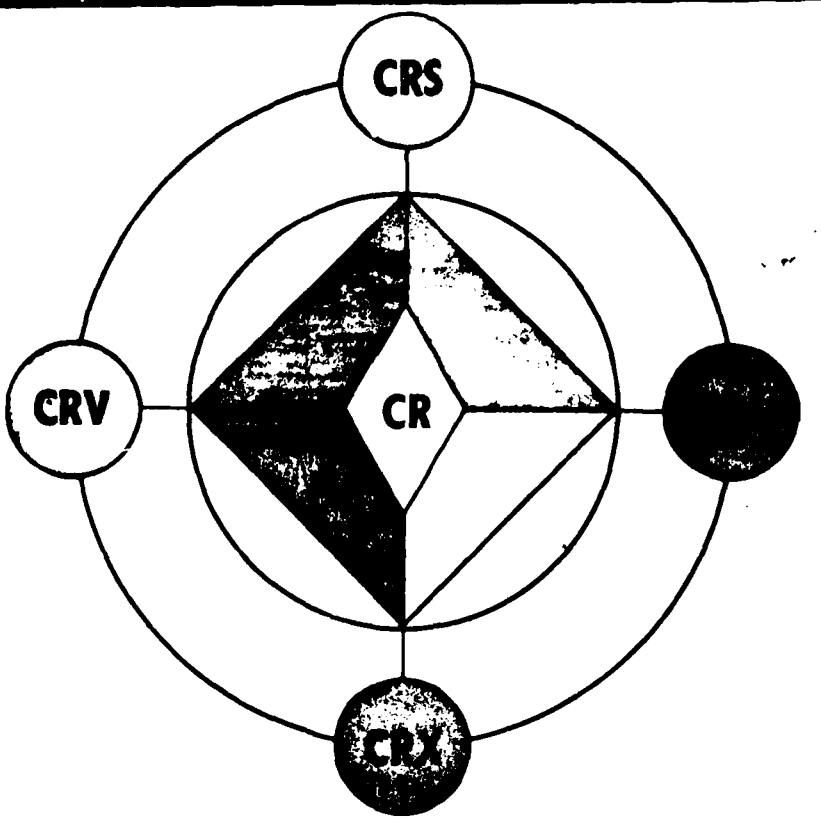
WHAT DO WE DO ABOUT COST ALLOCATION METHODS?

- PRICE ESTIMATING TECHNIQUE
- NEGOTIATION EXPEDIENCY
- PRICE NEGOTIATION MEMORANDA

SUMMARY

- INITIATIVES UNDERWAY ARE NOT FREE
- STILL HAVE TO BE CONCERNED WITH 6% PROBLEM
- TOO EARLY TO DRAW CONCLUSIONS
- BUYER AWARENESS

DIRECTORATE OF COMPETITION ADVOCACY



PRESENTER: MR. JOHN W. SCHULTZ

OC-ALC RESPONSIBILITIES

- BUDGET: $3.0B FOR FY84
- AIRCRAFT: 9 TYPES - 1,511 AIRCRAFT
  - INCLUDES: E-4, E-3, KC-10, KC-135, B-52, A-7, B-1B, PRESIDENTIAL FLEET
- MISSILES: 5 TYPES - 1,578 UNITS
  - MRASM, ALCM, GLCM, HARPOON, SRAM
- ENGINES: 16 TYPES - 18,700 UNITS
  - INCLUDES: J-57, J-75, J-79, TF-30, TF-33, TF-41, F-107, F-108, F-112, F-118
- PARTS: 125,000 ITEMS - MILLIONS OF UNITS
- EMPLOYEES: 23,000 ON BASE - 17,400 IN THE DEPOT

COMPETITION INITIATIVES

● ESTABLISHED COMPETITION ADVOCATE	JANUARY 1983
● PUBLIC NOTICES	FEBRUARY 1983
● LETTERS TO ELEVEN MAJOR SUPPLIERS	FEBRUARY 1983
● TELEPHONE CALLS TO KNOWN VENDORS	MARCH 1983
● PACER PRICE ESTABLISHED	JUNE 1983
● SECRETARY ORR'S LTR-35 SUPPLIERS	AUGUST 1983
● GENERAL BURPEE LTR - 22 SUPPLIERS	OCTOBER 1983
● OC-ALC — INDUSTRY MEETING	DECEMBER 1983
● MEMORANDUM OF UNDERSTANDING — 24 SUPPLIERS	JANUARY 1984

COMPETITION

		FY83	FY84
● TOTAL OBLIGATIONS	MODS	$1.4B	$1.6B
	SPARES	$1.3B	$1.4B
		$2.7B	$3.0B
● COMPETITION GOAL		29.7%	26.3%
● DOLLAR GOAL		$802M	$789M
● DOLLARS COMPETED		$431M	?
● PERCENTAGE COMPETED		16%	?

Graphic Communications Branch
Proj 1477 MAM To Graphic Communications Branch
Mo 7 Yr 78 By ROBBINS 2750.OTC

OC-ALC MAJOR SUPPLIERS

CONTRACTOR	DOLLARS (MILLIONS)
BOEING	$715
UNITED TECHNOLOGIES	$402
GENERAL ELECTRIC	$231
GENERAL MOTORS	$135
SUNDSTRAND	$106
HONEYWELL	$105
GARRETT	$ 66
BENDIX	$ 43
ROLLS ROYCE	$ 34
ELECTRO SPACE SYSTEMS	$ 33
HAYES INTERNATIONAL	$ 30
GENERAL DYNAMICS	$ 28
ROCKWELL INTERNATIONAL	$ 27

OC-ALC MAJOR SUPPLIERS (CONT)

CONTRACTOR	DOLLARS (MILLIONS)
McDONNELL DOUGLAS	$ 25
DYNALECTRON	$ 25
CUTLER HAMMER	$ 21
CHROMALLOY	$ 18
LEAR SIEGLER	$ 16
SINGER/KEARFOTT	$ 16
CURTISS WRIGHT	$ 15
VOUGHT SYSTEMS (LTV)	$ 15
NATIONAL WATERLIFT	$ 15
LITTON SYSTEMS	$ 14
SPERRY	$ 12
PARKER HANNIFIN	$ 8
ABEX	$ 5
FAIRCHILD	$ 5

OBSERVATION

PERIOD 1980 THRU 1983

- COMPETITIVE ITEMS HAVE DECREASED IN COST
- SOLE SOURCE ITEMS HAVE INCREASED IN COST
- SOLE SOURCE PROPRIETARY ITEMS HAVE INCREASED MOST DRAMATIC OF ALL

Graphic Communications Branch PRINT FROM CAMERA READY MOUNT
2750/OTC
Proj _____ Orgn 7447/4 To Graphic Communications Branch
Mo. 7 Yr. 82 By _____ 2750/OTC

DIVISIONS

- **CRX - POLICY MANAGEMENT AND INFORMATION SYSTEMS**
  PERSONNEL - 12
- **CRS - SOURCE DEVELOPMENT**
  PERSONNEL - 8
- **CRE - ENGINEERING DATA MANAGEMENT**
  PERSONNEL - 51
- **CRV - VALUE ANALYSIS AND REVIEW**
  PERSONNEL - 33

ITEM BREAKOUT STATUS

125,021 ITEMS MANAGED

SCREENED — 63,143 **COMPETITIVE — 26,801** **SOLE SOURCE — 36,342**

REASON FOR SOLE SOURCE

	TOTAL ITEMS	ITEMS PERCENT	DOLLARS PERCENT	TOTAL DOLLARS
OC-ALC DECISION	3,951	11	28	336 M
NO DATA	9,109	25	15	182 M
INCOMPLETE DATA	4,236	12	4	48 M
PROPRIETARY	10,890	30	30	356 M
MISC	8,156	22	23	278 M
	36,342	100	100	$1,200 M

CAPACITY

VALUE ANALYSIS

- 13 ESTIMATORS
- 7,200 ITEMS/YEAR CAPACITY
- SOLE SOURCE WORKLOAD ($1.2B)
  - 99,000 ITEMS MANAGED
  - 51,000 ALREADY SCREENED
  - 48,000 TO BE SCREENED

AMC ASSIGNMENT

- 33 ENGINEERS
- 8,160 ITEMS/YEAR CAPACITY
- SCREENING WORKLOAD
  - 16,800 FY84 BUYS
  - 1,740 BUYER REFERRALS
  - 7,740 AFAC 83-10

  . 26,280 TOTAL

➡ MUTUAL EFFORT WITH INDUSTRY ESSENTIAL

MEMORANDUM OF UNDERSTANDING

1. REVIEW EXISTING PRICING
2. CONTRACTOR'S COMPETITION ADVOCATE
3. CHALLENGE UNECONOMICAL QUANTITIES
4. REVIEW COST ALLOCATION TECHNIQUES
5. COST/PRICE REVIEW
6. REWARDS FOR COST REDUCTION
7. IDENTIFY BREAKOUT ITEMS
8. LATEST DATA INFORMATION
9. VALUE ENGINEERING
10. VALIDATE OR CANCEL PROPRIETARY LEGENDS

SCREENING RESULTS

JAN THRU DEC 1983

	● PRIME TO VENDOR	● PRIME TO COMPETITION
ITEMS	2,473	2,036
ANNUAL VALUE	$178M	$63M
COST REDUCTION	$62M	$22M

● REALLOCATED DOLLARS · $84M

COST OF COMPETITION

- QUALITY ASSURANCE VACUUM
- RISK OF REDUCED SURVEILLANCE
- NON-CONFORMING SUPPLIES ACTION
- PAY NOW OR PAY LATER

STRUCTURE

- VALUE ANALYSIS ESTIMATING BRANCH (CRVA)

  ESTIMATE LABOR HOURS, MANUFACTURING PROCEDURES, AND MATERIAL

- VALUE ANALYSIS AND REVIEW BRANCH (CRVB)

  DEVELOP "SHOULD COST PRICES" BY APPLYING MANUFACTURING O/H, OTHER INDIRECT COSTS, PROFIT, AND CAS-414

PRESENTER: MR. PAUL K. MCDANIEL

	OFFICE	SOURCE
DIRECT MATERIAL $	CRVA	DLA MATERIAL IDENTIFICATION LIST
DIRECT LABOR HOURS	CRVA	LABOR STANDARDS
MANUFACTURING PROCESSES	CRVA	ESTIMATOR'S MANUFACTURING KNOWLEDGE
DIRECT LABOR HOURLY RATES	CRVB	DEPT OF LABOR SIC'S - MFG. PROCESSES
MANUFACTURING O/H	CRVB	LEVEL OF EFFORT BASED ON % LABOR MIX
OTHER INDIRECT COSTS	CRVB	LEVEL OF EFFORT BASED ON % LABOR MIX
PROFIT	CRVB	LEVEL OF EFFORT BASED ON % LABOR MIX
CAS-414	CRVB	APPLICABLE RATE APPLICATION MODEL

DEFINITIONS

- VALUE ANALYSIS - A SYSTEMATIC AND OBJECTIVE EVALUATION OF THE FUNCTION OF A PRODUCT AND ITS RELATED COSTS, WHOSE PURPOSE IS TO ENSURE OPTIMUM VALUE.

- SHOULD COST - AN ATTEMPT TO ESTABLISH WHAT IT SHOULD, NOT WHAT IT WILL, COST TO DO A JOB IF THE CONTRACTOR OPERATES WITH REASONABLE ECONOMY AND EFFICIENCY.

OPERATIONAL ASSUMPTIONS

- REPLENISHMENT ACQUISITIONS SHOULD TAKE PLACE IN A COMPETITIVE MARKET ENVIRONMENT.

- DUE TO THE LACK OF DATA OR OTHER LIMITING FACTORS, THE GOVERNMENT IS OFTEN FORCED INTO SOLE SOURCE ACQUISITIONS.

