OFFICE OF THE INSPECTOR GENERAL

DOD COMPONENT IMPLEMENTING ACTION PLANS FOR IMPROVING THE QUALITY OF SPARE PARTS

Report No. 94-079 April 12, 1994

Department of Defense

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Acronyms

ANSI/ASQC Q90	American National Standards Institute/American Society for Quality Control
AMC	Army Materiel Command
COQC	Certificate of Quality Compliance
DCMC	Defense Contract Management Command
DLA	Defense Logistics Agency
GIDEP	Government-Industry Data Exchange Program
IG	Inspector General
IQUE	In-Plant Quality Evaluation
ISO 9000	International Organization for Standardization 9000 Series
OFPP	Office of Federal Procurement Policy
PQDR	Product Quality Deficiency Reports Program

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

April 12, 1994

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY
DEPUTY UNDER SECRETARY OF DEFENSE (LOGISTICS)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on DoD Component Implementing Action Plans for Improving the Quality of Spare Parts (Report No. 94-079)

We are providing this report for your review and comments. This is the second of two reports on the DoD Action Plan for Continuously Improving the Quality of Spare and Repair Parts. Comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. The Navy comments to the draft of this report were fully responsive. The Deputy Under Secretary of Defense (Logistics), the Army, the Air Force, and the Defense Logistics Agency comments were partially responsive. Based on management comments, we revised two recommendations. We request the Deputy Under Secretary of Defense (Logistics), the Army, the Air Force, and the Defense Logistics Agency to provide final comments on the unresolved recommendations by June 13, 1994. See the table at the end of each finding for the specific requirements for your response.

We appreciate the cooperation and courtesies extended to the audit staff. If you have any questions on this audit, please contact Mr. Salvatore D. Guli, Audit Program Director, at (703) 692-3025 (DSN 222-3025) or Mr. C. J. Richardson, Audit Project Manager, at (703) 692-3220 (DSN 222-3220). Copies of this report will be distributed to the organizations listed in Appendix G. The audit team members are listed inside the back cover.

David K. Steensma

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Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 94-079 **April 12, 1994**
(Project No. 2CF-0053)

DOD COMPONENT IMPLEMENTING ACTION PLANS FOR IMPROVING THE QUALITY OF SPARE PARTS

EXECUTIVE SUMMARY

Introduction. On March 2, 1990, the Under Secretary of Defense for Acquisition signed the DoD Action Plan for Continuously Improving the Quality of Spare and Repair Parts (the DoD Action Plan). The DoD Action Plan was developed in response to large numbers of nonconforming products identified in the Defense supply system during 1988 and 1989. The DoD Action Plan consists of 26 objectives formulated to improve the DoD quality assurance program. The DoD Action Plan was presented in March 1991 to the Senate Committee on Governmental Affairs as the overall DoD plan for continuously improving the quality of spare and repair parts. In addition, the Inspector General, DoD, accepted implementation of the DoD Action Plan as satisfactory management response to audit recommendations designed to improve the quality assurance of spare and repair parts procurements. Each Military Department and the Defense Logistics Agency (DoD Components) issued its own action plan to implement the DoD Action Plan.

This is the second of two reports on the DoD Action Plan. Inspector General, DoD, Report No. 93-091, "Management of the DoD Action Plan for Improving the Quality of Spare Parts," April 28, 1993, states that after 1990, the Office of the Secretary of Defense did not manage and monitor implementation of the DoD Action Plan and did not revise DoD Action Plan objectives and milestones to reflect changes needed for continuous improvement of quality.

Implementing an action plan can result in a one-time improvement in the quality of spare parts procured. Realizing long-term quality goals requires continuous actions resulting from consistently updated action plans. Poor quality spare parts can adversely affect military equipment and the military members who rely on the spare parts. However, management officials responsible for implementing the action plans and for achieving continuous quality improvements are not accountable for the adverse effects of poor quality.

Objectives. The primary audit objective was to evaluate DoD Component plans for implementing the DoD Action Plan. Additionally, we were to determine the effectiveness of internal controls for verifying that DoD Component implementing action plans reflect current objectives, initiatives, performance measures, and milestones.

Audit Results. The initial DoD Component implementing action plans were short-term measures designed to address long-standing quality assurance problems. While DoD Components have continued to develop initiatives to improve the quality of spare and repair parts, implementing action plans were not effectively used as primary tools for managing quality programs.

o The DoD Components implementing action plans did not include the bases for holding management officials accountable for achieving quality program results. As a result, DoD Components did not have performance measures, milestones, and feedback mechanisms to measure the effectiveness of the quality program (Finding A).

o The DoD Components did not have complete implementing action plans because changes were not originated to add, delete, and revise the action plan objectives and the supporting initiatives. Consequently, the action plan objectives and initiatives were not current and were not used as a management tool for continuously improving the quality of spare and repair parts (Finding B).

Internal Controls. Internal controls were not adequate to establish the accountability of management officials for the action plans. Internal controls were also needed to verify that the DoD Component implementing action plans reflected current objectives, initiatives, performance measures, and milestones. We consider these internal control weaknesses to be material. See Part I for the internal controls reviewed and Finding A, Part II, for details of the weaknesses.

Potential Benefits of Audit. Implementation of the recommendations will result in better action plans for continuously improving the quality of spare and repair parts. However, we are unable to quantify the monetary benefits that could be realized by improving the quality of parts. Appendix E summarizes the potential benefits of the audit.

Summary of Recommendations. We recommended that DoD Components update implementing action plans every 2 years, or as significant events occur, and establish accountability of management officials for accomplishing initiatives in the action plans, program milestones, and performance measures. We also recommended that the Deputy Under Secretary of Defense (Logistics) select a standard DoD vendor rating system and made a series of recommendations to the DoD Components to update and revise the implementing action plans to reflect current or planned objectives and initiatives.

Management Comments. The Navy concurred with and was implementing recommendations directed to it. The Deputy Under Secretary of Defense (Logistics) agreed to evaluate the need for a standard DoD vendor rating system. The Army and the Air Force generally concurred with recommendations directed to them. The Defense Logistics Agency only partially agreed with the recommendations. Each of the DoD Components agreed to revise and reissue implementing action plans but disagreed that they lacked accountability for quality programs. A summary of management comments is in Part II and the full text of management comments is in Part IV of this report.

Audit Response. The Navy comments on the recommendations are fully responsive. The Deputy Under Secretary of Defense (Logistics), the Army, the Air Force, and the Defense Logistics Agency comments were partially responsive to the intent of the recommendations. Based on management comments, we revised our recommendation to update implementing action plans every 2 years by adding an option for updating action plans as significant events occur. For another recommendation, we removed reference to and limits on in-plant quality evaluations. We request comments from the Deputy Under Secretary of Defense (Logistics), the Army, the Air Force, and the Defense Logistics Agency by June 13, 1994.

Table of Contents

This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD.

Part I - Introduction

Background

DoD Response to Nonconforming Parts. On March 2, 1990, the Under Secretary of Defense for Acquisition issued the DoD Action Plan for Continuously Improving the Quality of Spare and Repair Parts (DoD Action Plan). The DoD Action Plan was issued in response to large numbers of nonconforming products identified in Inspector General (IG), DoD, Report No. 89-065, "Nonconforming Products in the Defense Supply System at Warner Robins Air Logistics Center," April 10, 1989 (Appendix A).

Progress of Improvements in the DoD Quality Assurance Program. On March 6, 1991, during a congressional hearing that addressed counterfeit and substandard products, the chairman of the Senate Committee on Governmental Affairs expressed frustration over the progress of improvements in the DoD quality assurance program. The chairman noted that, during a 1989 hearing, DoD promised to improve the quality assurance program in response to the number of nonconforming products identified at Warner Robins Air Logistics Center, Robins Air Force Base, Georgia. The chairman further stated that, since the 1989 hearing, the IG, DoD, reported that a lack of controls at all levels routinely allowed the acceptance of nonconforming products into the DoD logistics system. In September 1990, IG, DoD, Report No. 90-113, "Nonconforming Products Procured by the Defense Industrial Supply Center," September 27, 1990, showed that 27 percent of 1.3 billion parts contained major nonconformances to contract specifications. The chairman concluded that:

> Clearly something is wrong with the way our procurement and quality control systems work. The Government receives too many substandard products. Manufacturers and distributors do not seem to be concerned with quality and do not have the necessary quality control systems . . . Quality does not have to cost more, but it does require a management commitment and discipline.

In response, the DoD representative, the Director, Supply Management Policy, Office of the Assistant Secretary of Defense (Production and Logistics),* agreed that a problem existed regarding nonconforming parts. The Director stated that DoD efforts to ensure that the Government gets what it pays for were well documented in an action plan (the DoD Action Plan). The DoD representative stated that:

> Our DoD-wide action plan was formalized in March [1990] . . . The hearings held prior to that point by your Committee, and similar hearings by the House Defense Readiness Subcommittee, helped focus the attention of the highest levels of DoD management on the problem . . . The actions we have already taken and those in process deal with

*Supply Management Policy is now in the Office of the Assistant Deputy Under Secretary of Defense (Materiel and Resource Management), Office of the Deputy Under Secretary of Defense (Logistics). The Office of the Assistant Secretary of Defense (Production and Logistics) was disestablished.

> all phases of the problem and are designed to remove nonconforming items from the current inventory, to stop new nonconforming items from getting in, and, of course, to ensure that bad items which are in the supply warehouse do not get issued to the operating and maintenance units for our weapons systems and support equipment.

The DoD Components plan to procure an estimated $56 billion of spare and repair parts from FYs 1993 through 1997.

DoD Action Plan Organization. The DoD Action Plan is made up of 26 objectives divided into 5 acquisition phases: pre-contract, contract, contract administration, depot (supply management), and feedback intelligence. Each of the 26 objectives contains activities for implementation of that objective, with a total of 41 specific activities spelled out in the DoD Action Plan. DoD planners originally assigned either a 1990 or a 1991 milestone to each of the 41 activities. A description of the 26 DoD Action objectives is shown in Appendix B.

DoD Component Implementing Action Plans. In a March 2, 1990, memorandum, the Under Secretary of Defense for Acquisition directed the Military Departments and the Defense Logistics Agency (DLA) (DoD Components) to provide implementing action plans within 90 days. Each DoD Component used the 5-phase, 26-objective format.

Terminology. For the purposes of the report, the term "initiative" will be used to describe the implementing actions and activities the DoD Components described in their implementing action plans. The terms "products" and "spare and repair parts" are used interchangeably.

Objectives

The primary audit objective was to evaluate the DoD Component plans for implementing the DoD Action Plan. Additionally, we were to determine the effectiveness of internal controls for verifying that the DoD Component implementing action plans reflect current objectives, initiatives, performance measures, and milestones.

Scope and Methodology

Audit Information, Methodology, and Locations. We reviewed the management initiatives taken to verify that the DoD Components appropriately updated and revised their implementing action plans to reflect current quality assurance policy objectives and initiatives. Our evaluation covered management initiatives from July 1990 through May 1993. We did not rely on computer-

processed data to achieve the audit objectives or use statistical sampling procedures in the audit. We obtained our audit information primarily from examination of the DoD Action Plan; the DoD Components' implementing action plans; and from interviews with representatives of acquisition, legal, supply, and quality offices of the DoD Components. We contacted National Inventory Control Points and maintenance depots in the Military Departments regarding use of the action plan. We did not contact the DLA Defense Supply Centers and Defense depots. Appendix F lists the organizations visited or contacted.

Audit Period and Standards. This program audit was conducted from August 1992 through May 1993 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, the audit included such tests of internal controls as were considered necessary.

Internal Controls

Internal Controls Reviewed. We attempted to identify internal controls within the DoD Components for assuring that implementing action plans were maintained to reflect current objectives, initiatives, performance measures, and milestones to continuously improve the quality of spare and repair parts. Also, we attempted to identify offices of primary responsibility for each objective to determine the adequacy of oversight and responsibility. The DoD Components had no internal controls in their internal management control programs to address whether management officials revised and updated implementing action plans.

Internal Control Weaknesses Identified. The audit identified material internal control weaknesses as defined by DoD Directive 5010.38, "internal Management Control Program," April 14, 1987. The DoD Components did not revise or update their implementing action plans to verify that the action plans included definite performance measures to assess program results and realistic time-phased, long-range milestones for the actions needed to continuously improve the quality of spare and repair parts.

The Army, and, in some cases, the Navy and DLA could not identify the offices of primary responsibility. The Air Force identified offices of primary responsibility for each objective. In addition, the offices of primary responsibility in all DoD Components could not always provide information about their assigned objectives. The lack of responsibility, oversight, creditable performance measures, milestones, and accountability in the DoD Component implementing action plans constituted material internal control weaknesses. The recommendations in Finding A, if implemented, will correct the internal control weaknesses. We could not determine the monetary benefits that will result from implementing the recommendations because the benefits will result from future actions to improve the quality of spare and repair parts procured. Appendix E

summarizes the potential benefits of the audit. A copy of the report will be provided to the senior officials responsible for internal controls within the DoD Components.

Prior Audits and Other Reviews

The DoD Action Plan was the subject of IG, DoD, Report No. 93-091, "Management of the DoD Action Plan for Improving the Quality of Spare Parts," April 28, 1993. The report stated that the Office of the Assistant Secretary of Defense (Production and Logistics) did not manage or oversee implementation of the DoD Action Plan after issuing it. Appendix A contains a summary of seven prior IG, DoD, reports with findings related to quality assurance actions for nonconforming products.

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Part II - Findings and Recommendations

Finding A. Accountability in Implementing Action Plans

DoD Component implementing action plans did not include the bases for holding management officials accountable for achieving quality assurance program results and for continuously improving the quality of spare and repair parts. Implementing action plans lacked accountability because the DoD Components did not establish definite performance measures to assess program results and did not set realistic, time-phased, long-range milestones. In addition, the DoD Components did not develop procedures for obtaining feedback from the users of spare and repair parts regarding the adequacy of the action plans, and the Army, the Navy, and DLA did not assign or reassign responsibilities for implementing the action plans. As a result, the DoD Components could not use the implementing action plans as a management tool for measuring the effectiveness of quality program results.

Updated Action Plans

When the DoD Action Plan was issued in March 1990, no provision or policy required the DoD Components to update their implementing action plans. Updated action plans, reissued every 2 years, would give DoD management a means to track quality program results, improvements, and achievements and to maintain the action plans as effective management tools. The current status of DoD Component implementing action plans is discussed below.

Army Action Plan Issue and Update. Headquarters, Army Materiel Command (AMC), developed the Army Action Plan and issued the plan in July 1990. The Army Action Plan was similar to the DoD Action Plan and briefly described the actions to implement the objectives. The Army did not reissue an updated Army Action Plan after July 1990.

Navy Action Plan Issue and Update. The Assistant Secretary of the Navy (Research, Development, and Acquisition) issued the Navy Action Plan in September 1990. The Navy Action Plan listed the objectives and the activities from the DoD Action Plan. After September 1990, the Navy updated their action plan for use in a 1991 Senate Committee on Governmental Affairs hearing.

Air Force Action Plan Issue and Update. The Air Force Logistics Command developed the Air Force Action Plan and issued it in July 1990. The Air Force Action Plan listed the objectives in the DoD Action Plan and described the initiatives needed to implement the DoD Action Plan. The Air Force made minor revisions to its action plan and reissued the Air Force Action Plan in April 1991.

DLA Action Plan Issue and Update. DLA published an action plan in August 1989 and then published a revised action plan in May 1990 that listed and described initiatives to implement the 26 objectives in the DoD Action Plan. DLA used the Action Plan as a corrective measure for material internal control deficiencies identified for nonconforming products.

DLA developed an automated version of the DLA Action Plan to facilitate regular, recurring updates. This automated DLA Action Plan was updated periodically after it was developed in 1990. However, DLA did not reissue an updated version of the DLA Action Plan after May 1990.

Performance Measures To Assess Program Results

Government Performance Measurement. Public Law 103-62, "Government Performance and Results Act of 1993," August 3, 1993 (the Act), provides for the establishment of strategic planning and performance measurement in the Federal Government. The Congress found that Federal managers are seriously disadvantaged in their efforts to improve program efficiency and effectiveness because of insufficient articulation of program goals and inadequate information on program performance. Further, congressional policymaking, spending decisions, and program oversight are seriously handicapped by insufficient articulation of program goals and inadequate information on program performance. The Act provides for performance planning that establishes performance goals to define the level of performance to be achieved by a program activity and expresses goals in an objective, quantifiable, and measurable form. The Act is pertinent to the DoD Action Plan and DoD Component implementing action plans.

The Act emphasizes management accountability in two areas:

o Improve the confidence of the American people in the capability of the Federal Government by systematically holding Federal agencies accountable for achieving program results.

o Improve Federal program effectiveness and public accountability by promoting a new focus on results service quality, and customer satisfaction. The DoD Component implementing action plans lacked the detail and specificity needed to support either of the two goals.

The initiatives for implementing the 26 objectives in the DoD Action Plan are primarily short-range actions and do not represent a long-range plan to continuously improve the quality of spare and repair parts. The DoD Component implementing action plans were one-time responses that reflected the DoD plan and did not describe time-phased, long-range activities and initiatives for each objective.

Performance Measures in DoD Component Implementing Action Plans. The Military Departments did not include performance measures in their action plans. DLA included performance measures for the objectives in the DLA Action Plan. However, DLA performance measures were not always meaningful and did not provide for the quantifiable measure of progress from established baselines. For example, DLA described the following programs as performance measures for objective 18, identify and purge nonconforming materiel from wholesale level inventory. The performance measures are quality control and product quality audit results, technical assistance and operational reviews, and quality assurance management review visits. The objective 18 performance measures do not provide for anything other than ongoing management programs and do not describe quantifiable measures of progress such as reduced nonconformances from an established baseline. DLA does have a laboratory testing program that reports continuous reductions in nonconforming products. DLA's use of the laboratory testing program can provide a performance measure that provides quantifiable results.

Setting Action Plan Milestones

The DoD Components did not establish realistic milestones to reflect the long-term commitment required to remedy the major problems that result in the procurement of nonconforming parts or the distribution of nonconforming products from the Defense supply system.

DoD Action Plan Milestones. The milestones in the DoD Action Plan and in the DoD Component action plans were near-term dates that called for completion in 1990 or 1991. As of June 1, 1993, only one objective was completed. Objective 1, standardizing the definitions for a nonconformance, was completed in April 1991 when DoD revised the Defense Federal Acquisition Regulation Supplement to include standard definitions for nonconformances. The definition was also included in Joint Service Regulation DLA Regulation 4155.24, "Product Quality Deficiency Report Program." Of the 26 objectives in the DoD Action Plan, 21 objectives applied to the Military Departments. The Military Departments do not have a role in objectives 10, 12, 13, 14, and 17 because these objectives address quality assurance in contractor plants and depots receiving inspections, which are DLA responsibilities.

Military Department Milestones. The Army did not establish definite milestones for 14 of the 21 objectives, the Navy did not establish definite milestones for 15 of the 21 objectives, and the Air Force did not establish definite milestones for 18 of the 21 objectives. The lack of definite milestones reflects a lack of accountability and a questionable commitment to the action plan objectives.

DLA Milestones. All 26 objectives applied to DLA, and DLA provided near-term (1989 and 1990) milestones for 14 of the 26 objectives in the DLA Action Plan. However, DLA's use of near-term milestones understated the long-range problems associated with most of the DoD Action Plan objectives.

Assigning Responsibilities and Obtaining Feedback

The DoD Components relied heavily on their headquarters quality assurance organizations to develop their implementing action plans and to keep track of the offices that were primarily responsible for the subject areas covered by each objective in the DoD Component implementing action plans.

Functional Reorganizations Resulting in Reduced Quality Assurance Staffs. Since 1991, the DoD Components reorganized the functional organizations that were responsible for managing their implementing action plans and monitoring implementation of the DoD Action Plan. The reorganizations resulted in reductions of quality assurance staff. After the reorganizations and staff reductions, we determined that the DoD Components did not formally assign or reassign responsibility for all of the objectives, actions, and initiatives in their implementing action plans.

Army. Since 1990, three separate organizations at AMC merged to become one, resulting in a reduction in staff size. The offices of Deputy Chiefs of Staff for Product Assurance and Testing, Production, and Research and Development merged to become the Office of the Deputy Chief of Staff for Research, Development, and Engineering. The quality assurance function, originally part of the office of the Deputy Chief of Staff for Product Assurance and Testing, was reduced from about 50 people to 5. The Army Action Plan did not specifically assign responsibility for objectives to offices of primary responsibility. AMC assigned one person to answer all questions regarding the Army Action Plan.

During our audit visits, officials at the Army Missile Command and Corpus Christi Army Depot did not have copies of the Army Action Plan and had not provided any feedback to AMC on the adequacy of the Army Action Plan.

Navy. The Navy Action Plan did not specifically assign responsibility for objectives to offices of primary responsibility. The Navy was not able to readily identify the correct office to answer questions regarding four Navy Action Plan objectives. During our audit visits, officials at the Navy aviation depots and Navy shipyards did not have copies of the Navy Action Plan and the officials could not produce any record of providing feedback to higher headquarters regarding the adequacy of the Navy Action Plan.

Air Force. Effective July 1, 1992, the Air Force Logistics Command and the Air Force Systems Command merged to become the Air Force Materiel Command. Three Air Force Materiel Command directorates, Engineering, Contracting, and Logistics, have quality assurance functions. As of June 1993,

the Engineering Directorate assumed overall responsibility for quality assurance. After the merger, the Air Force Materiel Command quality assurance staff was reduced from 15 to 5 people. The Air Force Action Plan cited the offices of primary responsibility for all 26 objectives, and the points of contact were knowledgeable about each objective. Officials at the air logistics centers that we visited knew about the Air Force Action Plan but had not provided feedback regarding its adequacy or implementation.

DLA. In March 1993, DLA reorganized from 19 headquarters principal staff elements and 21 field organizations that reported directly to the Director of DLA to only three management business areas reporting to the Director. The management business areas are Acquisition, Materiel Management, and Corporate Administration. The 19 headquarters principal staff elements were merged into executive and management teams. The Quality Assurance Directorate, which was primarily responsible for the DLA Action Plan, was eliminated. Quality assurance functions were assigned to the Materiel Management and Acquisition business areas. Responsibility for the DLA Action Plan now resides with Materiel Management. The DLA Action Plan cited the offices of primary responsibility for all 26 objectives, but the points of contact for 6 objectives could not answer basic questions and did not know whom to contact to obtain answers regarding the initiatives under the objective. DLA did not distribute the DLA Action Plan to the users of spare and repair parts for feedback.

Conclusion

The DoD Action Plan is an important planning document created to substantially improve quality assurance. The need for a life-cycle quality assurance action plan was demonstrated in two different audits that reported high rates of nonconforming products accepted into the Defense supply system. The purpose of independent quality assurance organizations is to keep management focused on the need for improving quality. When quality assurance is integrated into organizations, formal plans to continuously improve quality are essential. Unless implementing action plans include commitments to definite performance measures, milestones for continuous long-range improvement, and the active involvement of personnel from headquarters and field organizations, DoD Components jeopardize the quality assurance for an estimated $56 billion of future spare and repair part procurements from FYs 1993 through 1997.

Recommendations, Management Comments, and Audit Response

Revised Recommendation. Based on management comments, we revised Recommendation 1. to give greater flexibility to the DoD Components for determining when to update their implementing action plans.

We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency:

1. Establish policies to reissue updated plans for implementing the DoD Action Plan for Continuously Improving the Quality of Spare and Repair Parts either every 2 years beginning in FY 1994 or as significant changes occur in the five acquisition phases of quality.

Army and Air Force Comments. The Army concurred with the intent of the recommendation, but commented that the 2-year requirement does not allow for sufficient time to implement changes and measure results. The Army stated that it should decide when to update the Action Plans based on initiative requirements and as deemed necessary. The Air Force concurred with the intent but believed the Air Force Action Plan should be updated as required rather than on a fixed schedule.

Audit Response. Because of the Army's lack of management attention to the original Army Action Plan, some requirement for updating the Action Plan must be established. We recommend that Action Plan updates occur either in a specified time frame or when a significant change occurs in the acquisition phases of quality. We have modified our recommendation to include significant changes in the acquisition phases of quality as a reason for modifying the 2-year timeframe. Accordingly, we request the Army to reconsider and to provide comments to the final report. We request that the Air Force provide comments on the revised recommendation in its comments on the final report.

Navy Comments. The Navy concurred and stated that it submitted an updated Navy implementation plan in December 1993. In addition, the Navy planned to update the Navy action plan as significant changes occurred and make it a living plan.

DLA Comments. DLA nonconcurred, disagreeing with a policy to reissue an updated plan for implementing the DoD Action Plan every 2 years. DLA contended that although the May 1990 DLA Action Plan was not updated in hard copy, it was maintained in an automated format and was a living document. DLA stated that the automated aspects of the plan contributed significantly to improving the tracking of initiative status and keeping the initiatives current and on track for successful initiative completion. In December 1993, DLA prepared a hard copy update to its implementing action plan. DLA stated that it may or may not publish another hard-copy edition of

its implementing action plan in FY 1996. If no further hard-copy DLA implementing action plans are published, quality initiatives will be integrated into the DLA strategic plans, business plans, and business processes.

Audit Response. DLA's characterization of its May 1990 implementing action plan as a living document is not accurate. From January 1992 through May 1993, the DLA automated version of the implementing action plan was largely inactive. The automated version as of May 1993 showed that DLA offices of primary interest had not updated the status of 15 of the 26 action plan objectives during 1992. DLA accomplished only one update from January through May 1993. In April 1993, we requested a meeting with representatives from the offices of primary interest to verify repeated reports that DLA no longer was interested in maintaining an implementing action plan. The Deputy Director for Quality Assurance, along with representatives from Contract Policy, Supply, Technical Operations, and Information Systems, determined that they did not know how DLA management felt about continuing and reissuing the DLA implementing action plan and that they would have to respond to our query at a later date. DLA did not provide an official answer to our question. We modified our recommendation to include significant changes in the acquisition phases of quality as a reason for modifying the 2-year timeframe. Accordingly, we request DLA to reconsider its response and provide comments on the final report.

2. Establish accountability for achieving implementing action plan objectives and for improving the quality of spare and repair parts by:

a. Updating implementing action plans to include detailed in-process and planned initiatives for DoD Action Plan objectives.

b. Updating implementing action plans to contain performance measures to measure the effectiveness of each initiative in accomplishing DoD Action Plan objectives.

c. Updating implementing action plans to include definite, realistic, and obtainable milestones for completion of initiatives in the action plans.

d. Assigning organizational responsibility for management oversight for implementing action plan objectives and for obtaining feedback on the adequacy of the initiatives supporting the objectives.

Army, Navy, and Air Force Comments. The Army concurred and stated that the Army Materiel Command will update and reissue the action plan by June 1, 1994. The revised action plan will include performance measures and realistic milestones and will assign organizational responsibility of management oversight. The Navy concurred and stated that it was developing a Task Action Team to identify needed objectives, meaningful activities to accomplish these objectives, and performance measures to evaluate the success of the program and milestones by February 1994. The Air Force concurred but stated that the content of the Air Force Action Plan depended on the guidance received from the Office of the Secretary of Defense .

Audit Response. We request the Air Force to provide a date by which it plans to reissue the Air Force implementing action plan.

DLA Comments. DLA nonconcurred, but stated that it had developed a hard-copy update that included in-process and planned initiatives; a combination of quantitative and qualitative performance measures that include overall measures of product quality that were applicable to all objectives; definite, realistic, and obtainable milestones for completion of the initiatives; and points of contact with organizational responsibility for management oversight of each initiative in the action plan. DLA took exception to distributing the plan to the users of DLA-supplied spare parts because no requirement exists to do so. DLA asserted that customers are not interested in how DLA plans to verify that its spare parts are not defective.

Audit Response. DLA's reliance on overall measures of product quality based on laboratory testing is not appropriate for all objectives. DLA uses the issuance of policy and the development of regulations as performance measures. DLA should also include the extent of policy implementation as performance measures as well. Formulating a policy by a certain date is not a complete performance measure; a complete performance measure includes a measure of the actual implementation of the policy. DLA customers, the Service's National Inventory Control Points and maintenance depots, are interested in DLA plans for improving receipt, storage, distribution, and quality assurance functions related to the parts that the Services purchase and manage. DLA has a responsibility under any total quality environment to solicit feedback from its customers on DLA-proposed methods for improving and maintaining the quality of spare parts. We request that DLA reconsider its response in comments on the final report

Response Requirements For Each Recommendation

Responses to the final report are required from the addressees shown for the items indicated with an "X" in the following table.

		Response Should Cover:			
Number	Addressee	Concur/ Nonconcur	Proposed Action	Completion Date	Material Internal Control Weakness
1.	Army	X	X	X	X
	Air Force	X	X	X	X
	DLA	X	X	X	X
2.	Air Force			X	X
	DLA	X	X	X	X

Management Comments and Audit Response on the Finding

Army Comments. The Army concurred with issuing a revised action plan but did not concur with the audit report statements that the internal management control weaknesses were material. The Army uses several methods besides the implementing action plan to achieve improved quality. The original Army plan was not intended to be a long-range response. Conclusions drawn in the report that material weaknesses exist are based on the premise that the original plans were intended to serve as long-range responses to this area.

