Audit Report

SOLE-SOURCE COMMERCIAL SPARE PARTS PROCURED ON A REQUIREMENTS TYPE CONTRACT

Report No. 99-217 August 16, 1999

This special version of the Report has been revised to omit data considered "Bell Proprietary"

Office of the Inspector General
Department of Defense

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Acronyms

DCMC	Defense Contract Management Command
DISC	Defense Industrial Supply Center
DLA	Defense Logistics Agency
DSCC	Defense Supply Center Columbus
DSCR	Defense Supply Center Richmond
DVD	Direct Vendor Delivery
FAR	Federal Acquisition Regulation
GPRA	Government Performance and Results Act
NSN	National Stock Number
SAMMS	Standard Automated Materiel Management System
TINA	Truth In Negotiations Act

INSPECTOR GENERAL
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August 16, 1999

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND TECHNOLOGY

SUBJECT: Audit Report on Sole-Source Commercial Spare Parts Procured on a Requirements Type Contract (Report No. 99-217)

We are providing this redacted audit report for public release. This report is one in a series of audit reports involving commercial and noncommercial pricing of spare parts in the acquisition reform environment.

Management comments on a draft of this report were considered in preparing the final report and conformed to the requirements of DoD Directive 7650.3; therefore, no additional comments are required.

We provided the For Official Use Only version of the report to Bell Helicopter Textron Incorporated for its comments on information that could be company confidential or proprietary. Bell had no objection to the public release of this redacted report.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Terry L. McKinney at (703) 604-9288 (DSN 664-9288) or Mr. Henry F. Kleinknecht at (703) 604-9324 (DSN 664-9324). See Appendix F for the report distribution. The audit team members are listed inside the back cover.

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Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 99-217 **August 16, 1999**
(Project No. 8CF-1003)

Sole-Source Commercial Spare Parts Procured on a Requirements Type Contract

Executive Summary

Introduction. This report is one in a series of audit reports involving prices paid for commercial and noncommercial spare parts procured by the Defense Logistics Agency (DLA).

During FYs 1995 through 1998, DLA issued 15,769 contract actions totaling $13.6 million to Bell Helicopter Textron Incorporated (Bell) on a DLA cost-based requirements contract. We reviewed a total of 6,423 actions (166 different national stock numbers) valued at $10.6 million. The DLA supply centers used the contract to purchase items to include windows, bolts, couplings, panels, and gears.

Audit Objectives. The primary audit objective was to determine whether DLA obtained the best value for its customers when procuring sole-source commercial spare parts from Bell.

Audit Results. Bell and DLA had established an equitable business relationship that provided the best value for DLA customers. Using techniques most aptly described as cost-based analysis, DLA obtained fair and reasonable prices for sole-source commercial items, and also improved delivery times and reduced Government inventory. Over the past 4.5 years prices had increased an average of only 0.8 percent, 92.5 percent of the orders were shipped within 8 days, and Government inventory was reduced by $11.4 million. See the finding for details.

Summary of Recommendations. We recommend that the Under Secretary of Defense for Acquisition and Technology include guidance on circumstances under which contracting officers should require contractors to provide price information and uncertified cost information in its commercial pricing "Information Guide." We also recommend that the Under Secretary develop and implement procedures relating to unified management and procurement of commercial items and commercial price trend analysis required by section 803 of the FY 1999 Defense Authorization Act.

Management Comments. The Deputy Under Secretary of Defense (Acquisition Reform) concurred with the recommendations and took prompt action in response to the draft report to update the commercial pricing "Information Guide" on its web page. The Deputy Under Secretary also commented that a team was presently being

assembled to develop and implement procedures on unified management and procurement of commercial items and commercial price trend analysis. The Deputy Under Secretary did not agree with our interpretation of the terms cost and price based acquisition and stated that the price-based acquisition methods the "Department seeks to widely apply are similar to, if not the same, as the 'cost-based' approaches described within the audit." See the finding for a complete discussion of management comments and our audit response, and the management comments section for the complete text of management comments.

Audit Response. Management comments on the recommendations were responsive. However, we question the Deputy Under Secretary's interpretation of the terms cost and price-based acquisition. In point, we fail to understand how the techniques used by the contracting officer on this contract can be construed as a price-based acquisition. The contracting officer negotiated a cost-based pricing methodology that was used by the contractor to price items. Using the negotiated methodology, prices were developed based on the actual historical cost elements for each part, approved indirect rates, and a negotiated profit rate. If the Deputy Under Secretary intends for the term price-based acquisition to be so broad as to encompass this approach, or if the term cost-based acquisition is to be so narrowly defined as to encompass only the use of certified cost data, it may well be that both terms are misnomers and new terminology would be appropriate. Hopefully, the ongoing DoD study of price-based acquisition will help clarify such definitional issues. In the interim, we continued to use these terms in the sense that is currently most widely accepted.

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Background

Spare Parts Audits. This is one in a series of audit reports involving prices paid for commercial and noncommercial spare parts. The first two reports covered Defense Hotline cases involving commercial spare parts. The first report discussed an allegation that the Defense Logistics Agency (DLA) paid a contractor significantly higher catalog prices for commercial items than the cost-based prices previously paid for the items. The second report discussed an allegation that DLA was procuring commercial and noncommercial items from another contractor on a sole-source basis. The sole-source prices were significantly higher than the competitive (breakout) prices previously paid by DoD for the items. Both allegations were substantiated. The audit that led to this report, and another report involving pricing of commercial spare parts, are not Hotline related, but were initiated because of the problems identified by the first two audits. The third report showed that DLA paid another contractor higher than fair and reasonable prices for commercial items when compared to noncommercial prices for the same items and failed to take full advantage of the contractor's commercial capabilities. In fact, effective implementation of the commercial buying practices and direct vendor delivery stipulated in the contract would have helped offset the higher prices.

During FYs 1995 through 1998, DLA issued 15,769 contract actions totaling $13,593,921 to Bell Helicopter Textron Incorporated (Bell) on DLA requirements contract SPO400-95-D-9401. Prices for the sole-source commercial spare parts procured on the contract were established using cost-based acquisition procedures. We reviewed a total of 6,423 actions valued at $10,642,353. A total of 166 different national stock numbers (NSNs) were procured on the 6,423 actions, therefore many actions were for the same NSNs. The DLA supply centers used the contract to purchase items including windows, bolts, couplings, panels, and gears.

Congressional Testimony and Guidance on Commercial Items. In March 1998, the Inspector General, DoD, and Under Secretary of Defense for Acquisition and Technology testified to the U.S. Senate Subcommittee on Acquisition and Technology (Committee on Armed Services) on spare parts pricing, among other acquisition issues. See Appendix D, "Congressional Testimony and Guidance on Commercial Items."

Section 803, "Defense Commercial Pricing Management Improvement," of the "Strom Thurmand National Defense Authorization Act for Fiscal Year 1999 (Conference Report), September 22, 1998, contained additional requirements on commercial item pricing. Section 803 required changes to the Federal Acquisition Regulation relating to determining reasonable prices for commercial items and also required the Secretary of Defense to develop and implement procedures relating to the unified management and procurement of commercial items and commercial price trend analysis. Appendix D provides excerpts of agreed-upon and required actions relating to the purchase of commercial items.

Meaning of Cost and Price-Based Acquisition Procedures. In this report, cost-based acquisition procedure refers to using uncertified cost data in contractor format to calculate prices. Price-based acquisition procedure refers to relying on price analysis to determine prices (primarily comparisons to previous contract prices). As discussed elsewhere in the report, the Deputy Under Secretary of Defense (Acquisition Reform) defines these terms differently.

Objectives

The primary audit objective was to determine whether DLA obtained the best value for its customers when procuring sole-source commercial spare parts from Bell. The adequacy of the DLA management control program was addressed in Inspector General, DoD, Report No. 98-088, therefore we did not review it further. See Appendix A for a discussion of the audit scope and methodology, and Appendix B for a summary of prior audit coverage related to the audit objectives.

Other Matters of Interest

On March 10, 1999, the Inspector General, DoD sent a memorandum to the Under Secretary of Defense for Acquisition and Technology that addressed the results of recent spare part audits. The results had been briefed to the Deputy Under Secretary of Defense (Acquisition Reform) on February 18, 1999. The Under Secretary of Defense for Acquisition and Technology provided comments to our memorandum and a copy of the comments is included in Appendix C, "Memorandum from Under Secretary of Defense for Acquisition and Technology." Our audit response to the comments in the memorandum is covered in the "Management Comments on the Finding and Audit Response" section.

Cost-Based Prices on the Bell Contract

DLA supply centers used a cost-based requirements contract to economically and efficiently procure sole-source commercial spare parts from Bell. Specifically, the contract was economical and efficient because:

- The Defense Contract Management Command (DCMC) office at Bell negotiated an effective pricing methodology with Bell that was used to calculate prices for sole-source commercial spare parts and only verified the price calculations or re-priced the items as necessary;

- Bell provided timely delivery of commercial spare parts which allowed DLA to implement direct vendor delivery (DVD) procedures, the chosen method of support for the contract, versus stocking items in defense depots; and

- Bell, as instructed by DLA, sold excess DoD inventory to its commercial customers with the proceeds reimbursed to DLA at the current contract price, thus further reducing DoD inventory.

As a result, over the past 4.5 years contract prices had increased an average of only 0.8 percent (adjusted for inflation). Prices paid by Bell's commercial customers were [redacted] million or [redacted] percent higher than the cost-based prices paid by DLA. Bell shipped 92.5 percent of the orders within 8 days, as required by the contract, which allowed DLA to reduce DoD inventory by $11.4 million. As part of the inventory reduction, Bell also sold excess DoD inventory to its commercial customers and reimbursed DLA by $4.7 million. The business relationship established between DLA/DCMC and Bell should serve as a model for other procurements of sole-source commercial spare parts.