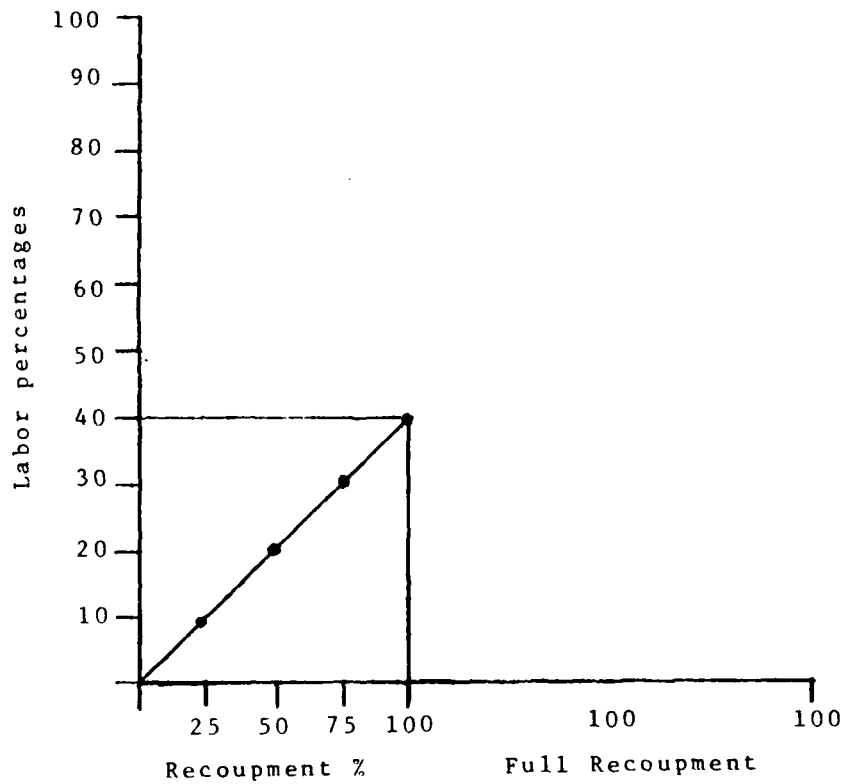
PRIORTIES AND CYCLE TIMES

• BUYER/ITEM MANAGER REFERRALS	10 DAYS
• ZERO OVERPRICING REFERRALS	15 DAYS
• OTHER REFERRALS	30 DAYS
• ALL OTHER ACTIVE ITEMS	30 DAYS

RATE APPLICATION MODEL ASSUMPTIONS

- WITH PROPER MANAGEMENT, ALL COSTS ARE CONTROLLABLE TO SOME DEGREE.
- A PARTICULAR CONTRACTOR'S ESTABLISHED PRACTICES WILL GENERALLY BE ACCEPTED IF THOSE PRACTICES MEET INDUSTRY AVERAGE CONCEPTS.
- CERTAIN TYPES OF EFFORT THAT SOME COMPANIES TREAT AS DIRECT COSTS WILL, FOR CONSISTENCY PURPOSES, BE TREATED AS INDIRECT COSTS.
- PROFIT OBJECTIVES SHOULD BE ESTABLISHED IN SUCH A WAY THAT A CONTRACTOR WILL NOT EXPECT TO RECEIVE THE SAME PERCENTAGE PROFIT CONSIDERATION ON CONTRACT AFTER CONTRACT, REGARDLESS OF THE TASK, RISK, OR PAST PERFORMANCE.

RATE APPLICATION GRAPH BASED ON % OF LABOR MIX



60-40 EXAMPLE
CONTRACTOR ABOVE INDUSTRY AVERAGE

DIRECT MATERIAL	$ 32.12
DIRECT LABOR (2.2 HOURS x $9.73)	21.41
	53.53
MANUFACTURING O/H (3.74 x $21.41)	80.07
	133.60
OTHER INDIRECT COSTS (.396 x $133.60)	52.91
	186.51
PROFIT (.146 x $186.51)	27.23
CAS-414 (.021 x $186.51)	5.22
RECOMMENDED UNIT PRICE	218.96

COMPANY 2 ACTUAL RATES	
MANUFACTURING O/H	374.0%
OTHER INDIRECT COSTS	39.6%
CAS-414	2.8%

INDUSTRY AVERAGE RATES	
MANUFACTURING O/H	254.0%
OTHER INDIRECT COSTS	30.6%

CALCULATIONS

40 ÷ 40 = 100%

374 - 254 = 120 x 1 = 120 + 254 = 374% MANUFACTURING O/H

39.6 - 30.6 = 9 x 1 = 9 + 30.6 = 39.6% OTHER INDIRECT COSTS

40 x .00625 = .25 + 1 = 1.25 x 11.7 = 14.6% PROFIT

60-40 EXAMPLE
CONTRACTOR BELOW INDUSTRY AVERAGE

DIRECT MATERIAL	$ 32.12
DIRECT LABOR (2.2 HOURS x $9.73)	21.41
	53.53
MANUFACTURING O/H (2.30 x $21.41)	49.24
	102.77
OTHER INDIRECT COSTS (.291 x 102.77)	29.91
	132.68
PROFIT (.146 x $132.68)	19.37
CAS-414 (.018 x $132.68)	2.39
RECOMMENDED UNIT PRICE	154.44

COMPANY 1 ACTUAL RATES	
MANUFACTURING O/H	230.0%
OTHER INDIRECT COSTS	29.1%
CAS-414	1.8%

INDUSTRY AVERAGE RATES	
MANUFACTURING O/H	254.0%
OTHER INDIRECT COSTS	30.6%

CALCULATIONS

40 ÷ 40 = 100%

40 x .00625 = .25 + 1 = 1.25 x 11.7 = 14.6% PROFIT

70-30 EXAMPLE
CONTRACTOR ABOVE INDUSTRY AVERAGE

DIRECT MATERIAL	$ 49.96
DIRECT LABOR (2.2 HOURS x $9.73)	21.41
	71.37
MANUFACTURING O/H (3.44 x $21.41)	73.65
	145.02
OTHER INDIRECT COSTS (.374 x $145.02)	54.24
	199.26
PROFIT (.139 x $199.26)	27.70
CAS-414 (.028 x $199.26)	5.58
RECOMMENDED UNIT PRICE	$232.54

COMPANY 2 ACTUAL RATES		INDUSTRY AVERAGE RATES	
MANUFACTURING O/H	374.0%	MANUFACTURING O/H	254.0%
OTHER INDIRECT COSTS	39.6%	OTHER INDIRECT COSTS	30.6%
CAS-414	2.8%		

CALCULATIONS

30 ÷ 40 = 75%

374 - 254 = 120 x .75 = 90 + 254 = 344% MANUFACTURING O/H

39.6 - 30.6 = 9 x .75 = 6.8 + 30.6 = 37.4% OTHER INDIRECT COSTS

30 x .00625 = .1875 + 1 = 1.1875 x 11.7 = 13.9% PROFIT

70-30 EXAMPLE
CONTRACTOR BELOW INDUSTRY AVERAGE

DIRECT MATERIAL	$49.96
DIRECT LABOR (2.2 HOURS x $9.73)	21.41
	71.37
MANUFACTURING O/H (2.3 x $21.41)	49.24
	120.61
OTHER INDIRECT COSTS (.291 x $120.61)	35.10
	155.71
PROFIT (.139 x $155.71)	21.64
CAS-414 (.018 x $155.71)	2.80
RECOMMENDED UNIT PRICE	180.15

COMPANY 1 ACTUAL RATES		INDUSTRY AVERAGE RATES	
MANUFACTURING O/H	230.0%	MANUFACTURING O/H	254.0%
OTHER INDIRECT COSTS	29.1%	OTHER INDIRECT COSTS	30.6%
CAS-414	1.8%		

CALCULATIONS

30 ÷ 40 = 75%

30 x .00625 = .1875 + 1 = 1.1875 x 11.7 = 13.9% PROFIT

85-15 EXAMPLE

CONTRACTOR ABOVE INDUSTRY AVERAGE

DIRECT MATERIAL	$121.32
DIRECT LABOR (2.2 HOURS x $9.73)	21.41
	142.73
MANUFACTURING O/H (3.00 x $21.41)	64.23
	206.96
OTHER INDIRECT COSTS (.34 x $206.96)	70.37
	277.33
PROFIT (.128 x $277.33)	35.50
CAS-414 (.028 x $277.33)	7.77
RECOMMENDED UNIT PRICE	$320.60

COMPANY 2 ACTUAL RATES	
MANUFACTURING O/H	374.0%
OTHER INDIRECT COSTS	39.6%
CAS-414	2.8%

INDUSTRY AVERAGE RATES	
MANUFACTURING O/H	254.0%
OTHER INDIRECT COSTS	30.6%

CALCULATIONS

15 ÷ 40 = 38%

374 - 254 = 120 x .38 = 46 + 254 = 300% MANUFACTURING O/H

39.6 - 30.6 = 9 x .38 = 3.4 + 30.6 = 34% OTHER INDIRECT COSTS

15 x .00625 = .094 + 1 = 1.094 x 11.7 = 12.8% PROFIT

85-15 EXAMPLE
CONTRACTOR BELOW INDUSTRY AVERAGE

DIRECT MATERIAL	$121.32
DIRECT LABOR (2.2 HOURS x $9.73)	21.41
	142.73
MANUFACTURING O/H (2.30 x $21.41)	49.24
	191.97
OTHER INDIRECT COSTS (.291 x $191.97)	55.86
	247.83
PROFIT (.128 x $247.83)	31.72
CAS-414 (.018 x $247.83)	4.46
RECOMMENDED UNIT PRICE	$284.01

COMPANY 1 ACTUAL RATES	
MANUFACTURING O/H	230.0%
OTHER INDIRECT COSTS	29.1%
CAS-414	1.8%

INDUSTRY AVERAGE RATES	
MANUFACTURING O/H	254.0%
OTHER INDIRECT COSTS	30.6%

CALCULATIONS

15 ÷ 40 = 38%

15 x .0065 + 1 = 1.094 x 11.9 = 12.8% PROFIT

SHOULD COST PRICE ADJUSTMENT

DIRECT MATERIAL ($3392.52 x 1.042% ESCALATION)	3535.01
DIRECT LABOR ($480.15 x 1.032% ESCALATION)	495.52
SUBTOTAL A	4030.53
MANUFACTURING O/H (3.96% x $495.52 DIRECT LABOR)	1828.47
SUBTOTAL B	5859.00
OTHER INDIRECT COSTS (39.4% x $5859.00 SUBTOTAL B)	2308.45
SUBTOTAL C	8167.45
PROFIT (12.6% x $8167.45 SUBTOTAL C)	1029.10
CAS-414 (1.6% x $8167.45 SUBTOTAL C)	130.68
UNIT PRICE FOR PR QUANTITY	$9327.23

362

PRICE HISTORY

AWARD DATE	QUANTITY	UNIT PRICE
FEB 82	23	10,930.00
JUL 81	4	6,619.00

RECOMMENDED UNIT PRICE FOR 17 = $9,327.23

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS OKLAHOMA CITY AIR LOGISTICS CENTER (AFLC)
TINKER AIR FORCE BASE, OKLAHOMA 73145

REPLY TO ATTN OF: CRVB

SUBJECT: Should Cost Review

TO: PMX

Reference Purchase Request # F07030-84-09999, Buyer Code SSC, and attached Should Cost Price Recommendations for the Annual Buy Quantity and the Purchase Request Quantity. Our Should Cost Price Recommnedation is as of the date of signature by the CRVB Price Analyst, and does not include any escalation to mid-point of production. Our escalation recommendation for Direct Material and Direct Labor is as follows:

YEAR	MATERIAL	LABOR
1984	6.3 %	4.8 %
1985	7.9 %	5.6 %
1986	%	%
1987	%	%

Adjustment of the Should Cost Price Recommendation should follow the same format we have used and should include our rate recommendations for Manufacturing O/H, Other Indirect Costs, Profit, and CAS-414. The rate applications will apply after adjustment of Direct Material and Direct Labor for escalation and should be adjusted from date of award to production mid-point date. Our escalation recommendations should be prorated for the applicable number of months applying to each year shown above. We have attached a worksheet to be used for adjusting our Should Cost Price Recommendation for the Purchase Request quantity of 17 each. The worksheet has the applicable rates for Manufacturing O/H, Other Indirect Costs, Profit, and CAS-414 filled in and includes Direct Material and Direct Labor dollars for application of escalation.

PAUL McDANIEL, Chief
Value Analysis and Review Branch
Directorate of Competition Advocacy

AFLC - Lifeline of the Aerospace Team

SHOULD COST PRICE RECOMMENDATION

NSN 2840-00-406-8397 PQ Model # 1

Type Quantity Annual Quantity 23

Model Mix: Cat. 1 1, Cat. 2 _____, Cat. 3 _____, Cat. 4 99.

DIRECT MATERIAL	#3392.52
DIRECT LABOR (48.5 hours x #9.70 hourly rate)	470.45
Subtotal A	3862.97
MANUFACTURING O/H (369 % x $470.45 Direct Labor)	1735.96
Subtotal B	5598.93
OTHER INDIRECT COSTS (39.4 % x $5598.93 Subtotal B)	2205.98
Subtotal C	7804.91
PROFIT (12.6 % x $7804.91 Subtotal C)	983.42
CAS-414 (1.6 % x $7804.91 Subtotal C)	124.88
UNIT PRICE FOR QUANTITY ABOVE	#8913.21

PRICE ANALYST COMMENTS: _____

Price Analyst Signature Paul McDaniel

Date 5 March 84

SHOULD COST PRICE RECOMMENDATION

NSN 2840-00-406-8397PQ Model # 1

Type Quantity PR Quantity 17

Model Mix: Cat. 1 1, Cat. 2 _____, Cat. 3 _____, Cat. 4 99.