Navy Comments. The Navy concurred with issuing a revised action plan but did not concur with Finding A or with the conclusions that the deficiencies concerning the Navy implementing action plan constituted material internal control weaknesses. The existence of major programs to improve the quality of spare and repair parts such as the Red, Yellow, Green Program demonstrate the Navy's intent to be a leader in this effort. The Navy stated that the DoD Action Plan for Continuously Improving the Quality of Spare and Repair Parts was a short-range, immediate response to IG, DoD, Report No. 89-065. The Navy implementing action plan was designed to be only one of the many tools used by Navy to effect improvements to the quality of spares and repair parts. The short-term basis of the DoD Action Plan, and the requirement that DoD Component implementing action plans address only the items contained in the DoD Action Plan precluded the use of the Navy implementing action plan as a management document.

Air Force Comments. The Air Force concurred with issuing a revised action plan and partially concurred with the intent of Finding A while providing several comments. The Air Force noted that the DoD Action Plan does not contain a statement that indicates that the DoD Action Plan was not to be used as a long-range planning document. In fact, the Air Force considered the DoD Action Plan to be a long-range document when it was used as the basis for developing the Air Force implementing action plan. The Air Force believed that a plan that was written in 1990 and had milestones out to 1995, or that were on-going, must be considered a long-range document.

The Air Force implementing action plan followed the organization of the DoD Action Plan. The Air Force implementing action plan is only one of many tools used to assure that the Air Force obtains quality parts. As such, quality improvement verification should be a material commander's initiative rather than an internal control checklist item. The Air Force believes that the auditors misinterpreted the significance of Air Force initiatives and milestones as they related to performance measures and long-range milestones. The Air Force believes that supervisors responsible for the initiative can use the "action" portions and the milestones to measure their progress without including a formal requirement for each initiative. Further, supervisors further up the command chain can use the action portions of the plan in the same manner.

Audit Response. The Air Force is correct that the DoD Action Plan does not contain any statement that it is not a long-range document. In addition, DoD Material Management Regulation 4140.1-R, dated January 3, 1993, provides

the requirement for the DoD Components to maintain action plans for continuously improving the quality of spare parts. DoD 4140.1-R also provides for the use of post-acceptance testing as a significant quality assurance tool. In a February 8, 1994, memorandum to the Office of the Inspector General, the Deputy Under Secretary of Defense proposed to include the following statement in a revised version of DoD 4140.1-R:

> . . . .The DoD Components shall develop action plans. . . .to ensure continuous improvement in the quality of secondary items. These plans should include performance measures and milestones in applicable acquisition phases and document actions and accomplishments that implement quality program objectives.

Our recommendations to improve the DoD Components implementing action plans were intended to help identify and define existing problems with the quality of spare parts. The identification of problems and the continuous process to implement programs for improvement are the primary bases for improving quality programs. The DoD Component implementing action plans should document the entire compendium of programs, initiatives, and activities for addressing the problems identified with quality. As DoD gravitates toward the use of commercial products and the use of international quality standards, new challenges for maintaining quality spare parts will emerge. The DoD Components implementing action plans, complete with performance measures and milestones, provide the documentation and accountability needed to establish each organization's commitment to continuous quality improvement. The Office of the Under Secretary of Defense has recognized the need for verifying accountability in quality programs by agreeing to include performance measures and milestones in revisions to DoD 4140.1-R as requirements for implementing action plans.

DLA Comments. DLA nonconcurred and stated that responsibility was assigned for each objective in the DLA implementing action plan to offices of primary interest. Senior officials within these offices were held accountable for each action plan objective, the milestones, performance measures, and status updates, as well as periodic briefings to either the DLA Director or Deputy Director. Many of the May 1990 DLA implementing action plan initiatives were completed with positive results confirmed through the DLA laboratory testing programs. The DLA Deputy Director personally monitored the implementing action plan as evidenced through numerous pieces of correspondence that the Deputy Director sent to the officers of primary interest. The Deputy Director chaired periodic implementing action plan status update briefings and invited the Deputy Inspector General, DoD, to attend one of the status update briefings.

DLA further stated that the DLA implementing action plan contained definite, realistic, and obtainable milestones for identified initiatives. The DLA initiatives were not all short-term, one-time responses. Many of the initiatives were quite extensive and still continue. DLA cited such programs as IQUE, best value contracting, GIDEP, and the laboratory testing program as programs that still continue. DLA disagreed that the use of near-term initiatives by DLA understated long-range problems.

DLA also stated that definite and realistic performance measures were established for each initiative in the DLA implementing action plan. Qualitative (accomplishment-oriented) measures were identified for each milestone to track completion of initiatives. The quality of DLA procured parts dramatically improved, which indicated that meaningful initiatives were in the DLA implementing action plan and that the plan was used effectively as a management tool.

In addition, DLA disagreed with audit report statements that DLA performance measures were not always meaningful and did not provide for quantifiable measures of progress from established baselines. The DLA performance measures were not used for just ongoing programs. The on-going programs had results that could be quantified. DLA also stated that its overall approach to performance measurement was to assess the effectiveness of quality initiatives with both qualitative and quantitative measures. DLA's overall measure of product quality, such as random laboratory testing results, are the important Action Plan performance measures. DLA also disagreed with the audit report statement that "DLA did not reissue an updated version of the DLA Action Plan after May 1990," on the basis that DLA used an automated version that was updated periodically to ensure a continually current DLA implementing action plan. In addition, DLA disagreed with the implication inherent in the audit report statement that the DLA points of contact for six objectives could not answer basic questions and did not know whom to contact to obtain answers regarding the initiatives. The IG, DoD, audit was conducted concurrent with a complete DLA reorganization, and the auditors were asked to inform the DLA point of contact whether additional assistance was required to obtain satisfactory answers. During the reorganization, a temporary situation existed in which new action officers may not have had full knowledge of previous actions. The IG, DoD, should have provided DLA the opportunity to find the appropriate action officers.

Audit Response. DLA led the DoD Components in the development of initiatives, especially laboratory testing, to verify the quality of spare parts. DLA implemented the short range objectives that were included in the implementing action plan and for a portion of the time from 1990 through 1993, DLA actively managed the plan. However, DLA's characterization of the management of the DLA implementing action plan is not accurate for a 17-month period spanning January 1, 1992 through May 30, 1993. We reviewed copies of the automated versions of the DLA implementing action plan and found that only 11 of the 26 objectives were updated during 1992 and only 1 of the 26 objectives were updated during the first 5 months of 1993. After repeated statements from representatives of the offices of primary interest that DLA was no longer interested in maintaining an implementing action plan and that our audit was addressing an issue of the past, we requested a meeting in April 1993 with the official representatives of the offices of primary interest to determine DLA's official position regarding the maintenance and eventual reissue of the action plan. The DLA representatives were uncertain and told us that they would ask the Office of the Director of DLA and would respond to our inquiry at a later date. We did not get an official response but learned later in September 1993 that DLA intended to update and reissue the DLA implementing action plan.

The finding is accurate. The DoD Components did not have adequate internal controls to hold officials accountable for setting and managing realistic, long-range, time-phased milestones to accomplish objectives and initiatives that reflect current problems and for measuring progress through definite and quantifiable performance measures. DLA claimed that initiatives were complete once policy was formulated and issued. The initiatives with short-range milestones, once completed, were not updated to reflect the next step toward continuous process improvement. The automated status updates that we reviewed showed an accumulation of completed initiatives that left the impression that no further management actions were needed. For example, DLA showed that the action on "best-value buying" was complete when a source selection handbook was issued in 1990. No other actions or initiatives were developed for the continuous improvement and implementation of best-value buying. In our opinion, issuance of the handbook constituted a start, not a completion. Further, the lack of description associated with the DLA initiatives and performance measures depicts a lack of openness and an unwillingness to be held accountable for all aspects of the quality program.

On July 22, 1991, the Deputy Inspector General, DoD, attended a status update briefing on the DLA implementing action plan. The Deputy Inspector General criticized DLA's qualitative performance measures because the performance measures were not quantifiable measures of progress from established baselines.

We agree that laboratory test results can be a good overall measure of quality. However, DLA needs initiatives for verifying the integrity of test plans and test results, as well as initiatives for verifying the completeness of supporting test plans. Initiatives that support verification are critical to the viability of the performance measure. In addition, DLA needs specific quantifiable measures for verifying the effectiveness of the initiatives in the acquisition phases such as best value buying, process validation at contractor plants, and PQDR trend analyses. If DLA policies and procedures are not implemented, then low nonconformance rates from the laboratory testing program may be questionable.

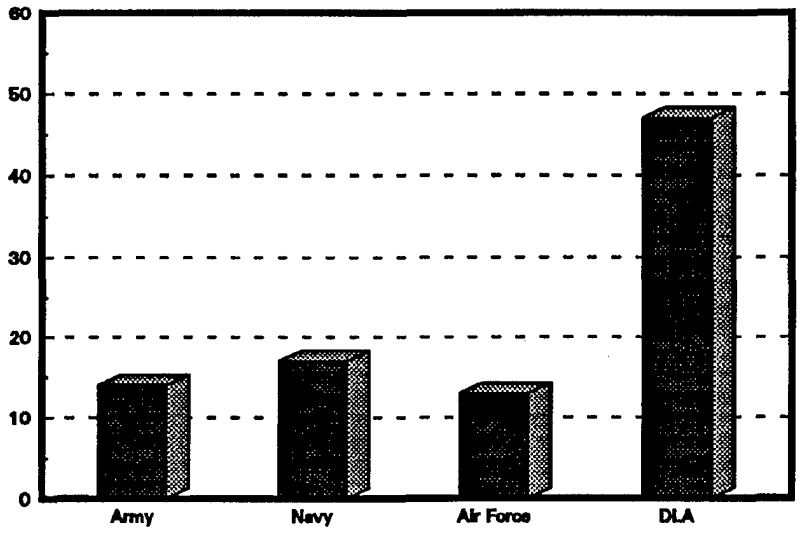
Lastly, we had difficulty obtaining information from various DLA offices because the personnel in those offices demonstrated a lack of interest in continued management of the implementing action plan. We recognized that the DLA reorganization was a factor but we believe that DLA representatives were reluctant to claim responsibility for the objectives in the implementing action plan. We notified the DLA point of contract each time we had a problem, and after some searching, another representative was provided. The new representatives were not always knowledgeable about the implementing action plan objective. We extended our audit until we were satisfied that we were provided the best answers available from DLA.

Finding B. Adequacy of Implementing DoD Action Plans

The DoD Components did not have complete implementing action plans because changes were not initiated to add, delete, and revise the objectives and the supporting initiatives related to pre-contract, contract, contract administration, depot (supply management), and feedback intelligence phases of the action plans. Consequently, the implementing action plans did not reflect current quality program objectives and initiatives and were not used as a management tool for continuously improving the quality of spare and repair parts.

Initiatives in the Acquisition Phases

Since 1990, the DoD Components either completed or have ongoing 92 significant initiatives to improve the quality of spare parts (Appendix C). The following bar graph shows the number of ongoing and completed initiatives for each DoD Component.



Number of Initiatives Ongoing and Complete for Each DoD Component

The bar graph demonstrates that DLA aggressively pursued significant quality assurance initiatives. The details in Appendix C show that DLA developed 47 initiatives, and the Military Departments developed 45 initiatives. The DoD

Components had 80 initiatives that supported objectives in the pre-contract, contract administration, and feedback intelligence phases. The DoD Components had 12 initiatives in the contract and depot (supply management) phases.

The 1990 DoD Components implementing action plans showed that planned short-term initiatives were never completed and that many of the 1990 initiatives would not result in significant changes or improvements in quality assurance. This report does not address every possible initiative that could affect the quality of spare parts. The initiatives that DoD Components should improve or add to their revised implementing action plans are discussed in each acquisition phase below. When the action plans are revised, the DoD Components will significantly update and tailor their action plans to their individual needs in accordance with the overall guidance provided by the Office of the Secretary of Defense.

Pre-Contract Phase

The objectives in the pre-contract phase are designed to establish programs that will support sound award decisions. The primary quality issue areas in the pre-contract phase are contractor past performance information, contractor quality assurance, vendor ratings, and technical data.

Contractor Past Performance Information. A contractor's past performance record is a key indicator for predicting future performance. Past performance systems are continuous efforts to collect and record past performance information for subsequent use in determining contractor eligibility and selection. Past performance information is used in objective 4 of the DoD Action Plan, encourage the use of quality factors in the source selection process for spare and repair parts.

To make past performance information available to DLA contracting officers, DLA designed the Contractor Profile System to link a variety of data bases that contain contractor information. The 1989 Defense Management Report to the President also recognized the need for past performance information. DLA chartered the Past Performance Coordinating Council to develop a DoD-wide means of collecting relevant historical contractor performance data for use in source selection, to promote information exchange between the Military Departments, and to develop an automated past performance information system. The Past Performance Coordinating Council designated the DLA Contractor Profile System as the DoD system for collecting contractor past performance information. The DLA Action Plan should describe DLA actions to satisfy the DoD requirement to collect contractor past performance information as part of an objective to the pre-contract phase.

Vendor Rating Systems. DoD Components are developing separate automated analytical systems to evaluate past performance information as a source selection factor. These automated systems compile and analyze information such as past

delivery delinquencies and product quality deficiencies. We identified 10 systems in various stages of development and implementation to accumulate, track, and evaluate contractor past performance (Appendix D). The Navy has a mature vendor rating system, the Red, Yellow, Green Program, that rates contractors based on the degree of risk associated with contractor quality performance for specific products. Contractors who supply spare parts to the DoD Components have complained about the confusion in satisfying the varying requirements for numerous rating systems. DoD needs to use a standard approach for rating vendor performance. The DoD Components should add standardization of vendor rating systems to their implementing action plans as an objective to the pre-contract phase.

Technical Data. Competitive procurement of spare and repair parts for weapon systems requires the availability of adequate and accurate technical data. Technical data include engineering drawings and associated lists, specifications, standards, process sheets, catalog item identification and related information, and data relating to test or inspection of hardware items. DoD Action Plan objective 2 is to ensure technical data are available, adequate, and accurate for use in acquiring quality parts. DoD guidance for technical data is contained in DoD 5010.12M, "Procedures for the Acquisition and Management of Technical Data," May 1993.

In January 1991, DLA executed a memorandum of agreement with the Military Departments that provided guidance for Defense Management Report Decision 926, "Consumable Item Transfer Program," regarding transfer of consumable item management from the Military Departments to DLA. The memorandum of agreement provides criteria for the Military Departments to transfer complete technical data packages to DLA.

The Military Departments are responsible for maintaining technical data; however, ensuring that technical data are available, adequate, and accurate is a responsibility that DLA must share with the Military Departments. The DoD Components have a program for recording all engineering data in the Military Engineering Data Asset Locator System, or MEDALS, which should make technical data readily available. However, the implementing action plans contain only one initiative for ensuring that technical data are adequate and accurate. The initiative, for objective 2, requires the DoD Components to ensure technical data are available before the breakout of parts for competition.

The DoD Components initiatives were not adequate to develop and process changes to technical data used to acquire spare and repair parts. The initiatives, which consisted of "reporting quarterly" and "writing management requirements to automate the breakout," did not effectively identify and correct existing problems with poor quality technical data.

Two recent audits substantiate this point. The General Accounting Office report GAO/NSIAD-92-23, "Defense Procurement, Improvement Needed in Technical Data Management," February 1992, reported that 19 of 23 contractors visited during the General Accounting Office audit had experienced problems with deficient data such as illegible drawings, out-of-date information, and inaccurate or incomplete material. In addition, IG, DoD, Report No. 94-071, "Report on

the Transfer of the Management of Consumable Items to the Defense Logistics Agency," March 31, 1994, reported that 20 percent of the items requiring technical data packages in the audit sample were incomplete (see Appendix A for details). The DoD Components should update objective 2 in their implementing action plans to include current or planned initiatives to ensure technical data are available, adequate, and accurate for use in acquiring quality spare and repair parts.

Contract Phase

The objectives in the contract phase should result in initiatives to reduce the risks associated with procuring and accepting products later found to contain patent defects. The primary quality issue areas in the contract phase include critical aircraft and ship parts and contractual initiatives for certificates of quality compliance, and finality of acceptance.

Critical Aircraft and Ship Parts. United States Code, title 10, section 2383 (10 U.S.C. 2383), "Procurement of Critical Aircraft and Ship Spare Parts," requires contractors supplying critical aircraft and ship parts to meet appropriate qualification and contractual quality requirements. Beginning in April 1989, the Secretary of Defense was required to implement 10 U.S.C. 2383, which states "in procuring any spare or repair part that is critical to the operation of an aircraft or ship, the Secretary of Defense shall require the contractor supplying the part to provide a part that meets all appropriate qualification and contractual quality requirements as may be specified and made available to prospective offerers." DoD has not implemented this law into regulations and does not have plans to do so. DoD plans to request repeal of 10 U.S.C. 2383 in its current acquisition reform efforts.

If efforts to repeal this statute fail, then the DoD Components should revise objective 7, to ensure all suppliers of spare and repair parts meet specified quality and technical requirements, to include an initiative to require compliance with 10 U.S.C. 2383.

Contractual Initiatives. The DoD Components do not have effective plans for using contract clauses to reduce the risks associated with the unknowing procurement of nonconforming products with patent defects. The planned initiatives to reject or require correction of nonconforming products and to provide incentives for contractors to continuously reduce production process variability needed improvement. The initiatives did not provide a contractual basis for recoupment or replacement for products found to have patent defects after acceptance.

Certificate of Quality Compliance. The DLA Action Plan attempted to address the problem of procuring nonconforming products with the use of certificates of quality compliance (COQC). A COQC provides a record of who manufactured the part and detailed records of objective quality inspections and test results. COQCs were used for critical items or problem items such as

class 3 fasteners. The purpose of the COQC was to hold distributors to the same quality standards as manufacturers. If the certificates are not included with the shipment, depot inspectors will not accept the shipment. Developing and processing COQCs are expensive, and acceptance of products on a COQC was final, even when the products were later identified to contain patent defects.

Finality of Acceptance. Federal Acquisition Regulation 52.246-2, "Inspection of Supplies--Fixed Price," provides that acceptance is final even for products containing patent defects. In our opinion, contractors who deliver nonconforming products will continue to do so under current rules for finality of acceptance on products with patent defects. The contractors recognize the minimum level of quality controls required to obtain product acceptance and will not correct inadequate quality controls until their products are rejected. The finality of acceptance is contrary to U.S. business practices. According to the quality control standards promulgated by the American National Standard for Quality Systems, the supplier is responsible for providing acceptable product, and the supplier remains responsible for a product that is rejected after the purchaser initially verifies product nonconformance. The Navy, for example, recognized the need for reducing the risk of accepting poor quality products when it awarded a 1993 contract for the ALQ-99 electronics countermeasure receiver. The contract contained a clause stating that the receivers would be free from defects in materiel and workmanship and would continue to operate for 60 months regardless of Government inspection and acceptance. If a defect was found, the contractor was required to promptly correct or replace the item.

An audit recommendation in IG, DoD, Report No. 92-099, "Quality Assurance Actions Resulting from Electronic Component Screening," June 8, 1992, to revise Federal Acquisition Regulation 52.246-2 was not accepted because the recommended revision could produce warranty-like price consequences for about five million National Stock Numbered items. Representatives from the offices of the Director of Defense Procurement; the IG, DoD; and DLA agreed that a better solution would be to target intensive pre-acceptance inspections for products tendered by suppliers who consistently shipped nonconforming products (problem suppliers). However, when necessary, a contract clause could be used to eliminate the finality of acceptance for selected problem contractors and on contracts for products vulnerable to nonconformances in specific contracts. DLA agreed to identify problem suppliers and nonconforming products and to develop contractual initiatives to address the acceptance of products with patent defects. The DLA solution was to include policy proposals to obtain recoupments for products accepted by the Government, but which were later found to contain patent defects. The DoD Components should revise objective 8, to reject or require corrections of nonconforming products, to show the planned and ongoing contractual initiatives that provide the Government with a basis for recoupment or replacement for products found to have patent defects after acceptance.

Contract Administration Phase

The initiatives in the contract administration phase were designed to reduce the chances that DoD contractors will tender nonconforming products to the Government for acceptance. DLA is responsible for quality assurance contract administration in DoD. The primary quality issue areas in the contract administration phase are In-Plant Quality Evaluation (IQUE) Program, international quality standards, waivers and deviations, and Material Review Boards.

In-Plant Quality Evaluation. The focus of the IQUE Program is to improve quality by continuously improving contractor production processes instead of detecting nonconformances in the completed product. The IQUE Program provides DLA acquisition officials an analytical approach for determining which production processes affect quality. Quality assurance representatives have more authority and flexibility under the IQUE Program to tailor their programs to fit manufacturing conditions. DLA published policy and procedures for the IQUE Program in DLA Manual 8200.5, "In-Plant Quality Evaluation," October 1990. The manual provides guidance to the quality assurance representatives in the Defense Contract Management Command (DCMC).

DCMC routinely discusses possible contractor improvement areas with contractor management. However, the DLA Action Plan does not incorporate plans for measuring and describing the progress of DoD contractors in achieving the continuous improvement. An initiative for measuring and describing DoD contractor progress in the IQUE Program is needed under objective 14, to measure effectiveness of in-plant Government contract administration and contractor performance.

International Quality Standards. Senior acquisition officials of the Military Departments signed a memorandum March 8, 1993, that authorized the use of commercial standards provided in the International Organization for Standardization 9000 series (ISO 9000) and equivalent American National Standards Institute-American Society for Quality Control (ANSI/ASQC Q90) quality system series. However, the memorandum did not provide detailed guidance on how the commercial standards would be applied.

The Assistant Secretary of Defense (Production and Logistics) expressed concerns to the Military Departments in a April 2, 1993, memorandum, about the lack of detailed guidance on application of the ISO 9000/Q90 series. In addition, the Assistant Secretary stated that DoD personnel were not trained to administer ISO 9000/Q90 series standards.

DLA is responsible for training the quality assurance representatives that must administer quality standards for DoD procurements. DLA needs to include initiatives in the DLA Action Plan for the training required for quality assurance under the ISO 9000/Q90 series standards as part of objective 12, update in-plant Government quality assurance procedures to provide Government quality assurance representatives flexibility to tailor oversight.

Waivers and Deviations. Contracting officers have the authority to grant waivers for products that do not conform to contract specifications. Additionally, contracting officers may grant deviations from contract specifications. The extent to which waivers and deviations were allowed in previous contracts can provide contracting officials with additional quality information in the contract award process.

The 1990 DLA Action Plan contained an initiative to include information regarding waivers and deviations in the contractor profile data base. DLA has not completed actions to make a data base of waivers and deviations granted to each contractor available to Government contracting officers. DLA has developed a mathematical model, the Quality Effectiveness Sensing Technique, to provide a relative measure of contractor quality assurance effectiveness. The model includes Material Review Board actions and waivers in the data base. DLA records waivers and deviations in the Quality Effectiveness Sensing Technique system. The number of waivers and deviations should decrease for each DoD contractor. DLA plans to analyze and evaluate the waivers and deviations that are approved through the Quality Effectiveness Sensing Technique. DLA needs an initiative to evaluate the extent of waivers and deviations through the Quality Effectiveness Sensing Technique for objective 10, reduce contractor Material Review Board actions and requests for waivers or deviations.

Material Review Boards. Contractors establish Material Review Boards to determine the disposition and correction of minor nonconforming parts identified before Government acceptance. IG, DoD, Report No. 89-065 stated that contractors did not identify and correct the causes of recurring nonconformances and that Government quality assurance representatives accepted the recurring nonconformances. As Government contractors continue to improve their in-process manufacturing quality controls, the number of Material Review Boards actions should decline. DLA needs an initiative to analyze and evaluate Material Review Board activity at contractor plants through the Quality Effectiveness Sensing Technique as part of objective 10.

Depot (Supply Management) Phase

The initiatives in the depot (supply management) phase were designed to identify and purge major and critical nonconforming products stored in Defense depots and to ensure that only conforming products are shipped to operational units. The responsibility for supply management is spread among the DoD Components. The DoD Components are responsible for managing the items assigned to them, whereas DLA is solely responsible for receiving, storing, and distributing all depot storage items. The primary quality issue areas in the depot (supply management) phase include parts testing and the quality assurance of repackaged items. Parts testing is also a quality issue area in the feedback intelligence phase.

Army. The Army included initiatives in its implementing action plan to test new receipts to keep nonconforming products from entering the inventory. However, the Army did not implement the initiatives. The Army Action Plan did not include initiatives to test parts already in wholesale (depot) inventories. The Army should implement existing initiatives to test new receipts for nonconforming products and should revise its implementing action plan to add initiatives to test and identify products already in the wholesale (depot) inventories. The Army also needs to establish initiatives for testing suspect product lines under objective 18, to identify and purge nonconforming products from wholesale level inventory.

Navy. The Navy included initiatives in its implementing action plan to test new receipts to keep nonconforming products from entering the inventory but did not implement the initiatives. The Navy Action Plan did not include initiatives to test parts that were in wholesale (depot) inventories. However, the Navy did test some diesel parts stored in depots. In 1991, the Navy completed the Diesel Engine Parts Improvement Program to test and purge nonconforming parts from the supply system. The Navy still has plans to expand the testing program to gas turbine engines, pumps, and air conditioning units but needs to include those plans under objective 18.

Air Force. In August 1989, the Air Force developed the Conformance Verification Program to identify nonconforming parts in wholesale (depot) inventories and to purge the nonconforming parts. Originally, the Conformance Verification Program addressed parts already in the inventory at the air logistics centers. The Air Force encountered problems with this program and found it difficult to administer. The Air Force found that recoupments for nonconforming parts were difficult because the parts selected were from old contracts and were not properly identified. In addition, contractors who supplied some of the parts refused to discuss old contract orders because acceptance of nonconforming products with patent defects was final. Because of the difficulties experienced, in June 1990 the program emphasis was shifted to new receipts. Since that time, Conformance Verification Program managers have not tested potentially nonconforming parts in the Air Force inventory. The Air Force should establish an initiative under objective 18 to test suspect product lines as part of the Conformance Verification Program.

DLA. Products may be unusable because they are repackaged improperly at Defense depots. Conducting quality assurance inspections before issuing repackaged products from Defense depots should be included as an objective in the depot phase. An objective covering quality inspection of repackaged products is needed because repackaged products issued from depot stocks do not always contain the contract number, the contractor's identification, or the National Stock Number. If those data are not on the package, the product cannot be used in controlled manufacturing operations. During our visits to the Portsmouth Naval Shipyard and the Corpus Christi Army Depot, production managers complained that DLA depots often supplied repackaged products that were either improperly identified or damaged. Production managers had to stop manufacturing or repair operations until the depots supplied either correctly identified or undamaged parts.

Feedback Intelligence Phase

The initiatives in the feedback intelligence phase were designed to identify product lines susceptible to nonconformances and the problem contractors that supply nonconforming products so that quality assurance efforts are targeted to preclude acceptance of nonconforming products from problem contractors. The primary quality issue areas in the feedback intelligence phase are the quality PQDR Program, the DoD-wide deficiency reporting system, and independent quality assurance testing.

PQDR Program. The PQDR Program was designed in part to identify and purge nonconforming products from the inventory and to provide feedback to contracting officers and contractors. The PQDR Program was to provide for cross-reporting of nonconforming products between the DoD Components, for necessary corrective actions throughout the acquisition and support process, and to maintain contractor quality history. Additionally, the PQDR Program was to provide the initial reporting, cause, correction, and status accounting of individual product quality deficiencies. The program data are used to identify problems, trends, and recurring deficiencies. The DoD Components need to include additional initiatives for feedback, reporting, data exchange, and definitions.

PQDR Feedback. National inventory control points are the action points for most PQDRs. As the action points, quality assurance organizations at each national inventory control point are responsible for processing and investigating PQDRs and for ensuring that corrective action is completed. Investigating a PQDR involves determining its validity, determining the extent of nonconforming products in the inventory, and establishing a basis for recoupment of nonconforming products supplied by contractors.

PQDRs provide valuable quality information to contractors on applicable quality controls and to contracting officers on the contractors' performance. IG, DoD, Report No. 93-066, "Recoupments for Quality Defects," March 10, 1993, stated that DLA Defense Supply Centers did not perform complete quality assurance investigations because quality assurance specialists frequently curtailed investigations of PQDRs without validating quality deficiencies through product testing or through verification with the supplier. Defense Supply Centers did not screen inventory for other nonconforming products. Consequently, the Defense Supply Centers assumed the risk of continuing to issue nonconforming products to DoD activities after receiving repeated PQDRs on the same contract. We found similar problems at the Military Department sites that we visited during this audit and during previous reviews and audits. The DoD Components need initiatives to verify reported quality deficiencies through product testing or through verification with the supplier as part of objective 23, to improve the customer complaint system.

Reporting Nonconforming Products. In IG, DoD, Report No. 90-113, a statistical sample was used to determine the extent of nonconforming products. None of the nonconforming products identified in the audit were reported on a PQDR. Based on the statistical sample, we estimated

that less than 10 percent of product nonconformances were ever properly recorded and processed through the PQDR system. Apparently, the users of products either did not identify or did not report nonconforming products.