Guidance on Contracting By Negotiation

Federal Acquisition Regulation (FAR) 15.402, "Pricing policy," provides guidance and an order of preference for contracting officers in determining the type of information required when negotiating prices for supplies and services and states:

> Contracting officers shall--
>
> (a) Purchase supplies and services from responsible sources at fair and reasonable prices. In establishing the reasonableness of the offered prices, the contracting officer shall not obtain more information than is necessary. To the extent that cost or pricing data are not required by 15.403-4,

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the contracting officer shall generally use the following order of preference in determining the type of information required:

(1) No additional information from the offeror, if the price is based on adequate price competition, except as provided by 15.403-3(b).

(2) Information other than cost or pricing data:

(i) Information related to prices (e.g., established catalog or market prices or previous contract prices), relying first on information available within the Government; second, on information obtained from sources other than the offeror; and, if necessary, on information obtained from the offeror. [emphasis added] When obtaining information from the offeror is necessary, unless an exception under 15.403-1(b)(1) or (2) applies, such information submitted by the offeror shall include, at a minimum, appropriate information on the prices at which the same or similar items have been sold previously, adequate for evaluating the reasonableness of the price.

(ii) Cost information that does not meet the definition of cost or pricing data at 15.401.

(3) *Cost or pricing data.* The contracting officer should use every means available to ascertain whether a fair and reasonable price can be determined before requesting cost or pricing data. Contracting officers shall not require unnecessarily the submission of cost or pricing data, because it leads to increased proposal preparation costs, generally extends acquisition lead time, and consumes additional contractor and Government resources.

(b) Price each contract separately and independently and not--

(1) Use proposed price reductions under other contracts as an evaluation factor, or

(2) Consider losses or profits realized or anticipated under other contracts.

(c) Not include in a contract price any amount for a specified contingency to the extent that the contract provides for a price adjustment based upon the occurrence of that contingency.

FAR Subpart 16.5, "Indefinite-Delivery Contracts," 16.501-2, "General," describes the advantages of the three types of indefinite-delivery contracts.

> (a) There are three types of indefinite-delivery contracts: definite-quantity contracts, requirements contracts, and indefinite-quantity contracts. The appropriate type of indefinite-delivery contract may be used to acquire supplies and/or services when the exact times and/or exact quantities of future deliveries are not known at the time of contract award. Pursuant to 10 U.S.C. 2304d and section 303K of the Federal Property and Administrative Services Act of 1949, requirements contracts and indefinite-quantity contracts are also known as delivery order contracts or task order contracts.
>
> (b) The various types of indefinite-delivery contracts offer the following advantages:
>
> (1) All three types permit—
>
> (i) Government stocks to be maintained at minimum levels; and
>
> (ii) Direct shipment to users.
>
> (2) Indefinite-quantity contracts and requirements contracts also permit-
>
> (i) Flexibility in both quantities and delivery scheduling; and
>
> (ii) Ordering of supplies or services after requirements materialize.
>
> (3) Indefinite-quantity contracts limit the Government's obligation to the minimum quantity specified in the contract.
>
> (4) Requirements contracts may permit faster deliveries when production lead time is involved, because contractors are usually willing to maintain limited stocks when the Government will obtain all of its actual purchase requirements from the contractor.

Long Term Cost-Based Requirements Contract

DLA supply centers used a long-term cost-based requirements contract (SPO400-95-D-9401) to economically and efficiently procure sole-source commercial spare parts from Bell. The concept of a cost-based requirements contract was not new. In fact, with the passage of the Truth in Negotiations Act (TINA) in September 1962, this type of cost-based contract became available for use by contracting officers. However, the way DLA implemented the cost-based requirements contract to procure commercial spare parts was quite

innovative. Basically, DLA was able to obtain the fair and reasonable prices through cost-based pricing without undue administrative effort by either DLA or the contractor and also to obtain timely commercial item delivery. The timely commercial item delivery allowed DLA to implement DVD procedures, versus stocking items in defense depots which in-turn led to reduced DoD inventory and a reduction in overall costs.

Cost-Based Pricing Methodology

Negotiating a Cost-Based Pricing Methodology. The DCMC office at Bell negotiated an effective cost-based pricing methodology with Bell that was used to calculate prices for sole-source commercial spare parts. The methodology enabled DCMC to verify price calculations, and items were only re-priced as necessary. Basically, the cost-based pricing methodology provided that labor costs were priced using approved rates and actual historical averages for the past 4 years. Historical averages for the last 6-year averages were used if 4-year averages were not available. Subcontract costs were based on average costs for the 3 preceding years escalated to the current year with approved rates or factors. A ■ percent profit was added to the resulting costs. The Defense Contract Audit Agency approved direct and indirect rates applied and the profit rate was in accordance with the weighted guidelines method. Once agreement was reached on the pricing methodology, Bell calculated prices and prepared a price list that was reviewed and approved by DCMC. Significantly, this methodology relied on Bell to use existing data in contractor format, and it did not require Bell to prepare data in any special or "Government requested" format for use by DCMC. These procedures resulted in prices paid by DLA that were fair and reasonable.

Negotiating a cost-based pricing methodology greatly simplified contract negotiation efforts because DLA contracting officers and Bell no longer had to negotiate prices for individual parts or orders. Prices for contract items were only re-priced as necessary, for reasons such as changes to indirect cost rates that could materially impact prices. When items were re-priced, DCMC verified that the new prices were appropriate.

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Table 1 shows the dates of contract pricing and re-pricing actions and the significant number of contract items that were priced.

Table 1. Summary of Contract Pricing Actions

Contract or Modification	Date	Action	Issued By	Contract Items
Basic	10/20/94	Pricing	DSCR	1 - 944
P0002	8/17/95	Re-Pricing	DSCR	1 - 944
P0005	1/5/96	Re-Pricing	DSCR	1 - 944
A00002	9/17/96	Re-Pricing	DCMC	1 - 944
P0008	12/12/96	Pricing	DSCR	945 - 1,152
P0009	4/29/97	Pricing	DSCR	1,153 - 1,348
P00013	11/21/97	Pricing	DSCR	1,349 - 1,350
P00015	2/20/98	Pricing	DSCR	1,351 - 1,351
P00016	4/8/98	Pricing	DSCR	1,352 - 1,381
A00005	6/23/98	Re-Pricing	DCMC	1 - 1,390

Changes in Contract Prices. For the 166 items reviewed, contract prices during the past 4.5 years had increased an average of only 0.8 percent (adjusted for inflation). We compared the current contract price to initial contract price, adjusted to 1999 constant dollars, to determine the price change. The "Department of Defense Deflators - Outlays" from the FY 1999 National Defense Budget were used to calculate constant 1999 dollars. Appendix E, "Summary of Spare Parts Reviewed on DLA Requirements Contract SPO400-95-D-9401," provides a complete list of the parts reviewed and the changes in prices.

Figure 1 shows that over the same period prices for individual spare parts both increased and decreased, but overall prices remained basically constant. In fact, contract prices for almost half the parts (81 items) had actually decreased.

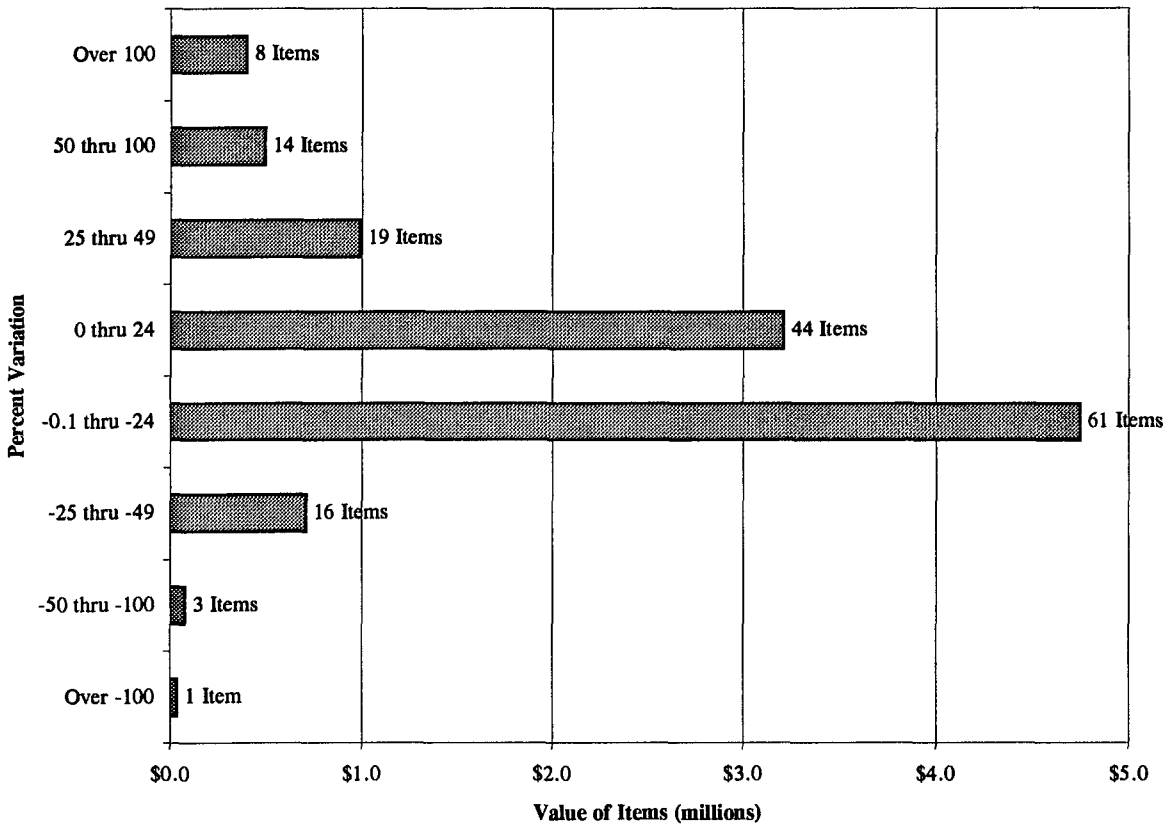

Figure 1. Increases and Decreases in Spare Parts Prices were Balanced

Difference Between Cost-Based and Best Commercial Prices. The commercial catalog prices that Bell charged its best commercial customers (catalog price less [redacted] percent) were [redacted] million, or [redacted] percent, higher than the cost-based prices paid by DLA. For the 166 NSNs reviewed, 130 were priced in the Bell commercial catalog. The prices for DLA included the [redacted] percent charge for Bell inventory management costs.