DIRECT MATERIAL	#3392.52
DIRECT LABOR (49.5 hours x #9.70 hourly rate)	480.15
Subtotal A	3872.67
MANUFACTURING O/H (36.9 % x $480.15 Direct Labor)	1771.75
Subtotal B	5644.42
OTHER INDIRECT COSTS (39.4 % x $5644.42 Subtotal B)	2223.90
Subtotal C	7868.32
PROFIT (12.6 % x $7868.32 Subtotal C)	991.41
CAS-414 (1.6 % x $7868.32 Subtotal C)	125.89
UNIT PRICE FOR QUANTITY ABOVE	#8985.62

PRICE ANALYST COMMENTS: _____

Price Analyst Signature Paul McDonald

Date 5 March 84

WORKSHEET FOR ADJUSTMENT OF SHOULD COST PRICE APPLICABLE TO PR QUANTITY

DIRECT MATERIAL ($3392.5 x _____% Escalation)

DIRECT LABOR ($480.15 x _____% Escalation) _____

Subtotal A

MANUFACTURING O/H (369 % x $_____ Direct Labor) _____

Subtotal B

OTHER INDIRECT COSTS (39.4 % x $_____ Subtotal B) _____

Subtotal C

PROFIT (12.6 % x $_____ Subtotal C)

CAS-413 (1.6 % x $_____ Subtotal C) _____

UNIT PRICE FOR PR QUANTITY _____

MATERIAL/LABOR ESTIMATOR WORKSHEET

A. ITEM DESCRIPTION:

1. NSN 2840-00-906-8397 PQ. 2. P/N 657271

3. NOMEN COMPR STATOR, 11TH STAGE, ASSY. 4. QUANTITY (SEE BELOW)

B. COMPUTATIONS:

MACHINE OR SKILL		TOOLING	SET-UP TIME PER RUN	OPER TIME PER PART	SET-UP TIME PER RUN	OPER TIME PER PART	SET-UP TIME PER RUN	OPER TIME PER PART
2	EB WELD		1.55	.333				
19	MACHINE				23.89	8.623		
16	HEAT TREAT				1.100	.500		
19	PLATING				4.05	2.518		
20	SHEET METAL				28.75	28.88		
21	WELD				5.300	2.031		
23	[illegible]							
	TOTAL		1.55	.333	66.56	45.159		

42.45 MAN HRS PER PART FOR 23 PART BUY. (1) YEAR

46.08 MAN HRS PER PART FOR A 115 PART BUY. (OPTIMUM BUY) (5) YEAR

C. ADDITIONAL REMARKS: (USE REVERSE, IF NECESSARY) ESTIMATED 5 ITEMS.

COST OF (104) P/N 649861 VALVES (REPLACES P/N 615761 VALVE) - $2,766.68. EST COST OF MAT'L FOR (1) SET OF DETAIL SHEETS - $23.00 PKG 734

CAPABILITY AT DARB - % 100 %. TYPE OF CORROSIVE MATL. NONE

D. APPLICABLE STOCK/PART: SIZE L 24" W 24" H 3"

[signature] (SIGNATURE) 2-8-89 (DATE)

PACKAGING VALUE ANALYSIS

PART I Item Description

NSN 2840 00 406 8397 P/N 6572711 NOUN Stator # 11

PR # _____ Mfg. [redacted] Qty. 23/12 Item Cost 11,757.96

Pkg. Date N/A Pkg. Cost #784

PART II Current Packaging Data Requirements in 2021

1 Mark-ing	2 Meth Pres	3 QUP	4 CLN DRY	5 Pres Matl.	6 Wrap Matl	7 Cush Matl.	8 T H	9 Unit Cont	10 ICQ	11 Int. Cont	12 LEV	13 WT	14 CU	15 LNG	16 WID	17 DEP	18 LVL PAK	19 OPT PRO	20 SUP INT
17	10	1	1	00	ZZ	ZZ	Z	ZZ	—	—	A	FE	BE	DB	DB	AF	B	A	I

Suppl Data TPO 00 157 3665

PART III Packaging Data as Reviewed

1 Mark-ing	2 Meth Pres	3 QUP	4 CLN DRY	5 Pres Matl.	6 Wrap Matl	7 Cush Matl.	8 T H	9 Unit Cont	10 ICQ	11 Int. Cont	12 LEV	13 WT	14 CU	15 LNG	16 WID	17 DEP	18 LVL PAK	19 OPT PRO	20 SUP INT

Suppl Data _____

PART IV Review Summary

1. MFG Packaging is/is not IAW current requirements N/A
2. Current Packaging Requirements are exceeded. ____
3. Current Packaging requirements are/are not cost effective. ____
4. New Mil Std 726 Coding required. ____
5. Deleted Mil Std 726 coding. ____
6. Item is being damaged or corroding. ____
7. Part and drawing available. ____

8. Essential Action:

____a. AFLC Form 502, "Preservation, Packaging and Transportation Data."

____b. SF 364 "Report of Discrepancy."

____c. Amendment to, "Preservation, Packaging, and Packing Rqmts, AFLC Form 972."

PART V Remarks

_____

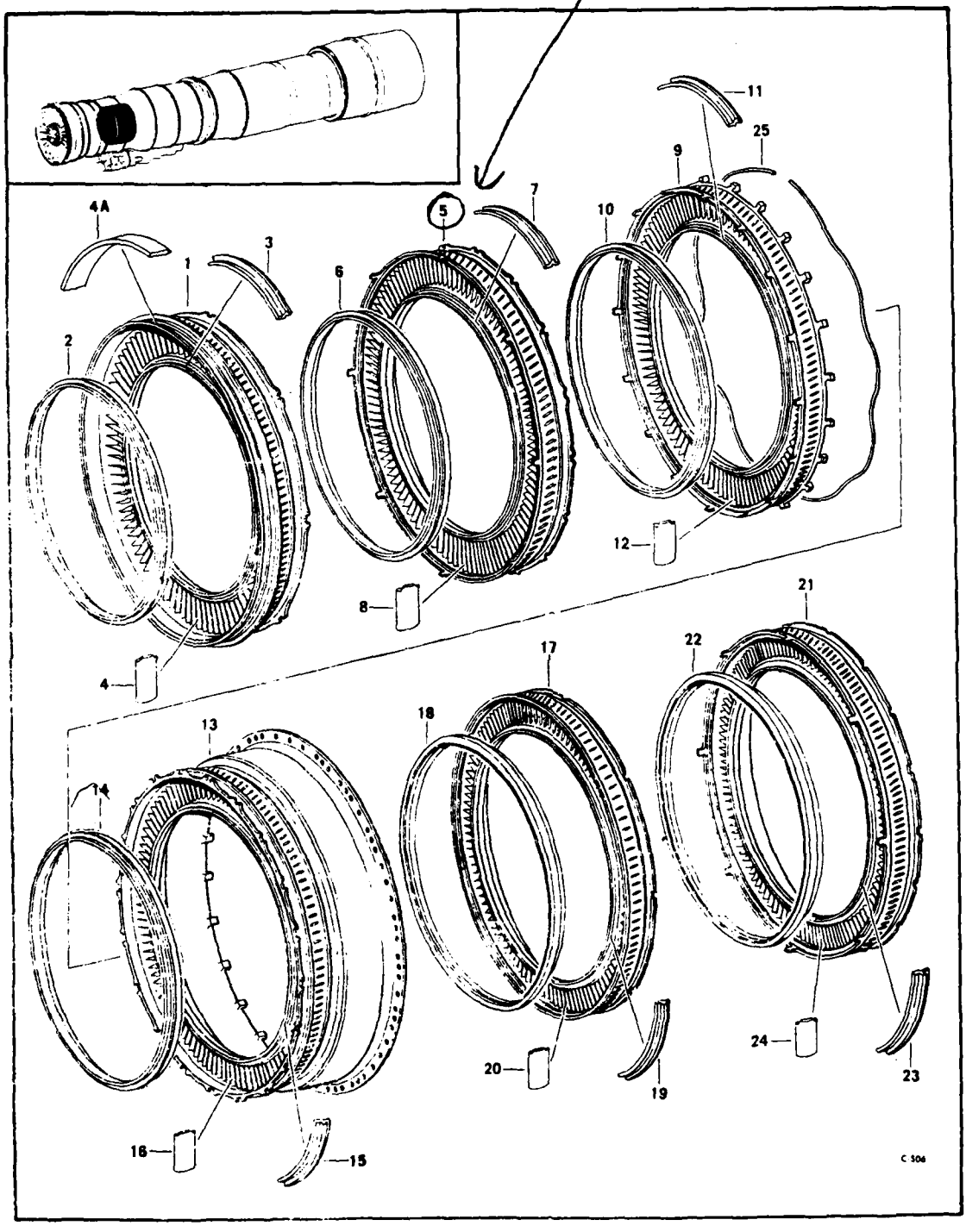
_____

_____

D. S. Hill
PACKAGING SPECIALIST

10 Feb 84
DATE

6
REVISION 6



2-52

FIGURE 14 - STATORS-REAR COMPRESSOR

7

OC-ALC/PMXD (2)

DAILY PROCUREMENT HISTORY RECORD 09-29-83 A-J041.-6CK-DG-M60 PG 5773

FOR PP BUYER - OPP REPLENISHMENT SPARE SN 1650006017855 NOUN VALVE ASSY PROC METH CODE 3P STD PRICE 623.48

PR/MIPR NO PREVIOUS SN 1650601785SHS PR/MIPR LI QTY UNIT OF ISSUE EA EST PRICE

LN NO	PIIN	PIIN SUPP	CLIN ELIN	DATE OF AWARD	BSB	CONTRACT L/I QTY	PRCH UNIT	COMP CODE	IST ART	TYPE INSTR	TYPE CONT	NO SOL	OFR REC	TYPE RQM	PRI	ADV NEG	PRICE FOB	PRICE EVAL	EST ACT	UNIT PRICE
01	F0960382G1471	SD5300	0001	83234	4VF	36	EA	FOT		C	J	01	01	2	R	03B	S	E	A	469.46
02	F0960382G1471	SD3900	0001	83174	4VF	20	EA	FOT		C	J	01	01	2	E	03B	S	E	A	502.00
03	F0960382G1471	SD2200	0001	82351	4VM	23	EA	FOT		C	J	01	01	2	R	03B	S	G	A	484.68
04	F3460176A1693	001200	0001	76303	4VK	62	EA	FOP		C	J	01	01	2	E	03A	S	J	A	155.40

LN NO	PREVIOUS CONTRACTOR	CONTR IDENT	TYPE PMC	AMOP	CONTRR	MANUFACTURERS PART NUMBER	ADM L/T	SCH PLT	ACT PLT	DATE LAST DELIVERY
01	[redacted]	[redacted]	3P	3	LB	31C55	068	275	000	84144
02			3P	3	LB	31C55	106	281	000	84090
03			3P	3	LB	31C55	084	348	000	83334
04				3	LB	31C55	059	205	213	77151

****
* *
* POTENTIAL SET-ASIDE *
* *
****

PACER PRICE DATA

Economic Production Qty		Projected Buy Qty	Date Of Analysis	Direct Labor Hours	Direct Material $	Indirect Cost & Profit	Should Cost Price	Remarks
300	**********	65	83347	4.8	63.25	244.75	356.00	

AUDIT FOLLOWUP

A WORKSHOP

PRESENTER: MR. JOHN H. LYNSKEY
CHAIRMAN, SECTION XV DAR SUBCOMMITTEE
HQ UNITED STATES AIR FORCE

CONTRACT AUDIT FOLLOWUP

BY JOHN H LYNSKEY

THIS WORKSHOP TODAY IS TO PROVIDE A BASIC UNDERSTANDING OF THE PROVISIONS OF DOD DIRECTIVE 7640.2, POLICY FOR FOLLOWUP ON CONTRACT AUDIT REPORTS. I WILL ALSO COVER PROPOSED CHANGES TO THE DIRECTIVE THAT ARE IN PROCESS, THE PROGRESS THE AIR FORCE HAS MADE IN CLOSING AUDITS, SOME OF OUR MISTAKES AND OPEN A DISCUSSION ON PROBLEMS CURRENTLY BEING EXPERIENCED.