The IG, Air Force Materiel Command, Report No. PN 92-06, "Report of Process Effectiveness Review, Product Quality Deficiency Reporting," July 29, 1992, reported that the PQDR Program was cumbersome. Based on interviews, no more than 10 to 15 percent of all possible deficiencies to include nonconforming products were reported on PQDRs. The report recommended improvements to training, procedural guidance, data base communications, and contracting. Previous audits in DLA have also shown a need for training in the PQDR Program. During the audit, we confirmed a need for continuing training in the Army and the Navy as well. The DoD Components should add initiatives to objective 23 for proper training for completing PQDR forms and segregating nonconforming products for investigation.

Government-Industry Data Exchange Program. The Government-Industry Data Exchange Program (GIDEP) collects and records quality deficiency data and enables Government and contractor organizations to exchange technical information applicable to Government contracts and equipment. On April 9, 1991, the Office of Federal Procurement Policy (OFPP), Office of Management and Budget, published Policy Letter No. 91-3, "Reporting Nonconforming Products," requiring Federal agencies to participate in the failure experience data interchange portion of the GIDEP data base.

OFPP Policy Letter No. 91-3 was intended to establish a central Federal system for exchanging information on nonconforming products that would be useful to other Federal agencies and that would protect the public from the effect of nonconforming products. The information exchange would help eliminate instances in which Federal agencies or their contractors acquire products and materiels previously identified as nonconforming by other Federal agencies. The DoD Components participate in the GIDEP and the GIDEP office prepares reports that measure the participation of the DoD Components. However, reporting the nonconforming products to the GIDEP was not included as an initiative in the DoD Component implementing action plans. The DoD Components should include the reporting of nonconforming products to GIDEP as required by OFPP Letter No. 91-3, as an initiative for objective 23.

DoD-wide Deficiency Reporting System. The Joint Logistics Systems Center is managing the development of the DoD-wide Deficiency Reporting System that will standardize deficiency reporting into a single computer application. The DoD-wide Deficiency Reporting System will replace the DoD Components' duplicate automated information systems. Standardization of this portion of the DoD corporate logistics process will result in cost effectiveness and operational efficiency.

The Joint Logistics Systems Center has worked with quality assurance and supply operations experts from the DoD Components to model the complaint processes and to choose an appropriate standard automated system for reporting and recording product discrepancies. The DoD-wide Deficiency Reporting System is modeled after the Navy System, Deficiency Reports Log, which is

designed to process PQDRs and reports of discrepancy on a few standard reporting forms. The standard system was scheduled for five deployments in 1994 with the first deployment scheduled for February 1994. The DoD Components did not include the DoD-wide Deficiency Reporting System as an initiative in any of the objectives of their implementing action plans. In addition, initiatives are needed to reduce the number of forms for reporting nonconformances and to standardize the forms and the use of the forms. The DoD Components should establish the implementation of the DoD-wide Deficiency Reporting System as an initiative under objective 23.

Independent Quality Assurance Testing. DoD Directive 4140.1-R, "DoD Materiel Management Regulation," states that only spare and repair parts that fully conform to contract specifications will enter the DoD supply system. DoD Directive 4140.1-R further states that the DoD Components will implement a program for identifying spare and repair parts that do not meet contract specifications. The program will be based on the general objectives and procedures contained in the DoD Action Plan and will provide that laboratory testing will be used as a tool for verification that secondary items procured conform with technical specifications before item acceptance. The testing program should emphasize conformance of critical items, and those results should be used in implementation of the DoD-wide PQDR system. Objective 22, to enhance the use of DoD and independent laboratory test capabilities, called for expansion and enhancement of laboratory testing capability and parts evaluation. The DoD Components already own most, if not all, of the laboratory testing capability that is needed to test spare and repair parts.

Random and Targeted Testing Strategies. The Military Departments have not developed strategies for cost-effective quality assurance laboratory testing programs. Strategies that feature multi-purpose testing, such as random testing within specific Federal supply classes and targeted testing of the products supplied by problem suppliers were needed. Random and targeted testing would provide current intelligence on quality problems.

Problem suppliers are usually identified through validated PQDRs. Unfortunately, PQDRs relate primarily to historical quality problems for products procured 12 to 36 months before the PQDR was initiated. Laboratory testing of recently delivered products verifies historical quality problems and provides current scientific information for targeting quality assurance efforts and for applying contract clauses that reduce the risks of accepting nonconforming products. In addition, laboratory testing is useful for validating PQDRs that deal with nonconformances in complex parts.

The Air Force Conformance Verification Program tests a modest number of new receipts each year. The Army and the Navy do not have testing programs to implement DoD Directive 4140.1-R. DLA has, as part of the laboratory testing program described in DLA Regulation 4105.20, "Contractor Assessment-Product Evaluation," expanded its laboratory testing capability, adding three test laboratories to support the Defense Supply Centers. DLA uses a combination of its own laboratories, Military Department laboratories, and commercial laboratories that specialize in specific test capabilities to support

U.S. industries. The results of laboratory testing are recorded in the "System for Analysis of Laboratory Testing," data base for future reference by procurement contracting officers. The Military Departments should add an objective to develop strategies for cost effectively employing quality assurance laboratory testing to identify product lines susceptible to nonconformances. Also, DLA should update its action plan to reflect continuing DLA plans to refine the testing program.

Identifying Problem Contractors. The Defense Industrial Supply Center uses its testing program extensively to identify and target problem contractors for intensive quality assurance actions. For example, grade 8 bolts and class 3 fasteners were chronic quality problems that were effectively addressed in the Defense Industrial Supply Center Test and Evaluation Master Plan. IG, DoD, Report No. 90-113 stated that an estimated 27 percent of 1.1 billion parts managed by the Defense Industrial Supply Center were found to contain major nonconformances. During January through March 1993, the Defense Industrial Supply Center conducted random tests of 372 new industrial parts that showed the nonconformance rate was 2.2 percent. The lower rate of products identified with major nonconformances demonstrates that laboratory testing is an effective quality assurance tool. The Military Departments have not developed testing programs for identifying problem contractors. The DoD Components should add the use of laboratory testing for identifying problem contractors as an initiative under objective 22.

Quality Assurance Test Plans. In March 1993, the DLA Office of the Executive Director of Quality Assurance determined that the Defense Supply Centers were developing test plans differently. The test plans reviewed during prior IG, DoD, audits showed that the test plans prepared by the Defense Industrial Supply Center were more complete than those prepared by the Defense Electronics Supply Center. Incomplete test plans could result in understating the nonconformances at Defense Supply Centers. DLA established policy for developing test plans; however, initiatives are needed to verify that test plans are complete and that all critical characteristics of a part are tested. The DoD Components should add evaluation of the adequacy of test plans as an initiative to objective 22.

Recommendations, Management Comments, and Audit Response

Terminology in Recommendations. The term "update" in the recommendations for corrective action recognizes that the DoD Components have an existing, ongoing initiative that is not adequately described in the DoD Component's 1990 implementing action plan. The term "revise" in the recommendations for corrective action is used when a DoD Component must add an initiative or objective to its implementing action plan. Our

recommendations to update or revise specific objectives are provided as a frame of reference. The numbers of the objectives should change as the DoD Components tailor the action plans to their needs.

Revised Recommendation. Based on management comments, we revised Recommendation 5.b. by eliminating reference to In-plant Quality Evaluations.

1. We recommend that the Deputy Under Secretary of Defense (Logistics):

a. Select a standard DoD vendor rating system for use in DoD.

b. Establish regulations for implementing United States Code, title 10, section 2383, to require that contractors supplying critical aircraft and ship parts meet appropriate qualification and contractual quality requirements.

Deputy Under Secretary of Defense (Logistics) Comments. The Deputy Under Secretary stated that the DoD Past Performance Coordination Council would review the possible establishment of a standard DoD vendor rating system and would forward its recommendations to the Under Secretary of Defense for Acquisition and Technology by July 1995. In regard to 10 U.S.C. 2383, additional action by DoD was not appropriate because the legislation will likely be repealed.

Audit Response. The Deputy Under Secretary's comments on the standard vendor rating system was responsive; however, if 10 U.S.C. 2383 is not repealed before June 13, 1994, we request comments on the final report regarding the DoD plan to implement the existing law.

2. We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition); the Assistant Secretary of the Air Force (Acquisition); and the Director, Defense Logistics Agency, update their implementing action plans to show the current or planned actions to:

a. Maintain technical data packages and make them available, adequate, and accurate as an initiative for objective 2, ensure technical data are available, adequate, and accurate for use in acquiring quality parts.

Army Comments. The Army nonconcurred, stating performance specifications should be used in lieu of detail specifications, creating less need for maintaining technical data packages by eliminating drawing requirements. The Army also stated that there are initiatives to improve the acquisition and quality of data. Army buying centers have installed a digital storage and retrieval engineering system and developed a performance specification guide to help foster commercial buying practices. The buying centers also installed a technical data configuration management system to control changes and design upgrades.

Audit Response. We do not consider the Army comments responsive. While acquisition reform efforts point to increasing use of performance specifications, technical data packages will still be needed for a wide assortment of military

specified products. The requirement to maintain adequate and accurate technical data packages is included in DoD 5010.12M, "Procedures for the Acquisition and Management of Technical Data." Both GAO Report No. GAO/NSIAD 92-23 and IG, DoD, Report No. 94-071 highlighted problems with technical data storage and transfer that require improvement. We request that the Army reconsider updating objective 2 as recommended and respond in comments on the final report.

Navy, Air Force, and DLA Comments. The Navy concurred and stated that updated Navy implementing action plans described programs for ensuring that technical data were available, adequate, and accurate for use in acquiring quality parts. The Air Force concurred and further stated that Air Force Materiel Command Regulation 57-7 is being revised to identify the responsibilities for maintenance of technical information. DLA concurred and stated that the revised DLA implementing action plan included additional initiatives to improve the quality of technical data.

Audit Response. We request the Air Force to provide a specific date for completing the corrective action in its comments on the final report.

b. Comply with the requirements of Office of Federal Procurement Policy Letter No. 91-3, "Reporting Nonconforming Products," to participate in the Government-Industry Data Exchange Program as an initiative for objective 23, improve the customer complaint system.

Management Comments. The Army concurred with the recommendation, stating that Army Materiel Command major subordinate commands regularly participate in the GIDEP program. The Navy concurred and stated that the December 1993 updated implementing action plan described actions taken to participate in the GIDEP and to automatically use the GIDEP reports in the Navy Red, Yellow, Green Vendor Rating system. The Air Force concurred and further described their participation in the GIDEP for the past 30 years, and described cost avoidances of $15.7 million in 1992 from use of the GIDEP reports. DLA stated that GIDEP was an initiative in the 1990 implementing action plan and GIDEP was institutionalized within the DLA. Implementation of the GIDEP is in a regulation, a manual, and in training courses thus additional initiatives were unnecessary.

c. Support the development, planned deployment, and implementation of the DoD-wide Deficiency Reporting System as an initiative for objective 23, improve the customer complaint system.

Management Comments. The Army concurred, stating that the Materiel Command Logistics Support Activity and Missile Command are Army lead activities for development and deployment of the DoD-wide Deficiency Reporting System. The Navy concurred and stated that it fully supports and is actively participating in the development of a standard deficiency reporting system. The Navy described the supporting actions in the December 1993 updated implementing action plan. The Air Force concurred and stated that they support a Joint Logistics Systems Center effort to implement a DoD-wide

Deficiency Reporting System. DLA concurred and stated that the revised implementing action plan included an initiative outlining DLA support for a DoD-wide Deficiency Reporting System.

d. Reduce the number of forms used to report nonconformances, and standardize the forms and the use of the forms as initiatives for objective 23, improve the customer complaint system.

Management Comments. The Army concurred, stating that actions are being taken to use electronic data transfers of PQDRs, reports of discrepancy, and transportation deficiency reports. The Navy concurred and stated that the December 1993 updated implementing action plan addresses standardizing and reducing the number of forms used to report nonconformances as part of other initiatives to improve the PQDR process. The Air Force concurred and stated that, as a result of the standard DoD Deficiency Reporting System, the number of forms to report nonconforming products would be reduced and the remaining forms would be standardized. DLA nonconcurred and stated that, as a direct result of electronic systems, the use of paper forms would be significantly reduced and a specific item in the implementing action plan was not needed. Also, with the initiatives related to the time phased implementation of the Deficiency Reporting System, there was no need to detail a related initiative in the DLA action plan.

Audit Response. The DLA response does not reconcile with other available information. The program manager for the DoD-wide Deficiency Reporting System informed us that gaining acceptance from DLA on the use of standardized forms was one of the unresolved problems facing the program. Accordingly, we request that DLA reconsider its position on the recommendations and provide comments on the final report.

e. Provide the training needed to verify that the Product Quality Deficiency Reports Program is used effectively as an initiative for objective 23, improve the customer complaint system.

Army Comments. The Army did not respond to this recommendation.

Audit Response. We request that the Army provide comments on the final report.

Navy, Air Force, and DLA Comments. The Navy concurred and stated that the December 1993 updated implementing action plan addresses training improvements and other actions taken to improve the customer complaint system. The Air Force concurred and stated that it will develop automated training packages that provide instructions on how to fill out PQDRs by June 1994. DLA nonconcurred but stated that extensive training initiatives were

previously accomplished and that training has already been scheduled to coincide with deployment of the DoD-wide Deficiency Reporting System. Therefore, additional PQDR initiatives were unnecessary.

3. We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition); the Assistant Secretary of the Air Force (Acquisition); and the Director, Defense Logistics Agency, revise their implementing action plans to:

a. Support an effort to identify and designate one system as the standard DoD vendor rating system as part of an additional objective to the pre-contract phase.

Army, Navy, and Air Force Comments. The Army concurred and stated that it will support the initiative as required by the Under Secretary of Defense for Acquisition and Technology. The Navy concurred and stated that it revised the implementing action plan in December 1993 to include initiatives to fully support efforts to identify and designate a standard vendor rating system. The Navy also stated that the Navy Red, Yellow, Green program could effectively perform as a DoD-wide system. The Air Force concurred with the intent of the recommendation; however, it questioned whether a single vendor rating system was cost-effective and whether a single vendor rating system would improve the quality of spare parts. The Air Force also stated any action on this should be addressed by a joint service, DLA, and Office of the Secretary of Defense committee.

DLA Comments. DLA nonconcurred and stated that standardizing the vendor rating systems would be inappropriate and would limit flexibility. The adoption of a single system would place restrictions on activities that were capable of developing more effective systems. DLA also stated that standardization of ratings for contractor performance was a valid goal and that goal was being pursued by the Past Performance Coordinating Council.

Audit Response. The Deputy Under Secretary of Defense for Acquisition and Technology has determined that the Past Performance Coordinating Council will study the issue of adopting a standard vendor rating system and will provide a recommendation regarding the use of a standard vendor rating system. Therefore, we accept the comments of the DoD Components as responsive to the recommendation.

b. Describe the actions taken to comply with United States Code, title 10, section 2383, "Procurement of Critical Aircraft and Ship Parts," as an initiative for of objective 7, ensure all suppliers of spare and repair parts meet specified quality and technical requirements.

Army and Navy Comments. The Army concurred, stating that it has had an active critical safety item program since 1985. Also, the Army incorporated the "Critical Safety Army Program" in a regulation in 1991. The Navy concurred and stated that it would support any action initiated by the Office of the Secretary of Defense but noted that Congress was considering legislation to repeal 10 U.S.C. 2383.

Air Force and DLA Comments. The Air Force stated that compliance with 10 U.S.C. 2383 is achieved with each written contract because contracts include clauses regarding all aspects of the procurement. The Air Force also stated that section 2401 of S1587 repeals 10 U.S.C. 2383. DLA nonconcurred and stated that DoD was recommending repeal of 10 U.S.C. 2383; therefore, the recommendation pertains to a potentially defunct law. Furthermore, the Defense Acquisition Regulations Council has determined that the statute was directed at program managers rather than contracting officers, essentially removing DLA from involvement in the issue.

Audit Response. Repeal of 10 U.S.C. 2383 was recommended in several acquisition reform proposals submitted to Congress. If 10 U.S.C. 2383 is not repealed, the Air Force and DLA should include the requirements of 10 U.S.C. 2383 in their implementing action plans. If 10 U.S.C. 2383 is not repealed by June 13, 1994, we request the Air Force and DLA reconsider their position on the recommendations and provide comments on the final report.

c. Support development of contractual policy proposals to obtain reimbursement or replacement for products accepted by the Government, but later found to contain patent defects, as an initiative for objective 8, reject or require corrections of nonconforming supplies.

Management Comments. The Army concurred, stating that contractors are held liable for and are required to provide restitution to the Army for materiel accepted and later found to be defective. The Navy concurred and stated that it revised the Navy implementing action plan in December 1993 to include examples of contractual initiatives taken to hold contractors responsible for patent defects after acceptance. The Navy also stated that it would support any actions taken by the Office of the Secretary of Defense to obtain reimbursement or replacement for patently defective products. The Air Force concurred with the intent of the recommendation and offered an expansion to the recommendation, suggesting that the Military Departments and DLA jointly examine the product acceptance process and emphasize monitoring and controlling suppliers' manufacturing processes before shipment to depots. DLA concurred and stated that additional actions were needed to continue initiatives begun under objective 8 of the DLA implementing action plan. The additional initiatives were included as identified during discussions in May 1993 with the Director of Defense Procurement and representatives of the IG, DoD, to devise a means for holding contractors accountable for patent nonconformances discovered after acceptance for certain designated product lines.

Audit Response. The Army's comments, coupled with the Army plan to update and reissue an implementing action plan by June 1, 1994, are responsive. We believe that cooperative initiatives between the Military Departments and DLA could enhance the DoD Component implementing action plans. However, we ask that the Air Force provide a completion date for the planned actions in response to the final report.

d. Remove nonconforming products identified on Product Quality Deficiency Reports from Defense Supply System inventories; notify contractors when their nonconforming products are discovered and provide copies of quality deficiency information to contractors so the contractor can correct the cause of the quality control failure; inform contracting officers so they can attempt to recoup the value of the nonconforming products; and document the quality assurance decisions to request or not request laboratory testing needed to support Product Quality Deficiency Report as initiatives for objective 23, improve the customer complaint system.

Management Comments. The Army concurred with the intent of the recommendation but stated that no changes are necessary to meet the intent of the recommendation. The Army stated that procedures were in place to prevent the issuance of nonconforming products after identification on PQDRs. The Army also stated that item managers recoup costs from defective items on a case-by-case basis and that recoupment typically resulted from negotiations with the contractor. The Navy concurred and stated that it revised the implementing action plan in December 1993 to improve the customer complaint system to include initiatives ensuring that defective products are removed from inventories, that supply sources are fully informed about the defective products, that contracting officers attempt to recoup the value of defective products; and that appropriate product testing is conducted. The Air Force concurred with the intent of the recommendation but stated that the proposed actions were too specific to be implemented as written. DLA nonconcurred and stated that DLA had previously included all of the recommendation areas in their quality assurance manual for the Defense Supply Centers. In addition, management reviews have confirmed that the revised procedures have been incorporated in the Defense General Supply Center processes.

Audit Response. We believe the specificity of the recommendations will be helpful to the drafters of Air Force initiatives for complete actions on PQDRs. In addition, we request that Air Force reconsider its position on the recommendations and provide comments on the final report.

e. Develop strategies for cost effectively targeting quality assurance laboratory testing to identify susceptible product lines and problem contractors, and to randomly test the products supplied by problem suppliers at every national inventory control point as an added objective for the feedback intelligence phase.

Army Comments. The Army partially concurred, agreeing to use quality assurance laboratory testing on a limited basis. However, end-of-line inspection and defect detection should be replaced with statistical process controls in the production process resulting in defect prevention and control of processes.

Audit Response. We agree that the use of statistical process controls can be used to prevent the occurrence of defects; however, the point of the recommendations is for the Army to take the initiative to determine effectiveness of DoD acquisition system in supporting Army field units with conforming spare parts. We request the Army to reconsider its position on the recommendation and provide comments on the final report.

Navy, Air Force, and DLA Comments. The Navy concurred and stated that it revised the implementing action plan in December 1993 to show that the Navy requires 100 percent testing of all Level I subsafe, nuclear, safety, and safety-of-flight products. The Navy is attempting to increase other quality assurance testing programs and to participate with the Air Force and DLA in their laboratory testing programs and to use the results of those programs to further identify problem suppliers. The Air Force concurred with the intent of the recommendation but stated that enhancement of inspections of processes at the suppliers' plants would be a better expenditure of funds. Additionally, the Air Force suggested the recommendation should read, "Subject to the availability of funds. . .". DLA stated that they had completed numerous initiatives associated with making laboratory testing an integral part of the DLA quality assurance effort and that staff assistance visits were verifying the effectiveness of the laboratory testing programs at the Defense Supply Centers.

Audit Response. We agree that implementing action plans are realistically constrained to current resources. However, we believe that both pre-acceptance and post-acceptance laboratory testing is important in today's quality assurance environment. We accept the Air Force response. DLA has made commendable progress toward establishing an effective laboratory testing program that can be used to evaluate the effectiveness of the quality assurance effort in DLA. DLA has established laboratories to support the Defense Supply Centers and has programs to enhance the effectiveness of the testing operations. We accept the DLA response.

f. Evaluate the adequacy of quality assurance laboratory test plans as an initiative for objective 22, enhance the use of DoD and independent laboratory test capabilities.

Army Comments. The Army partially concurred with quality assurance laboratory testing on a limited basis. However, end-of-line inspection and defect detection should be replaced with statistical process controls in the production process resulting in defect prevention and control of processes.

Audit Response. The point of the recommendations is for the Army to take the initiative in determining the effectiveness of the Defense acquisition system in supporting Army field units with conforming spare parts. We request that the Army reconsider its comments in response on the final report.

Navy, Air Force, and DLA Comments. The Navy concurred and stated that it revised the implementing action plan in December 1993 to show that it evaluates the adequacy of quality assurance test plans. The Navy also stated that the Navy Supply organizations are conducting meetings to determine how to proceed with the laboratory testing effort. The Air Force concurred with the intent of the recommendation but stated that, because of the expense of laboratory testing and decreasing budgets, the recommendation should contain the words, "subject to the availability of funds." DLA nonconcurred and stated that DLA quality assurance laboratory test plans are adequate to determine conformance. DLA has conducted a workshop to verify that the Defense Supply Center methods for developing test plans were adequate. DLA has

conducted reviews in the past and plans to conduct Quality Management Reviews at the Defense Supply Centers to continually evaluate and improve the adequacy of laboratory test plans.

Audit Response. We understand the Air Force's need to prioritize. However, we believe that the Air Force should explain how it will evaluate the adequacy of test plans when funds are available. We request the Air Force to reconsider its position on the recommendations and provide comments on the final report.

4. We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition) and the Assistant Secretary of the Air Force (Acquisition) revise the Military Department implementing action plans by adding an initiative to test product lines stored in depot inventories suspected of containing nonconforming products as part of objective 18, identify and purge nonconforming materiel from wholesale level inventory.

Army Comments. The Army concurred with the intent of the recommendation; however, changes were not necessary because current Army initiatives are already in place to purge nonconforming products from depot inventories.

Audit Response. We do not find the Army comments responsive. The Military Departments are not making use of the available information regarding susceptible product lines and poor performing contractors to identify products suspected of containing nonconforming products. The recommended revision to objective 18 would provide an initiative to proactively identify and purge nonconforming items from inventories, instead of reacting to deficiency reports, safety alerts, and other information that sometimes comes back from users only after equipment has failed under use. We request that the Army reconsider its position on the recommendations and provide comments on the final report.

Navy, and Air Force Comments. The Navy concurred and stated that the December 1993 implementing action plan was revised to include a program to test diesel engine spare and repair parts. The Navy plans to expand its laboratory testing program to include spare parts for gas turbine engines, pumps, and air conditioning units. The Air Force concurred with the intent of the recommendation but stated that the recommendation should be deleted because it duplicated an existing initiative in the Air Force implementing action plan. The Air Force has initiatives in the 1990 implementing action plan to perform laboratory testing of critical items and products suspended because of GIDEP and PQDR identification.

5. We recommend that the Director, Defense Logistics Agency, revise the Defense Logistics Agency Action Plan to add:

a. An objective to develop the Contractor Profile System in the pre-contract phase.

DLA Comments. DLA concurred and stated that rewritten initiatives were included in the revised DLA implementing action plan. Deployment of the contractor profile system is scheduled for May 1994.

b. An objective to measure the extent to which each DoD contractors' quality control processes are reviewed and validated.

DLA Comments. DLA nonconcurred and stated that Process-Oriented Contract Administration Services is replacing IQUE to increase communication among the contract administration participants.

Audit Response. Process-Oriented Contract Administration Services is not appropriate for all Defense contractors, and some contractors will not agree to participate in a teaming agreement. Therefore, we have revised the recommendation to provide an objective to measure the extent to which each Defense contractors' processes are verified. Accordingly, we request that DLA comment on the revised recommendation in its comments on the final report.

c. An objective to implement the commercial quality standards that are described in the International Organization for Standardization (ISO) 9000 series and equivalent American National Standards Institute/American Society for Quality Control (ANSI/ASQC Q90) quality system series.

DLA Comments. DLA nonconcurred and stated that it was prohibited from implementing the ISO 9000 series and equivalent ANSI/ASQC Q90 on Defense Supply Center contracts. DLA stated that it could not act on this recommendation until the Office of the Secretary of Defense rescinds the prohibition on using ISO as a substitute for the MIL-I-45208A Inspection System Requirements. DLA also stated that ISO 9000 focuses on the supplier's documented system rather than on the inherent quality of the system's products. As such, implementation of ISO 9000 will have minimal impact on the quality of spare and repair parts in the defense industry.

Audit Response. The Under Secretary of Defense for Acquisition and Technology authorized the use of ISO 9000 series standards for MIL-I-45208A, "Inspection System Requirements," in a memorandum for the Secretaries of the Military Departments and the Directors of Defense Agencies, "Use of Commercial Quality System Standards in the Department of Defense (DoD)," February 14, 1994. DLA may now use ISO 9000 in its contracts and it will have additional responsibilities to determine the extent of its quality assurance effort for ISO 9000 contracts. Therefore, we request that DLA reconsider its position on the recommendations and provide comments on the final report.

d. An initiative to develop training for Defense Contract Management Command quality assurance representatives on how to evaluate the ISO 9000 and ANSI/ASQC Q90 commercial quality systems under objective 12, and update in-plant Government quality assurance procedures to provide Government quality assurance representatives flexibility to tailor oversight.

DLA Comments. DLA nonconcurred and stated that training applicable to ISO 9000 has no impact on the DLA implementing action plan. DLA also said that the use of international quality standards was limited to acquisitions to which MIL-Q-9858A, "Quality Program Requirements," were applied.

Audit Response. The DLA implementing action plan needs to show DLA initiatives to inform and train its workforce regarding ISO 9000. The Under Secretary of Defense for Acquisition and Technology authorized the use of ISO 9000 for all spare parts contracts involving the higher levels of quality. Therefore, we request that DLA reconsider its position on the recommendations and provide comments to the final report.

e. An initiative to measure the numbers of waivers and deviations and the number of Material Review Board actions that are approved and include that information in the Quality Effectiveness Sensing Technique under objective 10, reduce contractor materiel review board actions and requests for waivers or deviations.

DLA Comments. DLA nonconcurred and stated that experience has shown that summaries of waivers, deviations, and Material Review Board actions are just not good measures. Data on waivers, deviations, and Material Review Board action are collected for and stored in the Quality Assurance Management Information System, and extracted for the Quality Effectiveness Sensing Technique. DLA stated that it was reconsidering the viability of the Quality Effectiveness Sensing Technique and had decided to rely on the process-oriented approach, because it more completely, directly, and efficiently pursues our goal of reducing nonconforming material. The Process-Oriented Contract Administration Services program focuses individually on the contractor processes that support contract performance. Performance data are used locally, in the plant.

Audit Response. The DLA comments are nonresponsive. DLA has spent years developing and refining the Quality Effectiveness Sensing Technique. DLA reported that the Quality Effectiveness Sensing Technique III model was tested in November 1991. At that time, experts from the Defense Contract Management Command and DLA Headquarters found that it was reliable. Without additional information on the deficiencies of the Quality Effectiveness Sensing Technique, we can only question the decision to abandon such a potentially powerful management tool in favor of the Process-Oriented Contract Administration Services program that does not apply to all DoD contractors. Therefore, we request that DLA reconsider its position on the recommendation and provide comments on the final report.

f. An objective to verify that inspection procedures for repackaged products are applied so that damaged products are not sent out and that all necessary information is included on the package label as part of the depot (supply management) phase.

DLA Comments. DLA nonconcurred and stated that the problems were with the Red River Army Depot and that after Red River became a DLA depot the problems were corrected. DLA also stated that it has a program for inspecting items for proper packaging and marking before shipment to customers.

Audit Response. DLA has an overall performance measure in the 1993 DLA implementing action plan to measure the valid customer complaints against distribution depots. We accept DLA's action as responsive to the recommendation.

Response Requirement For Each Recommendation

Responses to the final report are required from the addressees shown for the items indicated in the table below.