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Figure 2 shows that the commercial catalog prices were significantly higher than the DoD prices. The figure shows percent variations between the commercial catalog price and the DoD price for the 130 items in the Bell commercial catalog (0 represents the DoD price). Percent variations were capped at [redacted] percent.

[redacted]

Figure 2. Commercial Prices Were Significantly Higher than DoD Prices

Although there are some items where the commercial price is less than the cost-based price, in those instances Bell policy provided that DoD would pay the catalog price less [redacted] percent. Normally, there should not be any instances where the commercial price was less than the DoD price. However, because of the timing relating to the issuance of the 1999 commercial catalog and the last DoD re-pricing in 1998, there were instances where the commercial price was actually less than the DoD cost-based price.

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Offsetting Inventory Management Costs. DLA supply centers paid Bell a [redacted] percent inventory management fee for Bell to stock, store, and issue parts directly to DLA customers using DVD procedures. This inventory management fee was basically offset because the supply centers were able to use their lower DVD cost recovery rates for items procured on the contract. For example, DSCR adds an average surcharge of about [redacted] percent to items procured for stock compared to its [redacted] percent surcharge for items ordered via DVD. The difference of [redacted] percent basically offsets the [redacted] percent inventory management fee charged by Bell. In FY 1998, the Defense Supply Center Richmond (DSCR) purchased about $4.2 million or 74.2 percent of the items on the contract.

Timely Delivery of Commercial Spare Parts

Bell provided timely delivery of commercial spare parts which allowed DLA to implement DVD procedures, the chosen method of support for the contract, versus stocking items in Defense depots. The contract required that 90 percent of the quantity ordered would be shipped within 8 days of receiving an order. For the 166 items reviewed (6,423 shipments) 92.5 percent were shipped within 8 days while over half the orders were shipped within 1 day.

Table 2 shows that Bell filled 92.5 percent of the orders within 8 days.

Table 2. Fill Rate for Bell Sample Items

FY	Number of Shipments	Quantity Ordered	Quantity Delivered	Fill Rate
1995	260	1,246	1,162	93.3
1996	2,028	15,018	13,525	90.1
1997	2,195	18,187	17,541	96.4
1998	1,940	8,633	7,615	88.2
Total	**6,423**	**43,084**	**39,843**	**92.5**

Because the fill rate could apply to many different orders for the same items, we also determined for the 166 different NSNs reviewed, whether Bell actually had most of the parts in stock. Using the median order for the different NSNs to measure delivery, because there were multiple orders for the same parts, Bell shipped 140 of the 166 items (84 percent) within 8 days.

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Figure 3 shows the number of days to ship for each item (median order).

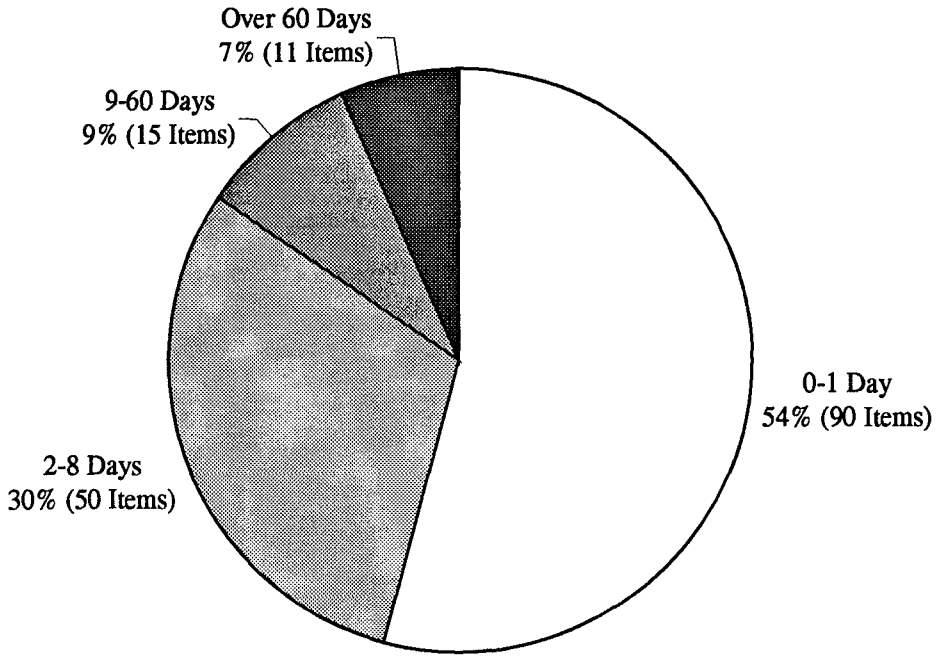

Figure 3. Days for Bell to Ship Sample Items (median order)

Further review of the NSNs where orders did not ship within the required 8 days showed that those items had been added to the contract by modification in late 1996 or 1997. At the time DLA added items to the contract, neither DLA nor Bell had sufficient inventory in stock to meet delivery requirements. For example, DLA added NSN 1560-00-449-6577 (structural panel) to the contract in April 1997. Because Bell did not have the item in stock, the median order shipped in 102 days and the average days to ship for the 13 orders placed for the part was 128 days. The first 10 orders shipped had a median of 147 days and an average of 132 days. However, it appears Bell has corrected the problem because the last 3 orders shipped in 1 day. Bell also currently has that item in inventory.

Accuracy of Ship Dates in DLA Systems. Ship dates recorded in the DLA Standard Automated Materiel Management System (SAMMS) were not sufficiently accurate to evaluate DVD shipments. We intended to use computer-processed data from the DLA system for our review; however, initial tests revealed that the data were not reliable. For example, on a normal DLA stock buy, the DLA depot enters the receipt date for the item when received. However, on a DVD shipment, the Defense Finance and Accounting Service is responsible for entering the ship date into the SAMMS system from documentation received from the contractor.

We identified incidents where Defense Finance and Accounting Service personnel entered the submission dates from the financial summary or consolidated DD 250 (shipping and receiving document) as the date instead of the actual ship date. For example, invoice G0030239 contained eight orders with actual ship dates ranging from 6/23/97 to 6/26/97; however, SAMMS showed the ship dates as 7/17/97. Defense Finance and Accounting Service personnel used the 7/17/97 date, which was the date of the financial summary. We also compared ship dates for 50 orders from the Defense Supply Center Columbus (DSCC) to check the accuracy of the ship dates. None of the 50 ship dates listed in the SAMMS matched the actual Bell ship dates as listed on the DD250 Material Inspection and Receiving Reports. For the 50 orders, ship dates were off by as little as 3 days and as much as 60 days. This issue was discussed with DLA officials; therefore, we made no recommendation in this area.

Reducing DoD Inventory

Direct Vendor Delivery. DLA was able to implement DVD procedures, versus stocking items in defense depots, which enabled DLA to reduce inventory because Bell provided timely delivery of commercial spare parts. Bell also sold excess DoD inventory to its commercial customers with the proceeds reimbursed to DLA at the current contract price further reducing DoD inventory. The ability to implement DVD procedures and reduce DoD inventory has helped achieve two of the DoD Functional Area Reform Goals determined in the Government Performance and Results Act (GPRA) of reducing average order to receipt time by 50 percent and reducing supply inventory by $12 billion.

DLA Inventory Reduction. Throughout the contract, DLA has transferred inventory to Bell with a total value of about $29.1 million. Bell used the DLA inventory to augment its own inventory and sold excess DoD inventory to its commercial customer. The contract allowed Bell to identify excess DLA inventory and sell that inventory to commercial customers to help reduce DLA inventory levels. Bell was able to sell the excess inventory on behalf of DLA because the items had strong commercial demand and were not military specific parts. Bell reimbursed DLA for sales to commercial customers at the current DoD contract prices less the ■ percent premium DLA pays Bell to stock, store, and issue parts.

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Table 3 shows that of the total $29.1 million of DoD inventory transferred to Bell, about $11.4 million had been requisitioned by DLA customers and another $4.7 million had been sold by Bell to its commercial customers. Consequently, DLA had realized a $11.4 million inventory reduction as part of the Bell contract.

Table 3. Reduction in Inventory

Beginning:	Inventory Value
DLA Inventory to Bell	$29.1 million
Less:	
Requisitioned by DLA	$ 6.7 million
Sold commercially by Bell	$ 4.7 million
Ending:	$17.7million
Total Inventory Reduction	**$11.4 million**

Acquisition Reform Initiatives

Sole-Source Commercial Items. The results and benefits achieved on this contract would not have occurred without the commitment from Bell management to charge DLA and its customers fair and reasonable prices for sole-source commercial spare parts.

Price-Based Initiatives. Acquisition reform initiatives have established a clear preference for price-based acquisition procedures. FAR 15.402 has established a clear order of preference in determining the type of information required for negotiations. Competition is the first preference. Price-based acquisition procedures (information related to prices, such as established catalog or market prices or previous contract prices, that is obtained from sources other than the contractor) are the next preference. The least preferred method for negotiations is using cost-based acquisition procedures, either obtaining uncertified cost data from the contractor or obtaining cost or pricing data that is contractor certified.

Obtaining fair and reasonable prices in the sole-source commercial spare parts environment has proven to be difficult, as described in each of the previous audits on the subject. By contrast, the cost-based (uncertified data in contractor format) requirements contract with Bell has used the advantages of both cost-based pricing and commercial distribution resulting in an equitable and extremely successful arrangement between DoD and industry. Further, the cost-based pricing methodology used did not unduly burden either the contractor or DoD. In fact, the cost-based pricing methodology used was less burdensome than some of the other commercial pricing methodologies discussed in the previous audits and much less subjective.