CONTRACT AUDIT FOLLOWUP - DOD 7640.2

- HISTORICAL BACKGROUND
- TRACKING REQUIREMENTS
- REPORTABLE VS NONREPORTABLE AUDITS
- DESIGNATED INDEPENDENT SENIOR ACQUISITION OFFICIALS
- RESOLUTION
- DISPOSITION
- COMPARATIVE STATISTICS
- PROGRESS TO DATE
- POLICY CHANGES

1ST CHART PLEASE

MY PRESENTATION WILL BRIEFLY TOUCH ON EACH OF THESE TOPICS. AS BACKGROUND DOD DIRECTIVE 7640.2 WAS ISSUED ON 29 DECEMBER 1982 AND CANCELED THE PREVIOUS DOD DIRECTIVE 5000.42 ON THE SAME SUBJECT. THE DIRECTIVE ALSO IMPLEMENTED O.M.B. CIRCULAR A-50. THE INTENT AND SCOPE OF 7640.2 IS SPELLED OUT IN THE POLICY SECTION OF THE REGULATION WHICH STATES THAT THE AUDIT FOLLOWUP SYSTEM PROVIDES FOR:

1. THE TRACKING AND REPORTING ON SPECIFIED TYPES OF AUDIT REPORTS.
2. A PROCEDURE TO REVIEW DIFFERENCES IN THE RESOLUTION OF CONTRACT AUDIT RECOMMENDATION AND
3. AN EVALUATION OF THE EFFECTIVENESS OF THE SERVICES AUDIT FOLLOWUP SYSTEM

I READ THIS LANGUAGE SPECIFICALLY TO POINT OUT THAT THE LANGUAGE DOES NOT REQUIRE THE DOD/IG FOLLOWUP PERSONNEL TO INVOLVE THEMSELVES IN EVALUATING THE MERITS OF ANY NEGOTIATED SETTLEMENT. ANY INVESTIGATION OF THE MERITS OF A SETTLEMENT IS A SEPARATE AUDIT AND NOT THE FUNCTION OF THE FOLLOWUP TEAM.

TRACKING
(DOD DIRECTIVE 7640.2)

- <u>WHAT MUST BE TRACKED</u>
  - ALL CONTRACT AUDIT REPORTS -- PRE- AND POST-AWARD
  - FOR PRE-AWARD -- NORMAL CONTRACT FILES USED FOR TRACKING

- <u>WHAT MUST BE REPORTED</u>
  - PRE-AWARD -- NONE
  - POST-AWARD -- REPORTS THAT PASS CERTAIN CRITERIA

NEXT CHART PLEASE # 2

THIS CHART EXPLAINS WHAT MUST BE TRACKED AND REPORTED. THIS IS IMPORTANT BECAUSE PEOPLE KEEP FORGETTING THE GROUND RULES. ALL CONTRACT AUDIT REPORTS MUST BE TRACKED. THIS APPLIES TO PRE AS WELL AS POST AWARD AUDITS. BUT NOT ALL AUDITS MUST BE REPORTED. WE ARE NOT REQUIRED TO REPORT ON PRE-AWARD AUDITS AND ONLY CERTAIN POST-AWARD AUDITS NEED TO BE REPORTED.

REPORTABLE AUDITS
(DOD DIRECTIVE 7640.2)

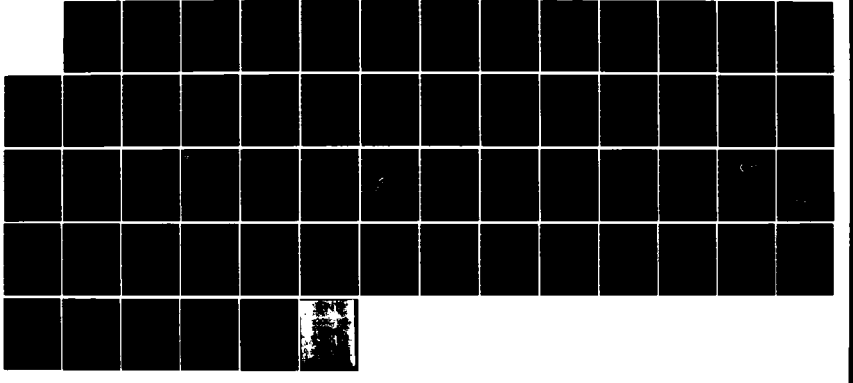
- AUDIT REPORTS CONTAINING RECOMMENDATIONS
  - ESTIMATING SYSTEM SURVEYS
  - ACCOUNTING SYSTEM REVIEWS
  - INTERNAL CONTROL REVIEWS
  - DEFECTIVE PRICING
  - CAS NONCOMPLIANCE AND COST IMPACT REVIEWS
  - OPERATION AUDITS

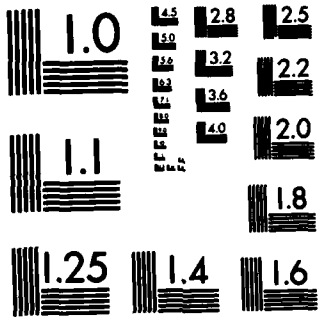
- AUDITS COVERING
  - INCURRED COSTS
  - SETTLEMENT OF INDIRECT COST
  - FINAL PRICING SUBMISSIONS
  - TERMINATION SETTLEMENT PROPOSALS
  - EQUITABLE ADJUSTMENT/HARDSHIP AND ESCALATION CLAIMS

:PROVIDED QUESTION COST = $50,000

AD-A143 040 PROCEEDINGS OF THE WORLDWIDE AIR FORCE PRICING CONFERENCE 'ENHANCING AIR..(U) DEPARTMENT OF THE AIR FORCE WASHINGTON DC MAR 84 5/5

UNCLASSIFIED F/G 5/1 NL





MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A

NEXT CHART PLEASE # 3

AS THE CHART INDICATES, ALL AND I WILL REPEAT THE WORD "ALL" AUDIT REPORTS CONTAINING RECOMMENDATIONS ON THE CONTRACTOR'S ESTIMATING SYSTEM, ACCOUNTING SYSTEM, INTERNAL CONTROL, DEFECTIVE PRICING, OPERATIONAL AUDITS AND COST ACCOUNTING STANDARDS NON-COMPLIANCE AND COST IMPACT REVIEWS. THESE REVIEWS CAN BE ON A CONTRACTOR'S TOTAL SYSTEM OR ONLY A SMALL ELEMENT OF IT. IT MAKES NO DIFFERENCE THE AUDIT MUST BE REPORTED. JUST LAST WEEK, THE DOD/IG REPORTED THAT AT A AFPRO LOCATION, 8 AUDITS ESTIMATING SYSTEMS WERE NOT REPORTED. THE 2ND CATEGORY ON THIS CHART INVOLVES AUDITS OF BASICALLY HISTORICAL COSTS WHERE THE COSTS QUESTION EQUALS OR EXCEEDS 50,000. WHERE THE AMOUNT IN QUESTION IS BELOW 50,000, REPORTING IS NOT REQUIRED.

NOT REPORTABLE AUDITS
(DOD DIRECTIVE 7640.2)

- OLD LANGUAGE

  AUDIT REPORTS COVERING:

  - FORWARD PRICING PROPOSALS
  - ADVANCE RATE AGREEMENTS
  - PROGRESS PAYMENTS
  - CLOSING STATEMENTS

- NEW LANGUAGE (EFFECTIVE SEPTEMBER 30, 1984)

  AUDIT REPORTS COVERING:

  - PRE-AWARD PROPOSALS
  - PROGRESS PAYMENTS
  - PROPOSALS FOR CHANGE ORDERS AND MODIFICATIONS
  - PRE-AWARD SURVEYS
  - FORWARD PRICING, LABOR, OVERHEAD, AND OTHER ADVANCE RATE PROPOSALS
  - ASSIST AUDITS ON SUBCONTRACT ON PROPOSALS
  - CLOSING STATEMENTS

NEXT CHART PLEASE #4

THE DOD DIRECTIVE ALSO DEFINED WHAT AUDITS DID NOT HAVE TO BE REPORTED. THE TWO MAJOR CATEGORIES WERE AUDITS ON FORWARD PRICING PROPOSALS AND PROGRESS PAYMENTS. IT BECAME APPARENT TO THE SERVICES, HOWEVER, THAT THE DEFINITION DEVELOPED BY THE DOD/IG STAFF WAS INADEQUATE. THE SERVICES IN CONJUNCTION WITH O.S.D. SUBMITTED A REVISED DEFINITION WHICH THE DOD/IG STAFF RECENTLY ACCEPTED. THE NEW DEFINITIONS WILL BE EFFECTIVE FOR THE SEPTEMBER 30, 1984 SEMIANNUAL REPORT. THE NEW DEFINITION WILL ADD THREE NEW AREAS WHERE AUDITS ARE NOT REQUIRED TO BE REPORTED. FOR EXAMPLE, PROPOSALS FOR CHANGE ORDERS OR MODIFICATION, PRE-AWARD SURVEYS, AND ASSIST AUDITS ON SUBCONTRACTOR PROPOSALS.

DESIGNATED INDEPENDENT SENIOR ACQUISITION OFFICIALS (DISAOs)
(DOD DIRECTIVE 7640.2)

- REVIEW DISPOSITION WHEN ACO/PCO DISAGREES WITH AUDITOR ON:
  - POST-AWARD SURVEY -- ESTIMATING, ACCOUNTING
  - POST-AWARD HISTORICAL COST REVIEWS -- INCURRED COST REVIEWS TO ESCALATION CLAIMS WHERE:
    - COST QUESTION EQUAL $50,000 OR MORE AND DISAGREEMENT AT LEAST 5% OF QUESTIONED COSTS ($2,500)
  - PRENEGOTIATION OBJECTIVES FOR FORWARD PRICING ACTIONS
    - WHEN COST QUESTION EQUAL $500,000 AND DISAGREEMENT AT LEAST 5% OF QUESTIONED COSTS ($25,000)
- DISAO ISSUES A RECOMMENDATION -- CONTRACTING OFFICER STILL HAS RESPONSIBILITY FOR DECISION

NEXT CHART PLEASE # 5

THE DOD DIRECTIVE REQUIRED THE SECRETARIES OF EACH MILITARY DEPARTMENT TO DESIGNATE INDEPENDENT SENIOR ACQUISITION OFFICIALS WITHIN THEIR PROCUREMENT AND CONTRACT ADMINISTRATION FUNCTIONS. THE SENIOR ACQUISITION OFFICIALS TASK IS TO REVIEW DISPOSITION OF AN AUDIT WHEN THE ACO/PCO DISAGREE WITH THE AUDITOR AND THE AUDIT IS

1. ONE OF THE POST-AWARD SURVEYS OR
2. IT IS A POST-AWARD HISTORICAL COST REVIEW AND IT INVOLVES 50,000 OF COST QUESTION AND THE AMOUNT OF THE DISAGREEMENT EQUALS 5% OR 2,5000 OF THE COST QUESTIONED. OR
3. FOR PRENEGOTIATION OBJECTIVES FOR FORWARD PRICING ACTIONS WHERE THE COST QUESTION EQUALS 500,000 AND DISAGREE EQUALS 5% OR 25,000.

I THINK IT IS IMPORTANT HERE TO RESTATE THAT THE DISAO REVIEW RESULTS ONLY IN A RECOMMENDATION. THE CONTRACTING OFFICER STILL HAS THE RESPONSIBILITY FOR THE FINAL DECISION. HOWEVER, FROM A PRACTICAL SENSE, ANOTHER PART OF THE CONTRACTING OFFICER'S AUTHORITY IS ERODED.

DISPOSITION

(DOD DIRECTIVE 7640.2) - OLD

WITHIN 6 MONTHS.....

- CONTRACTOR IMPLEMENTS RECOMMENDATION
- CONTRACTING OFFICER NEGOTIATES A SETTLEMENT WITH CONTRACTOR
- CONTRACTING OFFICER MAKES A UNILATERAL DECISION

  IF APPEALED BY CONTRACTOR, DECISION RENDERED BY ASBCA OR U.S. COURT OF CLAIMS
- CONTRACTING OFFICER DETERMINES NO ACTION IS REQUIRED

PARTICIPANTS: CONTRACTING OFFICER & AUDITOR & CONTRACTOR

NEXT CHART PLEASE #6

THERE HAS BEEN SOME CONFUSION AS TO WHEN AN AUDIT RESOLVED. AS THE CHART INDICATES THE OMB CIRCULAR DEFINES RESOLUTION AS WHEN THE AUDITOR AND CONTRACTING OFFICER AGREE, OR IF A DISAGREEMENT ARISES, WHEN THE PROPOSED SETTLEMENT IS SUBMITTED FOR DISAO REVIEW AND THE CONTRACTING OFFICER ACTS ON THE RECOMMENDATION.