	For Recommendation Shown Response Should Cover		
Addressee	Concur/ Nonconcur	Proposed Action	Completion Date
Deputy Under Secretary Defense (Logistics)	1.b.	1.b	1.b.
Army	2.a. 2.e. 3.e., 3.f., 4.	2.a., 2.e., 3.e., 3.f., 4.	2.a., 2.e., 3.e., 3.f., 4.
Air Force	3.b., 3.d., 3.f.,	3.b., 3.d., 3.f.,	2.a., 2.d., 3.b., 3.c., 3.d., 3.f.
DLA	2.d. 2.e., 3.b., 5.b., 5.c., 5.d., 5.e.	2.d., 2.e., 3.b., 5.b., 5.c., 5.d., 5.e.	2.d., 3.b., 5.b., 5.c., 5.d., 5.e.,

Management Comments and Audit Response on the Finding

DLA Comments. DLA nonconcurred with the Finding B and stated that DLA had an automated capability to add, delete, and revise objectives. Printouts of periodic updates showed that DLA revised objectives, initiatives, performance measures, and milestones in each area and that the revisions reflected current quality program objectives and initiatives. The DLA Deputy Director used this system to review and monitor actions. Periodic briefings were presented to the

DLA Director and Deputy Director. Documents from the above actions show that DLA did use the DLA Action Plan as a management tool for continuously improving the quality of spare and repair parts.

Audit Response. As previously described in our response to DLA comments on Finding A, the printouts of the DLA implementing action plan show that relatively little change was made to the objectives and initiatives from January 1, 1992 through May 30, 1993. For at least 17 months, DLA did not use the DLA implementing action plan as a management tool for continuously improving the quality of spare and repair parts.

Management Comments and Audit Response on Appendix C

DLA Comments. DLA stated that the evaluative criteria used for Appendix C was not clear for determining initiative and objective completion. Many of the action plan objectives were meshed into the DLA key business processes and will always require management attention. DLA stated that the action plan objectives that will always require management attention should be part of an organization's strategic and operational plans and should not be included in a "Quality Assurance" Action Plan. An action plan ought to mean that immediate action is needed to resolve known or anticipated problems. Specifically, DLA did not understand why objective 3, assign parts requiring intensive technical management oversight to the proper item manager; objective 7, ensure all suppliers of spare and repair parts meet specified quality and technical requirements; and objective 22, enhance the use of DoD and independent laboratory test capabilities, were not considered complete. DLA considered the urgent actions under the objectives 3, 7, and 22 to be complete.

Audit Response. The DLA implementing action plan should be a compendium of all significant objectives with near-term and long-range initiatives. In the absence of a separate internal quality organization within DLA, the DLA Action Plan represents the most significant quality statement for DLA for continuous long-range improvement. The DLA action plan for continuous improvement should openly identify the chronic problems that affect quality and then should fully describe the initiatives for both short-range and long-range solutions. The accountability for each initiative should be established through definite and quantifiable performance measures and realistic milestones. The DLA Action Plan should openly identify DLA's chronic problems associated with technical data; poor performing suppliers; Government in-plant quality assurance; depot receiving, storage and distribution; and feedback programs to include laboratory testing. An action plan for continuous improvement should include initiatives that go beyond issuing regulations, policy memorandums, and handbooks. The additional initiatives should verify implementation of the policy.

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Part III - Additional Information

Appendix A. Summary of Prior Audits and Other Reviews

General Accounting Office

Report No. GAO/NSIAD-92-23, (OSD Case No. 8891) "Defense Procurement, Improvement Needed in Technical Data Management," February 1992. The report stated that data quality problems continued to inhibit contractors from competing for Government work or completing the work after a contract was awarded. The report recommended that procurement offices and data repository sites include in each solicitation the telephone numbers of the persons who can solve technical data problems. DoD Management concurred with the finding and the recommendation and is initiating action to establish the point of contact in DoD procurement solicitations.

Inspector General, DoD

Report No. 94-071, "Report on the Transfer of the Management of Consumable Items to the Defense Logistics Agency," March 31, 1994. The report stated that the Services' inventory managers did not transfer essential logistics management data needed to complete the technical data packages in a timely manner. The data were not transferred because controls were not established to ensure that transferred data were timely, complete, and accurate. The report recommended that DLA establish a tracking system for technical data and reconcile the number of technical data packages that are overdue from the Services. DLA concurred with the recommendation.

Report No. 93-091, "Management of the DoD Action Plan for Improving the Quality of Spare and Repair Parts," April 28, 1993. The report stated that Office of the Secretary of Defense officials did not manage the DoD Action Plan. The Under Secretary of Defense for Acquisition and Technology did not assign management of the DoD Action Plan to the appropriate action office, did not monitor implementation of the DoD Action Plan, and did not change the DoD Action Plan as needed. The report recommended that the Under Secretary of Defense for Acquisition and Technology revise and reissue the DoD Action Plan every 2 years, establish a feedback system to monitor DoD Component implementation of the DoD Action Plan, assign management responsibility to the appropriate office and update the March 1990 version of the DoD Action Plan. The Principal Deputy Assistant Secretary of Defense (Production and Logistics) concurred with the intent of the recommendations. We agreed to accept revisions to DoD Directive 4140.1-R, "DoD Material Management Regulation," as satisfactory management action on the recommendation.

Report No. 93-066, "Recoupments for Quality Defects," March 10, 1993. The report stated that Defense Supply Centers did not perform complete quality assurance investigations needed to obtain recoupments for defective electronic products. The report recommended revising DLA Manual 4155.2, "Quality Assurance Program Manual for Defense Supply Centers and Defense Industrial Plant Equipment Centers," to verify that complete quality assurance investigations are performed. In addition, the report recommended screening inventories supplied under 21 specific contracts and requesting replacement of products with major nonconformances from Federal Prison Industries, Incorporated. The DLA agreed to revise DLA Regulation 4155.24, "PQDR Program." The DLA also agreed to screen specific inventories and to request replacements from Federal Prison Industries, Incorporated. The Army generally concurred with the report's findings and other recommendations.

Report No. 92-099, "Quality Assurance Actions Resulting from Electronic Component Screening," June 8, 1992. The report described problems with the collection, distribution, and use of quality deficiency information in DoD. The report also stated that testing of electronic components was inadequate to identify and follow up on contractors who provided defective electronic components. In addition, DoD did not have effective remedies to obtain reimbursement or replacement for major and critical products with patent defects. The Army, Navy, Air Force, and DLA generally concurred with the report's findings and recommendations. As a result of the recommendation, the Director of Defense Procurement requested and DLA officials agreed to identify problem products and product lines/suppliers and to describe ongoing, planned, or proposed initiatives to address nonconforming products and possible policy proposals covering recoupments for products with major nonconformances.

Report No. 90-113, "Nonconforming Products Procured by the Defense Industrial Supply Center," September 27, 1990. The report stated that, of 1.3 billion parts, 27 percent (valued at about $171 million) were major nonconforming products. The audit recommendations involved standardizing definitions for nonconformances, improving new receipt quality assurance testing, establishing criticality of spare parts, and improving the quality assurance feedback system. The DLA implementation of the DoD Action Plan satisfied the intent of the recommendations.

Inspection Report No. 90-INS-17, "DoD Quality Assurance Program," August 29, 1990. The report stated that administrative contracting officers were not seeking consideration for excessive amounts of minor nonconforming material. The report recommended that DLA establish and implement policy that ensured consideration would be sought for each contract containing nonconforming material. DLA nonconcurred with the recommendation, stating that DLA policy was consistent with the Federal Acquisition Regulation. DLA and IG, DoD, agreed that the proposed actions in the DLA Action Plan would provide the needed improvements to the quality of products.

Report No. 89-065, "Nonconforming Products in the Defense Supply System at Warner Robins Air Logistics Center," April 10, 1989. The report stated that $14.4 million of $110 million of spare parts contained major nonconformances. Additionally, the Air Force PQDR System did not provide an adequate data

feedback system or reflect the quality of spare parts provided to field activities. The report recommended that the Assistant Secretary of Defense (Production and Logistics) issue a joint-Service regulation to reduce nonconforming products. The report also recommended that the Air Force establish quality assurance testing programs and provide PQDRs to contract administration offices for investigation. The Assistant Secretary of Defense (Production and Logistics) and Air Force management concurred with the recommendations. As a result of the report, the DoD Action Plan was formulated and issued in March 1990 and the Air Force established a Conformance Verification Testing Program.

Air Force

IG, Air Force Materiel Command, Report No. PN 92-06, "Report of Process Effectiveness Review, Product Quality Deficiency Reporting," July 29, 1992. The report stated that the PQDR Program was cumbersome and only 15 to 20 percent of quality defects were reported on PQDRs. The report recommended improvements for training, procedural guidance, database communications, and contracting. The report did not require a response from Air Force management.

Appendix B. DoD Action Plan for Continuously Improving the Quality of Spare and Repair Parts

The DoD Action Plan issued on March 2, 1990, contains the following 26 objectives presented in 5 phases: pre-contract, contract, contract administration, depot (supply management), and feedback intelligence. The five phases recognize the need for continuous management throughout the acquisition process. The objectives are not prioritized.

Pre-Contract Phase

The primary pre-contract phase objectives are to standardize definitions for nonconformances; make technical data available, adequate, and accurate, using quality in the source selection process; and apply available remedies to protect DoD interests in support of sound contracting decision-making.

1. Standardize the DoD definitions and terminology for a nonconformance.

2. Ensure technical data are available, adequate, and accurate for use in acquiring quality parts.

3. Assign parts requiring intensive technical management oversight to the proper item manager.

4. Encourage the use of quality factors in the source selection process for spare and repair parts.

5. Share the desire and incentive for sustained high quality with the contractor through long-term competitive buyer/seller contract relationships for families of items.

6. Apply the remedies available to the Government to identify and protect itself from chronically poor suppliers.

Contract Phase

The primary contract phase objectives are to ensure that spare parts suppliers meet quality requirements; nonconforming products are either rejected or corrected, and contractors are provided incentives to reduce risks associated with procuring, accepting, and distributing products later identified as containing patent defects.

7. Ensure all suppliers of spare and repair parts meet specified quality and technical requirements.

8. Reject or require corrections of nonconforming supplies.

9. Establish incentives for contractors to continuously reduce production process variability.

Contract Administration Phase

The primary contract administration phase objectives are to reduce the number of waivers, deviations, and contractor Material Review Boards; make Government quality assurance more flexible; encourage the use of analytical methods to control production processes; recognize quality contractors; enforce prime contractor responsibility for subcontractor controls; and measure the effectiveness of Government quality assurance to reduce the chances that DoD contractors will tender defective products to the Government for acceptance.

10. Reduce contractor Materiel Review Board actions and requests for waivers or deviations.

11. Require/encourage contractors to use analytical methods to control production processes.

12. Update in-plant Government quality assurance procedures to provide Government quality assurance representatives flexibility to tailor oversight.

13. Enforce prime contractor responsibility over subcontractors.

14. Measure effectiveness of in-plant Government contract administration and contractor performance.

15. Recognize quality contractors.

16. Review application and use of certificate of conformance.

Depot (Supply Management) Phase

The primary depot (supply management) phase objectives are to improve the effectiveness of destination receipt inspections and, identify and purge major and critical nonconforming products in the Defense logistics system to ensure that only conforming products are shipped to operational units.

17. Improve the effectiveness of destination receipt inspections.

18. Identify and purge nonconforming materiel from wholesale level inventory.

19. Identify and purge nonconforming materiel from retail level inventory.

20. Identify and purge nonconforming spare and repair parts and prevent reentry into the DoD supply system through customer returns.

Feedback Intelligence Phase

The primary feedback intelligence phase objectives are to improve deficiency reporting systems, improve independent laboratory testing programs, measure contractor quality performance, identify product lines that are susceptible to nonconformances, and identify problem contractors that supply nonconforming products. These objectives are designed to target quality assurance efforts to preclude acceptance of nonconforming products.

21. Centralize, automate, collect, and share contractor performance information.

22. Enhance the use of DoD and independent laboratory test capabilities.

23. Improve the customer complaint system.

24. Expand participation with industry associations and small contractors.

25. Develop measures of contractor and DoD quality performance.

26. Maximize the use of feedback intelligence to improve the acquisition processes, purge defective materiel, and improve the quality of DoD spare and repair parts.

Appendix C. Summary of Completed and Ongoing Initiatives

Objectives and Initiatives[1]	Army	Navy	Air Force	DLA
Pre-Contract Phase				
Objective 1: Standardize the DoD definitions and terminology for a nonconformance.	C	C	C	C
Initiative: Standardized definitions terminology for nonconformances in Defense Federal Acquisition Regulation Supplement 246.407.	C	C	C	C
Objective 2: Ensure technical data are available, adequate, and accurate for use in acquiring quality parts.	O	O	O	O
Initiative: Define critical application part so that contracts will require appropriate levels of quality assurance.	C	C	C	C
Initiative: Enter technical data into the military engineering data asset locator system.	O	O	O	O
Initiative: Published "Acquisition Planning Guide," April 1992, to serve as the Navy guide for technical data acquisition.	-	C	-	-
Initiative: Published Naval Supply Systems Command Publication 594, "U.S. Navy Procurement Technical Data Handbook," to provide guidance for the acquisition of technical data and technical data packages suitable to procure or reprocure DoD materiel.	-	C	-	-
Initiative: Revised Army Materiel Command Regulation 702-32, "Critical Safety Item Program," August 1990, that included the definition for critical application parts.	C	-	-	-

See footnotes at end of appendix.

Objectives and Initiatives[1]	Army	Navy	Air Force	DLA
Objective 3: Assign parts requiring intensive technical management oversight to the proper item manager.	O	O	O	O
Initiative: Identified the types of items that should be managed by and transferred to DLA from the Services.	C	C	C	C
Initiative: Published and revised memorandum of agreement with Military Departments, January 1991, setting policy for transferring technical data to DLA.	C	C	C	C
Objective 4: Encourage the use of quality factors in the source selection process for spare and repair parts.	O	O	O	O
Initiative: Published "Handbook For Source Selection," April 1990, to establish procedures for evaluating and selecting a source when the award is on the basis of technical merit as well as cost or price.	-	-	-	C
Initiative: Developed and implemented through DLAR 4105.1, "Quality Vendor Program." Under this program, contracting officers consider past quality and delivery performance in addition to price in the contract award decision.	-	-	-	C
Initiative: Developed DLA Handbook 4105.3, "Buying Best Value Handbook," July 1990. This handbook was developed to assist DLA contracting offices to develop and use appropriate source selection techniques to buy best value.	-	-	-	C
Initiative: Develop the automated best value model to expand the quality vendor program and to provide an automated capability to assess contractor delivery and quality histories for the contract award process.	-	-	-	O
Initiative: Developed the Red, Yellow, Green Program to help evaluate contractors' historical product quality performance by individual Federal supply classifications.	-	C	-	-

See footnotes at end of appendix.

Objectives and Initiatives[1]	Army	Navy	Air Force	DLA
Initiative: Developed Army buying best value programs. The Army has four programs that evaluate contractor past performance. The Army Missile Command and the Tank-Automative Command developed Blue Ribbon programs, the Armament Munitions and Chemical Command developed the Performance Incentive Contracting Program, and the Aviation and Troop Command developed the Best Value Program. These programs are similar and each program evaluates price, past quality performance, and past delivery performance.	C	-	-	-
Initiative: Developed a Blue Ribbon Program which recognizes good performing contractors in specific Federal stock classes for a specific time period. A contracting team may award a contract to a blue-ribbon contractor at a price other than low offerer.	-	-	C	-
Initiative: Develop a vendor rating system for evaluating contractor past performance for contract awards.	-	-	O	-
Initiative: Develop an automated contractor responsibility review program to share contractor performance data with other Air Force Materiel Command air logistics centers.	-	-	O	-
Objective 5: Share the desire and incentive for sustained high quality with the contractor through long-term competitive buyer/seller contract relationships for families of items.	-	-	-	-
No significant accomplishments or initiatives that affected quality were identified because the DoD Components determined that this objective does not effect quality.				
Objective 6: Apply the remedies available to the Government to identify and protect itself from chronically poor suppliers.	O	O	O	O
Initiative: Established fraud data base to track every case with suspension and/or debarment recommendations.	-	-	-	C

See footnotes at end of appendix.

Objectives and Initiatives[1]	Army	Navy	Air Force	DLA
Initiative: Developed the product quality deficiency reporting and evaluation program to manage deficiency reporting systems and to collect and analyze contractor product quality history data for use in the acquisition process; vendor data analysis and reporting system to identify vendors who have a history of some type of serious quality problems; and the contractor evaluation system to evaluate the information collected in the product quality deficiency reporting and evaluation program.	-	C	-	-
Initiative: Merged the vendor data analysis and reporting system that identified poor performing contractors with the Red, Yellow, Green Program.	-	C	-	-
Initiative: Developed Army Materiel Command Circular No. 70-3, "Contractors Requiring Special Attention," to categorize contractors who meet or exceed established criteria for poor delivery and quality performance.	C	-	-	-
Initiative: Develop process-oriented approach to contract administrative services to apply management oversight to problems in contractor systems and processes for poor performing contractors.	-	-	-	O
Initiative: Increase the contractor poor performance information with quality information supplied on the contractor alert list.	-	-	-	O
Contracting Phase				
Objective 7: Ensure all suppliers of spare and repair parts meet specified quality and technical requirements.	O	O	O	O
Initiative: Issued DLA Regulation 4105.1, subpart 46.390, "Certificate of Quality Compliance," guidance, which states that COQCs are to be used in DLA contracts when the products are to be produced in accordance with product specifications as designated in procurement item descriptions.	-	-	-	C

See footnotes at end of appendix.

Objectives and Initiatives[1]	Army	Navy	Air Force	DLA
Objective 8: Reject or require corrections of nonconforming supplies.	O	O	O	O
Initiative: Performed feasibility study regarding finality of acceptance of products containing patent defects to determine the cost-effectiveness to test instituting exceptions of 1 year to the finality of acceptance for patent defects determined to be major or critical.	-	-	-	C
Initiative: Developing warranty use instructions for two Navy inventory control points located at the Ships Parts Control Center, Mechanicsburg, PA, and the Aviation Supply Office, Philadelphia, PA. The "Warranties Notice" is due to be published by January 1994.	-	O	-	-
Objective 9: Establish incentives for contractors to continuously reduce production process variability.	-	-	-	-
Under Secretary of Defense for Acquisition rejected the concept of additional incentives for contractors.				
Contract Administration Phase				
Objective 10: Reduce contractor Material Review Board actions and requests for waivers or deviations.	-	-	-	O
Initiative: Issued DLAM 8105.1, "Contract Administration Manual For Contract Administration Services," which provides guidance to the administrative contracting officer for pursuing consideration for nonconforming products.	-	-	-	C
Initiative: Establish quarterly status reports on waivers and deviations that requires DCMC districts to report the number of waivers/deviations and disseminate quarterly summary data to the acquisition commands.	-	-	-	O
Initiative: Issued DLAR 8200.11, "Quality and Reliability Assurance, Quality Improvement and Product Nonconformance Reduction," which provides guidance on improving quality through reduction in the cost of nonconforming products.	-	-	-	C

See footnotes at end of appendix.

Objectives and Initiatives[1]	Army	Navy	Air Force	DLA
Objective 11: Require/encourage contractors to use analytical methods to control production processes.	O	O	O	O
Initiative: Develop and implement in-plant quality assurance training for quality assurance personnel statistical process controls and the use of statistical techniques.	-	-	-	O
Initiative: Developed two statistical process control clauses that describe the requirements and general procedures a contractor will use to validate the quality of a product.	-	-	-	C
Initiative: Developed contractor performance certification program to encourage contractors to improve process controls on a continuous basis.	C	-	-	-
Initiative: Developed Army Materiel Command Pamphlet 715-16, "Program For Continuous Process Improvement," July 15, 1992, to establish requirements and define the methodology to be used in validating contractor continuous process improvement.	C	-	-	-
Objective 12: Update in-plant Government quality assurance procedures to provide Government quality assurance representatives flexibility to tailor oversight.	-	-	-	O
Initiative: Develop and implement IQUE Program to improve quality through continuous improvements in contractor production processes instead of defect detection of the completed product. The IQUE Program provides an analytical approach for determining process capabilities that affect quality.	-	-	-	O
Initiative: Developed DLAM 8200.5, "In-Plant Quality Evaluation." This manual provides guidance to the quality assurance representatives in the DCMC.	-	-	-	C
Initiative: Developed "IQUE Tomorrow Report and Action Plan," which contains 40 tasks designed to improve IQUE Program.	-	-	-	C

See footnotes at end of appendix.

Objectives and Initiatives[1]	Army	Navy	Air Force	DLA
Objective 13: Enforce prime contractor responsibility over subcontractors.	-	-	-	O
Initiative: Prime contractor conducted reviews of subcontractors to determine the adequacy of prime contractor control over subcontractors in higher level quality program requirements (MIL-Q-9858A) facilities.	-	-	-	O
Initiative: Developed training packages on subcontractor control. Training packages on subcontractor control were completed in the "DoD In-Plant Quality Assurance" (S-89) training course, which addresses subcontract quality assurance.	-	-	-	C
Objective 14: Measure effectiveness of in-plant Government contract administration and contractor performance.	-	-	-	O
Initiative: Develop Quality Effectiveness Sensing Technique, a mathematical model developed to provide a relative measure of contractor quality assurance effectiveness.	-	-	-	O
Initiative: Incorporate the Quality Effectiveness Sensing Technique into the mechanization of contract administration service system.	-	-	-	O
Initiative: Merge the Quality Effectiveness Sensing Technique into the contractor profile system.	-	-	-	O
Objective 15: Recognize quality contractors.	O	O	O	O
Initiative: Naval Aviation Supply Office developed the Blue Star program to recognize quality contractors who supply spare parts.	-	O	-	-
Objective 16: Review application and use of certificates of conformance.	O	O	O	O
No significant initiatives were developed for this objective.	-	-	-	-

See footnotes at end of appendix.

Objectives and Initiatives[1]	Army	Navy	Air Force	DLA
Depot (Supply Management) Phase				
Objective 17: Improve the effectiveness of destination receipt inspections.	-	-	-	O
Initiative: Develop workforce certification program to enhance the skills of warehouse receiving inspectors.	-	-	-	O
Initiative: Developed the product receipt and evaluation process to refine the receiving inspection process and to provide additional guidance to receiving inspectors.	-	-	-	C
Objective 18: Identify and purge nonconforming materiel from wholesale level inventory.	O	O	O	O
Initiative: Test and monitor conformance of nuclear, Level 1, subsafe, and controlled industrial materiel parts.	-	O	-	-
Initiative: Develop Army Materiel Command Regulation 702.32, "Critical Safety Item Program," which provides for intensive control of safety critical items and special consideration in the selection of suppliers and testing for critical safety parts.	O	-	-	-
Initiative: Developed a program to purge nonconforming products from existing inventories.	-	-	-	O
Objective 19: Identify and purge nonconforming materiel from retail level inventory.	O	O	O	O
Initiative: Navy has established defective materiel assist team to streamline reporting and managing defective materiel.	-	O	-	-
Objective 20: Identify and purge nonconforming spare and repair parts and prevent reentry into the DoD supply system through customer returns.	O	O	O	O
Initiative: Established criteria for inspection of customer returns (limited to safety critical and weapon system critical parts).	-	-	-	C

See footnotes at end of appendix.

Objectives and Initiatives[1]	Army	Navy	Air Force	DLA
Initiative: Develop program to laboratory-test safety and weapon system critical item customer returns.	-	-	O	O
Feedback Intelligence Phase				
Objective 21: Centralize, automate, collect, and share contractor performance information.	O	O	O	O
Initiative: Develop Contractor Profile System to collect and share aggregate contractor performance information with all DoD agencies, the Military Departments, and DLA Defense supply centers.	-	-	-	O
Initiative: Develop preaward survey system, an automated data base, that contains historical contractor information regarding financial, quality, and performance information obtained during onsite preaward surveys.	-	-	-	O
Initiative: Establish a contractor past performance rating system steering group to conduct a survey of existing and proposed rating systems for recommended use by the Army major supply commands.	O	-	-	-
Objective 22: Enhance the use of DoD and independent laboratory test capabilities.	O	O	O	O
Initiative: Published policy for the laboratory testing program.	-	-	-	C
Initiative: Establish test labs in New Cumberland, PA; Columbus, OH; and Sharpe Depot, CA.	-	-	-	O
Initiative: Develop DLAR 4105.2, "Contractor Assessment Product Evaluation Program," which provides for laboratory testing on a random and a non-random or "targeted" basis.	-	-	-	O
Initiative: Develop system to analyze the laboratory test data collected from the contractor assessment product evaluation program.	-	-	-	O

See footnotes at end of appendix.

Objectives and Initiatives[1]	Army	Navy	Air Force	DLA
Initiative: Develop the conformance verification program to inspect and test products and eliminate defective products from the supply system.	-	-	O	-
Objective 23: Improve the customer complaint system.	O	O	O	O
Initiative: Develop DoD-wide deficiency reporting system to standardize into a single computer application all of the deficiency reporting in DoD.	O	O	O	O
Initiative: Developed electronically processed PQDRs that allowed the Navy to centralize PQDR management.	-	C	-	-
Initiative: Revised DLAR 4155.24, "Product Quality Deficiency Report Program," to include additional definitions of nonconformances as "critical, and major," and participation in the Government Industry Data Exchange Program.	C	C	C	C
Initiative: Developed "How To Processing Guide" to provide training instruction for the PQDR system.	-	-	-	C
Objective 24: Expand participation with industry associations and small contractors.	O	O	O	O
Initiative: DLAM 9100.1, "Small Business Program Operations Manual," stresses quality and total quality management as important aspects for Government contracts.	-	-	-	C
Initiative: Developed policy letter requiring small business specialists to emphasize quality concerns in associations with industry.	-	-	-	C
Initiative: Letter requesting procurement technical assistance cooperative agreement. Recipients provide counseling and assistance to small and disadvantaged businesses.	-	-	-	C
Initiative: Established program to exchange lists of small or disadvantaged blue ribbon contractors among the air logistics centers.	-	-	C	-

See footnotes at end of appendix.

Objectives and Initiatives[1]	Army	Navy	Air Force	DLA
Objective 25: Develop measures of contractor and DoD quality performance.	O	O	O	O
Initiative: Developed the Quality Effectiveness Sensing Technique.	-	-	-	C
Objective 26: Maximize the use of feedback intelligence to improve the acquisition processes, purge defective materiel, and improve the quality of DoD spare and repair parts.	O	O	O	O
Initiative: Developed a centralized PQDR database to provide contractor PQDR history, whether or not the PQDR was valid, whether or not the PQDR is open, and the cause of the deficiency found.	-	-	-	C
Initiative: Navy developed the Product Deficiency Reporting and Evaluation Program to disseminate quality deficiency information.	-	C	-	-
Total Number of Initiatives:	14	18	13	47
Total Number of Objectives:	21	21	21	26
Completed[2]	2	2	2	2
Ongoing	19	19	19	24

[1]Objectives and initiatives are listed as open or ongoing (O) or completed (C) initiatives. Deleted and nonproduct-oriented initiatives were not included. Dashes (-) indicate that either the initiative or the objective did not apply to the DoD Component.
[2]Completed objectives includes objective 5 which was discontinued as an objective because it does not effect quality.

Appendix D. Performance Rating Systems

Army

Best Value Program. The Army Aviation and Troop Command developed this program to consider quality and delivery performance. Under this program, contracting officers evaluate each offerer who submits a proposal. A rating system assigns point scores based on quality and delivery performance during the last 24 months. Contract awards are made to the lowest-priced best value offerer.

Blue Ribbon Program. The Army Missile Command developed this program for competitive secondary-item procurements in six areas: electro-optical, cable assemblies, electronic components, mechanical assemblies, electro-mechanical assemblies, and electronic assemblies. Qualification for this program depends on successful past delivery performance and quality performance. A contractor must have demonstrated 90 percent on-time delivery and quality performance, a quality deficiency rate no greater than 1 percent, a first-time quality verification sample rejection rate no greater than 10 percent, and a first article test rejection rate no greater than 25 percent during the last 24 months. The Army can pay as much as a 10-percent price premium to lower performance risk contractors over a low non-blue ribbon offerer to increase the assurance of on-time delivery and quality products.

Blue Ribbon Program. The Army Tank-Automotive Command developed this program for the procurement of spare and repair parts. This program considers a contractor's delivery performance rating during the last 18 months and quality performance during the last 24 months.

Contractor Performance Certification Program. The Army Materiel Command developed this program to encourage contractors to enhance the quality of products, reduce variability in product quality, and use process controls in the production process.

Performance Incentive Contracting Program. The Army Armament, Munitions, and Chemical Command developed this program, which measures a contractor's delivery performance and quality performance.

Navy

Red, Yellow, Green Program. Red, Yellow, Green is a contractor rating system based on a contractor's quality history. The program classifies the degree of risk by assigning a color to a contractor's historical product quality performance in individual Federal supply classes. The Navy identifies high-risk quality performers with the red, moderate-risk quality performers with yellow, and low-risk quality performers with green.

Air Force

Blue Ribbon Contract Program. The Air Force Materiel Command developed this program to recognize contractors who have maintained high levels of performance. In addition to recognition, a contracting team may award a contract to a blue ribbon contractor at a price higher than the lowest responsible offerer.

Vendor Rating System. The Air Force Materiel Command is developing this system to provide each offerer historical delivery and quality performance data by Federal stock class or by total business conducted with Air Force Materiel Command central contracting activities. If no data exist on a specific Federal supply class, then all other Federal supply class data will be used. The vendor rating system will provide contracting officers on-line visibility into the performance of all contractors who supply spare parts to the Air Force. The vendor rating system will recognize both good and bad performance. Under the vendor rating, contractors will be classified as blue (exceptional), green (acceptable), yellow (marginal), and red (unacceptable). The data will be used by contracting officers to evaluate contract awards. The blue ribbon program and the vendor rating system use the same data base. The projected implementation date is September 1994.