Price-based acquisition procedures work well when competition is present or when market prices can be readily validated. Thus far, when in a sole-source environment, DoD contracting officers have had a difficult time obtaining sufficient data through market research to enable them to negotiate fair and reasonable prices for the items. In the absence of this market data, the use of cost data greatly simplifies the process. However, with the emphasis on price-based contracting and commercial items, DoD contracting officers and contractors often believe it is inappropriate to price spare parts using any type of cost based approach even when there is no competitive process or market research data available to validate prices.

Status of Actions Taken in Response to Congressional Testimony and Guidance on Commercial Items. The Under Secretary of Defense for Acquisition and Technology had not yet made agreed-upon changes to the commercial pricing "Information Guide" that addressed circumstances under which a contracting officer should require contractors to provide price and cost information for commercial items. See Appendix D for text of agreed-upon actions.

The Under Secretary had taken action to implement changes to the FAR relating to commercial items (On January 6, 1999, Defense Acquisition Regulation Council agreed to draft the proposed FAR rule). However, the Under Secretary had not yet developed and implemented procedures relating to unified management and procurement of commercial items and commercial price trend analysis required by section 803 of the FY 1999 Defense Authorization Act. The Under Secretary was still in the process of formulating a team to address these issues. The Under Secretary needed to take more aggressive action to ensure required guidance and procedures are developed and implemented in accordance with representations made to the Congress and with agreed-upon audit recommendations.

Conclusion

The cost-based requirements contract for commercial spare parts with Bell was clearly superior to other contracts reviewed thus far in our series of audits on sole-source spare parts procured by DLA. The issue of what techniques are

most effective for determining price reasonableness for sole-source items will need to be closely monitored and more data will be required on DoD experience in using various methods. The ongoing DoD study of price-based acquisition will be useful in that regard.

Recommendations, Management Comments, and Audit Response

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

1. Include guidance on circumstances under which contracting officers should require contractors to provide price information and uncertified cost information in its commercial pricing "Information Guide."

Management Comments. Management concurred with the recommendation and in response to the draft report took prompt action to update the commercial pricing "Information Guide" posted to the Under Secretary of Defense for Acquisition and Technology web site.

2. Develop and implement procedures relating to unified management and procurement of commercial items and commercial price trend analysis required by section 803 of the FY 1999 Defense Authorization Act.

Management Comments. Management concurred with the recommendation and stated that a team is presently being formulated in conjunction with the Director, Defense Procurement; DCMC; and the Deputy Under Secretary of Defense (Logistics) to implement the recommendation.

Deputy Under Secretary of Defense (Acquisition Reform) Comments on the Finding and Audit Response.

In addition to comments on the recommendations, the Deputy Under Secretary of Defense (Acquisition Reform) provided specific comments on the finding. We made changes that we considered appropriate to the report.

Management Comments on Definitions. The Deputy Under Secretary of Defense (Acquisition Reform) stated that using price analysis and its definition interchangeably with price-based acquisition was misleading and should be corrected in the final report. The Deputy Under Secretary commented that the conclusions reached in the report were at odds with the Department's price-based acquisition methods, but that the Department's price-based acquisition

methods were similar to, if not the same, as the "cost-based" approaches described within the report. The Deputy Under Secretary commented that the definition of "cost-based" contracting in the report was not consistent with the definition "widely discussed" within the Department.

Audit Response. We appreciate the Deputy Under Secretary's clarification of what he terms price-based acquisition. We believe, however, that most acquisition personnel do not consider analysis of separate cost elements using contractor cost data, even when uncertified and in contractor format, as a price-based acquisition technique. Price analysis and price-based acquisition both involve the process of examining and evaluating a proposed price without evaluating its separate cost elements and profit (See FAR 15.404-1, "Proposal analysis techniques," (b) "Price Analysis"). Also, see the definition of cost and price based acquisition used in the draft "Report of the Price-based Acquisition Study Group," April 1999.

Management Comments on Comparison Between Price and Cost Based Procurement Methods and Best Commercial Practices. The Deputy Under Secretary commented that the audit did not focus on a comparison of price and cost based procurement methods but made a conclusion as to the superiority of cost-based procurement methods. The Deputy Under Secretary also commented that price-based methodologies are consistent with best commercial practices and routinely implemented by the commercial sector in a manner that ensures buyers get fair and reasonable prices.

Audit Response. The cost-based commercial spare parts contract with Bell was clearly superior to the other price-based contracts that we have reviewed for sole-source commercial spare parts awarded by DLA. The superiority of the prices on the Bell contract was demonstrated by the fact that, over the past 4.5 years, prices had only increased by 0.8 percent. In addition, the commercial prices were [redacted] percent higher than the cost-based prices. We agree that generalizations should be avoided and DoD experience with using various techniques to determine the price reasonableness of sole-source commercial items is still limited.

Management Comments on Workforce Training on Price-Based Tenets to Acquisitions and Concerns about the Use of Terms Price-Based and Cost-Based. The Deputy Under Secretary commented that additional workforce training is essential to the appropriate implementation of price-based acquisition. Much of this training will be predicated upon the Section 912(c) "Price-Based Acquisition" Integrated Product Team's pending recommendations to the Under Secretary of Defense for Acquisition and Technology. Section 912(c) of the National Defense Authorization Act for FY 1998 directed the Secretary of Defense to submit to Congress an implementation plan to streamline the acquisition organizations, workforce, and infrastructure. The implementation plan identified price-based acquisition as a future focus area that would allow the Department to reduce the number of contracting officers, in-plant

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representatives, and contract auditors. (Secretary of Defense Report to Congress, "Actions to Accelerate the Movement to the New Workforce Vision," April 1, 1998.)

Audit Response. We agree that further training is essential. We believe that the extent to which the introduction or expansion of price-based acquisition techniques will enable a significant downsizing of the acquisition workforce remains an open question at this point.

Management Comments on Additional Costs with Bell's Cost-Based System. The Deputy Under Secretary commented that the report did not take into account the additional costs associated with Bell's cost-based system, to include added proposal preparation costs and Government auditing costs. Without considering these additional costs a best-value determination cannot be made.

Audit Response. We questioned Bell representatives about the difficulty and costs associated with preparing a cost-based proposal for 1,390 different items. The Bell representatives stated that once the computer program was established it was neither overly difficult nor costly to prepare the cost-based proposal. In regard to the Government auditing costs, once the pricing methodology was negotiated, the only Government auditing that was necessary was to verify that the methodology was followed, which we found was a simple procedure.

Management Comments on Price Analysis and Market Research Skills. The Deputy Under Secretary commented that it makes more sense to develop the price analysis and market research skills of contracting professionals to identify when prices for sole-source spare parts are not longer fair and reasonable than to periodically revert to cost analysis techniques. Price-based acquisition procedures are still being defined as part of the 912(c) studies with training, regulation, and policy to follow.

Audit Response. The DoD will clearly benefit if its contracting personnel have command of the full range of pricing techniques and can effectively perform both cost and price analysis.

Management Comments on Using "A Success Story" in the Title. The Deputy Under Secretary commented that using success story in the title of the draft report implies a partiality to cost-based acquisition procedures.

Audit Response. The term success story was used in the draft title because we wanted to give DLA credit for negotiating a contract that provided the best-value for its customers, including obtaining fair and reasonable prices, improved delivery times, and reduced Government inventory, as described in the report. However, since the Deputy Under Secretary preferred that we did not associate cost-based acquisition procedures with a success story, we deleted the term from the title of the report. We leave it to the reader to judge whether obtaining fair and reasonable prices is a success story.

Management Comments on Quantity Discounts. The Deputy Under Secretary commented that the report did not address whether the catalog prices included quantity discounts.

Audit Response. The catalog prices that Bell charged its "best commercial customers" did include discounts associated with larger order quantities.

Management Comments on Accepting "Catalog Price Less ■ Percent" When Catalog Price was Less Than Cost-Based Price. The Deputy Under Secretary commented that accepting the catalog price less ■ percent in those instances when the catalog price was less that the cost-based price could still result in an overpayment, whereas a price-based analysis might have yielded additional savings.

Audit Response. For the very few isolated parts in question, Bell's spare-parts pricing policy ensured that the Government always paid the lowest price, if necessary, by selling the parts at below the fair and reasonable price and less than the cost for Bell to manufacture the items. We believe that contractors do not need to provide better than a fair and reasonable price on spare parts, but commend Bell for going above and beyond what was necessary to ensure there was never even an appearance of overpricing. We are uncertain as to how price-based analysis might have yielded additional savings when the prices paid were already below the costs for the contractor to manufacture the items.

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Appendix A. Audit Process

Scope

Work Performed. We reviewed DLA procedures and support contract documentation for delivery orders issued by DSCC, DSCR, and the Defense Industrial Supply Center (DISC) to Bell on contract SPO400-95-D-9401. During FYs 1995 through 1998, DLA issued 15,769 contract actions totaling $13,593,921 to Bell on DLA requirements contract SPO400-95-D-9401. We judgmentally reviewed a total of 6,423 actions valued at $10,642,353. Percentages in the report developed from the judgment sample do not generalize to the universe. A total of 166 different NSNs were procured on the 6,423 actions. Three primary metrics were used to evaluate contract effectiveness: price reasonableness, meeting direct vendor delivery requirements, and reducing Government inventory.

DoD-wide Corporate Level Government Performance and Results Act (GPRA) Goals. In response to the GPRA, the Department of Defense has established 6 DoD-wide corporate level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objectives and goals.

- **Objective:** Fundamentally reengineer the Department and achieve a 21st century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. **(DoD-6)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

- Acquisition Functional Area. **Objective:** Internal Reinvention. **Goal:** Dispose of $2.2 billion in excess National Defense Stockpile inventories and $3 billion in unneeded Government property while reducing supply inventory by $12 billion. **(ACQ-3.3)**

General Accounting Office High-Risk Area. In its identification of risk areas, the General Accounting Office has specifically designated risk in Defense Contract Management, Defense Infrastructure, and Defense Inventory Management as high. This report provides coverage in those high-risk areas.

Methodology

Use of Computer-Processed Data. To achieve the audit objectives we relied on computer-processed data obtained from Bell. The computer-processed data were determined reliable based upon the significant number of contract actions we reviewed and compared to the source data. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that the contract delivery order numbers, award dates, amounts, and ship dates generally agreed with the information in the computer-processed data. We did not find errors that would preclude use of the computer-processed data to meet audit objectives or that would change the conclusions in the report.