NEXT CHARTS PLEASE 7 AND 7A

THESE TWO CHARTS OUTLINE THE CURRENT DEFINITION FOR THE "DISPOSITION OF AUDIT REPORT's AND THE NEW COVERAGE THAT WILL BE EFFECTIVE FOR THE SEPTEMBER 84 SEMIANNUAL REPORT. THE FIRST IMPORTANT CHANGE IS THAT THE DISPOSITION STANDARD WILL BE RAISED FROM SIX MONTHS TO 12 MONTHS. THE DEFINITION OF WHEN AN AUDIT IS CONSIDERED CLOSED HAS ALSO BEEN CLARIFIED. REPORTS ARE CLOSED-NOT WHEN YOU NEGOTIATE OR THE DATE THE ASBCA MAKES A DECISION OR THE DATE OF A CONTRACTING OFFICERS FINAL DECISION. IT IS THE DATE WHEN THE CONTRACTUAL DOCUMENT IMPLEMENTING THE RECOMMENDATIONS IS SIGNED. PLEASE GET THE MESSAGE TO YOUR FOCAL POINTS, IF THE CONTRACTUAL DOCUMENT IS NOT SIGNED - DO NOT REPORT THE AUDIT CLOSED. THE IG HAS WRITTEN UP SEVERAL CASES WHERE WE HAVE REPORTED SOME AUDITS CLOSED AND IT IS NOT CLOSED. AN ADDITIONAL FACTOR HAS BEEN ADDED TO COVER THOSE SITUATIONS WHERE AUDITS ARE SPECIFICALLY SUPERSEDED OR INCORPORATED IN A LATER REPORT.

SO FAR, I HAVE GIVEN YOU A BRIEF INSIGHT INTO THE BASIC REQUIREMENTS OF DOD DIRECTIVE 7640.2 AND NOW WILL PRESENT SOME AUDIT FOLLOWUP STATISTICS FOR THE SEPTEMBER 30, 1983 SEMIANNUAL REPORT.

DISPOSITION

(DOD DIRECTIVE 7640.2) - NEW

WITHIN 12 MONTHS (SEPTEMBER 30, 1984).....

- CONTRACTOR IMPLEMENTS AUDIT RECOMMENDATION OR CONTRACTING OFFICER'S DECISION
- CONTRACTING OFFICER NEGOTIATES A SETTLEMENT WITH CONTRACTOR AND CONTRACTUAL DOCUMENT HAS BEEN EXECUTED
- CONTRACTING OFFICER MAKES A UNILATERAL DECISION
  - IF APPEALED, DECISION RENDERED BY ASBCA OR U.S. COURT OF CLAIMS AND CONTRACTUAL DOCUMENT EXECUTED
- AN AUDIT REPORT HAS BEEN SUPERSEDED BY OR INCORPORATED INTO SUBSEQUENT REPORT
- ALL CORRECTIVE ACTION DEEMED NECESSARY BY CONTRACTING OFFICER HAS BEEN TAKEN

STATUS OF CONTRACT AUDIT REPORTS
AS OF SEPTEMBER 30, 1983

	REPORTED OVERAGE 3/30/83	REPORTED OVERAGE 9/30/83	REPORTS LESS THAN 6 MONTHS OLD	CLOSED DURING PERIOD
ARMY	68	98	74	61
NAVY	187	245	77	132
AIR FORCE	160	225	189	178
DLA	191	327	325	297
	606	895	665	668

NEXT CHARTS PLEASE 8 AND 8A.

AS OF THE SEPTEMBER 83 SEMIANNUAL REPORT THE AIR FORCE HAD 225 OVERAGE AUDITS OUT OF A TOTAL OF APPROXIMATELY 900 OR 25 PERCENT. FROM MARCH TO SEPTEMBER THE NUMBER OF OVERAGE AUDITS WENT UP BUT SO DID THE REPORTING THRESHOLDS. THE OVERAGE AUDITS BASICALLY FELL IN THREE CATEGORIES: COST ACCOUNTING STANDARDS, DEFECTIVE PRICING AND INDIRECT COST RATES. THE AMOUNT ON THE BOTTOM OF 699 MILLION REPPESENTS THE VALUE OF THE COSTS QUESTIONED FOR 225 AUDITS.

OVERAGE CONTRACT AUDIT REPORTS
AS OF SEPTEMBER 30, 1983

TYPE OF CONTRACT	NUMBER OF REPORTS ARMY	NAVY	AIR FORCE	DLA	TOTAL	PERCENT OF TOTALS
COST ACCOUNTING STANDARDS	8	31	38	132	209	23%
DEFECTIVE PRICING	46	81	75	4	206	23%
INCURRED COSTS	10	17	23	3	53	6%
INDIRECT COST RATES	1	59	55	148	263	29%
OPERATIONAL AUDITS	1	14	17	9	41	5%
ALL OTHERS	32	43	17	31	123	14%
TOTAL COST	98	245	225	327	895	100%
QUESTIONED (000)	123.2	847.9	669.2	321.5	1,961.8	

STATUS OF CONTRACT AUDIT REPORTS
SIX MONTHS ENDED SEPTEMBER 30, 1983

TYPE OF REPORT	NUMBER OF REPORTS CLOSED DURING PERIOD					
	ARMY	NAVY	AIR FORCE	DLA	TOTAL	PERCENT OF TOTAL
COST ACCOUNTING STANDARDS	6	28	50	86	170	25%
DEFECTIVE PRICING	12	34	42	13	101	15%
INCURRED COSTS	8	10	9	16	43	7%
INDIRECT COST RATES	3	14	39	52	108	16%
OPERATIONAL AUDITS	3	19	32	34	88	13%
ALL OTHERS	29	27	6	96	158	24%
	61	132	178	297	668	100%

NUMBER OF AUDITS - SEPTEMBER 30, 1983

COMMAND	OVERAGE	SIX MONTHS	CLOSED		
			OVERAGE	SIX MONTHS	TOTAL
AFSC	130	152	79	75	154
AFLC	42	35	17	0	17
MAC	1	0	0	1	1
ATC	1	0	1	0	1
USAFE	1	0	3	0	3
SPACE	0	1	0	0	0
ALASKAN	0	1	0	0	0
AFCC	0	0	1	1	2
	225	189	101	77	178

NEXT CHART PLEASE 9.

THIS CHART BASICALLY GIVES THE NUMBER OF AUDIT REPORTS CLOSED BY THE SERVICES IN THE SIX MONTH PERIOD AND IN WHAT AREAS THEY WERE CLOSED. ON TUESDAY MR VANDER SCHAAF STATED THAT ON THE 101 AUDITS CLOSED, DOD REALIZED ONLY 18 PERCENT OF TOTAL COST QUESTION AND THAT PERCENTAGE WAS UNACCEPTABLE TO HIM. TO THE IG I ASK THE QUESTION, "WHAT IS A GOOD PERCENTAGE?" I HAVE NO IDEA WHAT A GOOD PERCENTAGE AND AS FAR AS I KNOW--NOBODY IN DOD KNOWS WHAT A GOOD PERCENTAGE IS. ALSO, "IS IT A GOOD IDEA TO COMPARE RECOVERY RATES FOR OVERHEAD AUDITS VS DEFECTIVE PRICING CASES?" I THINK NOT. HOWEVER, I AND SEVERAL OF THE OTHER SERVICE FOCAL POINTS WOULD LIKE TO AUDIT THE IG'S CALCULATION OF HOW THEY ARRIVED AT THE PERCENTAGE. I HAVE MY DOUBTS THAT THE PERCENTAGE IS A TRUE REFLECTION OF WHAT IS GOING ON.

AFSC OVERAGE AUDITS

NUMBER OVERAGE

	MAR 82	SEP 82	MAR 83	SEP 83*	JAN 84
NUMBER OVERAGE	132	136	181	180	178
IN LITIGATION	21	23	28	17	21
NOT IN LITIGATION	111	113	153	163	157
EXCLUDE NEW THRESHOLD				116	126

* NEW THRESHOLD IMPLEMENTED SEP 83

NEXT CHART PLEASE 10

THIS CHART BREAKS DOWN THE NUMBER OF AUDITS BY EACH OF THE AIR FORCE'S COMMANDS. FOR ALL PRACTICAL PURPOSES, AFSC AND AFLC ARE THE PRIMARY COMMANDS ON WHICH DODD 7640.2 HAS THE GREATEST IMPACT. IN ORDER TO GIVE YOU SOME IDEA ON HOW THE COMMANDS ARE RESPONDING, I WILL CONCENTRATE MY DISCUSSION FOR THE BALANCE OF THE CHARTS ON AFSC STATISTICS ALONE.

AT FIRST GLANCE, IT APPEARS THAT WE ARE STANDING STILL. WE HAVE APPROXIMATELY THE SAME NUMBER OF OVERAGE AUDITS IN MARCH 83 AS WE DO IN JANUARY 84. HOWEVER, SINCE MARCH 83, THE IG AND THE AIR FORCE HAVE UNDERTAKEN EXTENSIVE REVIEWS TO UNCOVER PREVIOUSLY UNREPORTED AUDITS. SOMEWHERE IN THE AREA OF 50 AUDITS HAVE BEEN FOUND. ADDITIONALLY, THE THRESHOLDS FOR REPORTING WERE REVISED IN SEPTEMBER 83 AND ANOTHER 50 OR 60 AUDIT REPORTS WERE ADDED. YET THE NUMBER OF OVERAGE AUDITS HAS GONE DOWN. ONE AREA THAT WE ARE CLOSELY MONITORING IS THE TREND OF THE NUMBER OF AUDITS IN LITIGATION.

AFSC PROGRESS

	SEP 83	NEW OVERAGE	ADJUSTMENT	TOTAL	CLOSED	BALANCE 1/31/84
OVERAGE	180	64	21*	265	88	177
SIX MONTHS	189	106	0	295	103	131
CLOSED	178				191	308

* REPORTS OMITTED

NEXT CHART PLEASE 11

THROUGH JANUARY 31, AFSC HAS CLOSED 191 AUDITS AS COMPARED TO THE 178 CLOSED FOR THE ENTIRE 6-MONTH PERIOD ENDING IN SEPTEMBER 83. THE NUMBER OF TOTAL REPORTABLE AUDITS HAS BEEN REDUCED FROM 369 TO 308. THE BREAKOUT OF THE CLOSED REPORTS INDICATES THAT AFSC MANAGEMENT ATTENTION HAS BEEN BROUGHT TO THE PROBLEM AND WE ARE CLOSING A SIGNIFICANT NUMBER OF AUDITS WITHIN THE FIRST SIX MONTHS.

CONTRACT AUDIT FOLLOWUP
POLICY CHANGES

- DISPOSITION TIME STANDARD -- 6 MONTHS TO 12 MONTHS
- SEPARATE REPORTING FOR AUDITS IN LITIGATION
- SUBMISSION OF SEMIANNUAL REPORT TO DOD/IG
  - NO CHANGE IN 30-DAY PERIOD
  - ESTABLISH CUTOFF DATE PRIOR TO END OF REPORT PERIOD
- CHANGED DEFINITIONS FOR:
  - REPORTABLE
  - NONREPORTABLE
  - DISPOSITION
- DISCUSSIONS CONTINUING
  - TREATMENT OF INTERIM OR DRAFT OVERHEAD AUDITS
  - REDUCTION OF VISITS

NEXT CHART PLEASE

I HAVE ALREADY DISCUSSED THE CHANGE IN THE DISPOSITION STANDARD FROM 6 TO 12 MONTHS. THE DOD/IG ALSO AGREED TO SEGREGATE AUDITS IN LITIGATION AND REPORT THEM SEPARATELY FROM OTHER OVERAGE AUDITS. WE HAVE TRIED TO GET THE IG TO INCREASE THE 30-DAY PERIOD FOR PREPARATION OF THE SEMIANNUAL REPORT. UNFORTUNATELY, THE LANGUAGE OF THE IG ACT SPECIFICALLY LISTS THE REPORTING DATE. AN ALTERNATIVE THAT WE ARE LOOKING AT IS ESTABLISHING A CUT-OFF DATE PRIOR TO THE END OF THE 6-MONTH PERIOD.

I PREVIOUSLY COVERED THE PROPOSED NEW LANGUAGE FOR REPORTABLE VS NONREPORTABLE AUDITS.

THE LAST TOPIC INVOLVES DISCUSSIONS WITH THE DOD/IG TO REDUCE THE NUMBER OF FIELD VISITS. THE IG AUDIT FOLLOWUP TEAM IN THIS MONTH ALONE WILL VISIT 19 DIFFERENT AIR FORCE LOCATIONS AND 25 LOCATIONS FOR THE FIRST QUARTER TO PROVIDE SOME PERSPECTIVE IN THIS AREA. IT IS HIGHLY POSSIBLE THAT THE IG'S TRAVEL EXPENSES FOR THE 1ST QUARTER OF 84 MAY EXCEED THE TOTAL TRAVEL BUDGET THAT GENERAL WEISS HAS TO OVERSEE ALL THE PROCUREMENT OPERATIONS OF THE AIR FORCE. WHEN THE TRAVEL EXPENSES OF THE MONDAY MORNING QUARTERBACKS EXCEED THE TRAVEL COSTS OF THE DOERS AND THE FIRST LINE TROOPS, THEN MAYBE DOD SHOULD REASSESS ITS PRIORITIES. THESE VISITS TIE UP THE VERY INDIVIDUALS WHO MUST ACCOMPLISH OUR BASIC FUNCTION OF PROCURING GOODS AND SERVICES.