Defense Logistics Agency

Automated Best Value Model. DLA is developing this program to automate data collection and analysis and to provide a means to evaluate contractor quality and delivery history. Vendors will be given scores based on quality and delivery performance. These scores will be used by contracting officers to evaluate performance risk and will be updated monthly. DLA could not provide a projected implementation date.

Quality Vendor Program. Headquarters, DLA developed this best value buying technique to recognize contractors who have demonstrated a history of superior performance in previously awarded Government contracts. The program enables a contracting officer to consider past quality and delivery performance in the award decision.

Appendix E. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1.	Internal Controls. Establishes a policy requiring DoD Components to continuously improve their implementing action plans.	Undeterminable.*
A.2.a.	Internal Controls. Establishes the baselines for future improvement, describes the actions for future improvement, and maintains implementing action plans as active, viable management tools.	Nonmonetary.
A.2.b.	Internal Controls. Establishes the performance measures for the effectiveness of the initiatives in the DoD Component implementing action plans.	Nonmonetary.
A.2.c.	Internal Controls. Establishes definite, realistic, and obtainable milestones for DoD Components to complete initiatives and actions in the implementing action plans.	Nonmonetary.
A.2.d.	Internal Controls. Assigns accountability and responsibility to the proper office for management oversight.	Nonmonetary.
B.1.a.	Program Results. Standardizes the DoD procurement community approach toward rating the performance of vendors.	Undeterminable.*

See footnote at end of appendix.

Appendix E. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
B.1.b.	Compliance. Requires DoD Components to issue regulatory guidance to comply with 10 U.S.C. 2383 that requires critical aircraft and ship parts to be conforming.	Undeterminable.*
B.2.a.	Program Results. Updates action plan initiatives to enhance competition and assists contractors in obtaining accurate technical data to manufacture parts.	Undeterminable.*
B.2.b.	Compliance. Updates action plan initiatives to inform all Federal agencies of quality problems in accordance with Government-Industry Data Exchange Program Requirements.	Undeterminable.*
B.2.c.	Program Results. Updates initiatives that will lead to improvements in the DoD-wide Deficiency Reporting System.	Nonmonetary.
B.2.d.	Program Results. Creates an initiative to reduce and standardize the number and use of forms for reporting nonconforming products.	Nonmonetary.
B.2.e.	Program Results. Updates initiatives to improve the use of the PQDR Program through training.	Nonmonetary.
B.3.a.	Program Results. Establishes an objective to support the development of a consistent approach to vendor ratings.	Nonmonetary.

See footnote at end of appendix.

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
B.3.b.	Compliance. Establishes an initiative to verify compliance with regulatory guidance that requires contractors to supply conforming critical aircraft and ship parts.	Nonmonetary.
B.3.c.	Program Results. Creates an initiative that seeks to provide contractual remedies for DoD to recoup cost of products found to contain patent defects after acceptance.	Undeterminable.*
B.3.d.	Program Results. Establishes a series of initiatives to remove nonconforming products from inventories and attempt recoupments.	Undeterminable.*
B.3.e.	Program Results. Creates an objective to direct laboratory testing efforts towards previously identified problem product lines and problem contractors.	Undeterminable.*
B.3.f.	Program Results. Creates an initiative to improve the quality of laboratory test plans.	Nonmonetary.
B.4.	Program Results. Establishes an initiative to test suspect product lines and remove nonconforming products from the depot before they are issued to operational units.	Undeterminable.*
B.5.a.	Program Results. Creates an objective that enables contracting activities to perform more effective contractor past-performance evaluations in the source-selection process.	Nonmonetary.

See footnote at end of appendix.

Appendix E. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
B.5.b.	Program Results. Establishes an initiative to measure the effectiveness of each contractor's quality control program.	Nonmonetary.
B.5.c.	Program Results. Establishes an objective to implement a standard approach for contracts containing International Organization for Standardization quality system series requirements.	Nonmonetary.
B.5.d.	Program Results. Creates an initiative to develop training in International Organization for Standardization quality system series requirements.	Nonmonetary.
B.5.e.	Program Results. Establishes an initiative to measure the continuous improvements in quality controls at contractor facilities.	Nonmonetary.
B.5.f.	Program Results. Creates an objective to reduce the chances that nonconforming products will interrupt depot manufacturing processes.	Undeterminable.*

*Monetary benefits cannot be reasonably estimated.

Appendix F. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology, Washington, DC
Director of Defense Procurement, Washington, DC
Assistant Secretary of Defense (Production and Logistics), Washington, DC
  Joint Logistics Systems Center, Dayton, OH
Deputy Assistant Secretary of Defense (Logistics), Washington, DC
Deputy Assistant Secretary of Defense (Production Resources), Washington, DC
Program Manager, Total Quality Management, Office of the Director, Administration and Management, Washington, DC

Department of the Army

Office of the Chief of Staff, Washington, DC
Army Materiel Command, Alexandria, VA
Army Missile Command, Huntsville, AL
Corpus Christi Army Depot, Aviation and Troop Command, TX

Department of the Navy

Office of the Assistant Secretary of the Navy (Research, Development, and Acquisition), Washington, DC
Office of the Assistant Secretary of the Navy (Financial Management), Washington, DC
Naval Air Systems Command, Washington, DC
  Naval Aviation Depot, North Island, CA
  Naval Aviation Depot, Alameda, CA
Naval Sea Systems Command, Washington, DC
  Portsmouth Naval Shipyard, Portsmouth, NH
Naval Supply Systems Command, Washington, DC
  Fleet Material Support Office, Mechanicsburg, PA
  Naval Aviation Supply Office, Philadelphia, PA
  Navy Ships Parts Control Center, Mechanicsburg, PA
  Naval Material Quality Assessment Office, Portsmouth, NH
Supervisor of Shipbuilding, Conversion, and Repair, San Diego, CA
Commander, Naval Air Pacific (Antisubmarine Warfare) Wing, Naval Air Station, San Diego, CA
Commander, Shore Intermediate Maintenance Activity, Naval Surface Pacific Fleet, Naval Station, San Diego, CA

Department of the Air Force

Office of the Assistant Secretary of the Air Force (Management Policy and Program Integration), Washington, DC
Office of the Deputy Chief of Staff (Logistics), Washington, DC
Air Force Materiel Command, Wright-Patterson Air Force Base, OH
  Ogden Air Logistics Center, Hill Air Force Base, UT
  Sacramento Air Logistics Center, McClellan Air Force Base, CA
  San Antonio Air Logistics Center, Kelly Air Force Base, TX

Defense Organizations

Defense Logistics Agency, Alexandria, VA
  Defense Contract Management Command, Alexandria, VA
  Central Testing Facility, Columbus, OH
  Western Testing Facility, Stockton, CA

Appendix G. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Director of Defense Procurement
Assistant Secretary of Defense (Economic Security)
Comptroller of the Department of Defense
Director, Administration and Management
  Program Manager, Total Quality Management
Deputy Under Secretary of Defense (Logistics)
  Director of Materiel and Resource Management

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Assistant Secretary of the Army (Research, Development, and Acquisition)
Chief, Army Management Division, Office of the Chief of Staff
Commander, Army Materiel Command
Auditor General, Department of the Army

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Assistant Secretary of the Navy (Research, Development, and Acquisition)
Inspector General, Department of the Navy
Commander, Naval Supply Systems Command
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Acquisition)
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Deputy Chief of Staff of the Air Force for Logistics
Commander, Air Force Materiel Command
Inspector General, Department of the Air Force
Auditor General, Air Force Audit Agency

Defense Organization

Director, Defense Logistics Agency

Non-Defense Federal Organizations

Office of Management and Budget
National Security and International Affairs Division, Technical Information Center, General Accounting Office

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

Part IV - Management Comments

Deputy Under Secretary of Defense (Logistics) Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

ACQUISITION AND TECHNOLOGY

24 FEB 1994

(L/MRM)

MEMORANDUM FOR DOD INSPECTOR GENERAL

SUBJECT: Draft Audit Report on DoD Component Implementing Action Plans for Improving the Quality of Spare Parts (Project No. 2CF-0053)

This responds to your memorandum of November 17, 1993, on the subject draft audit report. There is one recommendation, in two parts, for the Under Secretary of Defense (Acquisition and Technology):

"1. We recommend that the Under Secretary of Defense for Acquisition:

a. Select a standard DoD vendor rating system for use in DoD.

b. Establish regulations for implementing United States Code, title 10, section 2383, to require that contractors supplying critical aircraft and ship parts meet appropriate qualification and contractual quality requirements."

This office proposes alternate methods of meeting the intent of these recommendations. The possible establishment of a standard DoD vendor rating system is a complex issue that has received considerable attention from the DoD Components. Further review will be conducted by the DoD Past Performance Coordination Council and recommendations forwarded to OUSD (Acquisition and Technology) by July 1995.

In regard to United States Code, title 10, Section 2383, repeal of this section was proposed in S.1587 introduced by Senator Glenn on October 26, 1993. In view of the likelihood of legislative relief, additional action by the Department is not appropriate at this time.

James R. Klugh
Deputy Under Secretary
of Defense (Logistics)

Department of the Army Comments

REPLY TO ATTENTION OF

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

SARD-DE

January 31, 1994

MEMORANDUM FOR DIRECTOR, CONTRACT MANAGEMENT, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, ATTN: MR. SALVATORE D. GULI

SUBJECT: Report on DoD Component Implementing Action Plans for Improving the Quality of Spare Parts (Project No. 2CF-0053)

I have reviewed the subject draft audit report for the Office of the Assistant Secretary of the Army (Research, Development and Acquisition). The attached comments are provided for your consideration for inclusion in the final report.

Point of contact for this action is LTC Mike Murphy, (703) 695-7616.

Stephen R. Burdt
Director for Program Evaluation

Attachment

CF:
SAAG-PRF-E
AMCRD-IEE

Printed on Recycled Paper

FROM: OASA(RDA)/SARD-DE, Washington D.C. 20310-0103,
LTC Murphy, DSN 225-7616

Draft Audit Report: DoD Component Implementing Action Plans for Improving Quality of Spare Parts (Project No. 2CF-0053)

General comment. Army does not concur with statements in the DoD IG report concerning the materiality of management control weaknesses. Army has had a number of initiatives underway since the initial report that apply directly to acquisition. These initiatives include acquisition improvement seminars commonly known as "Road Show." In March 1992, OASA(RDA) and AMC executives travelled to the AMC Major Subordinate Commands to present Roadshow I to the senior managers. This presentation explained the fundamentals of how the Army must change the way it obtains its materiel requirements in order to fulfill its mission in the future. An expanded seminar for mid-level managers, Roadshow II, explains the principles, conducts case studies on how these principles can be applied, and provides a real-life examination of how requirements can be streamlined. Roadshow II has trained nearly 2000 acquisition employees on streamlining acquisition principles during FY93. A version of Roadshow II has been presented to industry. Statistical process control is being utilized in spares and new system contracts. AMC also has a program to work with contractors to improve product quality. This program, known as the Contractor Performance Certification Program $(CP)^2$, encourages contractors to implement process control and continuous improvement principles. The $(CP)^2$ program is being expanded to include Continuous Process Improvement (CPI). The expanded program will provide extensive metrics as well as including design parameters for contractors. Army believes that these and other initiatives are objective evidence of our intent to improve the quality of spare and repair parts. The original Army plan was not intended to be a long range response. Conclusions drawn in the report that a material weakness exists are based on the premise that the original plans were intended to serve as long range responses to this area.

Finding A, Recommendation page 13.

We recommend that the Assistant Secretaries of the Army and Navy (Research, Development and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency:

1

Final Report Reference

Finding A, Recommendation 1., page 13. Revised

Establish policies to reissue updated plans for implementing the DoD Action Plan for Continuously Improving the Quality of Spare and Repair Parts every 2 years beginning FY 1994 to track quality improvement accomplishments.

OASA(RDA) position: Concur with intent of recommendation to update action plan. However, the requirement to update the plan every two years is arbitrary and allows insufficient time to implement changes and measure results. Services should be allowed to update the plan based on initiative requirements and as deemed necessary by Service management.

Finding A, Recommendations 2.a. - 2.d., Page 13. Page 14

Establish accountability for achieving implementing action plan objectives and for improving the quality of spare and repair parts by:

a. Updating implementing action plans to include detailed in-process and planned initiatives for DoD Action Plan objectives.

b. Updating implementing action plans to contain performance measures to measure the effectiveness of each initiative in accomplishing DoD Action Plan objectives.

c. Updating implementing action plans to include definite, realistic and obtainable milestones for completion of initiatives in the action plans.

d. Assigning organizational responsibility for management oversight for implementing action plan objectives and for obtaining feedback on the adequacy of the initiatives supporting the objectives.

OASA(RDA) position: Concur. SARD-DE in conjunction with the U. S. Army Materiel Command will update and reissue action plan by 1 June 1994. Army will include performance measures, realistic milestones and will assign organizational responsibility of management oversight.

2

Final Report Reference

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Finding B. Adequacy of Implementing Action Plans.

Finding B, Recommendation 2.a., page 27.

We recommend that the Assistant Secretaries of the Army and Navy (Research, Development and Acquisition), The Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency, update their implementing action plans to show the current or planned actions to:

a. Maintain technical data packages and make them available, adequate, and accurate as an initiative for objective 2; ensure technical data are available, adequate, and accurate for use in acquiring quality parts.

OASA(RDA) position: Nonconcur. The initiative should be to use performance specifications in lieu of detail specifications. The thrust of recent Roadshows II & III has been to stress use of performance specifications. Use of performance specifications will reduce the maintenance of Technical Data Packages (TDP) by eliminating drawing requirements. Performance specifications will also allow contractors to apply new technology to meet requirements. Use of new technologies can be expected to keep acquisition costs down for the Army. Also, AMC has several on-going initiatives to improve the acquisition and quality of data. Digital Storage and Retrieval Engineering Data Systems (DSREDS) have been installed at all the buying MSCs, all active drawings have been loaded into the new systems and an automated Technical Data/Configuration Management system has been installed to control changes and design upgrades. A performance specification guide has been prepared and is in coordination. The guide is intended to foster commercial buying practices. In addition, Storage and Retrieval and Configuration Control systems are being designed for Defense-wide application. Prototype testing is being done at AMC's Missile Command using DSREDS and TD/CMS as the standard.

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Finding B, Recommendation 2.b., page 27.

b. Comply with the requirements of Office of Federal Procurement Policy Letter No. 91-3, "Reporting Nonconforming Products," to participate in the Government-Industry Data Exchange Program as an initiative for Objective 23, Improve the Customer Complaint System.

OASA(RDA) position: Concur. AMC Major Subordinate Commands (MSC) regularly participate in the GIDEP program.

3

Final Report Reference

Finding B, Recommendation 2.c., page 27. Page 33

c. Support the development, planned deployment and implementation of the DoD-wide Deficiency Reporting System as an initiative for objective 23, improve the customer complaint system.

OASA(RDA) position: Concur. AMC Logistics Support Activity and Missile Command (MICOM) are Army/AMC lead activities for development and deployment of the DoD-wide Deficiency Reporting System. LOGSA, MICOM, AMCCOM & TACOM have had an active and continuing role in development and deployment of the DoD-wide DRS.

Finding B, Recommendation 2.d., page 28. Page 34

d. Reduce the number of forms used to report nonconformances, and standardize the forms and the use of the forms as initiatives for Objective 23, Improve the Customer Complaint System.

OASA(RDA) position: Concur. Action is already underway by the Defense Logistics Management Systems Office (DLMSO) with the ANSI X12 electronic data interchange convention nonconformance report. This convention will be used to report QDR's, ROD's, and Transportation Deficiency Reports. DLMSO expects to begin service staffing of this convention in January 1994.

Finding B, Recommendation 3.a., page 28. Page 35

We recommend that the Assistant Secretaries of the Army and Navy (Research, Development and Acquisition), The Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency, update their implementing action plans to show the current or planned actions to:

a. Support an effort to identify and designate one system as the standard DoD vendor rating system as part of an additional objective to the pre-contract phase.

OASA(RDA) position: Concur. Army will support this initiative as required by USD(A). This will be possible with the DOD DRS.

4

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Finding B, Recommendation 3.b., page 28.

b. Describe the actions taken to comply with United States Code, title 10, section 2383, "Procurement of Critical Aircraft and Ship Parts," as an initiative for Objective 7, Ensure All Suppliers of Spare and Repair Parts Meet Specified Quality and Technical Requirements.

OASA(RDA) position: Concur. The Army has had an active and effective Critical Safety Item Program (CSIP) since 1985. During calendar year 1989, a complete review of the program was performed. Recommended changes have been incorporated into a revision to AMC-R 702-32, 29 Aug 90. Additionally, we have also incorporated the CSIP into Army policy and published it in an Army Regulation (AR 750-1), 1 Nov 91.

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Finding B, Recommendation 3.c., page 28.

c. Support development of contractual policy proposals to obtain reimbursement or replacement for products accepted by the Government, but later found to contain patent defects as an initiative for Objective 8, Reject or Require Corrections of Nonconforming Supplies.

OASA(RDA) position: Concur. As part of the Quality Deficiency Report (QDR) program, contractors are held liable and are required to provide restitution to the Army for material accepted and later found to be defective. This program is implemented at the AMC buying commands. Where there is a warranty in effect, the contractor is required to comply with the warranty. Statistical Process Control (SPC) is also being stressed as part of our continuous improvement effort. Continuous improvement is process oriented and focuses on defect prevention rather than detection. A Defense Federal Acquisition Regulation case to eliminate conclusiveness of acceptance of defective products was presented to the Defense Acquisition Regulation (DAR) Council in 1991. DAR council has not yet accepted this case for action.

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Finding B, Recommendation 3.d., page 28.

d. Remove nonconforming products identified on product Quality Deficiency Reports from Defense Supply System inventories; notify contractors when their nonconforming products are discovered and provide copies of quality deficiency information to contractors so the contractor can correct the cause of the quality control failure; inform contracting officers so they can attempt to recoup the value of the nonconforming products; and document the quality assurance decisions to request or not request laboratory testing needed to support Product Quality Deficiency Report as initiatives for Objective 23, Improve the Customer Complaint System.

OASA(RDA) position: Concur with intent. The Army uses AR 702-7 to react to PQDR type I and type II non-conformance. We also utilize safety of flight, safety alert and supply alert messages that provide instructions on defective material that has been found at the retail levels. Current procedures are satisfactory. Methods are in place to identify non-conforming, discrepant parts in the retail inventory. Nonconforming stocks are already being frozen from issue by using condition code Q until the problem is resolved. If the user discovers a problem, it is reported to the Source of Supply (SOS) via the QDR process. Once the item manager confirms the problem and identifies the scope of the issue, guidance is issued to the field via messages, newsletters, PM magazine, etc. Others are discovered by the wholesale manager and broadcast to the field in the same manner. Depending on the nature of the problem and/or the use of the item, the SOS will issue a "safety of use," or "Safety of Flight" message. These are flashers to the field that identify significant problems and request immediate remedial action. At the same time, the Logistic Assistance Representative (LAR) network is used to identify, confirm and/or segregate non-conforming inventory. Also, item managers recoup costs from defective items on a case-by-case basis. Recoupment typically results from negotiations with the contractor involved. The Army's position is that no changes are needed to meet the intent of this recommendation.

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Finding B, Recommendation 3.e., page 28.

e. Develop strategies for cost effectively targeting quality assurance laboratory testing to identify susceptible product lines and problem contractors, and to randomly test the products supplied by problem suppliers at every national inventory control point as an added objective for the feedback intelligence phase.

OASA(RDA) position: Partially concur. Concur with quality assurance laboratory testing on a limited basis. Over the past several years the Army has embraced the philosophy of Total Quality Management (TQM) for acquisition. This embrace emphasizes "prevention" vs. "detection" of defects as a strategy for the improvement of the quality of all procured Army material. By employing the continuous improvement aspect of TQM to spares and repair parts, we have decreased the risk to the Government and increased the risk to the contractor. Where quantities permit use of statistical process control in the production process, defect prevention and control of processes are replacing the practice of defect detection and end-of-line inspection. We believe this recommendation should be modified to expand the use of process control during manufacture, where feasible, but maintain use of laboratory testing when a first article is required and production quantity is not adequate for application of SPC.

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Finding B, Recommendation 3.f., page 28.

f. Evaluate the adequacy of quality assurance laboratory test plans as an initiative for Objective 22, Enhance the Use of DoD and Independant Laboratory Test Capabilities.

OASA(RDA) position: Partially concur. See concerns cited above.

7

Finding B, Recommendation 4.

We recommend that the Assistant Secretaries of the Army and Navy (Research, Development and Acquisition), and The Assistant Secretary of the Air Force (Acquisition) revise the Military Department implementing action plans by adding an initiative to test product lines stored in depot inventories suspected of containing nonconforming products as part of Objective 18, Identify and Purge Nonconforming Materiel from Wholesale Level Inventory.

OASA(RDA) position: Concur with intent. This is already being done, where appropriate, through normal cyclic inspection and Care of Supplies in Storage (COSIS) procedures. Rationale for recommendation 3.e. also applies in this situation. We do not believe that changes are necessary in order to meet the intent of this recommendation.

8

Department of the Navy Comments

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(Research Development and Acquisition)
WASHINGTON, D C 20350-1000

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: DODIG DRAFT AUDIT REPORT ON DOD COMPONENT IMPLEMENTING PLANS FOR IMPROVING THE QUALITY OF SPARE PARTS (PROJECT NO. 3CF-0053)

Encl: (1) DON Response

In reply to your memorandum of 17 November 1993, my staff has reviewed the findings and recommendations in the subject report. We concur with the finding concerning the adequacy of Implementing Action Plans and with the recommendations.

We concur with the recommendation that Navy develop policy for reissuing updated plans. That policy will be developed and is expected to be published in December 1994. Navy proposes continual update of the action plan in lieu of updating every two years.

We concur with updating and revising the Navy's Implementation Plan. This update was submitted to the Deputy Under Secretary of Defense (DUSD) (Logistics) in December 1993. Navy proposes replacing the current Implementation Plan with an action plan that is long range in nature and better suited for use as a management tool. A Task Action Team will be formed in February 1994 to accomplish this task and the plan is expected to be finalized 30 November 1994.

We do not concur with the finding that claims material internal control weaknesses. Conclusions concerning internal control cannot be made solely on whether or not official updates to the Navy Implementation Plan were submitted to DUSD (Logistics).

Detailed comments are provided in enclosure (1).

R. B. Harshbarger
RADM, SC, USN
Deputy for Acquisition Policy
Integrity and Accountability

Copy to:
NAVINSGEN
NAVCOMPT (NCB-53)

DEPARTMENT OF THE NAVY RESPONSE
TO
DODIG DRAFT REPORT OF NOVEMBER 17, 1993
ON
DOD COMPONENT IMPLEMENTING ACTION PLANS FOR IMPROVING
THE QUALITY OF SPARE PARTS
(PROJECT NO. 2CF-0053)

I. Finding A. Accountability in Implementing Action Plans

DOD Component implementing action plans did not include the basis for holding management officials accountable for achieving quality assurance program results and for continuously improving the quality of spare and repair parts. Implementing action plans lacked accountability because the DOD Components did not establish definite performance measures to assess program results and did not set realistic, time-phased, long-range milestones. In addition, the DOD Components did not develop procedures for obtaining feedback from the users of spare and repair parts regarding the adequacy of the action plans, and the Army, Navy, and the Defense Logistics Agency (DLA) did not assign nor reassign responsibilities for implementing the action plans. As a result, the DOD Components could not use the implementing action plans as a management tool for measuring the effectiveness of quality program results.

The lack of responsibility, oversight, creditable performance measures, milestones, and accountability in the DOD Component implementing action plans constituted material internal control weaknesses.

DON Comment

Do not concur. The DOD Action Plan for Continuously Improving the Quality of Spare and Repair Parts was a short-range, immediate response to DOD IG Audit Report No. 89-065. It was not intended to be a long-range planning or management document. This fact was acknowledged on page nine of the draft audit report where it states the "initiatives for implementing the 16 objectives in the DOD Action Plan are primarily short-range actions and do not represent a long-range plan to continuously improve the quality of spare and repair parts. The DOD Component implementing action plans were one-time responses that reflected the DOD plan and did not describe time-phased, long-range activities and initiatives for each objective." A number of objectives and initiatives in the DOD Action Plan were not applicable to Navy, as they were primarily designed to address DLA areas of responsibility. For these reasons, the Navy Implementation Plan was designed to portray short-range responses to the limited scope of the DOD initiatives and, where warranted, support for DLA responsible items.

The Navy Implementation Plan was designed to be only one of the many tools used by Navy to effect improvements to the quality of spares and repair parts. Other tools included the use of Total Quality Management (TQM) techniques, such as the creation of Quality Management Boards (QMBs) (e.g., Quality Deficiency Report QMB, Supply and Distribution QMB, Training QMB, etc.) and Process Action Teams (PATs) to tackle critical segments of quality needs and problem areas. Programs were created as a result of new direction and changing philosophy on the part of Defense Acquisition. This was especially evident in the creation of the Red, Yellow, Green Program to judge the past performance of contractors and use the results to add the estimated cost associated with increased testing to the contract bids of bad performers. In some cases, new programs were created to take advantage of changing technology that provided new capabilities, such as the electronic transmission of Quality Deficiency Reports (QDRs). The Navy has used a multi-pronged approach to bring about improvements in quality.

ENCLOSURE(1)

Final Report
Reference

The audit report incorrectly states that the Navy Implementation Plan has not been updated since 1990. It was updated in 1991 for use during the Senate Subcommittee hearings conducted by Senator John Glenn. A new update was initiated in February 1993 and submitted to OSD in December 1993. This update incorporates the new programs and initiatives developed since the last update in 1991.

The short term basis of the DOD Action Plan, and the requirement that Service implementation plans address only the items contained in the DOD Action Plan, have precluded the use of the Navy Implementation Plan as a management document. To become a viable tool for management of the Quality Program, restrictions on the content of the Navy Plan must be eliminated, thereby allowing the plan to undergo some significant changes. Objectives must be rewritten to address problem solutions that are of primary benefit to Navy, rather than slanted toward DLA interest areas, such as the ones found in the current DOD Action Plan. Realistic activities must be derived that can be achieved by Navy. Based on those activities, Navy can develop long range milestones and decision points. This should be the focus of future Navy actions to improve the quality of acquisition items, rather than the current DOD Action Plan which contains only a few usable activities and objectives.

Navy does not concur with the statements in the audit report that refer to material internal control weaknesses. The existence of major programs to improve the quality of spares and repair parts, such as the automation of information concerning quality (PDREP system); use of deficiency data to evaluate vendors (Red, Yellow, Green Program); and the creation of Defective Material Assist Teams (DMAT) demonstrate Navy's intent to be a leader in this effort. Since the DOD Action Plan was not intended to be a long-range planning document, and as the Navy Implementation Plan was not intended to be an all encompassing management document, conclusions as to the strength or weakness of internal control cannot be drawn based on whether or not the plan was updated.

Recommendations

We recommend that the Assistant Secretaries of the Army and Navy (Research, Development and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the DLA:

Revised

1. Beginning in fiscal year 1994, establish policies to reissue updated plans for implementing the DOD Action Plan for Continuously Improving the Quality of Spare and Repair Parts every two years to track quality improvement accomplishments.

DON Comment

Concur. Navy already has submitted an update to the Navy Implementation Plan in December 1993. Future submissions, however, should be based on a revised Navy Plan which reflects only Navy interest items. The DOD Action Plan should be revised or dropped in favor of general guidance to allow the Services to develop a more meaningful set of objectives and activities. A requirement for a two year update will not increase the effectiveness of a plan that is intended as a management tool. A more effective requirement is to update the Navy Plan when necessitated by significant changes. In this fashion, the plan would be a living document that reflects the current status of Navy efforts at all times, rather than once every two years. Navy will establish policy to update the Navy Action Plan as changes occur. The policy will be contained in the new Plan which is expected to be published in December 1994.

2

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b. Establish regulations for implementing United States Code (USC), title 10, section 2383, to require that contractors supplying critical aircraft and ship parts meet appropriate qualification and contractual quality requirements.

DON Comment

Defer to the Under Secretary of Defense for Acquisition. Navy will support efforts to standardize vendor rating systems. The Red, Yellow, Green Program developed by Navy would be an excellent candidate for adoption as a standard DOD system. OSD has indicated it is awaiting the outcome of congressional deliberations on proposed legislation S.1587, introduced by Senator Glenn on 26 October 1993, which will repeal USC, title 10, section 2383. Navy supports OSD leadership in this matter.

2. We recommend that the Assistant Secretaries of the Army and Navy (Research, Development and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, DLA update their implementing action plans to show the current or planned actions to:

a. Maintain technical data packages and make them available, adequate and accurate as an initiative for objective 2, ensure technical data are available, adequate, and accurate for use in acquiring quality parts.

b. Comply with the requirements of Office of Federal Procurement Policy Letter No. 91-3, "Reporting Nonconforming Products," to participate in the Government-Industry Data Exchange Program as an initiative for objective 23, improve the customer complaint system.

c. Support the development, planned deployment and implementation of the DOD-wide Deficiency Reporting System (DRS) as an initiative for objective 23, improve the customer complaint system.

d. Reduce the number of forms used to report nonconformances, and standardize the forms and the use of the forms as initiatives for objective 23, improve the customer complaint system.

e. Provide the training needed to verify that the Product Quality Deficiency Reports Program (PQDR) is used effectively as an initiative for objective 23, improve the customer complaint system.