Universe and Contract Actions Reviewed. Table 4 summarizes the DLA contract actions reviewed on Bell Contract SPO400-95-D-9401. A small number of items that were on backorder were not included in our review (164 contract actions valued at $342,774) because "Total Contract Actions" represents items that had been delivered.

Table 4. DLA Contract Actions Reviewed on Bell Contract SPO400-95-D-9401

	Total Contract Actions		Contract Actions Reviewed	
FY	Number	Amount	Number	Amount
1995	735	$546,971	238	$392,164
1996	5,074	$3,769,146	2,039	$2,963,212
1997	4,900	$3,623,387	2,085	$2,843,543
1998	5,060	$5,654,417	2,061	$4,443,434
Subtotal	**15,769**	**$13,593,921**	**6,423**	**$10,642,353**

Audit Type, Dates, and Standards. We performed this program audit from October 1998 through February 1999 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals within the DoD and Bell Helicopter Textron Incorporated. Further details are available on request.

Appendix B. Summary of Prior Coverage

During the last 5 years, the General Accounting Office has issued two audit reports and the Inspector General, DoD has issued seven audit reports discussing either procurement lead and logistics response times or prices for spare parts in the acquisition reform environment.

General Accounting Office

General Accounting Office Report No. NSIAD-99-90, "DoD Pricing of Commercial Items Needs Continued Emphasis," June 24, 1999.

General Accounting Office Report No. NSIAD-98-123, "Improved Program Outcomes are Possible," March 1998.

Inspector General, DoD

Inspector General, DoD Report No. 99-218, "Sole-Source Noncommercial Spare Parts Orders on a Basic Ordering Agreement," July 27, 1999.*

Inspector General, DoD Report No. 99-101, "Logistics Response Time for the Direct Vendor Delivery Process, Defense Supply Center, Columbus," March 4, 1999.

Inspector General, DoD Report No. 99-037, "Initiatives to Improve Acquisition Lead Time," November 23, 1998.

Inspector General, DoD Report No. 99-026, "Commercial Spare Parts Purchased on a Corporate Contract," October 30, 1998.*

Inspector General, DoD, Report No. 98-088, "Sole-Source Prices for Commercial Catalog and Noncommercial Spare Parts," March 11, 1998.*

Inspector General, DoD, Report No. 98-064, "Commercial and Noncommercial Sole-Source Items Procured on Contract N000383-93-G-M111," February 6, 1998.*

Inspector General, DoD, Report No. 97-220, "Direct Vendor Delivery and Just-In-Time Inventory Management Initiatives," September 24, 1997.

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* Only redacted versions of these reports will be available on the Internet at www.dodig.osd.mil/audit/reports. These reports belong to the series of reports discussed in the Executive Summary and elsewhere in this report.

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Appendix C. Memorandum from Under Secretary of Defense for Acquisition and Technology

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THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

ACQUISITION AND TECHNOLOGY

18 APR 1999

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Results of Recent Spare Part Audits

Thank you for your memorandum of March 10, 1999, providing me with information on your on-going subject audits. I also appreciate your staff meeting with Mr. Stan Soloway to discuss the report findings, conclusions, and recommendations.

Your memorandum and the feedback from the meeting with Stan have raised some important issues for the Department. We clearly need to continue the efforts we began after the release of your first three spare parts audits to educate our buyers on commercial spare parts buying practices. However, your draft reports raise three important issues.

First, the implication in your reports is that our approach to price-based acquisition needs to be rethought. However, one report lauds Bell Helicopter and the Defense Logistics Agency (DLA) for developing a methodology for establishing fair and reasonable prices for parts. While the report characterizes this methodology as "cost-based", the nature of the process employed by Bell Helicopter and DLA is fully consistent with my vision of "price-based acquisition". I believe the real issue is the fostering of partnerships with our suppliers in which there is a sharing of information, including information on key cost drivers, as well as the use of tools such as parametric pricing. As such, I strongly urge you to modify the language in your final report by removing the references to "price" and "cost" - based contracting and instead discuss the importance of information sharing of a type that is common to the best commercial practices.

With regard to the Allied Signal report, I am again concerned about the characterization of the procurements as being "price-based" versus "cost-based." Moreover, the most relevant issue would appear to be the methodology used in the Allied Signal audit. Allied Signal raises some valid issues regarding comparison of estimates made, in advance of manufacturing, to actual prices only available years after the award is issued. I believe this methodological issue must be addressed before the

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final report is released in order to make the audit findings meaningful.

Finally, your audit reports contain a number of findings, conclusions, and recommendations. As stated above, they also raise some issues. I intend to seek the assistance of a manufacturing expert from outside the Department to help us better understand the issues and to assess what actions we should take to address these issues. Included in that assessment will also be further analysis of the Hamilton-Standard report, which would appear to involve a number of issues, including internal DoD and military service practices. I welcome your support of this course of action.

Should you have any questions concerning these issues, please contact Mr. Stan Soloway, Deputy Under Secretary of Defense (Acquisition Reform) at (703) 695-6413.

J. S. Gansler

Appendix D. Congressional Testimony and Guidance on Commercial Items

Congressional Testimony on Spare Parts. In March 1998, representatives from the DoD provided the U.S. Senate Subcommittee on Acquisition and Technology (Committee on Armed Services) testimony relating to spare parts prices. In response to the subcommittee's request, the Inspector General, DoD, provided testimony on the spare parts pricing audits. As part of her testimony, the Inspector General expressed concerns with the way regulations for commercial items were written, particularly relating to sole-source situations.

> The way the regulations now read or are being interpreted, there is clearly a preference not to ask for any kind of cost data. It is, at best, a last resort. So the preference for acquisition personnel clearly is to stay away from that. They do every thing possible to avoid asking for cost data.

In response to the spare parts audits, the Under Secretary of Defense for Acquisition and Technology, agreed that some buyers failed to take advantage of DoD's significant buying power and failed to fully understand what was included in the prices. Both training and additional tools were being developed to help buyers make better decisions. In response to questions for the record, the Under Secretary was asked whether guidance relating to commercial pricing was inconsistent with the statutory directive that contracting officers require contractors to provide information (other than certified cost or pricing data) to the extent necessary to determine the reasonableness of price. The Under Secretary stated that he did not believe the guidance (draft commercial pricing "Information Guide" prepared by acquisition reform office dated February 1998) was inconsistent with the statute.

> I do not agree that this guidance is inconsistent with existing statute. In implementing the statute we made it clear that one asks the offeror for information as the last resort, after exhausting all other sources of pricing information. However, we will make it clear in the final guide that information may be obtained from the offeror if needed to determine price reasonableness where sufficient information cannot be obtained from other sources.

The Under Secretary was asked to ensure that the guidance provided circumstances under which contracting officers should require contractors to provide price information and uncertified cost information. The Under Secretary agreed.

> Yes, the guidance will address these matters. However, we believe it would be very rare for a contracting officer to need uncertified cost information for determining the reasonableness of commercial item prices.

Section 803 Guidance. Section 803, "Defense Commercial Pricing Management Improvement," of the FY 1999 National Defense Authorization Action, required changes to the FAR and that the Secretary of Defense develop and implement procedures to improve commercial item pricing. The guidance required that the FAR be revised to clarify the procedures and methods to be used for determining the reasonableness of prices of exempt commercial items.

> (2) The regulations shall, at a minimum, provide specific guidance on—
>
> (A) the appropriate application and precedence of such price analysis tools as catalog-based pricing, market-based pricing, historical pricing, parametric pricing, and value analysis;
>
> (B) the circumstances under which contracting officers should require offerors of exempt commercial items to provide—
>
> (i) information on prices at which the offeror has previously sold the same or similar items; or
>
> (ii) other information other than certified cost or pricing data;
>
> (C) the role and responsibility of Department of Defense support organizations in procedures for determining price reasonableness; and
>
> (D) the meaning and appropriate application of the term "purposes other than governmental purposes" in section 4(12) of the Office of Federal Procurement Policy Act (41 U.S.C. 403(12)).

Section 803 also required the Secretary of Defense to develop and implement procedures relating to unified management and procurement of commercial items and commercial price trend analysis.

> (b) UNIFIED MANAGEMENT OF PROCUREMENT OF EXEMPT COMMERCIAL ITEMS.—The Secretary of Defense shall develop and implement procedures to ensure that, whenever appropriate, a single item manager or contracting officer is responsible for
>
> negotiating and entering into all contracts from a single contractor for the procurement of exempt commercial

items or for the procurement of items in a category of exempt commercial items.

(c) COMMERCIAL PRICE TREND ANALYSIS.—The Secretary of Defense shall develop and implement procedures that, to the maximum extent that is practicable and consistent with the efficient operation of the Department of Defense, provide for the collection and analysis of information on price trends for categories of exempt commercial items described in paragraph (2).

(2) A category of exempt commercial items referred to in paragraph (1) consists of exempt commercial items—

(A) that are in a single Federal Supply Group or Federal Supply Class, are provided by a single contractor, or are otherwise logically grouped for the purpose of analyzing information on price trends; and

(B) for which there is a potential for the price paid to be significantly higher (on a percentage basis) than the prices previously paid in procurements of the same or similar items for the Department of Defense, as determined by the head of the procuring Department of Defense agency or the Secretary of the procuring military department on the basis of criteria prescribed by the Secretary of Defense.

(3) The head of a Department of Defense agency or the Secretary of a military department shall take appropriate action to address any unreasonable escalation in prices being paid for items procured by that agency or military department as identified in an analysis conducted pursuant to paragraph (1).

(4) Not later than April 1, of each fiscal years [sic] 2000, 2001, and 2002, the Secretary of Defense shall submit to the Committee on Armed Services of the Senate and the Committee on National Security of the House of Representatives a report on the analysis of price trends that were conducted for categories of exempt commercial items during the preceding fiscal year under the procedures prescribed pursuant to paragraph (1). The report shall include a description of actions taken to identify and address any unreasonable price escalation of the categories of items.