BEFORE I CLOSE I WOULD LIKE TO LEAVE WITH YOU THE FOLLOWING THOUGHTS.

- STOP LOOKING AT THE DOD/IG AS THE BAD GUY. THEY HAVE UNCOVERED WEAKNESSES IN OUR PROCEDURES THAT NEEDED TO BE CORRECTED.

- SECOND, WE DO NOT NEED THE IG TO CLEAN UP OUR OWN HOUSE OR MANAGEMENT FOR US. I AM CONVINCED THAT AS WE GET BETTER THE IG WILL HAVE LESS AND LESS FINDINGS.

AND LASTLY, OUR SUBMISSIONS TO THE DOD/IG ARE ONLY AS GOOD AS YOU PEOPLE MAKE THEM. CURRENTLY, WE HAVE A CASE WHERE MR WILLIAMS OF THE SECRETARIATE IS CONCERNED ABOUT THE CREDIBILITY OF OUR FIELD RESPONSES. WE RESPONDED TO THE IG ON A SUBJECT AND WITHIN A MONTH, AN IG FIELD VISIT REVEALED THAT OUR DATA WAS INACCURATE. WE CANNOT AFFORD THIS LOSS OF CREDIBILITY.

THANK YOU.

December 29, 1982
NUMBER 7640.2

Department of Defense Directive

IG, DoD

SUBJECT: Policy for Followup on Contract Audit Reports

References: (a) DoD Directive 5000.42, "Policy for Follow-up on Audit Recommendations," August 31, 1981 (hereby canceled)
(b) Office of Management and Budget (OMB) Circular A-50 (Revised), "Audit Followup," September 29, 1982
(c) DoD Directive 5000.41, "Followup on Reports from the General Accounting Office and Audit and Internal Review Organizations of the Department of Defense," March 15, 1982
(d) through (h), see enclosure 1

A. PURPOSE

This Directive reissues reference (a), implements reference (b) by prescribing followup policies and a system for management action on contract audit reports, and assigns responsibilities.

B. APPLICABILITY

This Directive applies to the Office of the Secretary of Defense, the Military Departments, the Organization of the Joint Chiefs of Staff, and the Defense Agencies (hereafter referred to as "DoD Components").

C. POLICY

The Department of Defense recognizes, under reference (c), the need for special guidance for followup on contract audit reports to accommodate the differences between such audits or reviews and those performed by internal auditors. The contract audit followup system provides for (a) tracking and reporting specified types of contract audit reports; (b) a procedure to review differences on the resolution of contract audit recommendations; and (c) an evaluation of the effectiveness of the DoD Components' followup systems.

D. DEFINITIONS

Terms used in this Directive are defined in enclosure 2.

E. PROCEDURES

1. General. Contracting officers and acquisition management officials shall pursue timely resolution and disposition of contract audit reports. Resolution of contract audit reports by law is required within 6 months of report issuance, and disposition normally shall be completed within 6 months. The contract audit followup system shall be structured in consonance with the independent decisionmaking role of the contracting officer and the financial advisory role of the contract auditor.

2. Tracking Requirements

a. All contract audit reports are to be tracked; however, only the contract audits specified in paragraph E.3.a., below, are to be reported. For preaward contract audits, tracking may be accomplished using records maintained in official contract files.

b. Individual procurement or contract administration offices shall track the status of all specified contract audit reports from the date of receipt through final disposition. This information shall be maintained on a current basis and shall serve as the source document for followup status reports. Audit reports may be dropped from the tracking system in the period following closing.

3. Reporting Requirements

a. Audit reports covering forward pricing proposals, advance rate agreements, progress payments, and closing statements are not required to be reported. DoD acquisition and contract administration organizations shall maintain timely and complete information regarding the status of reportable contract audit reports from the time the report is received through final disposition. Reportable audit reports are:

(1) Those containing recommendations covering estimating system surveys, accounting system reviews, internal control reviews, defective pricing reviews, cost accounting standards noncompliance determinations, and operations audits.

(2) Those covering incurred costs, settlement of indirect cost rates, final pricing submissions, termination settlement proposals, equitable adjustment claims, hardship claims, and escalation claims provided reported costs or rates questioned equal $50,000 or more.

b. The information maintained by DoD Components regarding the status of reportable contract audits shall be reported semiannually and include the following data:

(1) For reports closed during the reporting period. The audit report number, report date, contractor name, type of audit, date of disposition costs questioned or cost avoidance, and costs questioned or avoidance sustained

(2) For open reports. The audit report number, report date, contractor name, type of audit, amount audited, costs questioned or cost avoidance, whether an independent review was requested, whether the report is pending litigation, whether the report is resolved or unresolved, and disposition target date.

(3) Followup status reports (enclosure 3) for semiannual periods ending March 31 and September 30 shall be submitted to the Inspector General, DoD, (IG), within 30 calendar days after the end of the period.

4. Resolution of Contract Audit Report Recommendations

a. From the time of audit report receipt to the time of final disposition of the audit report, there shall be continuous communication between the auditor and the contracting officer. When the contracting officer's proposed disposition of contract audit report recommendations differs from the contract auditor's report recommendations, and the criteria set forth below are met, the contracting officer's proposed disposition shall be brought promptly to the attention of a designated independent senior acquisition official or board (DISAO) for review. Each DoD acquisition component shall designate a DISAO at each appropriate organizational level who shall review the referred proposed disposition on the following:

(1) All audit reports covering estimating system surveys, accounting system reviews, internal control reviews, defective pricing reviews, cost accounting standards noncompliance reviews, and operations audits.

(2) Audit reports covering incurred costs, settlement of indirect cost rates, final pricings, terminations, equitable adjustment claims, hardship claims, and escalation claims if total costs questioned equal $50,000 or more and differences between the contracting officer and auditor total at least 5 percent of questioned costs.

(3) Prenegotiation objectives for forward pricing actions when questioned costs total at least $500,000 and unresolved differences between the auditor and contracting officer total at least 5 percent of the total questioned costs.

b. Existing acquisition review boards or panels, at appropriate organizational levels, may be designated to perform these functions provided they possess enough independence to conduct an impartial review. The DISAO will receive for review, along with other technical materials, the contract auditor's report. The DISAO shall give careful consideration to recommendations of the auditors, as well as the recommendations rendered by the other members of the contracting officer's team, in reviewing the position of the contracting officer. The DISAO shall provide to the contracting officer, with a copy to the contract auditor, a clear, written recommendation concerning all matters subject to review.

5. Notification of Final Disposition of Contract Audit Report

a. Any followup system requires adequate feedback to the auditor on the final disposition of audit reports. Therefore, the contracting officer shall prepare a memorandum covering the disposition of all audit reports. The

memorandum shall discuss the disposition of all audit report recommendations, including the underlying rationale for such dispositions. In the event a DISAO review was obtained, the memorandum also shall discuss the disposition of the DISAO recommendations. A copy of the memorandum shall be provided to the cognizant contract auditor and to the DISAO.

b. Existing feedback reports such as a price negotiation memorandum (DAR 3-811(a), reference (d)) or a written overhead negotiation memorandum (DAR 3-705(b)(5), reference (d)) may be used, when applicable. For all other actions a similar document shall be prepared. To ensure that the final disposition of all audit reports is properly accounted for, each DoD Component's procurement or administrative contracting officer shall notify the cognizant audit office in writing of cancellations of any acquisition action and of any unsuccessful offerors not receiving award of a contract or grant for which an audit report was issued.

6. Recovery of Funds. Policies regarding the DoD credit management and debt collection program are contained in DoD Directive 7045.13 (reference (e)) and in Appendix E of the DAR (reference (d)) for contract debts. Paragraph E.4.f. of DoD Directive 5000.41 (reference (c)) requires the establishment of an account receivable when management agrees with the auditors that resources shall be recovered. General ledger accounts for recording accounts receivable and collections are detailed in Appendix B of DoD 7220.9-H (reference (f)).

7. Coordination with Other Agencies. The cognizant contracting office responsible for acting on contract audit reports that affect contracts of other government agencies shall inform affected organizations of such actions.

F. RESPONSIBILITIES

1. The Secretaries of the Military Departments and the Directors of the Defense Agencies shall:

a. Designate a senior management official (SMO) to serve as a focal point for the audit followup function. The SMO shall be responsible for establishing the DoD Component's followup procedures for contract audits and for the system's overall operation, tracking, and reporting requirements.

b. Designate DISAOs within their DoD Components' procurement and contract administration functions who shall review those cases where the contracting officer's proposed disposition of contract audit report recommendations differs from the contract auditor's report recommendations.

c. Ensure that periodic evaluations of their Components' followup systems are performed to determine that the systems are adequate and result in timely and appropriate resolution and disposition of audit reports. The Military Departments shall have their internal audit organizations perform these reviews. The Assistant Inspector General for Auditing shall review the Defense Agencies' followup systems.

2. The Inspector General, DoD, shall develop policy and monitor and coordinate contract audit followup systems in the Department of Defense. In discharging this responsibility, the IG shall:

a. Develop policy and provide guidance to DoD Components on matters covered under this Directive.

b. Monitor and evaluate program performance and the adherence of DoD Components to contract audit followup policies and procedures.

c. Conduct oversight reviews that are determined necessary to ensure that DoD Components concerned are evaluating effectively contract audit followup systems.

d. Identify cases or areas where contract audit followup procedures can be improved and recommend appropriate corrective action to the DoD Component head concerned.

e. Obtain such reports consistent with the policies of DoD Directive 5000.19 (reference (g)) and conduct oversight reviews necessary to ensure that DoD followup systems are timely and effective.

f. Provide reports to the Secretary of Defense, including those required by OMB Circular A-50 (reference (b)).

3. The Senior Management Official (SMO) for each DoD Component shall:

a. Establish procedures for maintenance of formal records on all applicable contract audit reports covered in section D., enclosure 4.

b. Establish procedures to monitor the timely resolution and disposition of contract audit reports.

c. Maintain consolidated records of the status of all reportable contract audit reports.

d. Prepare the DoD Component's semiannual status report and submit it to the IG in accordance with the procedures in subsection E.3., above, and enclosure 3 of this Directive.

4. The DoD Components' Designated Independent Senior Acquisition Officials or Boards (DISAOs) shall have enough independence to conduct an impartial review of issues brought before them and shall:

a. Review the contracting officer's proposed disposition of contract audit recommendations when the contracting officer proposes to resolve the issue in a manner substantially different from the contract auditor's reported recommendation (see subsection E.4., above). Such reviews shall be initiated by the cognizant contracting officer whose prenegotiation objective or proposed disposition of a contract audit report shall be forwarded for review to the DISAOs. The DISAOs may request that the auditor or contracting officer provide additional input. The DISAOs shall review the issues being referred, make a specific written recommendation to the contracting officer, and provide a copy of the recommendation to the contract auditor concerned.

b. Identify needs for additional or revised guidance or changes in policy or regulatory requirements and forward details to the DoD Component concerned with suggestions for the change or additional guidance needed.

5. Managers of Individual DoD Procurement Contract Administration Offices shall ensure that appropriate action is taken to:

a. Resolve promptly all contract audit reports in accordance with acquisition guidelines and the requirements of this Directive.

b. Track the status of actions on all contract audit reports from the date of receipt through disposition.

c. Establish and monitor procedures to ensure the forwarding of required information to the DISAO responsible for reviewing differences of opinion on contract audit reports.

d. Maintain and provide information required in section E., above.

6. Heads of the Cognizant DoD Internal Audit Organizations shall:

a. Be responsible for internal reviews to determine if the DoD Components' followup systems are adequate and result in timely and appropriate resolution and disposition of audit reports.

b. Complete the first evaluation of the system within 1 year of the system's implementation and perform evaluations not less than every 2 years thereafter.

7. The Director, Defense Contract Audit Agency (DCAA), and Heads of Other Contract Audit Organizations shall:

a. Provide timely and complete support to any DISAO's request for factual information or audit opinions regarding the audit reports under review.

b. Monitor all final disposition and negotiation memoranda received. When the memoranda indicate that a pattern of substantial differences of opinion exists on the disposition of contract audit reports, whether the contracting officer did or did not request reviews by the DISAO, the contract audit field office auditor shall refer the matter to the cognizant DCAA regional director. The regional director shall review these cases with the cognizant SMO. When a memorandum indicates that there is a substantial difference of opinion on the disposition of an audit report, and the contracting officer did not request a review by the DISAO, the auditor shall provide written notification of the observation to the contracting officer requesting that similar differences be elevated for review in the future and maintain a copy of all notifications to be available to the IG and internal auditors, upon request.

c. Provide timely and complete support to the IG and any internal audit organization reviewing a DoD Component's contract audit followup system, in accordance with DoD Instruction 7600.3 (reference (h)).

d. Identify for the DoD procurement or administrative component, at the time of issuance, all contract audit reports reportable under subsection E.3., above, and provide a record of such reports to the DoD Components at least semiannually.