DON Comment

Concur. Navy submitted an updated Implementation Plan to OSD in December 1993, containing current actions and initiatives not included in the last update submitted in 1991. This update addressed:

a. In response to Objective 2 of the DOD Action Plan, DOD published DOD 5010.12M (May 1993), "Procedures for the Acquisition and Management of Technical Data," which provides a uniform approach to acquiring and managing data. In addition, the ASN (RD&A) published the "Acquisition Planning Guide" in April 1992 which serves as the Navy's guide for technical data acquisition. NAVSUP issued Publication 594, "U.S. Navy Procurement Technical Data Handbook," in September 1992, which provides guidance for the acquisition of technical data and technical data packages suitable to procure or reprocure an item. To identify the location of technical data in order to acquire quality parts, Navy has loaded over 19 million data items into the Military Engineering Data Asset Locator System (MEDALS) database. Finally, current Navy breakout procedures ensure adequate and complete technical data packages are available prior to competitive procurement of spare parts.

b. NAVSUPINST 5200.26B, "Government-Industry Data Exchange Program (GIDEP)," signed 10 November 1993, implements policy, assigns responsibilities, and provides uniform procedures for participation in the GIDEP program. GIDEP information is collected in summary form in the Navy's

Product Deficiency Reporting and Evaluation Program (PDREP). Once in PDREP, this information is available for use in the Navy's Red, Yellow, Green vendor rating system. Similarly, some quality problems identified by the Navy and documented on PDREP Bulletins are of interest to private companies, and are provided for inclusion in the GIDEP system. At present, the mechanism for this interchange of information is manual, however, an electronic interface between the two systems is under development and should be completed by January 1994. With this interface, Navy will be able to download selected GIDEP reports electronically, then load them directly into PDREP.

c. DOD will standardize deficiency reporting into a single computer program called the DRS. Navy fully supports and is actively participating in this effort. The Navy's Deficiency Report Log (DRLOG) has been selected by the Joint Logistics Systems Center (JLSC) Director of Material Management as the prototype for the DRS.

d. Navy policy on quality deficiency reporting has been updated. Included is policy guidance on enhancing the PQDR reporting and feedback system. Navy PATs are actively investigating ways to improve the PQDR system. Some of the improvements that have already been realized are: electronic processing of PQDRs; centralization of PQDR management; and automated screening during receipt processing for all new receipts and material returns. All of these initiatives will assist in standardizing and reducing the number of forms used to report nonconformances. Another initiative that will promote greater efficiency is the Defective Material Assist Team (DMAT). Two DMATs have been created - one in San Diego and the other in Jacksonville. They are waterfront operations established to assist fleet and industrial customers with reporting and managing defective material. They perform a variety of functions on behalf of the customer: provide onsite assistance with filing PQDRs; submit PQDRs electronically to the appropriate screening point; track PQDRs to ensure reported defects are investigated, results are provided to the PQDR originator, and defective material disposition instructions are provided; consolidate ashore all associated defective material pending disposal; and ensure the defective material is purged in such a manner to preclude reuse within DOD. The use of a DMAT will improve the quality of PQDR submissions; reduce the number of forms required to identify, report, and track nonconformances; reduce processing time; reduce customer workload associated with defective material; and eliminate shipboard storage of defective material.

e. Navy continually strives to improve training of personnel in completing and processing PQDRs. The advent of DMATs will provide additional training to personnel completing PQDR forms through one-on-one assistance and advice. When possible, DMAT personnel will complete the forms for fleet and industrial units, thus ensuring the PQDRs are complete and correct. The use of DMATs is expected to greatly improve the customer complaint system.

3. We recommend that the Assistant Secretaries of the Army and Navy (Research, Development and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, DLA revise their implementing action plans to:

a. Support an effort to identify and designate one system as the standard DOD vendor rating system as part of an additional objective to the pre-contract phase.

b. Describe the actions taken to comply with USC, title 10, section 2383, "Procurement of Critical Aircraft and Ship Parts," as an initiative for objective 7, ensure all suppliers of spare parts and repair parts meet specified quality and technical requirements.

c. Support development of contractual policy proposals to obtain reimbursement or replacement for products accepted by the Government, but later found to contain patent defects, as an initiative for objective 8, reject or require corrections of nonconforming supplies.

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d. Remove nonconforming products identified on PQDRs from Defense Supply System inventories; notify contractors when their nonconforming products are discovered and provide copies of quality deficiency information to contractors so the contractor can correct the cause of the quality control failure; inform contracting officers so they can attempt to recoup the value of the nonconforming products; and document the quality assurance decisions to request or not request laboratory testing needed to support PQDRs as initiatives for objective 23, improve the customer complaint system.

e. Develop strategies for cost effectively targeting quality assurance laboratory testing to identify susceptible product lines and problem contractors, and to randomly test the products supplied by problem suppliers at every national inventory control point (ICP) as an added objective for the feedback intelligence phase.

f. Evaluate the adequacy of quality assurance laboratory test plans as an initiative for objective 22, enhance the use of DOD and independent laboratory test capabilities.

DON Comment

Concur. Navy submitted an updated Implementation Plan in December 1993 containing current initiatives and programs not included in the last update submitted in 1991. The following comments are offered in response to specific recommendations contained in the audit report:

a. Navy fully supports any effort by OSD to identify and designate a standard vendor rating system. Navy's Red, Yellow, Green Program could effectively perform as a DOD-wide system.

b. Should Congress not pass the legislation introduced by Senator Glenn on 26 October 1993, (S.1587), Navy will support any action taken by OSD to comply with USC, title 10, section 2383, "Procurement of Critical Aircraft and Ship Parts." Upon receipt of direction by OSD, Navy will develop specific implementing instructions.

c. Navy will support any action taken by OSD to develop contractual policy proposals to obtain reimbursement or replacement for products accepted by the Government, but later found to have patent defects. It is not possible for Navy to unilaterally change current Federal Acquisition Regulation/ Defense Federal Acquisition Regulation Supplement instructions to reflect the valid use of these proposed patent defect clauses in Navy contracts. This must be addressed by OSD. Navy has been able to negotiate failure free warranties on two contracts - a competitive purchase of the ALQ-99 Electronic Countermeasures Receiver and the Quartz Rate Sensor for the Harrier. In the case of the ALQ-99, the contractual clause specifically stated the items "would be free from defects in material and workmanship, and conform with all the requirements of the contract for a period of 60 months regardless of government inspection and acceptance." Clauses such as these are not appropriate for all systems. Navy is developing a notice on warranties which should be released in January 1994. Navy has provided copies of these two warranty clauses to other Services/DLA for possible use.

d. Upon receipt of a PQDR, Navy conducts an investigation to substantiate the nonconformance and determine responsibility. Both government and commercial facilities are used to perform required tests to support the PQDR. Nonconforming products are removed from the system and purged to insure they do not return to the DOD supply system. Where it has been determined that the vendor is responsible, the contracting officers are notified so they can attempt to effect repair, replacement, or reimbursement. The recent update to Navy's policy on quality deficiency and reporting provides for more specificity in assigning cause in PQDR closing actions. This is expected to enhance capabilities to determine vendor liability. All of the above procedures are standard within Navy and have been proven effective.

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e. Navy requires 100 percent testing of all Level I SubSafe, Nuclear, Safety, and Safety of Flight items. Navy ICPs use independent testing on a very limited basis because of resource constraints. The program at Navy Ships Parts Control Center (SPCC) is currently limited to testing repairable components from major weapon systems. The program at the Naval Aviation Supply Office (ASO) tests only consumables, but will include repairable in the future. Navy created the Diesel Engine Parts Improvement Program to improve the quality of diesel engine spare and repair parts provided to the fleet. Inspections of suspect parts (identified using PQDR, Causality Reporting (CASREP), and 3M data) in Navy and DOD inventories are made, with nonconforming parts purged from the supply system. Navy plans to expand this testing program to include gas turbine engines, pumps, and air conditioning units. When resources permit, Navy will expand the testing program to other critical items, both in stock and prior to placing in inventory. Navy will use DLA and other DOD testing laboratories for this effort. DLA has agreed to allow Navy to use elements of their lab testing program, to include contract vehicles, to test Navy assets. Navy has arranged to use test results from the DLA System for Analysis of Lab Test Results database and the Air Force Conformance Verification program to identify potential problem areas or contractors for investigation. In this way, a more cost effective means for targeting test items can be employed.

f. Navy is evaluating the adequacy of quality assurance laboratory test plans. Meetings with SPCC and ASO began in November 1993 and will continue.

4. We recommend that the Assistant Secretaries of the Army and Navy (Research, Development and Acquisition), and the Assistant Secretary of the Air Force (Acquisition) revise the Military Department implementing action plans by adding an initiative to test product lines stored in depot inventories suspected of containing nonconforming products as part of objective 18, identify and purge nonconforming materiel from the wholesale level inventory.

DON Comment

Concur. Navy has submitted an updated Implementation Plan in December 1993 containing initiatives and programs not included in the 1991 update. One of the items discussed in the new updated plan deals with the Diesel Engine Parts Improvement Program, designed to improve the quality of diesel engine spare and repair parts. Inspections of suspect parts (identified using PQDR, CASREP, and 3M data) in Navy and DOD inventories are made. Navy plans to expand this testing program to include gas turbine engines, pumps, and air conditioning units.

5. We recommend that the Director, DLA, revise the DLA Action Plan to add:

a. An objective to develop the Contractor Profile System in the precontract phase.

b. An initiative to measure and describe the progress of all DOD contractors in the In-Plant Quality Evaluation Program under objective 14, measure effectiveness of in-plant Government contract administration and contractor performance.

c. An objective to implement the commercial quality standards that are described in the International Organization for Standardization (ISO) 9000 series and equivalent American National Standards Institute-American Society for Quality Control (ANSI/ASQC Q90) quality system series.

d. An initiative to develop training for Defense Contract Management Command quality assurance representatives on how to evaluate the ISO 9000/Q90 commercial quality systems under objective 12, update in-plant Government quality assurance procedures to provide Government quality assurance representatives flexibility to tailor oversight.

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e. An initiative to measure the numbers of waivers and deviations and the number of Material Review Board actions that are approved and include that information in the Quality Effectiveness Sensing Technique under objective IO, reduce contractor material review board actions and requests for waivers or deviations.

f. An objective to verify that inspection procedures for repackaged products are applied so that damaged products are not sent out and that all necessary information is included on the package label as part of the depot (supply management) phase.

DON Comment

Defer to DLA.

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Department of the Air Force Comments

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, D.C. 20330

16 FEB 1994

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: Report on DOD Component Implementing Action Plans for Improving the Quality of Spare Parts (Project No. 2CF-0053) - INFORMATION MEMORANDUM

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force comments on subject report.

Our comments are attached.

George T. Babbitt

GEORGE T. BABBITT, JR, Maj Gen, USAF
Acting DCS/Logistics

Attachment:
Air Force Comments

AIR FORCE COMMENTS ON DOD(IG) REPORT

ON

DOD COMPONENT IMPLEMENTING ACTION PLANS FOR IMPROVING

THE QUALITY OF SPARE PARTS (PROJECT NO. 2CF-0053)

INTERNAL CONTROLS

1. The DOD (IG) report on page 4 summarized the services and DLA actions taken regarding establishing internal controls pertaining to identifying offices of primary responsibility (OPRs), revision of the component plans which would include measures to assess performance, and establishing realistic time-phased milestones for accomplishment. The two Internal Control paragraphs also are closely related to Finding A discussion on pages 8 through 13. The Internal Controls paragraphs follow:

"Internal Controls Reviewed. We attempted to identify internal controls within the DOD Components for assuring that implementing action plans were maintained to reflect current objectives, initiatives, performance measures, and milestones to continuously improve the quality of spare and repair parts. Also, we attempted to identify offices of primary responsibility for each objective to determine the adequacy of oversight and responsibility. The DOD Components had no internal controls in their internal management control programs to address whether management officials revised and updated the implementing action plans.

"Internal Control Weaknesses Identified. The audit identified materiel internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DOD Directive 5010.38. The DOD Components did not revise or update their implementing action plans to verify that the action plans included definite performance measures to assess program results and realistic time-phased, long-range milestones for the actions needed to continuously improve the quality of spare and repair parts."

2. Component comments on internal controls were requested in your 17 November 1993 memorandum which forwarded the report to the services, DLA, and USD.

MANAGEMENT COMMENTS: The Air Force partially concurs.

3. The following summarizes the Air Force position regarding compliance with the USD plan and internal controls.

Atch 1

Page 3 of your report states that "The primary audit objective was to evaluate the DOD Component plans for implementing the DOD Action Plan". It also stated that you would examine internal controls for verifying performance.

a. The DOD plan outlined 26 "objectives" and their related 41 "activities" or sub-tasks. The Air Force plan, which was forwarded to the Under Secretary of Defense (Acquisition) on 11 June 1990, meticulously followed the contents of the DOD plan. This is readily discernable by placing the two plans side by side and comparing the "objectives" and "activities" of each. It is our position that the Air Force plan implemented the DOD plan and hence has met or exceeded your implementation criteria.

b. As it pertains to internal controls, the DOD plan did not contain a requirement for instituting internal management controls to measure performance; however, how the Air Force measured performance is discussed in detail in paragraphs 4 through 7 below.

(1). It is the our position that improvement of the quality of Air Force spares and repair parts in the DOD supply system was the responsibility of the commanders of Air Force Logistics Command (AFLC) and Air Force Systems Command (AFSC). These commands have been consolidated into the Air Force Materiel Command (AFMC).

(2). Further, in and of itself, the AFMC plan should not be a compliance document listing every aspect of the acquisition process that could be deemed a means of assuring total quality. It is only one of many tools used by the commander to assure that the Air Force obtains quality spare parts. For example, Air Force Materiel Command (AFMC) has a Product Improvement Working Group. It is a program that teams buyers with the users to explore various methods of improving the quality of systems and spare parts.

c. Based on the above, we recommend that quality improvement verification be made a materiel commanders' initiative rather than placing it in the plans of the components as an internal control check-list item. The reasons for this recommendation are that:

(1). The plans are only one means of attacking the problem of non-conforming parts.

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(2). Improving the quality of spares and repair parts is the responsibility of the materiel commanders. The act of placing internal controls for verifying product improvement in the plan will not ensure such action. Quality improvement can only result from the culmination of many actions, all of which are dependent upon the actions taken by the commanders concerned.

4. The following provides detailed information supporting our summary paragraph.

a. COMMENTS REGARDING NOT UPDATING AND REVISING THE AFMC PLAN - PAGE 4 OF THE REPORT (INTERNAL CONTROL WEAKNESSES IDENTIFIED). While the AFMC plan did not specify dates for revising and updating the original June 1990 plan, it was revised in December 1991. It is our position that it should be revised as required and not on a schedule such as every two years. Selective revision will make it a "living" document". Objectives and "activities" (sub-set actions related to the objectives) that require revision will be changed; however, those that have not changed will remain as printed. The method of revision could be by complete republication of the plan or by preparing page changes. This would be at the option of AFMC.

(1). The Air Force will have a plan; however, how the plan will be revised depends upon the new guidance that USD is planning to place in the "DOD Materiel Management Regulation (DOD 4140.1-R). The contents currently are being discussed by you and OSD.

(2). Our comments on your report are predicated upon the stated audit objective on page 3 of the report that you would evaluate how the components plans implemented the DOD Action Plan. It is our position that we meticulously followed the guidance in the 3 March 1990 USD plan. It contained no requirement for the services and DLA to establish internal controls for verifying performance.

(3). AFMC planned to revise its plan based upon the consolidation of Headquarters Air Force Logistics Command and Air Force Systems Command; however, this was placed on hold pending the results of this audit which took place from August 1992 to June 1993. We concurred with the AFMC decision to delay the revision based on three reasons:

(a). Changes should not be based on informal discussions with auditors. Revising an objective and its initiative(s) must be staffed within Headquarters AFMC and sent to the Air Logistics Centers (ALCs) for implementation. This

involves changing detailed acquisition procedures throughout the ALCs. It can be an extensive process which affects how people perform their duties. Because of this, changes must be based on firm requirements.

(b). Unnecessary changes should be avoided. Changing an existing plan to conform to auditors comments, made during the course of the audit, could result in unnecessary changes if the comments were not included in the final report.

(c). Any changes must be based on new OSD guidance that will be given to the services and DLA based on your report number 93-091, subject "Management of the DOD Action Plan for Improving the Quality of Spare Parts", dated 29 Apr 93. Action on this report was addressed to USD. It is still under discussion by your two offices as we indicated in paragraph 2 above.

b. COMMENTS ON YOUR STATEMENT AT THE BOTTOM OF PAGE 4, THAT THE COMPONENTS DID NOT HAVE DEFINITE PERFORMANCE MEASURES TO ASSESS RESULTS AND DID NOT HAVE REALISTIC TIME PHASED MILESTONES TO IMPROVE QUALITY.

(1). We believe that this comment possibly is based on misinterpreting the AFMC activities and milestones. For example, the OPRs' actions, which follow each activity, describes the expected performance by indicating the milestones for each activity, the status of its planning, execution, and estimated completion date.

(2). It is the Air Force position that supervisors responsible for the activity can use the "action" portions and the milestones to measure their progress, without including a formal reporting requirement for each activity. Further, supervisors further up the command chain can use the plan in the same manner.

(3). We believe that achieving progress on the plans actions is the responsibility of the AFMC and ALC commanders. Without command interest, any plan to improve the quality of items in the DOD supply system is doomed to failure. This is equally applicable to the other services and DLA.

c. COMMENTS ON YOUR STATEMENT AT THE BOTTOM OF PAGE 4, THAT THE COMPONENTS NEED TO ESTABLISH "LONG-RANGE MILESTONES".

(1). We believe that this is another area of possible misinterpretation. For example, our Activity 4a states

that "Contracting officers are encouraged to apply the benefits of "best value" contracting to the acquisition of spares and repair parts". This relates to the "Blue Ribbon Contractors" (BRC) and establishing the "Vendor Rating System" (VRS).

(2). The plan stated that the BRC "planning" was complete, "execution" was on-going, and that "completion" was on-going. Since the "execution" and the "completion" portions were "on-going" (open-ended), we considered that these were long range actions. Conversely, "planning" for the BRC was complete, hence we considered this to be a short range action.

(3). Actions on the VRS have two phases. Both were described in the "Action" portion of Activity 4a. Phase I "planning" was completed in August 1991. It was scheduled for testing from October 1992 to August 1993. "Execution" was programmed to begin in October 1993, with "completion" being an on-going or open-ended and was considered to be a long range action. Likewise, Phase II "planning" was to begin in October 1994, "execution" was to begin in April 1995, and the "completion" date was on-going or open-ended and was considered to be a long range action.

(4). Examples similar to the above exist throughout the plan. Nowhere in the DOD plan is there any statement that it is not a long range document. Further, the Air Force considered it to be a long range document when we used it as a basis for developing our plan. We believe that a plan that was written in 1990 and has milestones out to 1995, or that are on-going, must be considered a long range document.

5. COMMENTS ON FINDING "A" OF THE REPORT - PAGES 8 - 12.

MANAGEMENT COMMENTS:

The Air Force concurs with the statements on page 8 that only minor plan revisions were made; however, the reasons for this are outlined on page 3, paragraph 4a. We also concur with comments on page 9 about transferring "objectives" to DLA. We further agree with the comments about the AFMC organization and the lack of feed-back on page 12.

We only partially concur with paragraph 3, under the title "Performance Measures" on page 9 that our plan was a one-time response and did not describe time phased, long range activities for each objective, and the last paragraph on page 10 and 11 that the Air Force had no definite milestones for 18 of its 21 objectives. These are addressed in paragraphs 6 and 7 below.

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6. COMMENTS ON PARAGRAPH 3 ON PAGE 9 OF THE REPORT REGARDING THE COMPONENT PLANS BEING A ONE-TIME RESPONSE TO THE DOD ACTION PLAN.

The Air Force considered the plan to be a continuing "living document". This is evidenced by the June 1990 plan having been revised in December 1991 and that AFMC was planning a second revision until it was placed on hold pending the results of this audit - see the Air Force discussion in paragraph 4a regarding internal controls.

7. COMMENTS TO THE STATEMENT IN THE LAST PARAGRAPH ON PAGE 10 OF THE REPORT, THAT "THE AIR FORCE DID NOT ESTABLISH DEFINITE MILESTONES FOR 18 OF ITS 21 OBJECTIVES".

a. For each activity of an objective, AFMC assigned three categories of milestones - one for planning, one for execution, and one for completion. AFMC did not assign a calendar date to each milestone; however, this was done in some cases. Please refer to examples in Activities 2B, 4A, 4B, 4C, 6A, 7A, 8A, 9A, 10A, 10B and 10D, which were completed, 11A, 13B and 13C, which were completed, 15A, 17A, 18A, 18B, 19A, 22A, 24A, and 26A.

b. We consider that indicating actions as "complete", "underway", or "on-going" to be responsive , especially when read in conjunction with the description of the actions to be taken by the offices assigned the implementing responsibility. Again please note that paragraph 7a indicates that many activities had calendar dates assigned. We also consider that the term "on-going" assigned to a completion date indicates a long term commitment which is open ended.

c. We appreciate your remarks in paragraph 2 on page 12 regarding the AFMC points of contact being knowledgeable about the AFMC Plan and each objective.

8. FINDING "A" CONCLUSION ON PAGES 12 AND 13 OF THE REPORT.

MANAGEMENT COMMENTS:

a. We concur with your Conclusion on page 12 that the "DOD Action Plan is an important planning document", that quality assurance organizations must keep management focused on improving quality, and that without action plans and a commitment to long-range improvement, and "active involvement of personnel from headquarters to field organizations" is essential for improved quality.

Final Report Reference

b. We object to the possible misinterpretation of the paragraph because it implies that the services and DLA are not interested in improving quality and that they are jeopardizing $56 billion in future spares procurements. We recommend that the last sentence be reworded as follows:

"Action plans must include a commitment to improving quality and these actions must be supported by the commanders of all organizations concerned".

COMMENTS ON FINDING "A" RECOMMENDATIONS.

RECOMMENDATIONS FOR CORRECTIVE ACTION PERTAINING TO FINDING "A" ON PAGE 13.

"We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency:

Revised

9. RECOMMENDATION 1. "Establish policies to reissue updated plans for implementing the DOD Action Plan for Continuously Improving the Quality of Spare and Repair Parts every 2 years beginning in FY 1994 to track the quality improvement accomplishments".

MANAGEMENT COMMENTS:

We concur with the intent; however, we believe that it would be better to update the plan on an as required basis, rather than on a fixed schedule.

a. Under our concept, an objective or an activity would be changed as required. For example, if a change was required in 12 months, we would make the change and not wait for another 12 months to pass before taking action. This will assist in making the plan a "living document".

b. We plan to revise the plan; however, what is included in the plan will depend upon the guidance that is received from OSD when it revises the Materiel Management Regulation (DOD 4140.1-R). This was discussed in our comments regarding Internal Management Controls.

10. RECOMMENDATION 2. "Establish accountability for achieving implementing action plan objectives and for improving the quality of spare and repair parts by:"

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RECOMMENDATION 2a. "Updating implementation action plans to include detailed in-process and planned initiatives for the DOD Action Plan objectives."

RECOMMENDATION 2b. "Updating implementation action plans to contain performance measures to measure the effectiveness of each initiative in accomplishing DOD Action Plan objectives."

RECOMMENDATION 2c. "Updating implementation action plans to include definite, realistic and obtainable milestones for completion of initiatives in the action plans."

RECOMMENDATION 2d. "Assigning organizational responsibility for management oversight for implementing action plan objectives and for obtaining feedback on the adequacy of the initiatives supporting the objectives."

MANAGEMENT COMMENTS:

We concur with recommendations 2a through 2d; however, the wording will depend upon USD guidance to be published in the revised DOD Materiel Management Regulation (DOD 4140.1-R). The contents are currently being discussed by you and USD.

COMMENTS ON FINDING "B" RECOMMENDATIONS.

11. RECOMMENDATIONS FOR CORRECTIVE ACTION BASED ON FINDING "B" AND THE FIVE RECOMMENDATIONS ON PAGES 27, 28, and 29.

Pages 32 - 41

RECOMMENDATION B-1. "We recommend that the Under Secretary of Defense for Acquisition:

"a. Select a standard DOD vendor rating system for use in DOD.

"b. Establish regulations for implementing United States Code, title 10, section 2383, to require that contractors supplying critical aircraft and ship parts meet appropriate qualification and contractual quality requirements."

MANAGEMENT COMMENTS: None - this is an action for USD.

RECOMMENDATION B-2. "We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), and the Assistant Secretary of the Air Force

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(Acquisition), and the Director, Defense Logistics Agency, update their implementing action plans to show the current or planned actions to:

RECOMMENDATION B-2a. "Maintain technical data packages and make them available, adequate. and accurate as an initiative for objective 2, ensure technical data are available, adequate, and adequate for use in acquiring quality spare parts."

MANAGEMENT COMMENTS:

Concur. Existing policy on the accumulation and maintenance of technical data packages and having them available for use in procuring quality parts is in Air Force Materiel Command (AFMC) Regulation 57-7. This regulation is being revised. It will clarify individual functional responsibilities in the maintenance of technical information.

RECOMMENDATION B-2b. "Comply with the requirements of the Office of Procurement Policy Letter No. 91-3,Reporting Nonconforming Products, to participate in the Government-Industry Data Exchange Program as an initiative for objective 23, improve the customer complaint system."

MANAGEMENT COMMENTS:

Concur. The Air Force has been participating in the program for 30 years. The Joint Logistics Commanders are the primary sponsors, contributing $3.354 million of GIDEP's 4.25 million dollar FY 94 budget. AFMC subordinate units are well attuned to the program. The program's documented cost avoidance has increased from $540,000 in 1964 to $61,200,000 in FY 92. The Air Force portion in 1992 the cost avoidance was $15.7 million.

RECOMMENDATION B-2c. "Support the development, planned deployment, and implementation of the DOD-wide Deficiency Reporting System as an initiative for objective 23, improve the customer complaint system."

MANAGEMENT COMMENTS:

Concur. The Air Force is supporting the Joint Logistics Systems Center (JLSC) effort to implement a DOD Standard Deficiency Reporting System (DRS). It is scheduled for Air Force-wide implementation in July 1994.

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RECOMMENDATION B-2d. "Reduce the *number* of forms to report nonconformances, and standardize the forms and the use of the forms as initiatives for objective 23, improve the customer complaint system."

MANAGEMENT COMMENTS:

Concur. The initial implementation of DRS will use existing forms and data elements. The objective of the joint services is to reduce both the number of forms and the data required for submission.

RECOMMENDATION B-2e. "Provide the training needed to verify that the Product Quality Deficiency Reports Program is used effectively as an initiative for objective 23, improve the customer complaint system."

MANAGEMENT COMMENTS:

Concur. The Air Force is considering on line and interactive training by the use of computer programs, probably "floppy discs, which will "troop lead" the user through the actions of filling out the forms. This should make the training readily available and easy to use. It is planned to have this available in June 1994.

RECOMMENDATION 3. "We recommend that the Assistant Secretaries of the Army, Navy (Research, Development, and Acquisition)., the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency, revise their implementing plans to:"

RECOMMENDATION 3a. "Support an effort to identify and designate one system as the standard DOD vendor rating system as part of an additional objective to the pre-contract phase."

MANAGEMENT COMMENTS:

Concur with the intent; however, a single vendor rating system (VRS) may not be viable, cost effective, or improve the quality of spare parts. The value added of a DOD-wide system is highly questionable because there is little commonality across the services and DLA in the products that are bought and there generally is sufficient information in the service and DLA unique systems to rate contractors. Another question is the cost of developing a DOD system. This recommendation also was addressed to USD in recommendation 1a. Any action on this should be evaluated by a joint service, DLA, USD committee.

Final Report Reference

RECOMMENDATION 3b. "Describe the actions taken to comply with United States Code, title 10, section 2383, "Procurement of Critical Aircraft and Ship Parts", an initiative for objective 7, ensure that all suppliers of spare and repair parts meet the quality and technical requirements."

MANAGEMENT COMMENTS:

The Air Force in essence complies with Section 2383 every time a contract is written because contracts include clauses regarding all aspects of the procurement. Indications are that 2383 will be repealed as was recommended by the "Section 800 Panel". Specifics regarding repeal are contained in Section 2401 of the Senate Bill S-1587, Federal Streamling Act of 1993. Detailed justification is outlined on page 2-107, paragraph 2.5.2, 10 USC 2383, of Chapter 2, Contract Administration "Streamling Defense Acquisition Laws" - DOD Report of the Acquisition Law Advisory Panel to the United States Congress, January 1993.

RECOMMENDATION 3c: "Support development of contractual policy proposals to obtain reimbursement or replacement for products accepted by the Government, but later found to contain patent defects, as an initiative for Objective 8, reject or require corrections of nonconforming supplies".