Appendix E. Summary of Spare Parts Reviewed on Requirements Contract SPO400-95-D-9401

Item (former)	Contract NSN	Qty	Pricing Action	Initial Contract Price (1999 Dollars) Unit Price	Initial Contract Price (1999 Dollars) Total Price	1999 Contract Price Unit Price	1999 Contract Price Total Price	Difference Percent	Difference Amount
0001	[redacted]	2	P00002	$14,090.41	$28,181	$15,688.30	$31,377	11.3	$3,196
0006	[redacted]	22	Basic	$4,012.62	$88,278	$3,254.85	$71,607	(23.3)	($16,671)
0008	[redacted]	12	P00002	$17,577.25	$210,927	$14,195.79	$170,349	(23.8)	($40,577)
0012	[redacted]	7	P00002	$10,676.16	$74,733	$11,824.99	$82,775	10.8	$8,042
0014	[redacted]	18	P00002	$1,029.64	$18,534	$1,045.78	$18,824	1.6	$291
0015	[redacted]	4	P00002	$17,181.38	$68,726	$13,209.56	$52,838	(30.1)	($15,887)
0027	[redacted]	9	Basic	$7,685.94	$69,173	$9,513.13	$85,618	23.8	$16,445
0028	[redacted]	5	Basic	$4,919.49	$24,597	$3,611.61	$18,058	(36.2)	($6,539)
0030	[redacted]	60	Basic	$203.93	$12,236	$350.68	$21,041	72.0	$8,805
0037	[redacted]	63	Basic	$320.30	$20,179	$549.58	$34,624	71.6	$14,445
0038	[redacted]	29	P00002	$3,826.26	$110,962	$3,476.11	$100,807	(10.1)	($10,154)
0059	[redacted]	131	Basic	$79.63	$10,432	$136.00	$17,816	70.8	$7,384
0074	[redacted]	2	P00002	$9,977.19	$19,954	$14,402.04	$28,804	44.3	$8,850
0083	[redacted]	114	Basic	$611.12	$69,668	$517.83	$59,033	(18.0)	($10,635)
0085	[redacted]	14	Basic	$4,199.82	$58,798	$4,439.80	$62,157	5.7	$3,360
0088	[redacted]	33	P00002	$796.93	$26,299	$749.50	$24,734	(6.3)	($1,565)
0099	[redacted]	118	Basic	$251.15	$29,636	$243.84	$28,773	(3.0)	($863)
0128	[redacted]	10	P00002	$2,789.11	$27,891	$3,014.11	$30,141	8.1	$2,250
0156	[redacted]	76	Basic	$160.75	$12,217	$261.46	$19,871	62.7	$7,654
0157	[redacted]	35	Basic	$1,734.37	$60,703	$1,403.59	$49,126	(23.6)	($11,577)
0164	[redacted]	21	Basic	$840.59	$17,652	$1,062.81	$22,319	26.4	$4,667
0175	[redacted]	377	Basic	$66.78	$25,177	$143.38	$54,054	114.7	$28,877
0186	[redacted]	3	P00002	$17,940.12	$53,820	$12,265.54	$36,797	(46.3)	($17,024)
0202	[redacted]	67	Basic	$708.87	$47,494	$574.81	$38,512	(23.3)	($8,982)
0217	[redacted]	7	Basic	$2,170.54	$15,194	$3,281.13	$22,968	51.2	$7,774
0227	[redacted]	5	P00002	$17,324.41	$86,622	$12,635.18	$63,176	(37.1)	($23,446)
0260	[redacted]	2	P00002	$29,373.92	$58,748	$33,697.39	$67,395	14.7	$8,647
0263	[redacted]	88	P00002	$6,645.93	$584,842	$6,662.05	$586,260	0.2	$1,419
0269	[redacted]	8	P00002	$7,604.00	$60,832	$6,783.61	$54,269	(12.1)	($6,563)
0270	[redacted]	37	Basic	$590.45	$21,847	$590.33	$21,842	0.0	($4)
0284	[redacted]	10	Basic	$3,795.10	$37,951	$5,299.61	$52,996	39.6	$15,045
0285	[redacted]	7	Basic	$4,398.06	$30,786	$5,092.40	$35,647	15.8	$4,860
0293	[redacted]	108	Basic	$447.95	$48,378	$857.46	$92,606	91.4	$44,227
0294	[redacted]	114	Basic	$347.94	$39,665	$329.39	$37,550	(5.6)	($2,114)
0301	[redacted]	44	Basic	$315.01	$13,860	$737.21	$32,437	134.0	$18,577
0310	[redacted]	88	P00002	$140.64	$12,376	$422.94	$37,219	200.7	$24,843
0315	[redacted]	44	Basic	$1,078.36	$47,448	$1,483.91	$65,292	37.6	$17,844
0321	[redacted]	17	Basic	$1,516.91	$25,787	$2,225.63	$37,836	46.7	$12,048
0325	[redacted]	17	P00002	$5,178.88	$88,041	$2,131.33	$36,233	(143.0)	($51,808)
0333	[redacted]	8	P00002	$18,495.99	$147,968	$16,884.85	$135,079	(9.5)	($12,889)

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Item (former)	Contract NSN	Qty	Pricing Action	Initial Contract Price (1999 Dollars) Unit Price	Initial Contract Price (1999 Dollars) Total Price	1999 Contract Price Unit Price	1999 Contract Price Total Price	Difference Percent	Difference Amount
0335	[redacted]	7	Basic	$1,799.20	$12,594	$2,707.01	$18,949	50.5	$6,355
0339	[redacted]	7	Basic	$3,175.84	$22,231	$4,778.58	$33,450	50.5	$11,219
0350	[redacted]	15	Basic	$913.63	$13,704	$1,317.26	$19,759	44.2	$6,054
0356	[redacted]	64	Basic	$4,997.57	$319,845	$5,766.79	$369,075	15.4	$49,230
0361	[redacted]	24	P00002	$1,059.57	$25,430	$1,054.88	$25,317	(0.4)	($113)
0379	[redacted]	15	Basic	$535.11	$8,027	$1,400.50	$21,008	161.7	$12,981
0393	[redacted]	21	Basic	$2,386.65	$50,120	$1,684.56	$35,376	(41.7)	($14,744)
0394	[redacted]	17	P00002	$1,386.13	$23,564	$2,391.74	$40,660	72.5	$17,095
0395	[redacted]	84	Basic	$271.13	$22,775	$474.10	$39,824	74.9	$17,049
0406	[redacted]	40	Basic	$500.40	$20,016	$445.05	$17,802	(12.4)	($2,214)
0407	[redacted]	1,112	Basic	$180.30	$200,491	$130.49	$145,105	(38.2)	($55,386)
0409	[redacted]	18	P00002	$2,201.43	$39,626	$3,023.25	$54,419	37.3	$14,793
0423	[redacted]	551	P00002	$79.33	$43,711	$40.16	$22,128	(97.5)	($21,583)
0425	[redacted]	694	Basic	$53.84	$37,363	$41.74	$28,968	(29.0)	($8,396)
0443	[redacted]	57	Basic	$401.56	$22,889	$449.60	$25,627	12.0	$2,739
0448	[redacted]	132	Basic	$187.48	$24,748	$185.31	$24,461	(1.2)	($287)
0453	[redacted]	307	Basic	$123.89	$38,033	$139.83	$42,928	12.9	$4,894
0456	[redacted]	465	Basic	$50.27	$23,376	$58.00	$26,970	15.4	$3,594
0472	[redacted]	846	Basic	$745.98	$631,098	$642.25	$543,344	(16.2)	($87,754)
0476	[redacted]	1,242	P00002	$22.81	$28,333	$82.26	$102,167	260.6	$73,834
0479	[redacted]	33	P00002	$1,554.25	$51,290	$1,586.20	$52,345	2.1	$1,054
0482	[redacted]	185	Basic	$317.91	$58,813	$316.30	$58,516	(0.5)	($297)
0489	[redacted]	43	P00002	$1,876.93	$80,708	$1,331.34	$57,248	(41.0)	($23,460)
0527	[redacted]	179	Basic	$214.61	$38,416	$181.70	$32,524	(18.1)	($5,892)
0529	[redacted]	459	Basic	$195.48	$89,723	$187.15	$85,902	(4.4)	($3,821)
0570	[redacted]	17,667	Basic	$1.46	$25,733	$1.48	$26,147	1.6	$415
0571	[redacted]	5,644	P00002	$7.81	$44,104	$15.28	$86,240	95.5	$42,136
0574	[redacted]	354	P00002	$110.62	$39,160	$116.93	$41,393	5.7	$2,234
0586	[redacted]	210	Basic	$83.70	$17,578	$205.21	$43,094	145.2	$25,516
0596	[redacted]	195	Basic	$72.17	$14,074	$108.80	$21,216	50.7	$7,142
0597	[redacted]	204	Basic	$84.52	$17,242	$124.09	$25,314	46.8	$8,072
0600	[redacted]	147	Basic	$203.41	$29,902	$153.41	$22,551	(32.6)	($7,350)
0617	[redacted]	605	P00002	$85.28	$51,597	$80.73	$48,842	(5.6)	($2,756)
0646	[redacted]	100	P00002	$556.05	$55,605	$481.45	$48,145	(15.5)	($7,460)
0671	[redacted]	85	P00002	$302.52	$25,714	$311.34	$26,464	2.9	$750
0684	[redacted]	1,857	P00002	$93.21	$173,084	$81.50	$151,346	(14.4)	($21,738)
0698	[redacted]	44	Basic	$858.84	$37,789	$794.64	$34,964	(8.1)	($2,825)
0706	[redacted]	32	Basic	$960.76	$30,744	$1,014.63	$32,468	5.6	$1,724
0720	[redacted]	73	P00002	$561.88	$41,017	$709.93	$51,825	26.3	$10,808
0722	[redacted]	59	P00002	$1,137.26	$67,098	$1,032.53	$60,919	(10.1)	($6,179)
0737	[redacted]	72	P00002	$441.60	$31,795	$314.93	$22,675	(40.2)	($9,121)
0741	[redacted]	163	Basic	$332.23	$54,153	$283.60	$46,227	(17.1)	($7,926)
0742	[redacted]	125	Basic	$553.69	$69,211	$474.75	$59,344	(16.6)	($9,867)
0753	[redacted]	69	Basic	$1,940.00	$133,860	$1,880.59	$129,761	(3.2)	($4,099)
0754	[redacted]	3	Basic	$7,931.51	$23,795	$6,834.04	$20,502	(16.1)	($3,292)
0774	[redacted]	72	P00002	$3,661.06	$263,596	$4,081.29	$293,853	11.5	$30,257
0780	[redacted]	78	P00002	$1,005.05	$78,394	$1,109.96	$86,577	10.4	$8,183

Darkened area (blank spaces) of this report represent data considered "Bell Proprietary" which has been deleted.