G. INFORMATION REQUIREMENTS

The reporting requirements of this Directive have been assigned Report Control Symbol DD-R&O(SA)1580.

H. EFFECTIVE DATE AND IMPLEMENTATION

This Directive is effective immediately. Forward one copy of implementing documents to the Inspector General, Department of Defense, within 120 days.

Frank C. Carlucci
Deputy Secretary of Defense

REFERENCES, continued

(d) Defense Acquisition Regulations (DAR)
(e) DoD Directive 7045.13, "DoD Credit Management and Debt Collection Program," July 8, 1982
(f) DoD 7220.9-H, "Accounting Guidance Handbook," February 1, 1978, authorized by DoD Instruction 7220.9, October 22, 1981
(g) DoD Directive 5000.19, "Policies for the Management and Control of Information Requirements," March 12, 1976
(h) DoD Instruction 7600.3, "Internal Audit in the Department of Defense," January 4, 1974

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, D.C.
20330

28 NOV 1983

REPLY TO ATTN OF: RDC

SUBJECT: Contract Audit Followup DODD 7640.2

TO: ALMAJCOM (Contracting)

The attached replacement page revises and supersedes paragraph E.3a(1) of the 28 April 1983 policy on Contract Audit Followup. The revised policy adds cost accounting standard cost impact statement audits to the list of audit types which must be tracked and reported. This policy is effective upon receipt.

FOR THE CHIEF OF STAFF

1 Atch
Replacement Page

IRA L. KEMP
Associate Director
Directorate, Contracting
& Manufacturing Policy

contracting activities at Air Force Logistics Command and Air Force Systems Command and Command Headquarters at all other Major Commands. This information shall be updated at least monthly and shall serve as the source document for followup status report. Audit reports may be dropped from the tracking system in the period following closing.

c. The tracking information maintained at the above activities shall contain information which is adequate to serve as the basis for the reports submitted semiannually.

3. Reporting Requirements

a. Audit reports covering forward pricing proposals, (such as letter contract definitization, new procurements, and change orders) advance rate agreements, progress payments, and closing statements are not required to be reported. Complete information regarding the status of reportable contract audit reports from the time the report is received through final disposition shall be maintained. Care should be taken to avoid double reporting of audits such as for subcontracts or defective pricing where both the ACO and PCO may have action. Reports should be submitted only by the contracting activity having responsibility for the final action. The report should address only the summary audit and not include supplementary audits which support or update the main audit recommendations (such as for subcontracts or updates provided after receipt of the main report). If a supplemental audit is not reported as a separate audit, its number should be listed along with and as a part of the main report to assure that interested parties are aware of it. For supplemental audits which revise the original audit to the degree that the audit advice is substantially superseded by the new recommendations, the original report should be shown as dispositioned and the new report should be tracked and reported as of the date of its issuance. Reportable audit reports are limited to:

(1) Those containing recommendations covering estimating system surveys, accounting system reviews, internal control reviews, defective pricing reviews, cost accounting standards noncompliance determinations, and operations audits and cost accounting standards cost impact statement audits.

(2) Those covering incurred costs, contract terminations, settlement of indirect cost rates, final pricing (such as on incentive contracts), equitable adjustment claims (except where forward pricing is involved), hardship claims pursuant to PL 85-804, and proposals for adjustments under an economic price adjustment provision where reported rates or costs questioned equal $50,000 or more in total including all burdens but not including profit.

b. The information maintained by contracting activities regarding the status of reportable contract audits shall be reported semiannually and include the following data:

(1) For reports closed during the reporting period. The audit report number, report date, contractor name, type of audit, date of disposition, costs questioned or cost avoidance, costs questioned or avoidance sustained and the date of resolution.

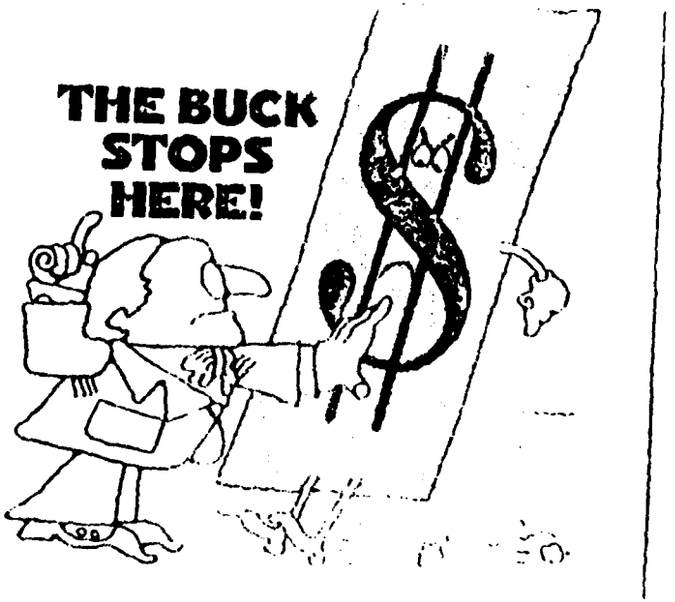
(2) For open reports. The audit report number, report date, contractor name, type of audit, amount audited, costs questioned or cost avoidance, whether an independent review as requested, whether the report is pending litigation, whether report is resolved or unresolved, disposition target date, and resolution target date. For audits in litigation, in lieu of inserting a disposition target date on the report, insert the word "LITIG."

SHOULD COST

A WORKSHOP

PRESENTER: LT COL EUGENE E. KLUTER
CHIEF, ACQUISITION CONCEPTS OFFICE
HQ AIR FORCE SYSTEMS COMMAND

SHOULD COST



HOLDING THE LINE
ON
CONTRACT COSTS

ENHANCING

SHOULD COST

WORKSHOP AGENDA

- ENHANCED SHOULD COST - LT COL KLUTER
- ASD SHOULD COSTS LT COL GOLDSTEIN
    - USE OF CONSULTANTS
- AD SHOULD COSTS MR LA PIERRE
    - LESSONS LEARNED
- QUESTION AND ANSWER SESSION

OVERVIEW

- WHAT IS IT?
- WHO DOES IT?
- WHERE IS IT DONE?
- WHEN IS IT DONE?
- HOW IS IT DONE?



WHAT

IS

SHOULD COST ?

DEFINITION

- EXTENSIVE, IN-DEPTH COSTING APPROACH
- MULTI-DISCIPLINED TEAM
- EVALUATES COSTS AND CONTRACTOR APPROACHES
- EXTENDED ON-SITE PLANT VISIT
- BOTTOM LINE == REALISTIC COST ESTIMATE

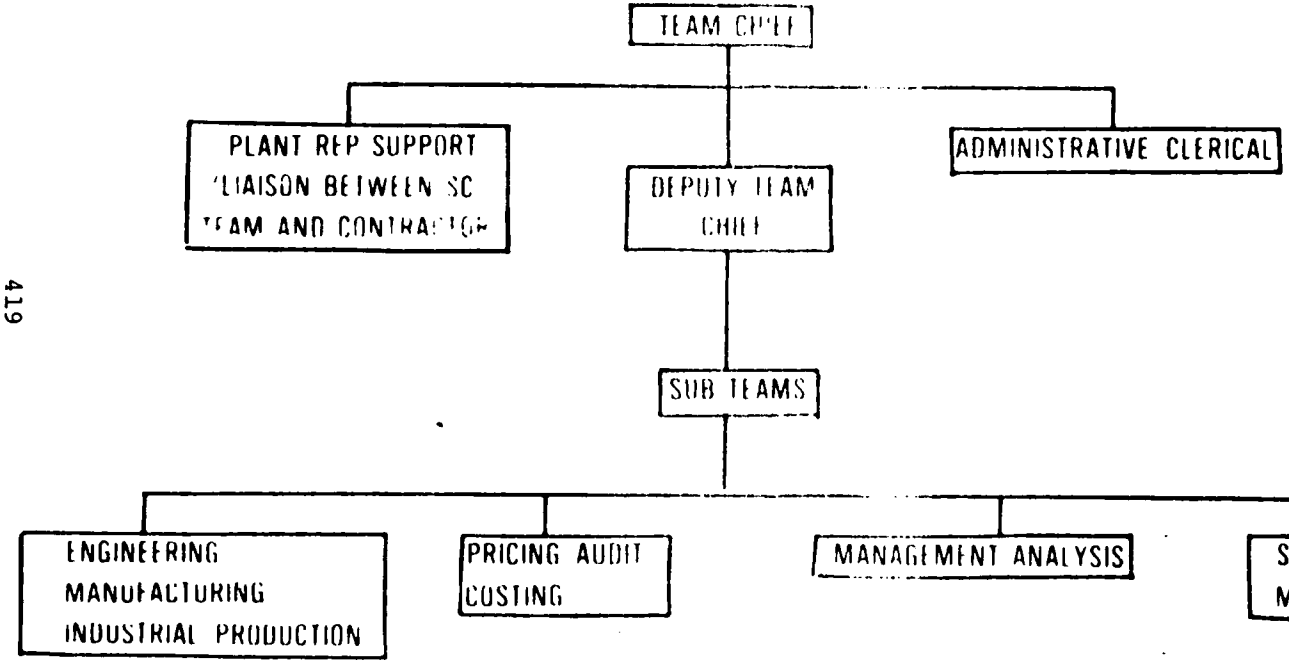
WHO DOES SHOULD COST?

SHOULD COST TEAM



- BUYING OFFICE HAS RESPONSIBILITY
- TEAM CHIEF ORGANIZES
  - DETERMINES SCHEDULE
  - PICKS TEAM MEMBERS
    - PROGRAM OFFICE
    - STAFF SPECIALISTS
    - AFPRO DCAS
    - DCAA
    - CONSULTANTS

TEAM ORGANIZATION



- MATERIALS
- MANUFACTURING OPERATIONS
- ASSEMBLY OPERATIONS

- LABOR COST
- OVERHEADS
- RISK

- MANAGEMENT REVIEW
- FINANCIAL PLANNING SYSTEMS
- REPORTS CONTROL

- SELECTION CRITERIA PROCEDURES
- PRICING DATA
- FOLLOW UP MANAGEMENT

WHERE IS SHOULD COST DONE?

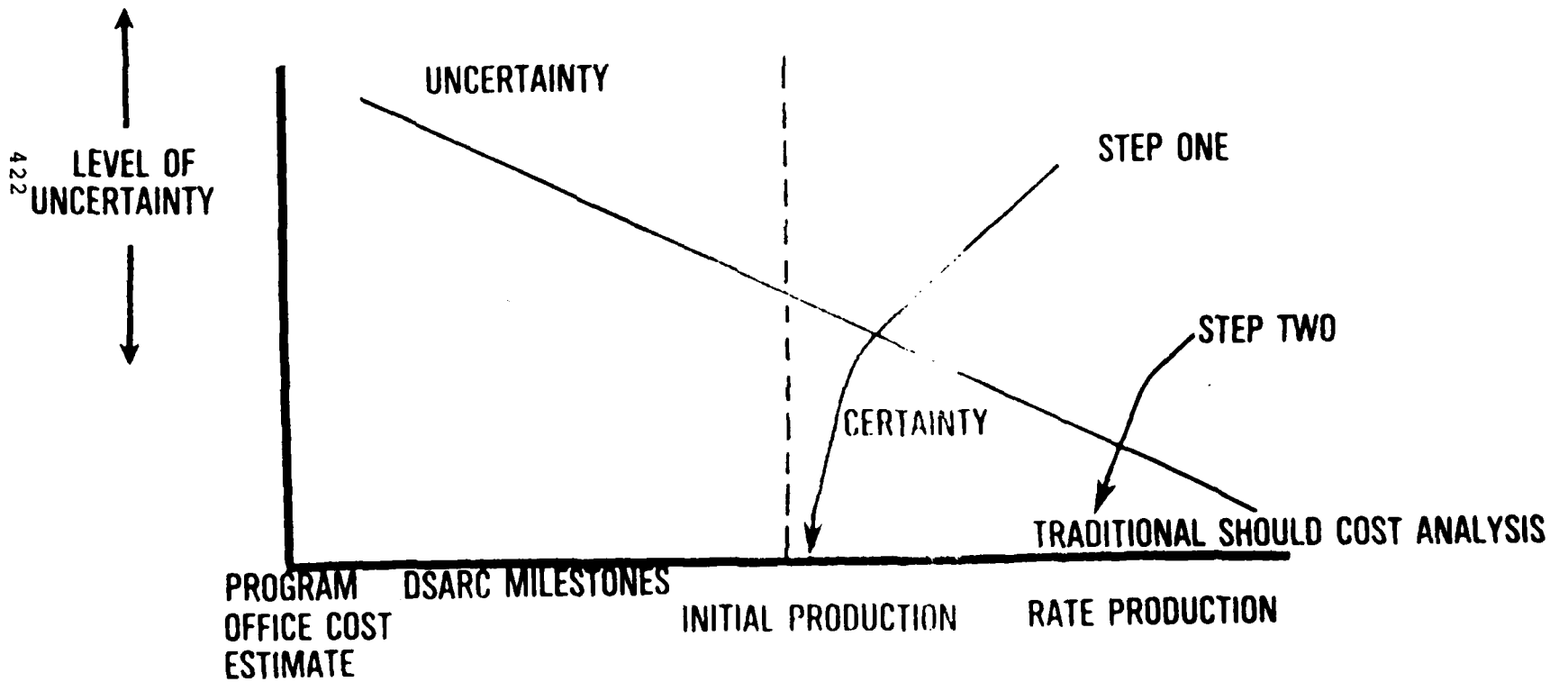
- INITIAL PLANNING - BUYING OFFICE
- ADVANCE VISIT - CONTRACTOR'S PLANT
- FINAL PLANNING - BUYING OFFICE
- FACT-FINDING/ANALYSIS - CONTRACTOR'S PLANT
- PREPARE DOCUMENTATION - BUYING OFFICE
- SUPPORT CONTRACT NEGOTIATIONS - BUYING OFFICE/CONTRACTOR'S PLANT

WHEN IS SHOULD COST DONE?