MANAGEMENT COMMENTS:

Page 27

Concur with the intent. The audit comments on page 22, paragraph 2, described the problem that is encountered in trying to recoup damages for nonconforming products that were delivered against old contracts. Often the firms no longer exist or they refuse to discuss old contracts when the Covernment has already accepted the items and has paid the contractor.

a. Our comments under Objective 8 of our plan cites the actions which we can take against nonconforming contractors:

(1). To the extent feasible, pursue firms to correct product deficiencies.

(2). Obtain recoupment after acceptance.

(3). Use Product Deficiency Quality Reports (PDQRs) as a basis to pursue firms that we believe are liable.

(4). Place warranties in contracts to the extent feasible.

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b. We know that we have difficulties in obtaining recoupment against old contracts. The question is how to deal with new procurements. We cannot "write" our way out of the quality problem. We must expect additional costs if we include warranty clauses. We need to improve the acceptance process to preclude poor quality products passing from the supplier, through the DLA receiving process at the depots, and on to the customer. To help improve this process, we suggest expanding your Recommendation 3c by adding the following at the end:

"The services and DLA should jointly examine the product acceptance process to enhance the capability of the Government to identify and reject nonconforming supplies and require correction prior to acceptance by the Government. Emphasis should be placed on monitoring and control of the suppliers' manufacturing processes prior to items being shipped to the depot.

RECOMMENDATION 3d: "Remove nonconforming products identified on Product Quality Deficiency Reports from the Defense Supply System inventories: notify contractors when their nonconforming products are discovered and provide copies of quality deficiency information to contractors so the contractors can correct the cause of the quality failure; inform contracting officers so they can attempt to recoup the value of nonconforming products; and document the quality assurance decisions to request or not request laboratory testing need to support Product Quality Deficiency Report initiatives for Objective 23, Improve the customer complaint system".

MANAGEMENT COMMENTS:

Concur with the intent; however, we believe that the proposed actions are too specific to be implemented as written. Some are already in procedures. Further, offices responsible for the processes need latitude to implement their initiatives. Based on this, we recommend that the following be inserted at the beginning of your Recommendation 3d:

"Materiel commands and DLA, to the extent feasible, will consider the following actions, either individually or together, in order to improve product quality."

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RECOMMENDATION 3e. "Develop strategies for cost effectively targeting quality assurance laboratory testing to identify susceptible product lines and problem contractors, and to randomly test the products supplied by problem suppliers at every national inventory control point as an added objective for the feedback intelligence phase".

MANAGEMENT COMMENTS:

Concur with the intent. We believe that the best expenditure of funds would be to enhance the inspections of the processes at the suppliers' plants. By doing this, we would more readily preclude bad parts being shipped to DOD depots. While we interpose no objection to placing this in the "Feedback Intelligence Phase" of the DOD Plan, we believe that it should be a part of Objective 22 (Enhance the use of DOD and independent laboratory testing resources). We recommend that:

a. The words "Subject to the availability of resources" be inserted at the beginning of Recommendation 3e.

b. Our added words and Recommendation 3e become Activity 22b. Currently there is only Activity 22a.

RECOMMENDATION 3f. "Evaluate the adequacy of quality assurance laboratory test plans as an initiative for objective 22, enhance the use of DOD and independent laboratory test capabilities".

MANAGEMENT COMMENTS:

Concur with the intent. See our comments under Recommendation 3e that the best way to eliminate bad parts is to work on the contractors' in plant processes; however, assuming that the Defense Contract Management Command (DCMC) cannot achieve this in all cases, we concur that laboratory testing is essential even though it is expensive and generally must be used selectively. Because of testing costs and decreasing budgets, we recommend that the following change be made in Recommendation 3f:

Insert the words "Subject to the availability of resources" at the beginning of the recommendation.

RECOMMENDATION 4: "We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition) and the Assistant Secretary of the Air Force

(Acquisition) revise the Military Department implementing action plans by adding an initiative to test product lines stored in depot inventories suspected of containing nonconforming products as part of objective 18, identify and purge nonconforming material from wholesale inventory."

MANAGEMENT COMMENTS:

1. Concur with the intent; however, we recommend that Recommendation 4 be deleted based on the following comments:

2. Recommendation 4 duplicates Objective 18 (Identify and purge nonconforming material from wholesale level inventory) and its two Activities - 18A and 18B.

a. Activity 18A says to "Laboratory test new receipts of safety and weapon system critical items for nonconformance. Within resources, apply sample testing to noncritical items".

b. Activity 18B says "Review existing Product Quality Deficiency Reports (PDQRs) for identification of validated major nonconformances. Also consider Government Industry Data Exchange Program (GIDEP) Safety Alerts, and other feedback means, to identify suspect parts. Suspend issue of such stock pending inspection and laboratory test."

3. Please note that:

a. Activity 18A addresses "critical" items.

b. Activity 18B addresses using available information to identify parts having "major" nonconformances.

4. If we add an initiative (Activity) 18C as suggested by Recommendation 4, it would be an Activity that could not, within itself, be complied with because:

a. We would have no basis for determining if a part was "suspect" unless we received data such as a PQDR or a safety alert which is already covered in Activity 18B.

b. Further, the proposed Activity 18C would require testing of all suspect items, assuming that we could identify them. Purging all nonconforming items is not desirable or cost effective because there are many items, which while they may be nonconforming, but do not warrant purging because the

defect is not on a "critical" item or is not a "major" nonconformance. In addition, contracting officers often authorize waivers or deviations from specifications or contract provisions.

RECOMMENDATION 5. We have not responded to Recommendation 5 because it is addressed to DLA and relates to improving the DLA plan.

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Defense Logistics Agency Comments

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100

IN REPLY REFER TO DDAI

24 FEB 1994

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: Report on DoD Component Implementing Action Plans for Improving the Quality of Spare Parts (Project No. 2CF-0053)

This is in response to your 17 November 1993 request.

25 Encl

JACQUELINE G. BRYANT
Chief, Internal Review Office

cc:
MM

FORMAT 1 OF 24

TYPE OF REPORT: AUDIT DATE OF POSITION: 22 FEB 1994

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO: Draft Report on DoD Component Implementing Action Plans for Improving the Quality of Spare Parts (Project No. 2CF-0053)

FINDING A: Accountability in Implementing Action Plans. DoD Component implementing action plans did not include the bases for holding management officials accountable for achieving quality assurance program results and for continuously improving the quality of spare and repair parts. Implementing action plans lacked accountability because the DoD Components did not establish definite performance measures to assess program results and did not set realistic, time-phased, long-range milestones. In addition the DoD Components did not develop procedures for obtaining feedback from the users of spare and repair parts regarding the adequacy of the action plans, and the Army, Navy, and DLA did not assign or reassign responsibilities for implementing the action plans. As a result, the DoD Components could not use the implementing action plans as a management tool for measuring the effectiveness of quality program results.

DLA COMMENTS: Nonconcur. The DLA Action Plan assigned Offices of Primary Interest (OPIs) for each objective and activity. The heads of these activities were held accountable for (1) the initiatives that were developed, (2) the milestones to be met, (3) the monitoring of the performance measures, and (4) the status updates made in the DLA on-line computer system and periodic briefings to the DLA Director and/or Deputy Director. DLA definitely used the Action Plan as an Agency-wide management tool to improve product quality. Many of the DLA May 1990 Action Plan initiatives are complete and with very positive results in improving the overall quality of spare and repair parts, as confirmed/measured through the DLA hardware Inventory Control Points (ICPs) random laboratory testing results.

Accountability. The May 90 DLA Action Plan identified OPIs for each objective/activity. The OPI was at the Primary Staff Element (PSE) level under the old DLA organization and reported directly to the Agency Director. PSE Heads, normally at SES/Flag Officer level, were held accountable for achieving the May 1990 DLA Action Plan objectives and activities and meeting their associated milestones. Action Plan management oversight was present through OPI/senior corporate leadership monitoring of Action Plan initiatives/status, updates into the DLA on-line computer system, milestone accomplishments, overall Action Plan performance measures, and briefings to senior Agency leadership. In addition, the DLA Deputy Director, personally monitored the Action Plan -- initiatives, milestones, performance measures, and computerized status updates -- on a quarterly basis. This is evident through the many pieces of correspondence that the Deputy Director sent to OPIs for clarification/ explanation. Periodic Action Plan status update briefings were chaired by the Deputy Director and included the PSEs and other senior officials such as the DLA Director and DoD IG personnel (including Mr. Vander Schaaf).

Feedback From Users. There was no requirement for DLA to obtain feedback from the "users" of spare and repair parts regarding the adequacy of the

DLA Action Plan. Certainly "users" or customer needs and expectations were key to developing many of the DLA Action Plan initiatives. However, feedback on the DLA Action Plan itself would not be meaningful as our customers are typically concerned about the increase in the level of quality materiel and service rather than how that increase is/was accomplished. The DLA Action Plans were provided to Military Service activities that perform procurement and logistics functions, i.e., Army Materiel Command, Office of the Secretary of Navy/NAVSUP/NAVSEA/NAVAIR, Air Force [then] Systems Command and Logistics Command. In turn, DLA obtained copies of the Military Services Action Plans.

Milestones. DLA's Action Plan contained definite, realistic, and obtainable milestones for identified activities and tasks. For our initial initiatives/tasks or for new tasks that were added, these milestones were updated in DLA's on-line computer system when required .

DLA disagrees with the DoD IG's associated finding under **"DLA Milestones"** on page 11 that: **"... DLA provided near-term (1989 and 1990) milestones for 14 of the 26 objectives in the DLA Action Plan. However, DLA's use of near-term milestones understated the long-range problems associated most of the DoD Action Plan objectives."**

All objectives in the DLA Action Plan had milestones. In the automated version of the DLA Action Plan, each new initiative had milestones assigned. DLA Action Plan initiatives were not all short-term, one-time responses. Many initiatives were quite extensive. Some Action Plan initiatives are still continuing and will have a lasting effect upon quality; e.g., In-Plant Quality Evaluation, Best Value Contracting, GIDEP usage, Contractor Profile System, MEDALS, logistic reassignment, materiel receipt inspection, and the laboratory testing program.

DLA disagrees that the use of near-term initiatives by DLA understates the long-range problem.

While in some cases, our initiative milestones required revision, the very essence of an Action Plan is to create action -- to change a given situation; i.e., improve product quality. Setting and accomplishing near-term milestones focused action on incremental improvements that did/will eventually resolve long-range problems. DLA has been successful in this effort as confirmed by an overall quality improvement. The results of random laboratory testing conducted by the DLA hardware Inventory Control Points (ICPs), our primary quality improvement metric, show that the percentage of lots (national stock numbers) rejected has declined significantly since Fiscal Year 1990 when we began implementing the May 1990 DLA Action Plan.

Performance Measures and Use as a Management Tool. Definite and realistic performance measures were established for each Activity and Task in the DLA Action Plan to track action completions and assess quality program results. Qualitative (accomplishment-oriented) measures were identified for each milestone to track accomplishment (completion) of specific actions linked to a specific Activity or Task. Quantitative measures were identified for specific activities whenever results could be directly attributable to a specific activity; e.g., number of waivers approved to number of technical data packages changed, inspection and audit results, and trend data for delinquencies and nonconformances. In addition, there were overall measures of quality and Action Plan successes; e.g., random laboratory testing results. Unquestionably, the

DLA Action Plan was used as an effective management tool with appropriate performance measures to improve product quality. The dramatic increase in DLA's quality level, after implementing the May 1990 Action Plan, indicates both (1) meaningful initiatives were included in the DLA Action Plan and (2) the Action Plan was effectively used as a management tool.

DLA disagrees with the DoD IG's statements under **"Performance Measures in DoD Component Implementing Action Plans"** on page 10 that: **"... DLA performance measures were not always meaningful and did not provide for quantifiable measure of progress from established baselines. For example, DLA described two performance measures for objective 18, identify and purge nonconforming materiel from wholesale level inventory. The two performance measures are quality control and product quality audit results and technical assistance and operational review and quality assurance management review visits. The objective 18 performance measures do not provide for anything other than ongoing management programs and do not describe quantifiable measures of progress such as reduced nonconformances from an established baseline."**

In fact, DLA's performance measures for objective 18 are not just ongoing programs. Quality control and product quality audit results are numerical measures of a number of inspections versus a number of nonconformances which results in a percent-defect rate. These rates are compared against a baseline of previous nonconformances and provides a basis for further analysis as necessary. The number of findings/problems identified with the purge program during reviews/visits can also be quantified and used to directly measure progress in this specific area.

More DLA Rationale For Action Plan Measures. The DLA Action Plan had a number of activities, initiatives, and tasks requiring measures to track progress and assess success. Our approach to measurement was to have measures to both assess overall Action Plan effectiveness and track/assess individual actions/activities with appropriate measures -- qualitative, quantitative or both. For some initiatives (e.g., an initiative to develop, issue, and implement a new/improved policy), qualitative performance measures (accomplishment-oriented) are meaningful performance measures of progress. These include measures such as "...timely completion of associated tasks and milestones..." and "...on-site HQ DLA Quality Management Reviews at ICPs to assess new/improved policy effectiveness/ implementation...." Quantitative measures are used whenever and wherever meaningful. However, when you implement a plan with widely diverse initiatives that complement and reinforce each other as the DLA Action Plan, it is not possible to determine precisely which individual initiatives caused or cause overall measures of product quality (e.g., random laboratory testing results) to improve nor how much each individual initiative contributed/contributes to overall improvement. Therefore, individual initiatives will need to use qualitative performance measures of sufficiency, as well as quantitative performance measures where feasible/appropriate.

The overall measures of product quality, such as random laboratory testing results, are the important Action Plan performance measures. They measure the bottom-line; i.e., whether or not the initiatives in the Action Plan have collectively improved the quality of spare and repair parts.

OTHER FINDING SUPPORT COMMENTARY WHERE DLA DISAGREES

DLA disagrees with the DoD IG's statement that **"DLA did not reissue an**

updated version of the DLA Action Plan after May 1990."

An automated version of the DLA Action Plan was used in lieu of publishing an updated glossy version. Periodic updates insured a continually current DLA Action Plan instead of a static hard-copy plan. Future Action Plans, when they become necessary, should continue to use modern automation technology to remain current and provide widespread access. Hard-copy Action Plans can be obtained directly from the automated version whenever necessary.

DLA disagrees with the implication inherent in the statement: **"The DLA Action Plan cited the offices of primary responsibility for all 26 objectives, but the points of contact for six objectives could not answer basic questions and did not know who to contact to obtain answers regarding the initiatives under the objective."**

Although the timing of the DoD IG Audit was concurrent with the largest HQ DLA reorganization in the Agency's history, the DoD IG Auditors were asked to inform DLA (during the initial in-brief and by the DLA Action Plan audit Point of Contact (POC)) if additional assistance was required to identify objective/initiative OPIs/POCs (past and present) during their audit. Admittedly, during the reorganization, many functions were transferred and the new action officers may not have had full knowledge of previous actions for their initiatives. This was a temporary situation and responsibilities were quickly clarified. DOD IG should have provided DLA the opportunity to find the appropriate action officers.

DISPOSITION:
( ) Action is ongoing. Estimated Completion Date:
(X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:
(X) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
( ) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

MONETARY BENEFITS: N/A
DLA COMMENTS: N/A
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE BENEFITS REALIZED: N/A

ACTION OFFICER: Duane Rice, MMSLP, 617-0506, 17 Dec 93
REVIEW/APPROVAL: James J. Grady, Jr., Deputy Executive Director, Supply Management, MMSD, x70510, 1/26/94
COORDINATION: AQCO
Anthony Broadnax, DDAI, x49607, 2/1/94

DLA APPROVAL:

22 FEB 1994

[illegible]
Deputy Director

Final Report Reference

Revised

RECOMMENDATION A.1: We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency establish policies to reissue updated plans for implementing the DoD Action Plan for Continuously Improving the Quality of Spare and Repair Parts every 2 years beginning in FY 1994 to track quality improvement accomplishments.

DLA COMMENTS: Nonconcur. DLA disagrees with establishing a policy to reissue an updated plan for implementing the DoD Action Plan for Continuously Improving the Quality of Spare and Repair Parts arbitrarily every two years to track quality improvement accomplishments. The May 1990 DLA Action Plan, although not updated in a hard-copy edition, was a living document and, in many ways, superior to an updated hard-copy plan. DLA Offices of Primary Interest (OPIs) for individual objectives/activities (initiatives) used the on-line Distributive Miniature Information System (DMINS) to periodically update their activities. The automated aspects of DLA's Action Plan contributed significantly to improving the tracking of initiative status and providing an avenue to keep initiative status current and on track for successful initiative completion. The DLA Action Plan has been effective and since its implementation in 1990, the quality of DLA products/materiel has improved. This improvement has been confirmed/measured by the results of random laboratory testing conducted by the DLA hardware Inventory Control Points (ICPs); i.e., Defense Construction Supply Center (DCSC), Defense Electronics Supply Center (DESC), Defense General Supply Center (DGSC), and Defense Industrial Supply Center (DISC). Since FY 1990, the DLA Action Plan has provided us improved product quality as measured by the percentage of lots (national stock numbers) rejected on new procurements.

DLA has decided to issue one more new hard-copy edition of its Action Plan with the goal of further reducing the rate of nonconforming materiel. As with the May 1990 DLA Action Plan, OPIs will periodically update their initiatives, as necessary, on an automated version of this Action Plan and not arbitrarily at a fixed two-year frequency. DLA may or may not publish another hard-copy edition of its Action Plan in FY 1996. That decision will be made at that time based upon the overall measures of product quality that will be tracked; e.g., random laboratory testing results, random distribution depot product quality audit results, valid Product Quality Deficiency Reports (PQDRs) received at the DLA ICPs, and valid PQDRs received by the Defense Contract Management Command (DCMC) on source inspected materiel on DCMC-administered contracts. If no further hard-copy DLA Action Plans are published, quality initiatives will continue to be integrated into our overall DLA Strategic Plans, business plans, and business processes.

RECOMMENDATION A.2.a: We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency establish accountability for achieving implementing actions plan objectives and for improving the quality of spare and repair parts by updating implementing action plans to include detailed in-process and planned initiatives for DoD Action Plan objectives.

DLA COMMENTS: Nonconcur. DLA will not be updating the May 90 DLA Action Plan with initiatives that strictly follow the DoD Action Plan objectives. As discussed in Finding A, DLA already established accountability and updated the May 90 DLA Action Plan appropriately.

DLA has developed a new hard-copy edition of an Action Plan with the goal of further reducing the rate of nonconforming materiel. This new edition of the DLA Action Plan only contains in-process and planned initiatives/actions for those old DoD Action Plan objectives still requiring pursuit, as well as some completely new initiatives not related to the old DoD Action Plan objectives. DLA's new edition of its Action Plan does not follow the outdated format/objectives of the old DoD Action Plan. While there will be an initial hard-copy edition and a master copy maintained by the Action Plan Administrator, the primary edition of the DLA Action Plan will be a living document -- an automated document. Designated Points of Contact (POCs) for in-process and planned initiatives in this edition will periodically update their initiatives, when warranted. In the future, initiatives may be added, deleted, or modified (as they were for the May 90 Action Plan) based upon review/analysis of the initiatives' progress and the overall measures of product quality; e.g., random laboratory testing results, random distribution depot product quality audit results, valid Product Quality Deficiency Reports (PQDRs) received at the DLA ICPs, and valid PQDRs received by DCMC on source inspected materiel on DCMC-administered contracts. The Deputy Directors of Acquisition and Material Management will provide senior corporate leadership for the new plan and will be briefed on current status as appropriate.

RECOMMENDATION A.2.b: We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency establish accountability for achieving implementing actions plan objectives and for improving the quality of spare and repair parts by updating implementing action plans to contain performance measures to measure the effectiveness of each initiative in accomplishing DoD Action Plan objectives.

DLA COMMENTS: Nonconcur. DLA will not be updating the May 90 DLA Action Plan with initiatives that strictly follow the DoD Action Plan objectives. As discussed in Finding A, DLA already established accountability and updated the May 90 DLA Action Plan appropriately. The May 90 DLA Action Plan contained definite and realistic performance measures for each activity and task to track completion and assess results.

DLA is in the process of developing a new Action Plan (hard-copy edition) with the goal of further reducing the rate of nonconforming materiel. However, this edition will only contain in-process and planned initiatives for those old DoD Action Plan objectives still requiring pursuit, as well as some completely new initiatives not related to the old DoD Action Plan objectives. DLA's new Action Plan will not follow the outdated format/objectives of the old DoD Action Plan. The initiatives in the new DLA Action Plan will contain performance measures that may be either qualitative or quantitative or both. Every initiative will not contain a quantitative performance measure.

The new DLA Action Plan will also contain overall measures of product quality; e.g., random laboratory testing results, random distribution depot product quality audit results, valid Product Quality Deficiency Reports (PQDRs) received at the DLA ICPs, valid PQDRs received by the Defense Contract Management Command (DCMC) on source inspected materiel on DCMC-administered contracts, and valid customer complaints against distribution depots per 1000 lines shipped. DLA firmly believes that these overall product quality performance measures are the most valid and meaningful measures of the success of an Action Plan rather than individual initiatives' performance measures.

RECOMMENDATION A.2.c: We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency establish accountability for achieving implementing actions plan objectives and for improving the quality of spare and repair parts by updating implementing action plans to include definite, realistic and obtainable milestones for completion of initiatives in the action plans.

DLA COMMENTS: Nonconcur. DLA will not be updating the May 90 DLA Action Plan with initiatives that strictly follow the old DoD Action Plan objectives. As discussed in Finding A, DLA already established accountability and updated the May 90 DLA Action Plan appropriately. The May 90 DLA Action Plan contained definite, realistic and obtainable milestones and many of these milestones are now completed.

DLA has developed a hard-copy edition of a new Action Plan with the goal of further reducing the rate of nonconforming materiel. This new edition only contains in-process and planned initiatives for those old DoD Action Plan objectives still requiring pursuit, as well as some completely new initiatives not related to the old DoD Action Plan objectives. DLA's new Action Plan will follow the most appropriate format and not necessarily all the objectives nor format of the old DoD Action Plan. The new edition will include definite, realistic, and obtainable milestones for completion of its initiatives. Nevertheless, many of the milestones will be, appropriately, near-term. Milestones identified for individual tasks or actions supporting initiatives in the new DLA Action Plan represent our best estimates and may change for any of a number of reasons. Therefore, adding or extending individual action/task milestones will not necessarily indicate a problem. We will emphasize overall measures of product quality, such as random laboratory testing results. Such performance measures will indicate whether or not the new DLA Action Plan is achieving continuous improvement in the quality of spare and repair parts. Initiatives and associated milestones may be modified, added, or deleted based upon review/analysis of overall product quality measures and the progress of individual initiatives.

RECOMMENDATION A.2.d: We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency establish accountability for achieving implementing actions plan objectives and for improving the quality of spare and repair parts by assigning organizational responsibility for management oversight for implementing action plan objectives and for obtaining feedback on the adequacy of the initiatives supporting the objectives.

DLA COMMENTS: Nonconcur. As discussed in Finding A, DLA already established accountability, assigned organizational responsibility and had appropriate management oversight for achieving the action plan objectives.

In the May 90 DLA Action Plan, Offices of Primary Interest (OPIs) were identified for each objective and activity. The heads of these offices were held accountable for achieving the May 90 DLA Action Plan objectives and activities. Management oversight was present through status updates in the DLA on-line computer system; monitoring of DLA's May 90 Action Plan initiatives, milestones, and performance measures; status updates on a quarterly basis which were personally monitored by the DLA Deputy Director; and periodic briefings on the status of DLA's May 90 Action Plan initiatives to senior management officials including the DLA Director, Principle Staff Element heads, and DoD IG personnel.

DLA has developed a new Action Plan with the goal of further reducing the rate of nonconforming materiel. This new DLA Action Plan only contains in-process and planned initiatives for those old DoD Action Plan objectives still requiring pursuit, as well as some completely new initiatives which may not be related to the old DoD Action Plan objectives. DLA's new Action Plan follows a format that will give us the best method for objective/ initiative accomplishment and not necessarily the old format/objectives of the DoD Action Plan. However, Points Of Contact (POCs) will again be assigned (just as they were under the May 90 DLA Action Plan) for each initiative in the new DLA Action Plan. These POCs will be assigned organizational responsibility for management oversight of their respective initiatives and for updating/modifying their initiatives based upon the review/analysis of overall product quality measures and the progress of individual initiatives.

DLA takes exception to the DoD IG including in its finding under "DLA" on page 12 for "**Responsibilities and Feedback**" that: "**DLA did not distribute the DLA Action Plan to the users of spare and repair parts for feedback.**"

There was no requirement for DLA to distribute the DLA Action Plan to the users of spare and repair parts for feedback. The users of DLA-supplied spare and repair parts expect to receive conforming/usable parts, at a reasonable cost, in a timely manner. Our customers are not

necessarily interested in the details of DLA's processes/initiatives for achieving this. DLA has the responsibility to create/implement the processes/programs to meet the users'/customers' requirements and expectations. The needs of our customers were foremost in developing many of the initiatives in the May 90 Action Plan. The fact that we had an Action Plan to improve quality did not enhance our customers' satisfaction with our performance. In fact, the Military Services, our major customers, were creating similar Action Plans. Ultimately, nearly all of our initiatives directly touched our customers through joint participation or better quality of spare and repair parts. Therefore, DLA does not plan to solicit feedback for the initiatives in the new DLA Action Plan from the users of spare and repair parts. DLA will, however, again provide copies of its new Action Plan to the Action Plan Points of Contact in the Army Materiel Command, the Naval Supply Systems Command, and the Air Force Materiel Command for awareness and any feedback relating to initiatives.

FINDING B: Adequacy of Implementing Action Plans. The DoD Components did not have complete implementing action plans because changes were not initiated to add, delete, and revise the objectives and the supporting initiatives related to pre-contract, contract, contract administration, depot (supply management), and feedback intelligence phases of the action plans. Consequently, the implementing action plans did not reflect current quality program objectives and initiatives and were not used as a management tool for continuously improving the quality of spare and repair parts.

DLA COMMENTS: Nonconcur. DLA developed an automated means for Offices of Primary Interest (OPIs) to add, delete, and revise objectives and supporting initiatives in the DLA Action Plan. This system, within the Distributive Miniature Information System (DMINS), provided for entry of each objective/initiative with the original milestones. Periodically, each OPI was responsible to place updated information into the system (data entry was restricted to OPIs to maintain the integrity of the system). Printouts of the periodic updates show that revisions were made to objective, initiatives, performance measures, and milestones in each area and that these revisions reflected current quality program objectives and initiatives. Other OPIs and DLA management officials were provided inquiry capability which they used to review the status of activities.

The DLA Deputy Director used this system to monitor actions, and routinely printed out specific initiatives with his comments and questions for OPIs to answer.

Periodic briefings on the status of DLA's Action Plan initiatives were provided to the DLA Director, Deputy Director, and Principal Staff Element (PSE) heads. The briefings included objectives, supporting initiatives, performance measures, and milestones with changes and updates as applicable.

Documents from the above actions show that DLA did use the DLA Action Plan as a management tool for continuously improving the quality of spare and repair parts.

DISPOSITION:
( ) Action is ongoing. Estimated Completion Date:
(X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES: (X) Nonconcur. (Rationale must
(X) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
( ) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

MONETARY BENEFITS: N/A
DLA COMMENTS: N/A
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE BENEFITS REALIZED: N/A

ACTION OFFICER: Duane Rice, MMSLP, 617-0506, 17 Dec 93
REVIEW/APPROVAL: James J. Grady, Jr., Deputy Executive Director, Supply Management, MMSD, x70510, 1/26/94
COORDINATION: AQCO
A. Broadnax, DDAI, x49607, 2/1/94

DLA APPROVAL:

22 FEB 1994

LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director

RECOMMENDATION B.2.a: We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency, update their implementing action plans to show the current or planned actions to maintain technical data packages and make them available, adequate, and accurate as an initiative for objective 2, ensure technical data are available, adequate, and accurate for use in acquiring quality parts.

DLA COMMENTS: Concur. DLA has determined that additional actions are needed to continue the initiative to objective 2. DLA has included this rewritten initiative in the new action plan to study and improve, as necessary, the processes for measuring and assuring the accuracy and adequacy (quality) of technical data used in DLA contracting.

RECOMMENDATION B.2.b: We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency, update their implementing action plans to show the current or planned actions to comply with the requirements of Office of Federal Procurement Policy Letter No. 91-3, "Reporting Nonconforming Products," to participate in the Government-Industry Data Exchange Program as an initiative for objective 23, improve the customer complaint system.

DLA COMMENTS: Nonconcur. DLA already participates in the Government-Industry Data Exchange Program (GIDEP) within both the DLA Inventory Control Points (ICPs) and the Defense Contract Management Districts (DCMDs). DLA did have a GIDEP initiative in the DLA Action Plan, (Objective 18b), and took action to establish the use of GIDEP as a feedback means to identify suspect parts. Under the DLA Action Plan, GIDEP reporting policy was included in the Joint Regulation, DLAR 4155.24, Product Quality Deficiency Report Program, and in DLAM 8200.5, In-Plant Quality Evaluation (IQUE).

Policy to use GIDEP is also in the DLAM 4155.2, Quality Assurance Program Manual for Inventory Control Points (Defense Supply Centers). Training on the use of GIDEP is provided in Course "S61", a mandatory course for Quality Assurance personnel at the DLA Supply Centers. DLA is also participating in training provided by the GIDEP Operations Center, Corona, CA.