Item (former)	Contract NSN	Qty	Pricing Action	Initial Contract Price (1999 Dollars) Unit Price	Initial Contract Price (1999 Dollars) Total Price	1999 Contract Price Unit Price	1999 Contract Price Total Price	Difference Percent	Difference Amount
0788	[redacted]	19	Basic	$1,847.43	$35,101	$1,247.35	$23,700	(48.1)	($11,402)
0789	[redacted]	134	Basic	$875.26	$117,284	$723.63	$96,966	(21.0)	($20,318)
0800	[redacted]	80	P00002	$1,097.82	$87,826	$1,037.45	$82,996	(5.8)	($4,830)
0801	[redacted]	858	Basic	$30.19	$25,905	$28.76	$24,676	(5.0)	($1,229)
0804	[redacted]	55	Basic	$1,150.75	$63,291	$900.30	$49,517	(27.8)	($13,775)
0805	[redacted]	200	Basic	$385.23	$77,047	$446.24	$89,248	15.8	$12,201
0809	[redacted]	34	Basic	$775.90	$26,381	$722.25	$24,557	(7.4)	($1,824)
0810	[redacted]	496	Basic	$43.31	$21,484	$41.63	$20,648	(4.0)	($836)
0811	[redacted]	182	Basic	$611.34	$111,263	$583.26	$106,153	(4.8)	($5,110)
0820	[redacted]	19	P00002	$1,569.84	$29,827	$4,460.68	$84,753	184.1	$54,926
0830	[redacted]	613	Basic	$155.78	$95,494	$141.84	$86,948	(9.8)	($8,546)
0831	[redacted]	81	Basic	$682.00	$55,242	$678.28	$54,941	(0.5)	($301)
0833	[redacted]	19	Basic	$1,489.93	$28,309	$2,223.76	$42,251	49.3	$13,943
0834	[redacted]	167	Basic	$3,184.69	$531,832	$2,665.71	$445,174	(19.5)	(86,669)
0835	[redacted]	8	Basic	$2,462.37	$19,699	$2,519.10	$20,153	2.3	$454
0836	[redacted]	20	Basic	$3,430.58	$68,612	$2,812.64	$56,253	(22.0)	($12,359)
0837	[redacted]	23	Basic	$2,970.25	$68,316	$3,871.74	$89,050	30.4	$20,734
0838	[redacted]	23	Basic	$923.08	$21,231	$1,191.88	$27,413	29.1	$6,182
0840	[redacted]	86	P00002	$461.74	$39,710	$539.15	$46,367	16.8	$6,657
0843	[redacted]	7	Basic	$4,011.37	$28,080	$3,535.43	$24,748	(13.5)	($3,332)
0847	[redacted]	76	Basic	$242.62	$18,439	$323.81	$24,610	33.5	$6,171
0858	[redacted]	84	P00002	$348.29	$29,256	$422.01	$35,449	21.2	$6,192
0868	[redacted]	24	Basic	$901.07	$21,626	$913.21	$21,917	1.3	$291
0876	[redacted]	106	Basic	$500.72	$53,077	$458.79	$48,632	(9.1)	($4,445)
0877	[redacted]	63	Basic	$1,000.52	$63,033	$725.15	$45,684	(38.0)	($17,348)
0878	[redacted]	247	Basic	$290.25	$71,691	$269.53	$66,574	(7.7)	($5,117)
0879	[redacted]	47	Basic	$3,258.83	$153,165	$2,734.91	$128,541	(19.2)	($24,624)
0942	[redacted]	61	Basic	$897.19	$54,728	$948.19	$57,840	5.7	$3,111
0959	[redacted]	18	Basic	$3,773.77	$67,928	$4,746.56	$85,438	25.8	$17,510
(0078)									
0969	[redacted]	10	P00008	$5,147.08	$51,471	$4,882.65	$48,827	(5.4)	($2,644)
0976	[redacted]	19	P00008	$1,516.86	$28,820	$1,504.06	$28,577	(0.9)	($243)
0980	[redacted]	19	P00008	$1,451.52	$27,579	$1,360.36	$25,847	(6.7)	($1,732)
0987	[redacted]	1,558	P00008	$22.12	$34,468	$19.20	$29,914	(15.2)	($4,554)
0992	[redacted]	12	P00008	$3,289.00	$39,468	$3,434.25	$41,211	4.4	$1,743
0995	[redacted]	5	P00008	$2,525.50	$12,628	$4,222.81	$21,114	67.2	$8,487
1012	[redacted]	3	Basic	$10,185.99	$30,558	$12,287.31	$36,862	20.6	$6,304
(0205)									
1032	[redacted]	35	P00008	$1,689.27	$59,124	$1,247.75	$43,671	(35.4)	($15,453)
1041	[redacted]	13	P00008	$1,038.03	$13,494	$1,551.70	$20,172	49.5	$6,678
1075	[redacted]	29	P00008	$2,932.71	$85,049	$2,759.21	$80,017	(6.3)	($5,032)
1079	[redacted]	19	P00008	$2,732.13	$51,910	$3,007.41	$57,141	10.1	$5,230
1082	[redacted]	25	P00008	$6,312.32	$157,808	$5,926.78	$148,170	(6.5)	($9,639)
1086	[redacted]	20	P00008	$2,682.67	$53,653	$2,747.19	$54,944	2.4	$1,290
1100	[redacted]	60	P00008	$596.77	$35,806	$552.99	$33,179	(7.9)	($2,627)

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Item (former)	Contract NSN	Qty	Pricing Action	Initial Contract Price (1999 Dollars) Unit Price	Initial Contract Price (1999 Dollars) Total Price	1999 Contract Price Unit Price	1999 Contract Price Total Price	Difference Percent	Difference Amount
1116	[redacted]	5	Basic	$4,229.50	$21,147	$4,323.03	$21,615	2.2	$468
(0329)									
1118	[redacted]	10	P00008	$2,444.07	$24,441	$2,837.09	$28,371	16.1	$3,930
1135	[redacted]	48	P00008	$354.71	$17,026	$382.86	$18,377	7.9	$1,351
1138	[redacted]	56	P00008	$1,794.50	$100,492	$1,760.16	$98,569	(2.0)	($1,923)
1139	[redacted]	74	P00008	$344.51	$25,494	$346.65	$25,652	0.6	$158
1144	[redacted]	35	Basic	$292.17	$10,226	$551.70	$19,310	88.8	$9,084
(0373)									
1151	[redacted]	13	P00008	$2,689.09	$34,958	$2,066.38	$26,863	(30.1)	($8,095)
1153	[redacted]	10	P00009	$5,070.54	$50,705	$4,942.74	$49,427	(2.6)	($1,278)
1163	[redacted]	7	P00009	$4,120.53	$28,844	$2,555.44	$17,888	(61.2)	($10,956)
1166	[redacted]	6	P00009	$4,256.95	$25,542	$4,168.54	$25,011	(2.1)	($530)
1168	[redacted]	11	P00009	$8,620.13	$94,821	$9,669.18	$106,361	12.2	$11,540
1171	[redacted]	13	P00009	$7,496.56	$97,455	$7,242.45	$94,152	(3.5)	($3,303)
1172	[redacted]	17	P00009	$6,671.27	$113,412	$6,398.44	$108,773	(4.3)	($4,638)
1196	[redacted]	7	P00009	$2,998.05	$20,986	$2,837.94	$19,866	(5.6)	($1,121)
1204	[redacted]	16	P00009	$2,841.44	$45,463	$3,376.61	$54,026	18.8	$8,563
1213	[redacted]	9	P00009	$5,801.90	$52,217	$8,243.75	$74,194	42.1	$21,977
1215	[redacted]	5	P00009	$9,024.57	$45,123	$8,837.18	$44,186	(2.1)	($937)
1226	[redacted]	8	P00009	$7,028.12	$56,225	$10,390.40	$83,123	47.8	$26,898
1255	[redacted]	28	P00009	$250.85	$7,024	$672.70	$18,836	168.2	$11,812
1262	[redacted]	3	P00009	$11,053.46	$33,160	$10,774.90	$32,325	(2.6)	($836)
1263	[redacted]	11	P00009	$2,209.81	$24,308	$2,186.15	$24,048	(1.1)	($260)
1276	[redacted]	18	P00009	$2,643.31	$47,579	$2,784.05	$50,113	5.3	$2,533
1283	[redacted]	2	P00009	$22,008.03	$44,016	$20,820.55	$41,641	(5.7)	($2,375)
1289	[redacted]	4	P00009	$4,187.44	$16,750	$4,473.84	$17,895	6.8	$1,146
1293	[redacted]	4	P00009	$10,405.65	$41,623	$11,810.75	$47,243	13.5	$5,620
1294	[redacted]	8	P00009	$4,395.41	$35,163	$5,997.95	$47,984	36.5	$12,820
1297	[redacted]	6	P00009	$10,858.05	$65,148	$11,199.13	$67,195	3.1	$2,046
1307	[redacted]	21	P00009	$2,738.63	$57,511	$3,061.33	$64,288	11.8	$6,777
1316	[redacted]	127	P00009	$450.89	$57,263	$293.01	$37,212	(53.9)	($20,050)
1325	[redacted]	33	P00009	$3,039.82	$100,314	$4,069.34	$134,288	33.9	$33,974
1327	[redacted]	100	P00009	$2,349.93	$234,993	$2,251.34	$225,134	(4.4)	($9,859)
1349	[redacted]	16	P00014	$9,568.19	$153,091	$10,472.71	$167,563	9.5	$14,472
1350	[redacted]	83	P00014	$1,073.98	$89,140	$1,022.19	$84,842	(5.1)	($4,298)
1351	[redacted]	32	P00015	$2,507.82	$80,250	$2,367.84	$75,771	(5.9)	($4,479)
1373	[redacted]	239	Basic	$202.59	$48,420	$144.99	$34,653	(39.7)	($13,768)
(0787)									
1379	[redacted]	11	P00016	$2,509.78	$27,608	$2,920.50	$32,126	16.4	$4,518
TOTAL					**$10,553,440**		**$10,642,353**	**0.8**	**$88,913**

Darkened area (blank spaces) of this report represent data considered "Bell Proprietary" which has been deleted.