- TRADITIONALLY
  - SOLE SOURCE FOLLOW-ON CONTRACTS
  - HISTORY OF COST PROBLEMS
  - WEALTH OF COST HISTORY
- NEW APPROACH
  - DOLLAR THRESHOLDS
  - TWO STEP APPROACH

AFSC'S "TWO-STEP" TEST CONCEPT

- NEEDED IN-DEPTH COSTING TOOL THAT WOULD:
  - GIVE EARLIER INSIGHT INTO CONTRACTOR'S COST PROFILE
  - ASSURE THAT LONG-TERM RECOMMENDATIONS NOT LOST





HOW DOES SHOULD COST WORK?

SHOULD COST PLANNING

- PRELIMINARY EFFORTS
  - SELECT TEAM
  - REQUEST INFORMATION
- ADVANCE MEETING WITH CONTRACTOR
- ON-SITE FACT-FINDING
- ANALYZE DATA/PREPARE RECOMMENDATIONS
- PARTICIPATE IN CONTRACT NEGOTIATIONS
- PREPARE FORMAL REPORT

SPECIAL CONSIDERATIONS

- INDIRECT COST ANALYSIS
  - GAMET
  - "VALUE ADDED"
- SUBCONTRACT PRICING
  - VISIT HIGH DOLLAR SUBS
  - CHALLENGE INEFFICIENCIES
  - DO NOT BLINDLY ACCEPT NEGOTIATED SUBS
  - REVIEW AUDIT REPORTS
- DO NOT RELY ON "ACTUALS"
- REQUIRE CONTRACTOR ACTION PLAN
- INTEGRATE WITH ICA'S/BUDGET FORMULATION

SHOULD COST



BREAKING THROUGH INCREASING ACQUISITION COSTS

SUMMARY AND CLOSING REMARKS

A PANEL DISCUSSION

MODERATOR: BRIG GEN JAMES C. DEVER
DEPUTY CHIEF OF STAFF, CONTRACTING & MANUFACTURING
AIR FORCE SYSTEMS COMMAND

PANELISTS: MR OSCAR A. GOLDFARB
DEPUTY FOR SUPPLY AND MAINTENANCE
OFFICE OF THE DEPUTY ASSISTANT SECRETARY
OF THE AIR FORCE (LOGISTICS)

COL MARVERN M. MERCER
ASSISTANT FOR CONTRACTING & ACQUISITION MANAGEMENT
OFFICE OF THE DEPUTY ASSISTANT SECRETARY
OF THE AIR FORCE (ACQUISITION/MANAGEMENT)

BRIG GEN DONALD J. STUKEL
COMMANDER
AIR FORCE CONTRACT MANAGEMENT DIVISION
AIR FORCE SYSTEMS COMMAND

BRIG GEN RICHARD D. SMITH
DEPUTY CHIEF OF STAFF, CONTRACTING & MANUFACTURING
AIR FORCE LOGISTICS COMMAND

WRAPUP: BRIG GEN BERNARD L. WEISS
DIRECTOR, CONTRACTING & MANUFACTURING POLICY
DCS/RESEARCH DEVELOPMENT & ACQUISITION
HQ UNITED STATES AIR FORCE

Mr. Goldfarb

-- A few weeks before this meeting, I called Bob Sands, asked how I could get prepared for the wrap-up session. He told me that I should talk about what had not already been said. As it turns out, that's a tough job. I will give you my impressions.

-- Gen Bond said some of our problems result from a lack of visibility. I couldn't agree more. As a layman, I see us in the services building more and more elaborate systems to obtain this visibility. What we are trying to get is information about the source of manufacture and accurate pricing. I'm not convinced that changing our procurement process alone will solve the visibility problem. Industry needs to change as well.

-- The knowledge of the actual manufacturing cost of an item is in the hands of someone in industry.

-- The knowledge of the economical production run and that the item is sold in 100 ft lengths is in the hands of someone in industry.

-- The knowledge of who made the items also lies in the hands of someone in industry. The easier it is for the Government to obtain this knowledge, the less regulation needs to be applied.

-- Based upon the elaborate structure we are building to obtain this information, the information must be very difficult to obtain from industry. I was very happy to hear Bill Missamore and Sam Iacabellis describe the efforts within their companies to make much of this information more easily available to us. I hope this is a trend which will sweep the industry -- the proof will be when the next delivery of engineering technical data is on-time and adequate for reprocurement from another source.

-- There has been a lot of discussion about assuring equitable pricing and competition of replenishment spares and relatively little discussion about initial spares acquisition. Within that context I'd like to say a few words about engineering technical data and spares breakout.

-- All the conversation here focused on the issue of proprietary data. That is very important, but if you recall, Col Hentges indicated that 38% of the data packages examined, while not marked proprietary, were either missing or incomplete. That's pretty much the same as proprietary. We are making strides in this area, but frankly, not enough. There is still some confusion about what level 3 data means. The users of this data, the ALCs, do not have available skilled personnel to review the millions of pieces of data entering our system. In fact, there is no formal quality internal process that I can determine to assure the technical adequacy or completeness of data.

-- We need to stop thinking about buying all the data for every item and think more about paying the major contractors to maintain the data and obtain access as we need it. Hopefully, future automated systems will make this feasible.

-- Breakout of spare parts from prime to vendor. I have been a spares breakout advocate and still am, but I've learned quite a bit at this conference. For one thing, we need to move breakout from a moral issue to a performance and economics issue. Competition has underlying it an assumption that it is always good when applied. It is clear to me that no such assumption can be made about breakout. Breakout must be the result of an informed decision. Right now I don't think we have an adequate data base to make informed decisions. Breakout is a good example of the old adage -- there is no free lunch. At the very least, "pass through" cost means a buying service -- at the most, it's technical services we don't have the ability to duplicate. Breakout decisions must be done on an individual basis -- by technology, by company, by dollar value. The Air Logistics Centers are taking this studied approach, but I belive we have a long way to go to build that data base. Let me add that where breakout makes obvious sense, it may also make sense to do at initial provisioning.

-- When I went to school I learned a management axiom. "If an organization does not regulate itself, it eventually will be regulated from the outside." This is precisely

what is happening to us now. We need to be careful that we don't confuse the new regulation with the source of the problem. Despite the unfairness of the press, they did not cause our problems. Congress may be proposing solutions that we don't believe will entirely solve our problems, but they didn't cause our problems either. Quite frankly, for some good reasons and some not so good reasons, we caused our problems. And I don't mean the abstract "we". We need to focus all our energies on solving our problems. I believe this conference has attempted to do that, and I applaud you for that.

Col Mercer

-- "The buck stops here" applies to the people in this conference and to the guys and gals and water carriers in the trenches.

-- We have a challenge to communicate this with our lower level managers and supervisors.

-- They are good people, but don't understand the whole problem. They need training. So do all the new people we are hiring to fill the new positions we've gotten -- and this will take time.

Brig Gen Stukel

-- We have made a lasting impression on our generation that we are not getting sufficient defense for the dollars we spend.

-- What must be done:

  - Eliminate the honor cases -- at any cost.

  - Show America and Congress that we have cleaned up our act.

  - Convince the public we are getting our money's worth.

-- We have had a problem: Recognizing our problem - but we are now out in the open.

-- Need less emphasis on mission, more on cost.

  - Ask the question, "So what if we have a grounded aircraft?"

-- Industry must more fully recognize the problem, as we have, especially the people "in the trenches."

-- In Government top commanders/leaders know we have problems, but contractors don't show much concern - give lip service; have a competitive curiosity.

-- We collectively must accept responsibility:

  - Recognize the problem.

  - Communicate it to our people.

  - Develop good policies.

  - Set high standards -- and enforce them.

  - Take some risks -- lay some careers on the line.

  - Will not be "business as usual".

-- Problem can be solved, but not until we change our attitudes.

-- The work our people do must have sufficient quality (a judgment call) - not necessarily perfection - and their work must be timely.

Brig Gen Smith

-- Man between the fireplug and the dog.

-- Mr. Mossberg was right: we cannot defend a $50 hammer.

-- There is a problem of horror cases - and we, Government, and industry must get to it.

  - Tighten our system.

  - Use the AFMAG as a blueprint.

-- Contractors that I have visited will acknowledge our situation and are doing an outstanding job to fix our problems, but the dissenters have not come forward yet.

-- We must further acknowledge that we have an opportunity because we can change anything that needs it.

-- Today's interest is great; five years ago we could have held a pricing conference at an ALC in a phone booth.

-- Need to make changes with a sense of urgency.

  - First-year emphasis.

  - Put the issues on the table.

  - Begin to institutionalize the fix.

  - But not make it like a fire drill.

  - Avoid "dollars chasing cents."

  - Let's not over-react:

    -- Rule #1: Don't do anything dumb.

    -- Rule #2: Don't forget Rule #1.

-- But we must remember that readiness and sustainability are our top overall priorities.

  - We cannot stop the train to fix the problems.

  - We have a problem with obligation rates.

  - We must support aircraft.

  - We need timely proposals, analysis, and negotiation.

Comments From the Floor:

-- Boeing recognizes the contract pricing problem. We want to produce effective weapon systems - cost effectively.

-- People in the trenches are concerned. They want to do a good job. Management must be attuned to the workers' perceptions. Employees need feedback, data to help.

-- Don't misinterpret the term "Cosmetic Pricing". Don't let the cost of spare parts distort their importance. The key is in the cost of the end item and its supportability as a system.

-- Industry groups (AIA, COTSEA) must step up to the problem.

-- Let's consider some provocative approaches such as freeze on executive salaries or raises - not just on the cost issues. This would send a clear message on the problem to Congress, the public, our personnel, and the Russians.

-- We pay some premiums dealing with small businesses.

-- We may need to perform cost-benefit analysis in breakout issues - maybe A-76 approaches.

-- In some of our efforts, sub vendors fear they can be "pushed out".

-- Some of the conference comments indicate we (Government and industry) are growing apart: This is unconstructive to our needs. We need a sense of urgency in which a small committee of Government-industry representatives get together to streamline our process. If we don't do this, Congress will do it for us.

Brig Gen Weiss

-- He who slings mud...loses ground.

-- The leaders here today must recognize that:

  - Some of the problems may reoccur.

  - We have made some excuses.

  - Corporate and data rights must be appropriate.

  - We are too parochial.

-- The competition decision on a new weapon system is made by the Program Manager – he must be a protagonist and prove that competition is not beneficial.

-- Regarding oversight:

  - We must learn to live with regulatory agencies (DoD/IG, Department of Justice, DCAA, etc.).

  - We have a shared responsibility when dealing in big money.

  - We must be candid.

  - Requires a team approach.

-- Regarding overhead issues:

  - Growing interest.

  - The shift from direct costs to indirect costs is not always bottom-line effective.

  - Separate wants may need to be separate contract line item numbers.

  - Air Force controls do not help prices go down.

-- We have a long way to go. We need:

  - Constructive ideas from industry.
  - To maintain espit de corps of our troops
  - To tell our story -- get back with Mr. Mossberg.
  - To tell our contracting officers and negotiators to be candid.
  - To optimize our obligations with changes by keeping book on what the cost is in terms of our credibility and investment.
  - To correct the cost allocation problem.
  - The will to change.

-- I hope we don't need a Second Annual Pricing Conference.


FILME
9-84