The draft report states that "the extent of [GIDEP] participation is not measured." DLA does measure participation through utilization reports from the GIDEP system and through recurring cost/benefit reports.

Since the use of GIDEP is already institutionalized within DLA, additional GIDEP initiatives are unnecessary.

RECOMMENDATION B.2.c: We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency, update their implementing action plans to show the current or planned actions to support the development, planned deployment, and implementation of the DoD-wide Deficiency Reporting System as an initiative for objective 23, improve the customer complaint system.

DLA COMMENTS: Concur. DLA agrees that additional actions are needed to continue the initiative to objective 23. DLA has included this rewritten initiative in the new DLA Action Plan. An initiative entitled, "Improve the Product Quality Deficiency Report (PQDR) Processes/Program by Supporting the Joint Logistics Systems Center's (JLSC's) Development and Deployment of a DoD-wide Deficiency Reporting System (DRS) that Effectively Serves the Mission Needs of DLA", is included in the new DLA Action Plan. This initiative outlines DLA's support from the beginning of the DRS and continuing involvement in the DRS through DLA deployment. It also includes the update of the Joint Services Regulation for PQDRs (DLAR 4155.24). An internal control weakness does not exist.

RECOMMENDATION B.2.d: We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency, update their implementing action plans to show the current or planned actions to reduce the number of forms used to report nonconformances, and standardize the forms and the use of the forms as initiatives for objective 23, improve the customer complaint system.

DLA COMMENTS: Nonconcur. A direct result of the development and deployment of the DoD Deficiency Reporting System (DRS) is the standardization of the data content and the use of nonconformance reporting formats and a significant reduction in the use of paper forms. The primary focus for improvement of the customer complaint system is the DoD DRS. The Logistics Management Institute (LMI) analysis and recommendations documented in LMI Report DL902R2/Sep 91, "The Feasibility of a Single Discrepancy Reporting System," supported the integrated automation of all types of discrepancy reporting at both the retail and wholesale levels. DoD is realizing this goal under the DoD DRS. Phase 1 of the DRS will be operational in 1994 and will include both supply and product quality discrepancies. Phase 2 will compound the benefits of standardization and reduction in the use of paper forms by including transportation discrepancy reporting as well as electronic data interchange capability using American National Standards Institute X12 industry standards. With these DoD DRS initiatives, there is no need to detail specific items in the DLA Action Plan, objective 23, concerning elimination and standardization of forms used to report nonconformances.

Defense Logistics Agency Comments

RECOMMENDATION B.2.e: We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency, update their implementing action plans to show the current or planned actions to provide the training needed to verify that the Product Quality Deficiency Reports Program is used effectively as an initiative for objective 23, improve the customer complaint system.

DLA COMMENTS: Nonconcur. Under the DLA Action Plan, extensive training initiatives were taken regarding the PQDR program. To encourage retail level reporting of deficiencies, DLA developed a handbook providing instructions on how to complete PQDR forms. DLA representatives directly trained Military Service users during Customer Supply Assistance visits to Military Service locations.

A review/analysis of the Product Quality Deficiency Reporting (PQDR) system was conducted through meetings and workshops of the DoD QA Council's Ad Hoc PQDR Working Group consisting of representatives from the Military Services and GSA. The DLA representative chaired this group. A revised Joint Service Regulation, DLAR 4155.24, Product Quality Deficiency Report Program, was issued. Specific training in new requirements of the Joint PQDR Regulation (published Jul 93) has been accomplished. Training in the new DoD Deficiency Reporting System (DoD-DRS) has been scheduled to coincide with deployment of the system.

DLA also developed/published implementing policy for Defense Contract Management Command elements in Appendix A of DLAR 4155.24.

Some other initiatives included: standardized summary cause (of deficiency) codes; initiating programming requests to add cause codes to DLA/DCMC computer systems; standardizing electronic transmission format for PQDR Form (SF 368 Form) and DLA Form 1227.

Within the DLA initiative, reports were provided to Military Services on lack of exhibits and training guidance was provided to Military Service Screening Points on how to better perform their responsibilities. To train DLA personnel, a "How to Handbook" was developed and used as a process guide. DLA Deficiency Program Monitors conducted system training using the guide.

As a result of accomplishments in the DLA Action Plan, as well as previous/subsequent additions of initiatives, DLA has institutionalized PQDR training. Basic PQDR and Customer Depot Complaint System instruction modules have been included in the core training courses (i.e., Course "S61", Defense Supply Center Contract Quality Assurance).

Additional initiatives for PQDR training are unnecessary at this time.

RECOMMENDATION B.3.a: We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency, revise their implementing action plans to support an effort to identify and designate one system as the standard DoD vendor rating system as part of an additional objective to the pre-contract phase.

DLA COMMENTS: Nonconcur. The Federal Acquisition Regulation (FAR) delegates source selection responsibilities to the Agency heads or their designees. This authority gives agency officials considerable discretion in specifying a solicitation's evaluation factors, the relative importance of those factors, and the way in which those factors will be evaluated. A standard vendor rating system would unduly limit the agency's authority and operational flexibility, and have an adverse impact on overall effectiveness.

The nature of supplies and services DoD buys is so diverse that specifying a single vendor rating system would be as inappropriate as specifying only one contract type or solicitation type. The need for flexibility in structuring past performance evaluation systems was recognized in Office of Federal Procurement Policy (OFPP) Policy Letter 92-5, which establishes best value, using past performance data, as the preferred method of negotiated procurement. Flexibility was a key topic in both the public and agency comment process, and has been emphasized by OFPP Administrator Kelman in his public statements supporting the goals of the policy letter.

Flexibility is needed not only to reflect the different needs of the buying activities, but also their different capabilities in obtaining and evaluating past performance information. We note that the Navy's Red/Yellow/Green program is a very simplistic best value system which is limited in its ability to make distinctions among offerors (although it appears to meet the Navy's needs). The same can be said for DLA's Quality Vendor Program (QVP). QVP was a first step in applying best value to smaller dollar value procurements, which reflected our limited ability to compile and evaluate past performance data at the time of its development. Our Automated Best Value Model (ABVM) is a much more useful and sophisticated, second-generation system which reflects a significant improvement in our data evaluation systems and capabilities. It may not be suitable or possible for all buying activities to adopt such a system.

The adoption of a single, uniform best value system would limit all activities to the capabilities of the least capable. It would also increase the time necessary to implement enhancements to best value systems and slow the progression to more sophisticated and capable systems. While we agree with the IG that the use of past performance in best value procurement is a useful tool to improve contractor quality performance, we believe that the recommendation will have exactly

the opposite effect by limiting the use and improvement of best value techniques.

The IG states that suppliers have complained about the confusion in satisfying the varying requirements for numerous rating systems. This has not been our experience with the Quality Vendor Program, under which each DLA Supply Center has established its own criteria for quality vendors, and which has been in use since 1988. While there are specific qualification requirements that contractors must fulfill in order to be designated quality vendors, this will not apply under ABVM, where all contractors will receive a performance score.

A distinction must also be drawn between the rating of a contractor's performance under a specific contract and the use of past performance information in a best value system which establishes a rating for the offeror for that procurement only. DLA's ABVM will use objective past performance data to generate a performance score (rating) for use in source selection. This rating is updated monthly and does not stay with the contractor's record. Standardization of ratings for contractor performance under a specific contract is a valid goal and is being pursued by the Past Performance Coordinating Council. For the most part, however, definitions for the objective performance data elements used for the ABVM (e.g., product quality deficiency) are already standardized throughout DoD.

RECOMMENDATION B.3.b: We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency, revise their implementing action plans to describe the actions taken to comply with United States Code, title 10, section 2383, "Procurement of Critical Aircraft and Ship Parts," as an initiative for objective 7, ensure all suppliers of spare and repair parts meet specified quality and technical requirements.

DLA COMMENTS: Nonconcur. DoD is recommending repeal of 10 U.S.C. § 2383 in accordance with a Section 800 Panel recommendation. The IG nevertheless recommends that the components should revise objective 7 to comply with a potentially defunct law. In our view, this thwarts the purpose of the Section 800 recommendation, with which we are in agreement. Furthermore, in 1989 the DAR Council determined that the statute was directed at program managers, rather than at contracting officers, essentially removing DLA from involvement in this issue. For this reason, the IG's recommendation is inappropriate insofar as it pertains to us. And, as the DAR Council Director noted four years ago, quality assurance procedures already available to DoD are adequate; the law in question does not provide any additional protections to the Government.

RECOMMENDATION B.3.c: We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency, revise their implementing action plans to support development of contractual policy proposals to obtain reimbursement or replacement for products accepted by the Government, but later found to contain patent defects, as an initiative for objective 8, reject or require corrections of nonconforming supplies.

DLA COMMENTS: Partially concur. DLA has determined that additional actions are needed to continue the initiative to objective 8. DLA has included this rewritten initiative in the new action plan. The outcome of discussions with the Office of the Director of Defense Procurement (DDP), DoDIG, and DLA was that we should devise a means, to be implemented on a test basis, whereby contractors may be held accountable for patent nonconformances discovered after acceptance for certain designated federal supply classes (FSCs). (The test FSCs were selected because they had yielded high or disproportionate rates of nonconformance in the recent past.) For the duration of the test, contracting officers would include a special DLA clause, "Remedies for the Post-Acceptance Discovery of Nonconformances (Test)," in all contracting actions for these designated classes of items, in accordance with guidance proposed to be included in the DLA Acquisition Regulation. The clause would give the Government the authority to require contractors to repair, replace, or make reimbursement for nonconforming items for one year after acceptance. The DLA Lab Testing Program would be used to uncover nonconformances, to support determinations of contractor causation, and to identify defects as "latent" or "patent."

Because the proposed clause and coverage are deviations from the FAR which will have a significant impact on the public, it will be necessary to publish a proposed rule in the Federal Register. Subsequent to the public comment period and reconciliation of any issues identified thereby, the DLAR coverage will be published as a final rule and made available for use. The test will require at least three years from the date when coverage will begin to be included in contracting actions, in order for a determination to be made whether the benefits of changing the acceptance procedures have outweighed the costs of the change. We will use nonconformances and voluntary refund data from the 12 month period immediately preceding the start of the test as the baseline for measurement and comparison.

Clearly, this test, which is being made a part of DLA's revised Action Plan, is an adequate response to the IG's recommendation. If the test plan is approved and the test is successful, there is the potential that use of the clause and technique will be expanded to other FSCs/Centers. Since this is such a comprehensive response, we do not feel that objective 8 of the Action Plan should be revised to include any other contractual initiatives (other than a reemphasis on voluntary recoupments) regarding rejection or correction of nonconformances.

RECOMMENDATION B.3.d: We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency, revise their implementing action plans to remove nonconforming products identified on Product Quality Deficiency Reports from Defense Supply system inventories; notify contractors when their nonconforming products are discovered and provide copies of quality deficiency information to contractors so the contractor can correct the cause of the quality control failure; inform contracting officers so they can attempt to recoup the value of the nonconforming products; and document the quality assurance decisions to request or not request laboratory testing needed to support Product Quality Deficiency Report as initiatives for objective 23, improve the customer complaint system.

DLA COMMENTS: Nonconcur. As noted in the draft IG audit report, the IG, DoD Report No. 93-066M "Recoupments for Quality Defects" contained findings and recommendations as identified above. As a result of that IG report, DLA took action to correct the problem with the issuance of a policy letter that provided procedures to resolve the above problems. Training on the new procedures was accomplished at the Defense Supply Centers. The provisions of this policy letter were incorporated into the revised DLAM 4155.2, Quality Assurance Program Manual for DSCs, which has been submitted for publication October 1993. HQ DLA has already performed a Quality Management Review at the Defense General Supply Center, Richmond, VA and confirmed that the revised procedures have been incorporated within their processes and have corrected the situation originally reported by the DoD IG.

Since DLA has already taken corrective action regarding the finding, and has institutionalized the specific recommendations made above, we see no benefit for DLA to place a new initiative in the Action Plan.

RECOMMENDATION B.3.e: We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency, revise their implementing action plans to develop strategies for cost effectively targeting quality assurance laboratory testing to identify susceptible product lines and problem contractors, and to randomly test the products supplied by problem suppliers at every national inventory control point as an added objective for the feedback intelligence phase.

DLA COMMENTS: Nonconcur. The May 90 DLA Action Plan included laboratory testing as a key component of improving the quality of spare and repair parts. Many initiatives and tasks were included with appropriate milestones and measures. These initiatives were tracked within the DLA Automated Action Plan with new initiatives, tasks, milestones and measures added since the May 90 DLA Action Plan was published.

Additional laboratory testing actions accomplished include:

Developed/ issued corporate laboratory testing policies through DLAR 4105.20, "Contractor Assessment-Product Evaluation (CAPE)" and DLAR 8200.12, "DCMC Independent Lab Testing (ILT)" regulations.

Institutionalized the Laboratory Testing Program at all DLA Hardware Centers.

Identified DLA testing equipment and DLA/Military Services/commercial laboratory capabilities and obtained additional test equipment for DLA's existing laboratories to enhance capacity and capabilities.

Established organic laboratories at Defense Distribution Region East, Defense Distribution Region West, Defense Construction Supply Center, and Defense General Supply Center.

Developed/published "The DLA Internal Laboratory Testing Program", DLAM 4155.9, to provide Agency policy and procedural guidance regarding how to establish, operate, and maintain DLA laboratories.

Established testing support arrangements with Sacramento ALC, Ogden ALC, Aberdeen Proving Ground and other Military Service laboratories.

Developed functional requirements for a Laboratory Information Management System (LIMS).

Developed an Automated Test Reporting System (System for Analysis of Laboratory Testing).

Shared laboratory testing data with military services and industry.

Developed/implemented sampling programs (Sampling Assistance Model and Stratified Sampling Plan) for determining random laboratory testing candidates.

Completed a Laboratory Training Analysis to identify specific training needs of laboratory personnel.

Initiated program for the Third Party accreditation of DLA laboratories.

Developed/provided test plan guidance for DLA Supply Centers to assist them in preparation of test plans.

The draft proposed IG audit report, Project No. 2CF-0053 "DoD Component Implementing Action Plans For Improving The Quality Of Spare Parts" cited the Defense Industrial Supply Center's (DISC) vast improvement in its product conformance rate over the past three years. Part of this improvement is directly attributed to DISC's development of a cost effective quality assurance laboratory testing program that identifies and tests suspect federal supply classes/groups and problem contractors. Each of DLA's national inventory control points (ICPs) has a laboratory testing program that supports our product quality program by cost effectively targeting and testing suspect contractors and materiel.

DLA Regulation 4105.20, "CAPE" and DLAM 4155.2, "Quality Assurance Program Manual for Defense Supply Centers" emphasize the use of laboratory testing as a major component to building quality history data on contractors. This additional contractor quality history directly supports improved contracting initiatives such as "Best Value" and provides each ICP with contractors/materiels that require increased quality assurance surveillance/scrutiny to include laboratory testing as appropriate. Laboratory testing includes samples selected randomly or nonrandomly. Random testing provides both a measure of the quality of new procurements and detection of poor performing contractors. Random candidates for testing are selected by ICPs using the DLA Sampling Assistance Model (SAM) or similar method. Nonrandom testing is a powerful quality assurance tool to investigate materiel deficiencies, suspect contractors, and problem products/product lines.

HQ DLA performs staff assistance visits to the ICPs to evaluate the effectiveness of the laboratory testing program. The most recent Quality Management Review (QMR) at the Defense General Supply Center, Richmond, VA verified the effectiveness of their laboratory testing program. QMRs also provide a means to improve DLA policy with regards to the use of laboratory testing.

RECOMMENDATION B.3.f: We recommend that the Assistant Secretaries of the Army and Navy (Research, Development, and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency, revise their implementing action plans to evaluate the adequacy of quality assurance laboratory test plans as an initiative for objective 22, enhance the use of DoD and independent laboratory test capabilities.

DLA COMMENTS: Nonconcur. DLA quality assurance laboratory test plans are adequate to determine whether an item/materiel conforms to contractual requirements. DLA Regulation 4105.20, "Contractor Assessment-Product Evaluation" and DLAM 4155.2, "Quality Assurance Program Manual for Defense Supply Centers" both provide guidance to the Inventory Control Points (ICPs) regarding the development of test plans and the use of Government and commercial laboratory test capabilities. In Feb 93, representatives from each ICP attended a laboratory test plan workshop hosted by HQ DLA to further refine the current test plan guidance. Each ICPs' methods for developing test plans for their specific items/commodities were reviewed in detail and found to be adequate.

HQ DLA performs periodic staff assistance visits to the ICPs which includes the evaluation of the effectiveness of the laboratory testing program. The most recent Quality Management Review (QMR) at the Defense General Supply Center, Richmond, VA in Nov 93 verified the adequacy of their quality assurance laboratory test plans. HQ DLA will conduct similar QMRs at each ICP to continually evaluate/improve the adequacy of laboratory test plans.

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RECOMMENDATION B.5.a: We recommend that the Director, Defense Logistics Agency, revise the Defense Logistics Agency Action Plan to add an objective to develop the Contractor Profile System in the pre-contract phase.

DLA COMMENTS: Concur. DLA has determined that additional actions are needed to continue the initiative to objective 23. DLA has included this rewritten initiative in the new action plan.

A Contractor Profile System (CPS) has been developed for DLA and it has been deployed in the Defense Contract Management Districts. CPS accesses contractor past performance information from existing DLA data bases, and is available to support procurement and contract administration functions including the determination of best value award decisions. Contractor past performance information is accessed through CPS by entering a Contractor and Government Entity code.

Contractors will be given access to their own CPS information for validation and as an incentive to improve performance. Deployment of CPS within DLA, contractor access, and limited access by the Military Services is scheduled for completion by March 1994. In Feb 94, deployment of CPS will be completed at the DLA Inventory Control Points. The Military Services are preparing to evaluate CPS in early 1994 to determine if the system meets their needs and if further enhancements are necessary.

RECOMMENDATION B.5.b: We recommend that the Director, Defense Logistics Agency, revise the Defense Logistics Agency Action Plan to add an initiative to measure and describe the progress of all DoD contractors in the In-Plant Quality Evaluation Program under objective 14, measure effectiveness of in-plant Government contract administration and contractor performance.

Revised

DLA COMMENTS: Nonconcur. The In-Plant Quality Evaluation (IQUE) Maturity Levels were never intended as a measure of contractor progress. They were to be used by DCMC QARs in performing self-assessments of their own IQUE programs. Furthermore, IQUE Maturity Levels were found to be ineffective and were cancelled by HQ DCMC in May 93. Process Oriented Contract Administration Services (PROCAS), a multi-functional process improvement approach, is replacing IQUE. PROCAS is intended to encourage increased communication among DCMC, customers, industry, and DCAA through the application of given guidelines and direct measurement of contractor processes. PROCAS provides visibility of objective data in order to make informed decisions. By crossing functional, business, and technical boundaries, PROCAS provides a seamless approach to contract administration.

RECOMMENDATION B.5.c: We recommend that the Director, Defense Logistics Agency, revise the Defense Logistics Agency Action Plan to add an objective to implement the commercial quality standards that are described in the International Organization for Standardization (ISO) 9000 series and equivalent American National Standards Institute American Society for Quality Control (ANSI/ASQC Q90) quality system series.

DLA COMMENTS: Nonconcur. The Defense Logistics Agency is prohibited from implementing the ISO 9000 series and equivalent ANSI/ASQC Q90 on supply center contracts. On 2 Apr 93, ASD (P&L) memo authorized the use of ISO 9001 or ISO 9002 in lieu of MIL-Q-9858A; but prohibited the use of ISO standards in lieu of MIL-I-45208A. DLA supply centers do not apply MIL-Q-9858 on their contracts; the highest level quality system standard that we use on spare and repair parts contracts is MIL-I-45208A. It is premature to tie the use of ISO standards to the Action Plan. We can take no action in this regard until the Office of the Secretary of Defense rescinds the prohibition on using ISO as a substitute for MIL-I-45208.

The ISO 9000 Quality System Standards establishes a global baseline for Quality Assurance (QA) in design, development, production, installation and servicing. They were developed to harmonize the large number of national and international standards in the field. Focus is on the supplier's documented system rather than on the inherent quality of the system's products. As such, implementation of ISO 9000 will have minimal impact on the quality of spare and repair parts in the defense inventory.

RECOMMENDATION B.5.d: We recommend that the Director, Defense Logistics Agency, revise the Defense Logistics Agency Action Plan to add an initiative to develop training for Defense Contract Management Command quality assurance representatives on how to evaluate the ISO 9000/Q90 commercial quality systems under objective 12, update in-plant Government quality assurance procedures to provide Government quality assurance representatives flexibility to tailor oversight.

DLA COMMENTS: Nonconcur. Although the Defense Logistics Agency is developing an ISO 9000 training product to educate the acquisition work force, the scope of the training is limited to the application of ISO 9001, Quality Systems Model for Quality Assurance in Design/Development, Production, Installation, and Servicing. The objective of the ISO 9001 training product is to provide an understanding of the standard and the minimal impact on Defense Contract Management Command quality assurance oversight. The addition of this training initiative under objective 12 has no impact on the DLA Implementing Action Plans for Improving the Quality of Spare Parts.

The Assistant Secretary of Defense (Production and Logistics), in an April 2, 1993 memorandum, specifically limited the use of International Quality Standards to acquisitions where MIL-Q-9858A, Quality Program Requirements, would be applied. The application of MIL-Q-9858A/ISO9001 is reserved for complex acquisitions as determined by the Contracting Officer. Since the DLA Action Plan is focused on improving the quality of spare parts and the Defense Supply Centers/Military buying activities are constrained from using International Quality Series Standards for spare parts, then a training initiative to educate Defense Supply Center personnel should coincide with the Department of Defense authorization to use the ISO Quality Series Standards in the acquisition of spare parts.

RECOMMENDATION B.5.e: We recommend that the Director, Defense Logistics Agency, revise the Defense Logistics Agency Action Plan to add an initiative to measure the numbers of waivers and deviations and the number of Material Review Board actions that are approved and include that information in the Quality Effectiveness Sensing Technique under objective 10, reduce contractor materiel review board actions and requests for waivers or deviations.

DLA COMMENTS: Nonconcur. Experience has shown that summaries of waivers/deviations/MRB data are just not good measures. An up or down movement in these numbers does not necessarily relate to deterioration or improvement in the contractor base, because of our inability to normalize the data. As the finding indicates, we have been collecting data on the numbers of waivers and deviations and Material Review Board (MRB) actions for many years. Data is stored in the Quality Assurance Management Information System (QA MIS), and extracted for the Quality Effectiveness Sensing Technique (QUEST). We are now reconsidering the viability of QUEST; we have serious concerns about its utility as a risk assessment tool. Movements in such numbers often occur for reasons other than deterioration or improvement in the effectiveness of the contractor inspection systems or quality assurance programs. For example, the number of waivers may go up because a contractor improved his detection efforts, or even conditions beyond the contractor control, such as imperfect Government furnished technical data, defective Government furnished material, general power failures during machining operations, etc. We cannot afford to rely on such data summaries because we do not know what movements in the numbers really mean. Furthermore, these numbers often ignore nonconforming material that is reworked or scrapped, and might never appear in a numerical summary of waivers/deviations/MRB actions. We therefore decided to rely on the process oriented approach, because it more completely, directly, and efficiently pursues our goal of reducing nonconforming material. Process Oriented Contract Administration Services (PROCAS) focuses individually on the contractor processes that support contract performance. Data is used locally, in the plant, where we can understand what movements in individual process measurement numbers mean, and use them as a tool to improve process performance, thereby reducing the production of nonconforming material of all kinds. Additionally, we will continue using the results of our lab testing efforts as indicators of overall deterioration or improvement in spare parts quality.

RECOMMENDATION B.5.f: We recommend that the Director, Defense Logistics Agency, revise the Defense Logistics Agency Action Plan to add an objective to verify that inspection procedures for repackaged products are applied so that damaged products are not sent out and that all necessary information is included on the package label as part of the depot (supply management) phase.

DLA COMMENTS: Nonconcur. DLA currently has a program where employees inspect items for proper packaging and marking prior to shipment to customers. Our review of data supplied from the IG regarding this finding indicates that reported problems were from the "Red River Army Depot". Although Red River is now a DLA depot under DMRD 902, the data indicates that these problems were created prior to consolidation. Since consolidation, Red River has worked to resolve these problems and has an inspection program in place to verify correction.

Final Report Reference

ADDENDUM TO THE DLA RESPONSES TO THE
FINDINGS AND RECOMMENDATIONS FOR THE DOD IG

Draft Report on DoD Component Implementing Action Plans for Improving the Quality of Spare Parts (Project No. 2CF-0053)

OTHER COMMENTS FROM THE DRAFT AUDIT REPORT:

1. Page i, 2nd Paragraph. **"However, management officials responsible for implementing the action plans and for achieving continuous quality improvements are not accountable for the adverse effects of poor quality."**

Response. DLA does consider itself accountable for poor quality products provided to our customers. Accountability: in taking prudent actions to insure that our customers get the product quality expected; in investigating customer complaints with monetary refunds when appropriate; and, most importantly, in working as a full partner with our customers to resolve quality concerns from the most critical readiness impacts to routine day-to-day operational considerations. In the current environment, military and federal customers have alternatives to using DLA for many of their product needs. Our future existence is tied to being the supplier of choice -- of providing our customers with the quality, timeliness and value expected. To say that we are not accountable for the effects of poor quality is untrue.

2. Page 4, Paragraph "Internal Controls Reviewed." **"The DoD Components had no internal controls in their internal management control program to address whether management officials revised and updated implementing action plans."**

Response: DLA disagrees with this statement. While DLA never published another hard-copy edition of its May 90 Action Plan, DLA, including the Deputy Director and Primary Staff Element managers, used an automated version to track Action Plan initiative status. The Deputy Director, at least quarterly, questioned updates and made requests for additional information. Also, Action Plan initiative status was briefed periodically to the DLA staff and other officials including the DoD IG staff. At these briefings, he challenged the participants to go beyond the published Action Plan and pursue additional tasks/milestones. These were included in the automated version of the Action Plan and/or in the briefing charts presented. DLA's management, with only a short lapse during the Headquarter's reorganization, has been effective and resulted in better product quality for our customers.

Page 4

3. Page 5, 1st Paragraph. **"The Army, and, in some cases, the Navy and DLA could not identify the offices of primary responsibility."**

Response: DLA was unaware of any Offices of Primary Responsibility (OPRs) that the DoD IG was not able to identify or interview. Additionally, while there may have been some temporary delays in assigning new OPRs during the DLA Headquarters reorganization, the original OPRs were still available and responsible for their Action Plan initiatives. DLA can't support DoD IG requests if we are unaware of problems or perceived problems during an on-going audit. It's unfair to make this statement without supporting documentation. DLA had/has OPRs assigned for each initiative in the May 90 DLA Action Plan and will do so again in the new DLA Action Plan. In addition, each initiative had milestones and qualitative, quantitative or both types of measures to track progress and success. This combined with

senior management involvement and the automated tracking system provided strong internal management of the DLA Action Plan.

4. Page 11, 2nd Paragraph under "**RESPONSIBILITIES AND FEEDBACK.**" "**After the reorganizations and staff reductions, we determined that the DoD Components did not formally assign or reassign responsibility for all of the objectives, actions, and initiatives in their implementing action plans.**" and Page 12, "**DLA**" paragraph. "**The DLA Action Plan cited the offices of primary responsibility for all 26 objectives, but the points of contact for six objectives could not answer basic questions and did not know who to contact to obtain answers regarding the initiatives under the objective.**"

Response: The DLA Action Plan assigned responsibility for the objectives and activities to Offices of Primary Interest (OPIs). During the DLA Headquarter's reorganization during the Mar-May 93 timeframe, many of the OPIs changed including the Action Plan Primary Point of Contact (POC). DLA anticipated that the DoD IG may face some difficulty in interviewing OPIs and requested, on a number of occasions including the official in-brief, to notify the DLA Audit POC to work any problems and/or resolve any difficulties. Evidently this was not done or individual members of the Audit Team were unaware of this situation. We believe this issue could have been resolved immediately by working through the DLA Audit POC.

5. Appendix C comments: DLA is unclear as to the evaluative criteria for determining initiative and objective completion. Many objectives are meshed into our key business processes and will always require management attention. Typically this is done as part of an organization's strategic and operational plans and not as a "Quality Assurance" Action Plan. An Action Plan ought to mean that immediate action is needed to resolve known or anticipated problems. Long term planning needs to be fully integrated into an organization's strategic and business plans.

a. Objective 3. Not clear why this objective isn't considered complete with all initiatives by all DoD Components listed as complete. Are you saying that these initiatives did not meet the intended objective? If so, what criteria were used?

b. Objective 7. DLA's initiative under this objective is completed. From an Action Plan viewpoint, the objective would also be considered complete. DLA will incorporate this objective/goal into our normal business practices and, if required at a future date, develop an Action Plan or Action Plan initiative to address major deficiencies.

c. Objective 22. All DLA Action Plan initiatives for this objective are complete. DLA has significantly improved its Inventory Control Point (ICP) laboratory testing program and increased its internal testing capacity. While the laboratory testing program will continually strive for improvement, the urgent Action Plan initiatives are complete. Refinements to the testing program should now be included in the Agency's and ICP strategic and business plans.

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