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology*
  Deputy Under Secretary of Defense (Acquisition Reform)*
  Deputy Under Secretary of Defense (Logistics)*
  Director, Defense Logistics Studies Information Exchange
  Director, Defense Procurement*
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency*
  Commander, Defense Contract Management Command*
    Commander, Defense Contract Management Command, Bell Helicopter Textron*

*For Official Use Only and sanitized versions. Other addressees will receive the sanitized version only.

Other Defense Organizations (Cont'd)

Commander, Defense Supply Center Columbus*
Commander, Defense Supply Center Richmond*
Commander, Defense Industrial Supply Center Philadelphia*
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations

Office of Management and Budget
Office of Federal Procurement Policy
Technical Information Center, National Security and International Affairs Division, 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 Reform*
House Subcommittee on Government Management, Information and Technology, Committee on Government Reform*
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform*

Under Secretary of Defense for Acquisition and Technology Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

ACQUISITION AND TECHNOLOGY

10 JUN 1999

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

THROUGH: DIRECTOR, CONGRESSIONAL ACTIONS AND INTERNAL REPORTS

SUBJECT: Draft Audit Report, "Procuring Sole-Source Commercial Spare Parts - A Success Story" (Proj. No. 8CF-1003)

I appreciate the opportunity to comment on the subject draft report regarding the Department's pricing of spare parts negotiated by the Defense Logistics Agency (DLA) for orders placed with Bell Helicopter Textron Incorporated (Bell). The stated objective of this review was to determine whether DLA obtained the best value for its customers using a cost-based requirements contract.

The definition and understanding of price-based acquisition could be improved. The report contains conflicting arguments regarding the use of price analysis and cost-based acquisition as the best ways to protect the interests of the Department. Using price analysis and its definition interchangeably with price-based acquisition is misleading and should be corrected in the final report.

While the DLA achievements on the reviewed contract are laudable, the conclusions reached in your report are at odds with what we believe to be the appropriate application of price-based procurement methods. In fact, the price-based acquisition methods the Department seeks to widely apply are similar to, if not the same, as the "cost-based" approaches described within the audit.

Moreover, the concept of information sharing, including information relative to key cost drivers, which is a key element of the subject contract and its implementation, is fully consistent with and is an expected element of "price-based" acquisition. In the paragraph "Meaning of Cost and Price-Based Acquisition Procedures," the audit does not define "cost-based" contracting in a manner consistent with the definitions that have been widely discussed within the Department, including the extensive discussions within the Department's Section 912(c) Price-Based Acquisition Study Team, on which the Inspector General's office participated.

In short, the report concludes that DLA Supply Centers obtained best value by using cost-based acquisition procedures instead of price-based procedures and that price-based procedures will have to be closely monitored. However, in reality, the audit focus is not one of comparison between price and cost based procurement methods, yet the conclusion as to the superiority of cost-based procurement methods is made. Further, this conclusion fails to consider that Defense cost-based practices are inconsistent with best commercial practices, and that properly applied price-based methodologies are not only consistent with best commercial practices but are also routinely implemented by the commercial sector in a manner that ensures buyers are getting a fair and reasonable price from their suppliers.

We do recognize, of course, that additional acquisition reform and workforce training is essential to our future ability to achieve a Revolution in Business Affairs, including the appropriate implementation of price-based acquisition, where feasible. Much of this training will be predicated upon the Section 912(c) "Price-Based Acquisition" Integrated Product Team's pending recommendations to the Under Secretary of Defense(Acquisition & Technology). Their recommendations will address the application of price-based tenets to acquisitions, the tools available to support price-based acquisitions, and new price-based acquisition tools that will all be part and parcel of the new price-based education and training. In the meantime, we do have serious concerns about the use of the terms "price-based" and "cost-based" acquisition in this report since they do not accurately reflect our policy or intentions. As such, I recommend that this terminology be removed from the final report.

I recommend the Inspector General incorporate my general and specific comments (attached), which I believe will lead to a more balanced, comprehensive and impartial final report.

for Stan Z. Soloway
Deputy Under Secretary of Defense
(Acquisition Reform)

Attachment:
As stated

cc:
DDP; DUSD(L)

Procuring Sole-Source Commercial Spare Parts
General and Specific Comments

General Comments

1. The audit report cites an example where cost-based acquisition yields a better overall price for spare parts to the government. However, the report did not take into account the additional costs associated with Bell's cost based system, to include added proposal preparation costs and government auditing costs. For instance, even though historical labor rates were used, these rates still had to be reviewed by Bell and approved and validated by the Defense Contract Management Command (DCMC). Thus, without determining the total cost of the transaction, which includes these additional cost and resource requirements, the true cost savings, or even a best-value determination, can not be ascertained.

2. Priced-based acquisition requires that buyers look at other ways to determine fair and reasonable prices without reliance on the submittal of certified cost information by the contractor. This will be especially challenging when procuring sole source military-unique items. Based on their knowledge of the marketplace, our contracting professionals must be able to determine when the price information they have on hand, e.g., historical prices paid for the same or similar items, is no longer valid for price comparison purposes. Thus, it makes more sense to develop the price analysis and market research skills of our contracting professionals rather than to rely on a periodic reversion to cost analysis techniques, especially when the performance of cost analysis may no longer be feasible due to the previous use of price-based acquisition.

3. Current DoD business practices allow contract professionals the flexibility to tailor acquisition strategies to specific situations and make sound, informed business judgments and decisions on price analyses. As the report mentions, price based acquisition is the preferred method for negotiating prices, after competition, followed by lesser preferred cost-based methods.

4. Price-based procedures are still being defined, as part of the Price Based Acquisition 912(c) studies, and will be distributed and implemented within the acquisition community after the study and its recommendations are complete. The study findings will include training, regulation, policy and communication recommendations.

Attachment 1

Final Report Reference

Procuring Sole-Source Commercial Spare Parts
General and Specific Comments

Specific Comments

Revised

1. After reading the audit and discerning the penchant towards cost-based acquisition techniques, invoking the words "A Success Story" in the title of the report implies a partiality that should not be reflected in the audit.

Deleted

2. Under "History of Spare Parts Pricing," the sentence "The current acquisition reform goal is to make DoD more like commercial buyers." should be revised to read "A key tenet of the Secretary's "Revolution in Business Affairs" acquisition reform goal is to make ..." Rationale: More appropriate choice of words.

Revised

3. Under "Congressional Testimony and Guidance on Commercial Items" the sentence "The Under Secretary of Defense for Acquisition and Technology testified that buyers failed to take advantage of DoD's..." should be revised to read that "some buyers failed to take advantage..." As it currently reads, this sentence is misleading and is taken out of context. The Under Secretary, in fact, stated as part of his referenced testimony, "What is important to emphasize is that these were isolated and rare cases."

4. Under "Meaning of Cost and Price-Based Acquisition Procedures," the audit takes the time to define cost-based and price-based analysis, but these definitions are not those used in the Federal Acquisition Regulation (FAR). Any definition should be consistent with FAR verbiage. Price-based acquisition is separate and distinct from price analysis and the two should not be used interchangeably. Further, cost-based acquisition typically includes submission of both certified and uncertified cost or pricing data. This is inconsistent with the definition the report provides.

5. Under "Figure 2" the chart should address whether the catalog prices compared include quantity discounts. If the prices being compared are for a quantity of one, the comparison is not accurate.

6. Regarding the paragraph immediately under Figure 2, the report does not question the Bell policy of charging the government the catalog price less [redacted] percent in the cases where the catalog price was less than the cost based price. While not taking away from the achievement cited, accepting a blanket [redacted] percent discount could still result in overpayment, whereas a

Attachment 2

Darkened area (blank spaces) of this report represent data considered "Bell Proprietary" which has been deleted.

Final Report Reference

Procuring Sole-Source Commercial Spare Parts
General and Specific Comments

price-based analysis might have yielded additional savings to the Government.

7. Under "Status of Actions Taken in Response to Congressional Testimony and Guidance on Commercial Items," the March 25, 1999 date is past and the date and referencing language should be updated. Revised

8. Under "Recommendations for Corrective Action" the audit recommends additional "Information Guide" guidance be developed under item 1. This guidance has been included in the current version of the guide posted on the USD(A&T) web site. The following is a quote from the ODUSD(AR) Commercial Pricing Information Guide, Vol 1, pages 5 and 6: "It is reasonable to assume that when buying commercial items there will be circumstances when price information or uncertified cost data should be requested. When a contracting officer determines that there is insufficient information to him/her from other sources upon which to make a business decision, obtaining such data from the offeror may be fully justified. If needed to determine price reasonableness, request information from the offeror on the prices at which the same item or similar items have been sold. In those rare situations where this information is not sufficient, request cost data (but NOT certified cost or pricing data from the offeror). Price information or uncertified cost may be requested by the contracting officer at any time."

9. Regarding item 2 of this section, recommending that the Department develop and implement procedures relating to unified management and procurement of commercial items and commercial price trend analysis, we are presently formulating a team in conjunction with the Director, Defense Procurement, DCMC and DUSD(Logistics) to implement this recommendation.

Attachment 3

Audit Team Members

The Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report.

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Terry L. McKinney
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